



# **Tassal Group Limited**

**Results for the half year ended 31 December 2010**

**17 February 2011**

Mark Ryan, Managing Director and CEO  
Andrew Creswell, Chief Financial Officer

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# Agenda

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- 1 Overview**
- 2 Financial performance**
- 3 Operational review**
- 4 Strategy & outlook**
- 5 Board strategic review**
- 6 Summary**

# 1 Overview

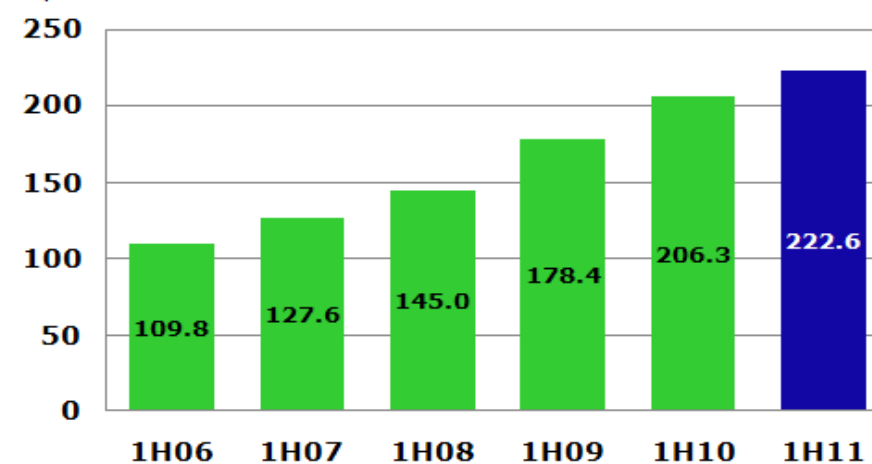
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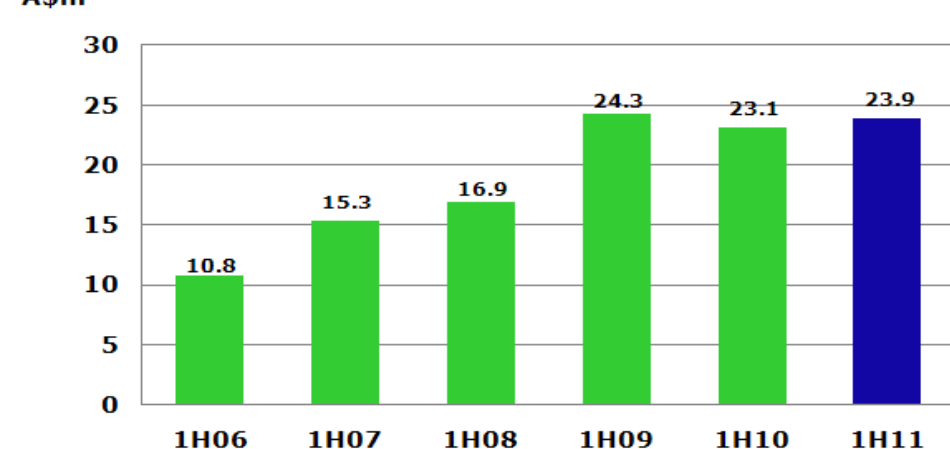


# Building long term value

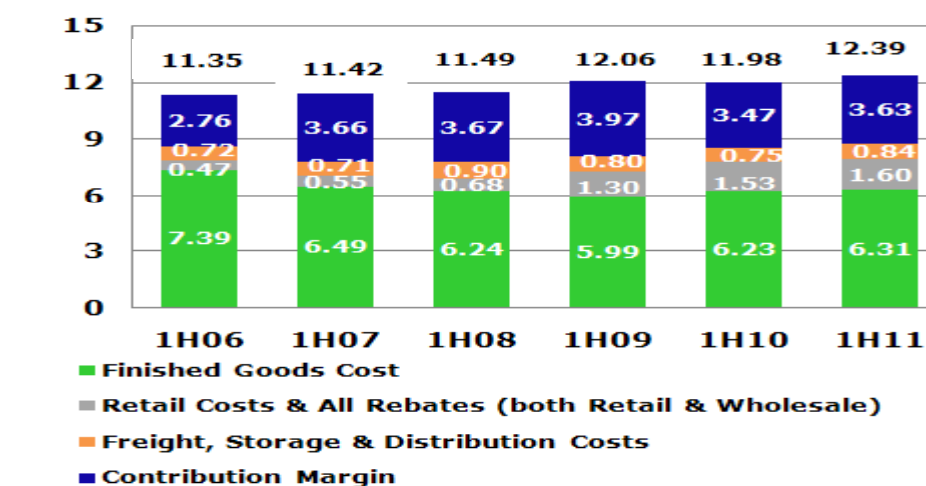
**Continued growth in statutory revenue**



**Operational EBITDA returned to growth**

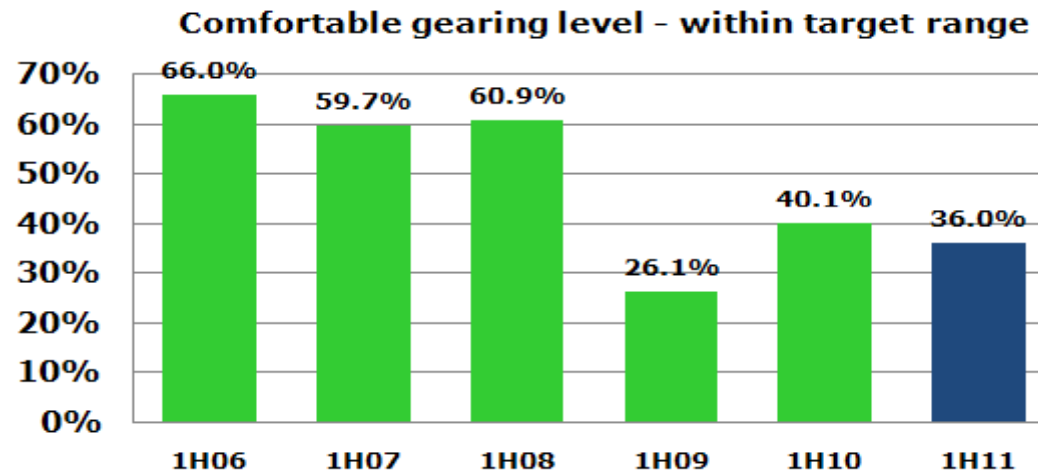
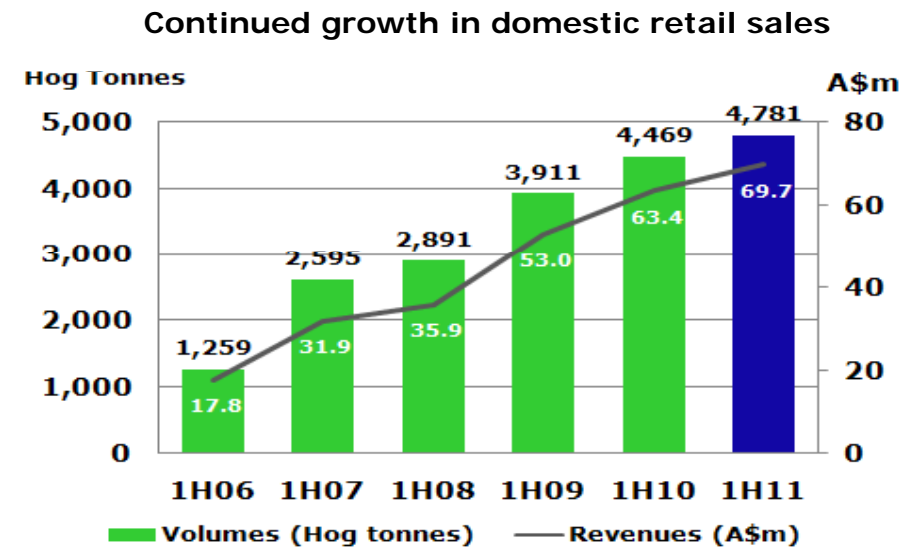
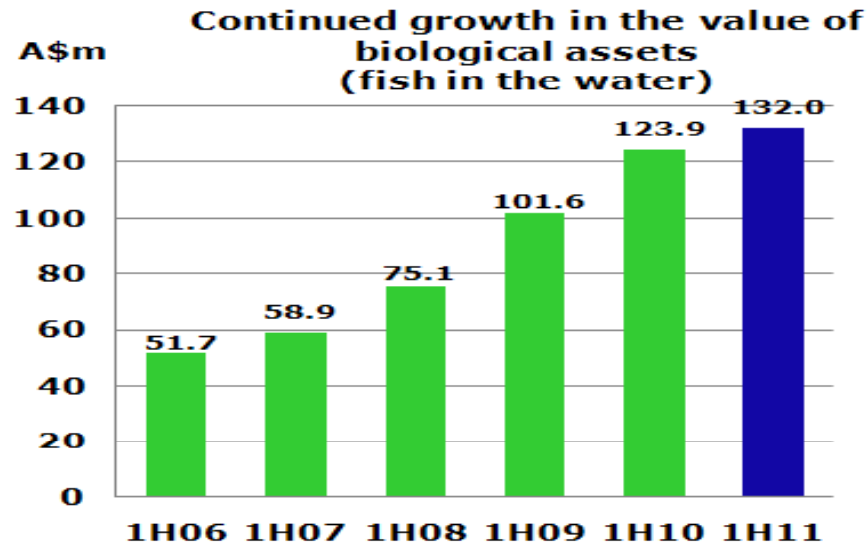


