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Lodgement of Market Briefing**

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Market Briefing

Tassal MD on 1H17 results and growth outlook

Interview with Mark Ryan (Managing Director & CEO)

In this Market Briefing interview, Mark Ryan, Tassal's Managing Director & CEO, gives an update on the company's 1H17 result and growth outlook, including:

- *Continued growth in earnings in a more favourable operating environment*
- *Environmental impact of Summer 2015/16*
- *Salmon pricing and risk mitigation*
- *Sustainability initiatives and Macquarie Harbour*
- *Outlook for FY17*

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1H17 saw Tassal continue to grow across most key metrics with a backdrop of a more favourable operating environment. What has been the key driving factors behind this continued growth?

Mark Ryan

Our half year result was a testament to the continued effort of all our team as well as the underlying strength of our business.

Revenue decreased slightly, down 3.3% to \$219.3 million. This was a direct result of a shift in strategy to rebalance the Company's sales mix away from higher price, but also higher cost to service and therefore lower margin retail channels, to higher margin wholesale and export channels. We were up on all our other key metrics, with operational EBIT and NPAT showing strong gains of 7.7% and 6.2% respectively.

Even though we are faced with a higher cost of growing fish, we continue to drive margin and operating cost efficiencies. In addition, we are benefitting from improving wholesale and export market sales prices, which are the highest they have ever been, and are anticipated to continue into FY18.

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How have the adverse environmental conditions of Summer 2015/16 affected the business in 1H17?

Mark Ryan

In summer 2015/16, we experienced the warmest water temperature profile on record in both sea and freshwater, over a considerable period. This affected the rate of growth in our fish and in turn, the cost of those fish. These fish were harvested in 1H17. At the same time, our previous sales mix was skewed towards high growth retail channels which meant that we could not leave the fish in the water to gain necessary fish growth and therefore had to sacrifice margin to satisfy locked in retail contract volumes.

Pleasingly, we are now experiencing a “normal” summer with favourable environmental and growing conditions for our fish – the main benefit of this will be fish for sale in late FY17 and FY18. We have also strategically rebalanced our sales mix towards higher margin wholesale markets that has allowed us to leave fish in the water for longer to gain additional fish growth, which attracts a higher market price. Optimising fish growth leads to optimised pricing and therefore, returns.

With supply shortages across both domestic and global supply, and by balancing the longer-term certainty of retail sales with the shorter-term benefits of higher margin wholesale sales, we achieved higher wholesale and export pricing during 1H17.

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Salmon sustainability has been a key issue during 1H17. What is Tassal doing to ensure compliance with its environmental obligations?

Mark Ryan

It's very much on the public record that the fish farming industry has received unprecedented media scrutiny in recent months, and environmental performance and impacts are front and centre. For us, it's not merely about compliance, it's about maintaining a healthy environment to raise healthy fish which in turn will lead to a healthy business.

As Australia's leading fish farmer and a recognised global leader for sustainable salmon aquaculture, we take our leadership position extremely seriously. Our aim always is to ensure that our operations are environmentally sustainable for the long term.

Tassal is committed to providing Australians with responsibly sourced Tasmanian Atlantic Salmon and sustainability is a priority for us. Equally important, is transparency across our business and we are proud to publish an annual sustainability report, which details our farming practices including environment interactions.

We understand that different sites in which we farm within Tasmania