**Growth in operational contribution margin**





## Building long term value





# Building long term value

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- Market leader in the Australian salmon industry
  - c59% market share of salmon by sales volume
  - 17% CAGR in domestic sales revenue from FY06 to FY10
  - competitive advantage through investment in market leading brands - Tassal & Superior Gold
- Strategically focussed on the domestic market retail category that has experienced substantial growth in recent years and is forecast to continue to grow substantially above inflation over the next few years
  - FY10 revenue growth 19.8%; volume growth 13.4%
  - 9.9% revenue growth rate for 1H11 (over 1H10)
  - 7.0% volume growth rate for 1H11 (over 1H10)
  - Tassal with a strong & growing share in high growth/high margin retail products
- World class infrastructure
  - significant expansion capital on hatchery, marine and value-added processing facilities over the three years to 30 June 2010
  - goal of bringing forward some forecast benefits of increased production capacity (including reduced growing costs) previously identified for the later years of the Strategic Plan



# Building long term value

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- Sound foundations to deliver on Strategic Plan
  - fast growing segment – particularly high margin retail segment
  - strong & growing brand share
  - exciting pipeline of new products to capitalise on high market growth
  - efficient operational infrastructure to deliver low cost, high quality products to Tassal's growing markets

# Financial performance



(A\$m)	1H11	1H10	Change
Revenue (from all sources)	222.6	206.3	↑ 7.9%
EBITDA	29.1	27.7	↑ 5.2%
EBIT	23.2	22.6	↑ 2.3%
NPAT	14.0	15.1	↓ 7.1%
Gearing (Net Debt/Equity) <sup>1</sup>	36.0	40.1	
Interim Dividend per share <sup>2</sup>	Nil	4.0cps	
Operational EBITDA	23.9	23.1	↑ 3.5%
Operational EBIT <sup>3</sup>	17.9	18.1	↓ 0.8%
Operational NPAT <sup>4,5</sup>	10.3	11.9	↓ 13.0%

- (1) Target gearing range at 31 Dec 2010 was 40% to 45% (31 Dec 2009: 40.1%) – target range at 30 Jun 2011 is 30% to 35%
- (2) No dividend for 1H11 as not appropriate to underwrite while strategic review ongoing. 1H10 dividend unfranked. DRP was at 5% discount. DRP was underwritten
- (3) Depreciation increase of \$0.9m pre-tax – reflects the increase in the level of capital spend in the hatchery and marine assets over the last 3 years
- (4) Finance increase of \$1.0m pre-tax – reflects the financing of the increase in capital spend, together with the increase in fish growth and underpinning interest rate increase
- (5) Effective tax rate increasing to 28.2% (1H10: 23.8%)



# Executive summary: financial performance



## Overall, financial results reflect a credible performance in tough market conditions

- Retail segment strategy underpinning domestic market growth
  - domestic market sales revenue up 0.4% - underpinned by a strong retail performance
  - retail presence continues to grow (despite difficult retail conditions) and is forecast to continue growing
  - strong & growing share in high growth/high margin retail products – both in product mix & brand share
  - increased investment in marketing for *Pure Beauty Foods* campaign
  - wholesale market sales declined - both Tassal and Tasmanian Salmon Industry
- Export market returned to growth
  - sales revenue up 71.0% - despite appreciation of A\$
  - base salmon prices NOK/Hog kg were on average higher in 1H11 v 1H10
- Sales growth driving operating cashflow, up \$14.4m
  - increase in operating cashflow despite increased outflow due to significant growth in live fish
- Gearing level of 36.0% (1H10: 40.1%)
  - assisted by an increase in the Receivable Purchase Facility prior to the end of 1H11

# Executive summary: world class infrastructure



- Infrastructure investment underpinning the Strategic Plan is working
  - potential to bring forward cost of growing benefits targeted for FY13 to FY12 due to performance of the 2010 Year Class
- Majority of infrastructure spend completed over the last 3 years
  - significant reduction in spend overall for FY11 – FY11 should be around \$30m for FY11 only items
  - capital spend of \$22.2m for 1H11 (1H10: \$25.2m) - \$5.2m was carry forward from FY10 (\$17m for FY11 items)
  - steady state capex of around \$20m from FY12
- Benefits evident from the infrastructure investment:
  - smolt input season started in March and ended in August 2010 - 2 months earlier than 2009
  - overall size of the smolt put to sea increased by 41%
  - as at 31 Dec 10, live weight of the 2010 Year Class (for harvest in FY12) is up 14.7% – biomass up 19.1%
  - average harvest size for 1H11 were 13.4% bigger than 1H10 (4.165 hog kg vs. 3.673 hog kg)
  - Huonville Factory extension achieving cost reductions and throughput efficiencies
- Tasmanian Government supportive of Tassal's (and Tasmanian Salmon Industry's) goal of lease expansion in Macquarie Harbour
  - Macquarie Harbour has cost of growing benefits - in excess of \$1/Hog kg cheaper to grow salmon



## Executive summary: FY11 outlook

### Improved operational earnings are forecast for 2H11

- Increases in fresh hog
  - improved market conditions due to supply constraints
  - growth in Tassal fish size
  - first price increase was 31 Jan 11
- Increases in smoked salmon pricing - negotiated increases
- Improved yield and cost reductions through value add processing
- Retail initiatives – e.g. Coles direct supply from end of February 2011
- Commissions from Crystal Bay Prawns (full period)
- Cost initiatives:
  - negotiated improved packaging costs
  - reduction in contract processing costs – negotiated a rate decrease and change in supply mix
  - reduction in cost of goods sold – reduction in 2009 & 2010 Year Class write-off rates
- Normal summer growing conditions
  - effect of the hot summer for 09/10 cost Tassal c\$3-\$4m due to lost growth & survival leading to an increase in COGS
- Management comfortable with median broker/analyst forecast FY11 operational NPAT at c\$23.7m

## 2 Financial performance

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# Statutory results

(A\$m)	1H11	1H10	Change
Revenue (from all sources)	222.6	206.3	↑ 7.9%
EBITDA	29.1	27.7	↑ 5.2%
EBIT	23.2	22.7	↑ 2.3%
NPAT	14.0	15.1	↓ 7.1%
Interim Dividend per share <sup>1</sup>	Nil	4.0cps	
EPS (Basic)	9.65cps	10.89cps	
Underlying EBITDA (before NRI) <sup>2</sup>	29.1	28.8	↑ 1.0%
Underlying NPAT (before NRI) <sup>2</sup>	14.0	15.9	↓ 11.8%

- (1) No dividend for 1H11 as not appropriate to underwrite while strategic review ongoing. 1H10 dividend unfranked. DRP was at 5% discount. DRP was underwritten
- (2) Non-recurring item for 1H10 was a net foreign exchange loss of \$1.1m pre tax (\$0.8m post tax) as a result of a fair value adjustment to hedge contracts in place at 31 Dec 09. No non-recurring items for 1H11

- Statutory revenue growth
  - underpinned by retail sales performance in the domestic market and growth in value of live fish
- Statutory EBITDA growth
  - improved contribution margin
  - focus on “below the line” costs (albeit Tassal spent an additional \$0.9m on marketing in 1H11)
- Statutory NPAT decline
  - higher depreciation (\$0.9m before tax) due to the significant investment in hatchery & marine assets over the last 3 years
    - “mismatch” in infrastructure investment cycle (i.e. depreciation) vs. accounting for salmon (i.e. P&L effect)
  - higher finance costs (\$1m before tax) due to the financing of infrastructure and increased fish biomass
    - “mismatch” in the infrastructure investment cycle vs. working capital cycle vs. P&L effect
    - increased finance rates
  - higher effective tax rate for statutory NPAT of 28.7% in 1H11 (1H10: 25.2%)



## Operational performance

(A\$m)	1H11	1H10	Change
Revenue (from all sources)	117.7	112.2	↑ 4.9%
EBITDA	23.9	23.1	↑ 3.3%
EBIT	17.9	18.1	↓ 0.8%
PBT	14.4	15.6	↓ 7.6%
NPAT	10.3	11.9	↓ 13.0%

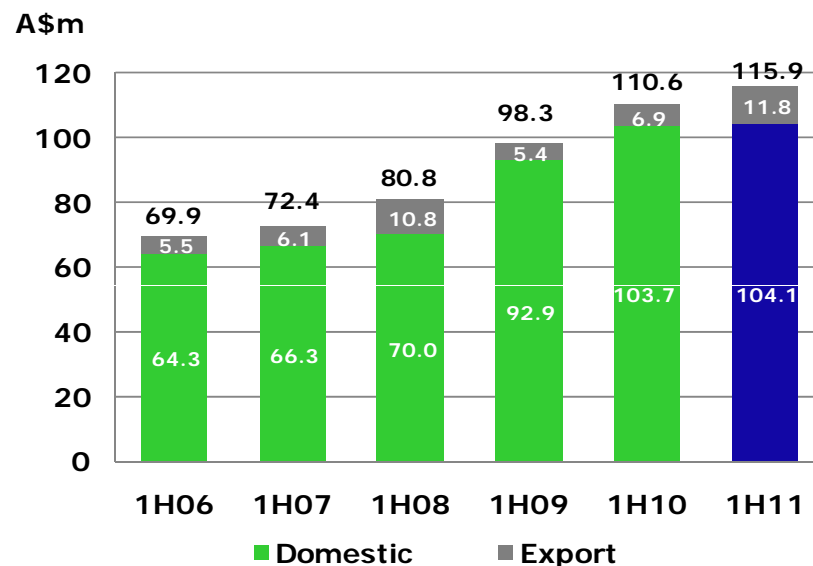
- Operational performance removes increase in value of live fish required under AASB 141, but adds back non-recurring items for 1H10 – see Appendix A for reconciliation
- EBITDA now moving roughly in-line with operational revenue
  - contribution margin (\$/kg) up 4.7%
  - partially offset with a \$0.9m increase in marketing spend (i.e. long term investment)
- Operational EBIT down slightly
  - increased depreciation following significant infrastructure investment over last 3 years on Hatchery & Marine assets
- PBT down due to increased finance costs (both level of interest bearing debt and interest rate)
- NPAT reflects an effective tax rate for operational NPAT of 28.2% (1H10: 23.8%)



# Growth in sales revenue

## Operating sales revenue up 4.8% to \$115.9 million

(A\$m)	1H11	1H10	Change
Domestic	104.1	103.7	↑ 0.4%
Export	11.8	6.9	↑ 71.0%
Total	115.9	110.6	↑ 4.8%



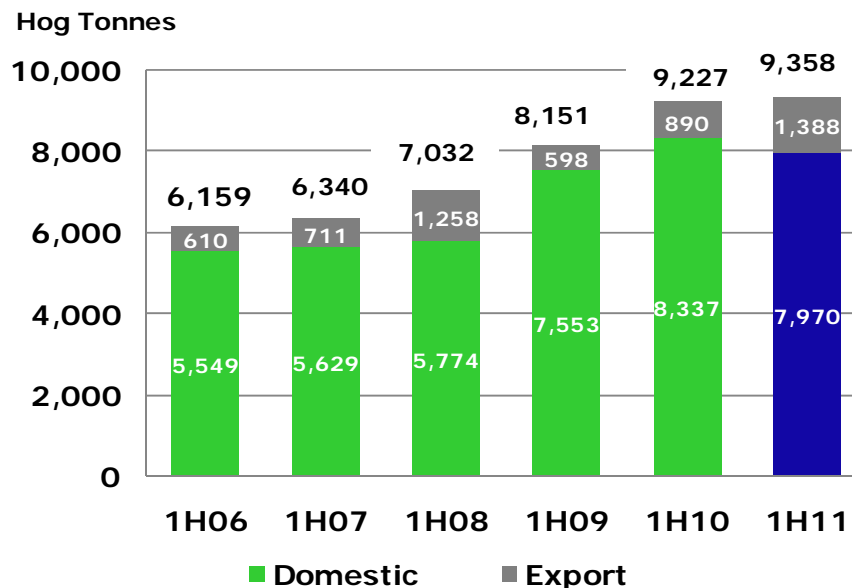
- Domestic sales up 0.4% to \$104.1m
  - accounted for 89.8% of total sales (1H10: 93.8%)
  - sales price (\$/hog kg) up 5.1%
  - retail sales particularly strong, up 9.9%
    - growth across fresh hog / fillets & portions, & Tassal smoked salmon
    - decline in the performance of Superior Gold
    - retail share of business now 60.1% of total sales revenue (1H10: 57.3%)
  - wholesale market down 15.3%
    - volatile pricing environment
    - declining fresh hog & smoked salmon - both Tasmanian Salmon & Trout Industry and Tassal
    - Petuna revenue up on the back of improved domestic market hog price
- Export sales up 71.0% to \$11.8m
  - sales price (\$/hog kg) up 8.2%
  - base salmon pricing improved over 1H10, offset by appreciating A\$



## Growth in sales volume

**Operating sales volume up 1.4% to 9,358 hog tonnes**

(hog tonnes)	1H11	1H10	Change
Domestic	7,970	8,337	↓ 4.4%
Export	1,388	890	↑ 56.0%
Total	9,358	9,227	↑ 1.4%



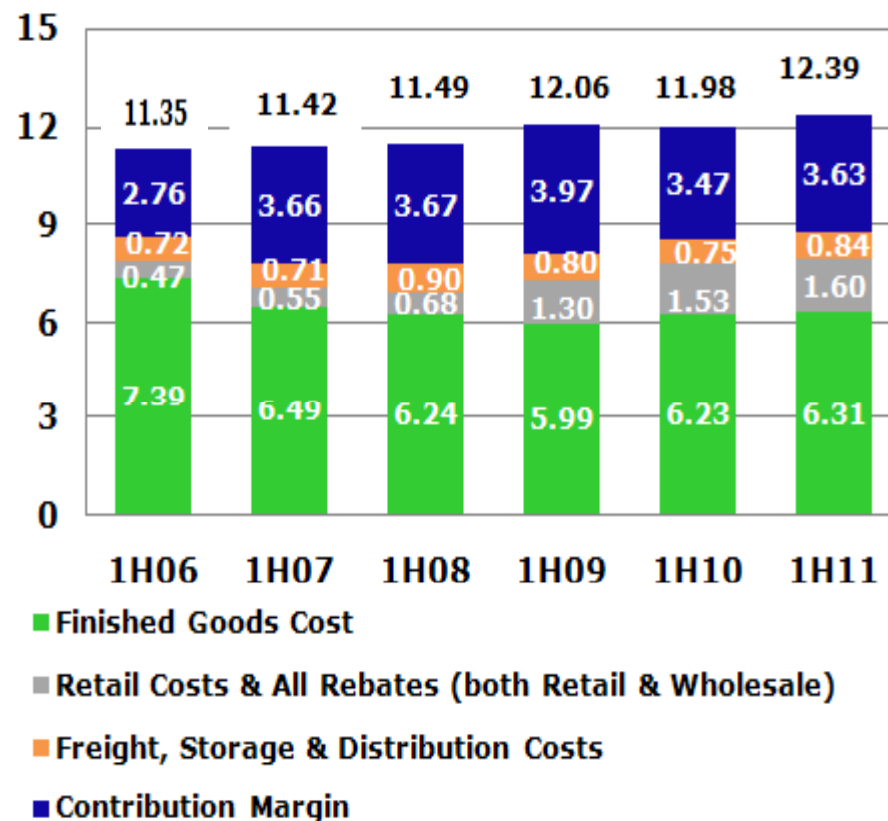
- Domestic volume down 4.4% to 7,970 tonnes
  - accounted for 85.2% of total volumes (1H10: 90.3%)
  - retail sales growth strong, with volume up 7.0%
    - growth across fresh hog / fillets & portions, & Tassal smoked salmon
    - decline in Superior Gold
    - retail share of business now represents 51.1% of total volume (1H10: 48.4%)
  - Wholesale market down 18.3%
    - decrease in fresh hog (wholesale) & smoked salmon
    - Petuna flat
- Export volume up 56.0% to 1,388 hog tonnes
  - measured growth to maximise return given high A\$



# Growth in contribution margin

## Improved contribution margin – up 4.7% to \$3.63kg

\$/Hog kg



- Contribution margin up 4.7% due to:
  - Increased selling price in both domestic (5.1%) and export (9.3%) markets
  - improved average net retail margins
  - partially offset by increased retail costs & all rebates (both retail & wholesale rebates), up 4.4% - however, retail sales revenue was up 9.9%, achieving our target of "more sales from less spend"
  - freight, storage & distribution costs up 12% - due to increased export sales tonnes
  - increase in finished goods costs, up only 1.3% due to increased feed costs in FY10 for the 2009 Year Class – now released through the P&L
- For 2H11 and beyond, improvements in finished goods cost is expected in line with assumptions underpinning Strategic Plan FY15



## Funding Growth

(\$'000)	1H11	1H10
Operating cash flow	18,596	4,232
Investing cash flow	(22,239)	(25,209)
Financing cash flow	(160)	15,858
Net increase / (decrease) in cash and cash equivalents	(3,803)	(5,119)

- Operating cash flow utilised to fund fish growth from domestic sales growth and a sell-in December for supermarket invoices from Nov & Dec 10 (c\$12m) – this is despite \$8.0m increase in the value of biological assets
- Capex spend of \$22.2m for 1H11 (1H10: \$25.2m)
  - major infrastructure to deliver Strategic Plan FY15 was in place by end of FY10
  - \$22.2m spent in 1H11 - \$5.2m related to infrastructure items carried forward from FY10 – with \$17m capital spend for FY11 only capital infrastructure items
  - forecast capex for FY11 only capital infrastructure items is \$30m (additional \$5.2m for FY10 items carried forward), with a steady state capex of around \$20m from FY12
  - biological assets increased by \$8.0m over 1H10, and with the 2010 YC biomass (i.e. for harvest in FY12) up 19.1% over the previous year class at the same time – Tassal needs to ensure that all fish stocks are appropriately secure and sustainable
  - overall, level of capital spend is commensurate with level of growth in live fish numbers and to ensure appropriate risk mitigation underpins sustainability



## Strong balance sheet

### Significant value underpinning Tassal's balance sheet

	Dec-10 (\$'000)	Dec-09 (\$'000)
Cash	7,098	7,663
Receivables	18,229	25,176
Inventories	55,502	48,288
Biological assets	131,987	123,948
Other current assets	1,153	1,766
<b>Total current assets</b>	<b>213,969</b>	<b>206,841</b>
Trade & other receivables	561	1,584
Investments	7,117	7,958
Property, plant & equipment	188,084	149,987
Goodwill & intangibles	39,035	39,035
Other non current assets	645	686
<b>Total non current assets</b>	<b>235,442</b>	<b>199,250</b>
<b>Total assets</b>	<b>449,411</b>	<b>406,091</b>

	Dec-10 (\$'000)	Dec-09 (\$'000)
Borrowings (short term)	43,353	74,392
Trade & other payables	50,200	42,588
Other current liabilities	4,473	4,654
<b>Total current liabilities</b>	<b>98,026</b>	<b>121,634</b>
Borrowings (long term)	50,136	24,430
Deferred tax liabilities	41,294	31,934
Other	664	577
<b>Total non-current liabilities</b>	<b>92,094</b>	<b>56,941</b>
<b>Total liabilities</b>	<b>190,120</b>	<b>178,575</b>
<b>Net assets</b>	<b>259,291</b>	<b>227,516</b>

- Strong balance sheet in place – no asset value included for marine leases
- Gearing at 36.0% vs. target range of 40% to 45% - full year target range is 30% to 35%
- Major infrastructure in place – allows management to focus on potentially bringing forward some of the benefits of the Strategic Plan FY15 later years (e.g. FY13 marine benefits and cost reductions to FY12)

## 3 Operational review

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# Compelling industry dynamics



## Tassal's retail focus driving increased salmon consumption

- Domestic salmon market growth leading into FY11 was compelling
  - FY10 growth for Tassal saw volume up 10.6% & revenue up 13.4%
  - growth largely driven by the trend towards healthier and versatile eating
  - Tassal was driving overall market growth via focus on its retail strategy
- Strong retail growth expected to continue in FY11
  - Tassal retail volumes up 7.0%, with sales revenue up 9.9% (1H11 v 1H10)
  - expect strong retail growth to continue in 2H11 on the back of Coles direct supply for fresh products, a solid promotional plan & new product developments
- Extent of decline in the wholesale market over 1H11 has been surprising
  - decline has been industry wide
  - based on the harvest size and volume profile for 2H11, Tassal expects a recovery of the performance of the wholesale hog market – from a volume, revenue & underlying price perspective
- Export market prices will be supported by continued global supply/demand imbalance, with risk on currency

# Focus on achieving premium returns

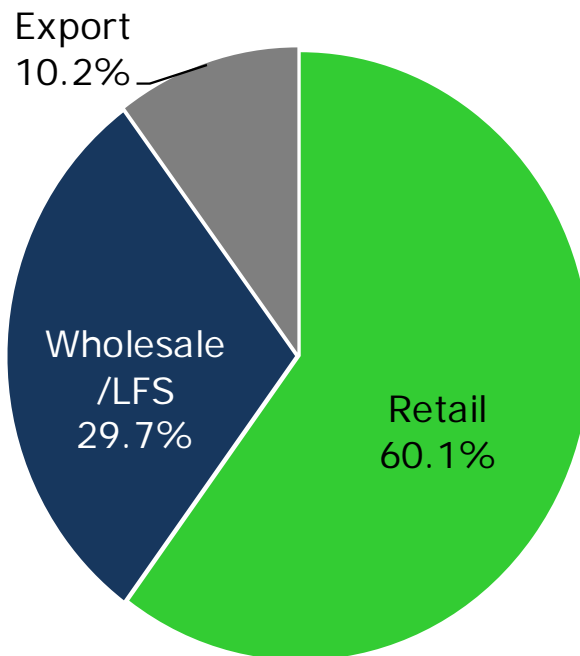


- ◆
  - Tassal is focussed on achieving premium returns from its sales and marketing initiatives via:
    - better matching of domestic demand with overall fish supply, and
    - maximising contribution margin
  - Sales environment is fluid:
    - difficult growing conditions over the previous summer (09/10) led to a revised equilibrium between supply and demand in 2H10 and carrying forward into FY11 – no export sales planned for FY11
    - significant biomass growth after April 10 – desire not to push retail beyond strategic plan due to underlying cost of additional retail promotions to consume surplus biomass
    - surplus biomass sold to export markets to manage retail sector growth
  - Retail business focussed and structured to ensure Tassal continues to maximise retail contribution margin
    - retail base sales continue to grow – therefore, no need to do excessive promotions
  - Wholesale core business maintained, rather than grown
    - decrease in overall wholesale market (negative growth)
    - aggressive activity of both domestic and New Zealand competitors

## 1H sales revenue breakdown

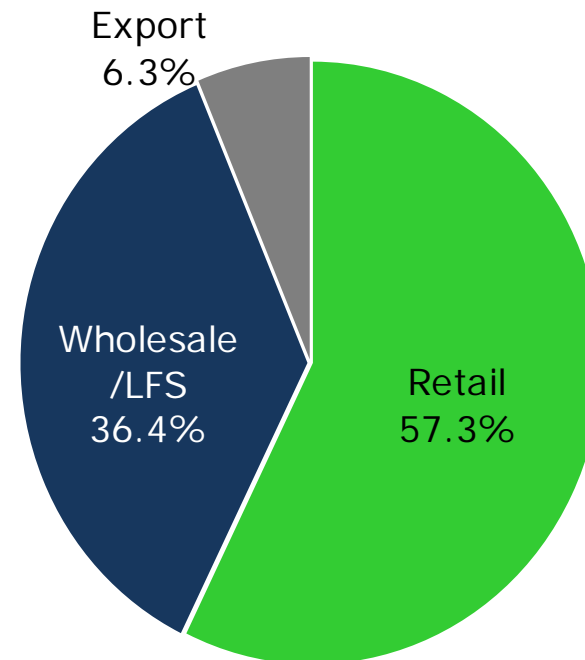
**Sales by value  
(\$115.9m)**

**1H11 revenue split**



**Sales by value  
(\$110.6m)**

**1H10 revenue split**

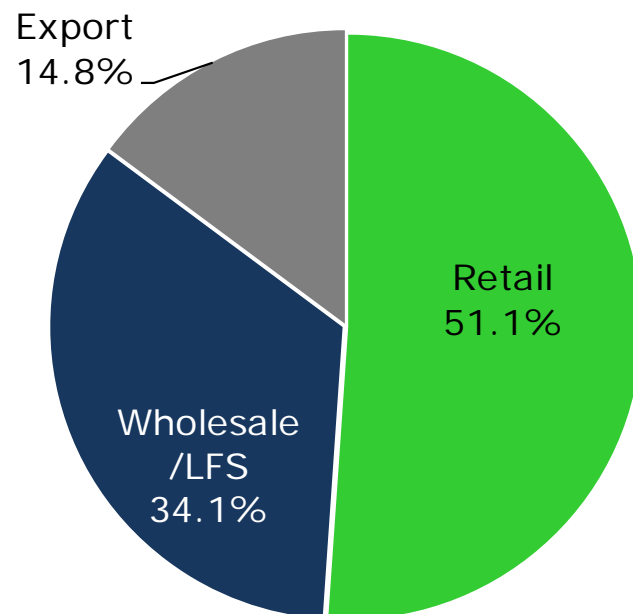




## 1H sales volume breakdown

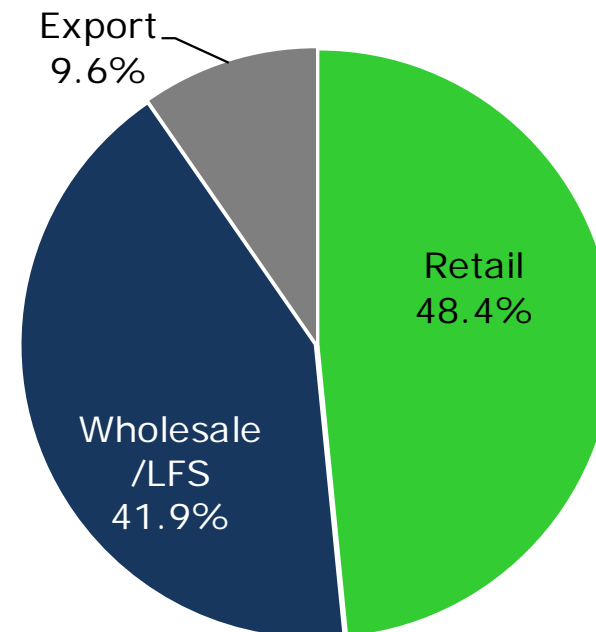
**Sales by volume  
(9,358 hog tonnes)**

**1H11 volume split**



**Sales by volume  
(9,227 hog tonnes)**

**1H10 volume split**





# Focus on global cost competitiveness



- ◆
- Tassal is focussed on being globally cost competitive in aquaculture production and processing
- Significant capital infrastructure
  - depreciation increased due to level of investment undertaken
  - interest expense increased given higher debt and finance costs
  - tax rate increase due to the cessation of the Investment Allowance
- Feed costs are >50% of salmon production costs
  - warm summer in 09/10 increased production costs of live fish
  - whilst base price of feed increased during FY10, Tassal was able to absorb some of this through scale benefits in labour & overheads
  - due to a lower base feed cost during 1H11 and growth in excess of plan, the cost of production of live fish decreased in 1H11 from what Tassal had planned
- Tassal remains focussed on continuing diet and raw material substitution within feed
- Due to fish performance, significant processing cost and yield benefits are being captured

# Tassal's marketing strategy driving retail sales growth



## Effective branding within the domestic market is critical – particularly retail sales

- Benefits of effective branding ...



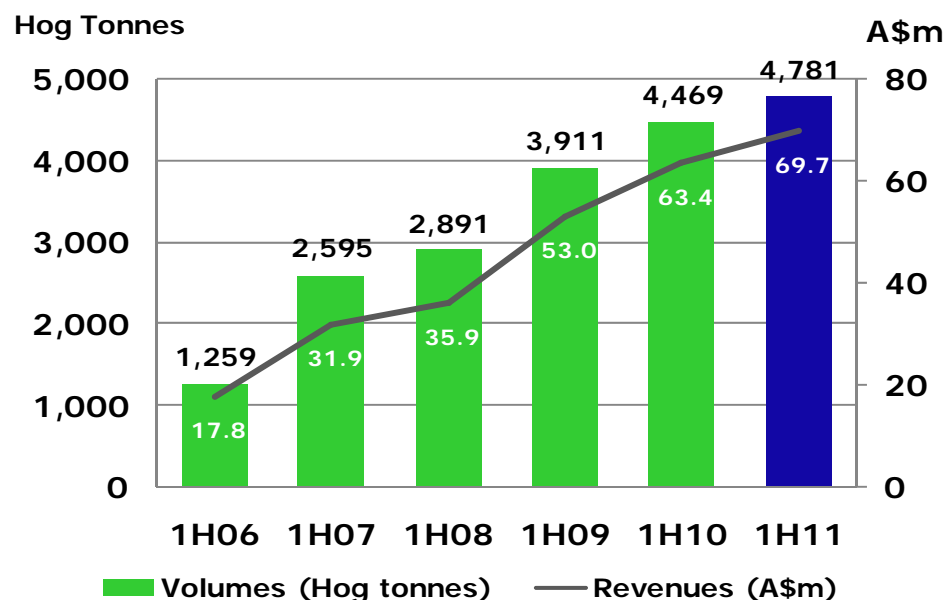
- Tassal's marketing strategy is designed to meet its objective of maximising its position in the Australian salmon market by building a strong Tassal brand, increasing per capita consumption, leading innovation and being responsive to consumer and customer needs. Tassal spent \$0.9m more in 1H11 v 1H10
- Tassal's current sales strategy is focussed upon generating a more positive sales margin mix:
  - domestic market: match domestic demand with supply and capitalise upon strong domestic sales growth and market position:
    - Retail: greater focus on increasing proportion of sales from higher margin Tassal brands, as opposed to non-branded sales
    - Wholesale: improved wholesale market share through contracts with major customers and more "seasonal" pricing mechanisms
  - export market: going forward, export markets will primarily be used as an outlet for excess stock not sold in the domestic market



## Growth in domestic retail

Volume up 7.0%; revenue up 9.9%

	1H11	1H10	Change
Volume (hog tonnes)	4,781	4,469	↑ 7.0%
Revenue (\$m)	69.7	63.4	↑ 9.9%



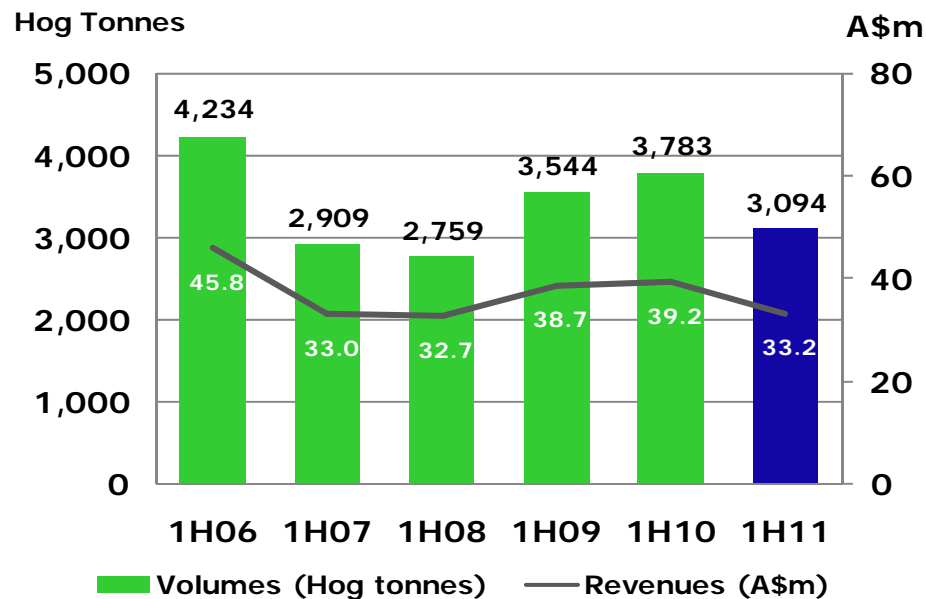
- Fresh hog / fillets and portions
  - strong combined growth in volume (up 13%) and revenue (up 20%) over 1H10
  - price increases achieved
- Smoked salmon
  - overall Australian retail packaged fish market (i.e. **all** packaged fish) grew by 23.9% in volume terms for 1H11 (over 1H10)
  - strong growth in Tassal brand - volume up 6%; revenue up 8%
  - Superior Gold underperformed - volume down 11%; revenue down 9%
  - Tassal is focussed on margin growth for both Tassal & Superior Gold products rather than market share
  - Ocean Blue (imported) heavy discounts and promotions driving market share

# Wholesale market challenging



**Volume down 18.2%; revenue down 15.3%**

	1H11	1H10	Change
Volume (hog tonnes)	3,094	3,783	↓ 18.2%
Revenue (\$m)	33.2	39.2	↓ 15.3%



- Fresh hog
  - wholesale market in decline – volatile re volume & revenue
  - volume down 28%; revenue down 23% yet price was 7% up
- Smoked salmon
  - import volumes creating volatility – volume down 10%; revenue down 11%
- Petuna
  - volume flat, with revenue up 6%
  - price up 7% – reflective of overall fresh hog price increase
- Focus on maximising profits
  - Tassal not pursuing business for the sake of market share

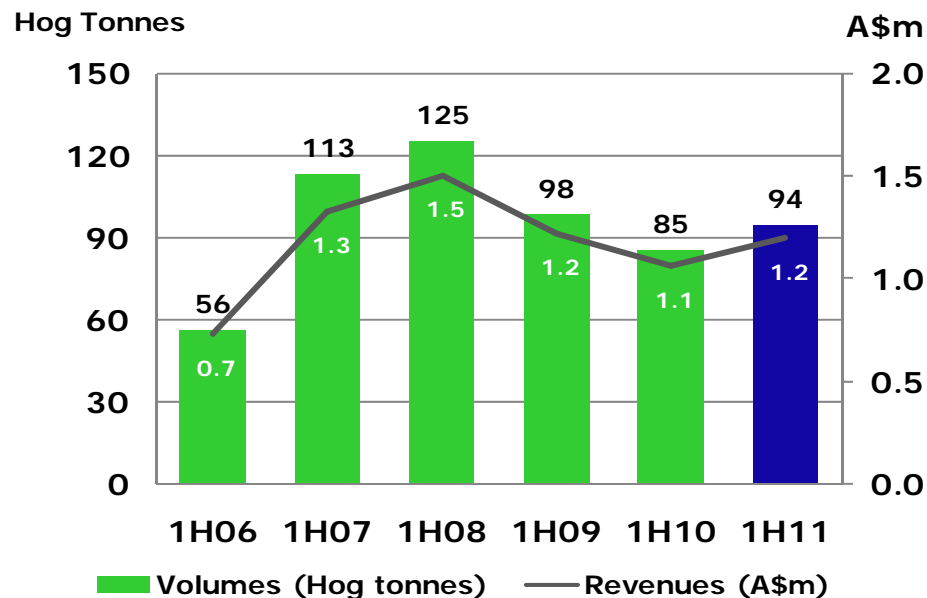


## Growth in food service

**Not a target market in FY11 - volume up 10.6%; revenue up 9.1%**

	1H11	1H10	Change
Volume (hog tonnes)	94	85	↑ 10.6%
Revenue (\$m)	1.2	1.1	↑ 9.1%

- Core product for this segment is smoked salmon – volume up 11%; revenue up 6%
  - has greatest potential in market, but it is the most competitive product



- Tassal has not, and is not prepared to deeply discount product to achieve volume growth
- Imports continue to be extremely active – Tassal is not prepared to sell at a loss
- Focus will continue to be on new business development opportunities based on a healthy eating focus

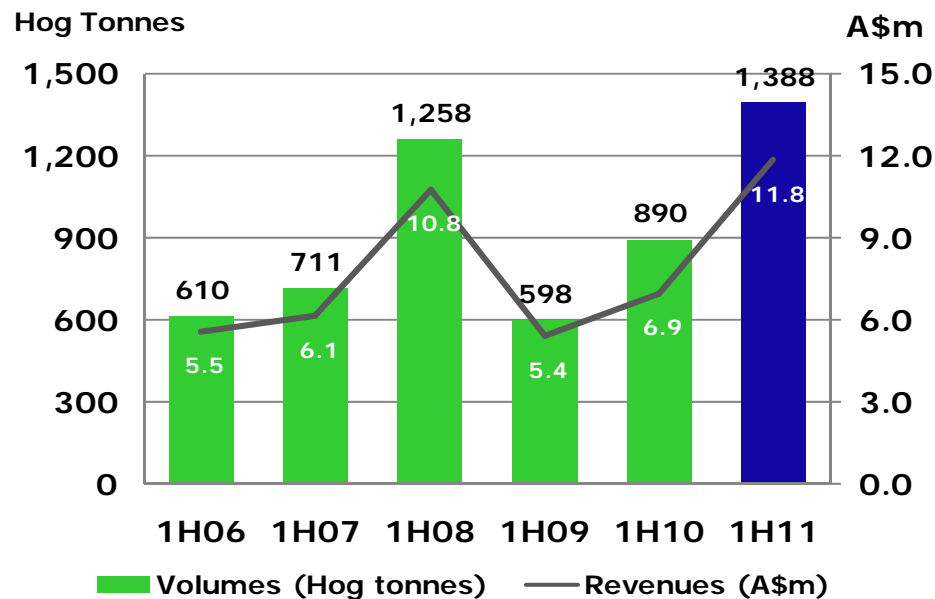


# Exceptional growth in export sales

Volume up 56.0%; revenue up 71.0%

	1H11	1H10	Change
Volume (hog tonnes)	1,388	890	↑ 56.0%
Revenue (\$m)	11.8	6.9	↑ 71.0%

- Growth in export sales from Japan, Singapore, Hong Kong & Indonesia
- Export sales were profitable, with margins higher
  - contribution margin of \$1.76/Hog kg (1H10: \$1.68/Hog kg)
- Base Norwegian price higher
  - net hog price \$/kg up 8%
  - partially offset by high A\$
- Focus for 2H11 is to maximise export market return
  - given Tassal fish size forecast for 2H11, Tassal should have a significant supply of large fish attracting the best prices



# Hatchery performance has exceeded all expectations



## Tassal now has enough capacity to deliver Strategic Plan FY15

- Rookwood Road Hatchery is global best practice ... from an operational, cost and risk mitigation perspective
- Consolidation of hatcheries (Springfield and Petuna removed from smolt planning)
- Capacity now of at least 7m vs. Strategic Plan goal of 6.3-6.5m for 2013 YC (i.e. harvest FY15) – excess capacity provides strong risk mitigation
- Increase of early smolts, elimination of late smolts, increase in average weight ... benefits to flow from FY12 (i.e. 2010 Year Class)
- With respect to the 2010 Year Class - Smolt input season started in March and ended in August 2010 (ended 2 months earlier than 2009) – and the overall size of the smolt put to sea increased by 41%
- Strategic benefits:

Rookwood hatchery	Saltas hatchery	Russell Falls hatchery
<ul style="list-style-type: none"><li>• large quantity, large size, early entry</li><li>• high degree of control</li><li>• close proximity to sites, labour pool</li><li>• lowest cost</li></ul>	<ul style="list-style-type: none"><li>• Selective Breeding Program Centre of Excellence and egg production</li><li>• smolt production</li><li>• broodstock production</li><li>• competitive cost</li></ul>	<ul style="list-style-type: none"><li>• smolt production</li><li>• broodstock production</li><li>• focus on triploid production/triploid improvement</li><li>• relatively low cost</li></ul>

# Sea performance continually improving



## Fish performance has been excellent since April 2010

- Bigger fish
  - live fish – fish for the balance of the primary FY11 harvest fish 7.1% bigger at 31 December 2010 (vs. corresponding year class at 31 December 2009)
  - average harvest size for primary FY11 harvest fish 13.4% bigger for the period up to 31 December 2010 vs. corresponding year class at 31 December 2009 (4.165 hog kg vs. 3.673 hog kg)
  - live fish – fish for the primary FY12 harvest fish 14.7% bigger (live biomass up 19.1%) at 31 December 2010 vs. corresponding year class at 31 December 2009
    - these fish will underpin the SGARA calculations for 30 June 2011
- More fish harvested
  - summer risk mitigation has 28.6% more fish harvested by 31 December 2010 vs. corresponding year class
    - means less fish at risk over summer
- More efficient growing & harvesting
  - increased pen and lease utilisation and performance
  - all fish under automatic feeding – ensures feeding is at “right time, level and rate”
  - on-site harvesting – leaving fish to grow mitigates risk of loss from towing pens
  - automatic net washer technology – improves “in-pen” environment to allow fish to perform at their optimum
  - selective Breeding Program - on track with expected improvements with the 2012 Year Class onwards



# Sufficient processing capacity effectively now in place



## Required processing infrastructure now in place to be able to deliver on Strategic Plan FY15

- Dover – Wet Processing
  - operating at global best practice from a cost \$/kg and P&E perspective
  - wastewater improvements evident – some further expansion spend required
  - risk rating improved
- Huonville – Value Adding
  - now operating at global best practice from a cost \$/kg and P&E perspective
  - site capacity now at 28 Hog tonnes per day
  - wastewater improvements evident
  - risk rating improved
- Margate – Value Adding
  - not currently at optimal operational level – focus on utilising spare capacity
  - capacity exists to significantly increase throughput – Coles direct supply from Feb 11 will ensure that
    - Margate will be operating at optimal operational level
    - operating at global best practice from a cost \$/kg and P&E perspective
  - focus on fresh fillets & portions, hot smoked and short run production products



## Significant focus on sustainability

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### Tassal is mitigating its risks via its focus on sustainability

- Lead player in long-term industry strategy with sustainability focus – also taking lead in food sector sustainability reporting
- Best practice infrastructure is in place – risk mitigation focus
- Focus on impact mitigation and stakeholder engagement
- Collaborative, forward focused research partnerships
- Strategic planning in areas of sustainability and company reputation up to date
- Compliance, communication, stakeholder, and seal management plans implemented and resourced
- EMS developed – implementation proceeding, reporting framework designed

## 4 Strategy & outlook

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# On track towards strategic targets



Operational metrics	FY10 actual	FY15 target
Smolt input nos.	5.6m	6.3m – 6.5m
Harvest size – hog	3.8kg	4.8kg – 5.0kg
Harvest tonnes – hog	Circa 17,500	Circa 30,000
Domestic market revenue CAGR (using FY06 as the base year)	17%	10%
Pricing assumptions	Targeted price increases	Targeted price increases
Export market sales revenue (% of sales revenue)	5.7%	Circa 5% to 10%
Capital expenditure	Focus expansionary efficiency risk mitigation	Focus replacement efficiency risk mitigation
<b>Financial metrics</b> (based on post AASB 141 impact – i.e. Statutory Results)		
Return on Equity (NPAT / Equity)	11.4%	Circa 18%
Return on Capital Employed (EBIT / Total Assets less Current Liabilities)	11.9%	Circa 25%
Effective Tax Rate	19%	27%

**The profitability returns from the Strategic Plan are primarily cost driven – not sales price driven**

## Key Assumptions:

- Harvest size
  - benefits of larger size, earlier input of the right types of smolt, within the right areas
  - benefits of improved fish husbandry, feed, feed management, fallowing and harvesting practices
  - selective breeding program risk mitigation
- Harvest volume
  - capacity expansion – “egg to plate” vertical integration
  - processing infrastructure & plant & equipment in place
- Sales volume
  - increased retail demand supported by healthy eating trends
  - wholesale market delivers the best returns
  - export market to soak up “excess”
- Sales price
  - supply dynamics and retail demand offsetting pricing pressure from supermarkets
  - wholesale and export markets volatile



## 2H11 priorities

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### Platform now in place to drive bottom-line performance

- Overall priority is to deliver on Strategic Plan FY15
    - ensures Tassal is globally cost competitive
    - achieves premium returns on sales and marketing initiatives
  - Sales priority
    - better match domestic supply and demand – through import substitution of Superior Gold, marketing, new product development and stimulating core domestic sales growth
    - retail plan refocussed
      - avoid “pushing” retail beyond a desired plan – margin growth will be driven by more base sales, and less direct selling spend
      - higher focus on branded products – higher margin; more responsive to activities
      - prices for fresh fish have increased
    - seasonal pricing for wholesale market – higher prices when fish are growing (i.e. maximise fish size)
    - higher pricing for export market – higher prices for larger fish (i.e. maximise fish size)
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## 2H11 priorities (cont'd)

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### Increasing fish harvest size is key operational focus

- Key operational priorities
  - increasing fish harvest size is number one operational focus
    - Tassal is capturing significant fish growth at present
    - inputting more fish earlier and bigger to significantly underpin future efforts
    - summer water temperatures still biggest risk
    - selective breeding program (50% of stock input from 2012 Year Class) will provide a significant risk mitigant
  - stabilising feed prices
    - significant work has been undertaken on diet and raw material substitution – this will remain a priority
  - leveraging benefits of infrastructure spend
    - majority of infrastructure investment for Strategic Plan FY15 complete
    - global best practice now in place
    - excellent platform to achieve global cost competitiveness
  - getting fish bigger first, and then growing them more efficiently
  - maximising the use of current leases and pen stocking densities



## FY11 Outlook

### Management comfortable with median broker/analyst forecast FY11 Operational NPAT at c\$23.7m

- NPAT uplift for FY11 (FY10 Operational NPAT \$22.6m) driven primarily by:
  - increases in fresh hog (improved market conditions due to supply constraints and given Tassal fish size) and smoked salmon pricing (negotiated increases)
  - improved yield and cost reductions through value add processing
  - retail initiatives (Coles direct supply from end of February 2011)
  - commissions from Crystal Bay Prawns (full period)
  - cost initiatives:
    - negotiated improved packaging costs
    - reduction in contract processing costs – negotiated a rate decrease and change in supply mix
    - reduction in cost of goods sold – reduction in 2009 & 2010 Year Class write-off rates
- Normal summer growing conditions – the effect of the hot summer for 09/10 cost Tassal around \$3m to \$4m in 2H10 with the lost growth & survival leading to an increase in cost of goods sold

## 5 Board strategic review

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# Strategic review update

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## **The Board is comprehensively evaluating all strategic options available to Tassal**

- The Board of Tassal announced a Strategic Review on 10 December 2010 with the objective of evaluating the company's strategic options to ensure Tassal shareholder value is maximised
- The Strategic Review is addressing:
  - a review of the existing Strategic Plan out to FY15 ... this has been reconfirmed as having the potential to create significant value for shareholders in excess of the current share price
  - a review of acquisitions that may add value to shareholders, but that do not distract management from the implementation of the five-year Strategic Plan ... to date, no opportunity has been identified that has satisfied these conditions
  - a review of change of control proposals from third parties



# Strategic review update

## Due diligence continuing

- Confidentiality Agreements have been executed and due diligence information has been provided to a number of interested parties. Due diligence is continuing
- Should a final proposal be presented on appropriate terms, it is the Board's current intention that this would be presented to shareholders along with an evaluation of other options available to Tassal so that shareholders can properly consider which path provides the best overall proposition
  - as is normal in such processes, there is no assurance that any final proposal for a change of control of the company will be received on terms and conditions that the Board considers appropriate to be put to shareholders
- The Board of Tassal will keep shareholders updated regularly

## 6 Summary

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## In summary...

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  - 1H11 results reflect investment in long term growth
  - Significant operational achievements – allowing focus to bring forward some of the benefits of the Strategic Plan identified for FY13 back into FY12
  - Market fundamentals differing across sectors
    - domestic market – retail market strong, wholesale market in decline
    - export market - hog prices increasing due to lower global supply
    - 1H11 saw lower feed costs – some uncertainty about fishmeal & fish oil prices moving forward (substitutability with diet formulations to act as a mitigant for potential feed price increases)
    - attractive opportunities to further penetrate retail market – new product opportunities, together with Coles direct supply
  - Strong balance sheet – with comfortable gearing levels
  - Platform for growth to deliver Strategic Plan FY15
    - major capex infrastructure spend complete – reduction in spend in 2H11 and beyond
    - global best practice facilities in place – with the benefits of these now clearly evident in operational performance achieved
    - more smolt, earlier input & larger size at input = larger growing fish
  - Well positioned to grow shareholder value
  - Management comfortable with median broker/analyst operational NPAT forecast for FY11 at c\$23.7m
- ◆

# Any questions?

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# Appendix A

## Statutory, Underlying & Operational Results (1H11 versus 1H10)



Half Year ended 31 December 2010	Statutory Profit \$'000	Non Recurring Items \$'000	Underlying Profit \$'000	AASB 141 Impact \$'000	Operational Result \$'000
Revenue (from all sources)	\$222,627	\$0	\$222,627	(\$104,949)	\$117,678
EBITDA	\$29,109	\$0	\$29,109	(\$5,230)	\$23,879
EBIT	\$23,177	\$0	\$23,177	(\$5,230)	\$17,947
Profit before income tax expense	\$19,638	\$0	\$19,638	(\$5,230)	\$14,408
Income tax expense	(\$5,636)	\$0	(\$5,636)	\$1,569	(\$4,067)
Net profit after income tax expense	\$14,002	\$0	\$14,002	(\$3,661)	\$10,341

Half Year ended 31 December 2009	Statutory Profit \$'000	Non Recurring Items \$'000	Underlying Profit \$'000	AASB 141 Impact \$'000	Operational Result \$'000
Revenue (from all sources)	\$206,265	\$0	\$206,265	(\$94,031)	\$112,234
EBITDA	\$27,673	\$1,134	\$28,807	(\$5,688)	\$23,119
EBIT	\$22,654	\$1,134	\$23,788	(\$5,688)	\$18,100
Profit before income tax expense	\$20,151	\$1,134	\$21,285	(\$5,688)	\$15,597
Income tax expense	(\$5,075)	(\$340)	(\$5,415)	\$1,706	(\$3,709)
Net profit after income tax expense	\$15,076	\$794	\$15,870	(\$3,982)	\$11,888

Movement - 1H11 v 1H10	Statutory Profit \$'000	Non Recurring Items \$'000	Underlying Profit \$'000	AASB 141 Impact \$'000	Operational Result \$'000
Revenue (from all sources)	\$16,362	\$0	\$16,362	(\$10,918)	\$5,444
EBITDA	\$1,436	(\$1,134)	\$302	\$458	\$760
EBIT	\$523	(\$1,134)	(\$611)	\$458	(\$153)
Profit before income tax expense	(\$513)	(\$1,134)	(\$1,647)	\$458	(\$1,189)
Income tax expense	(\$561)	\$340	(\$221)	(\$137)	(\$358)
Net profit after income tax expense	(\$1,074)	(\$794)	(\$1,868)	\$321	(\$1,547)



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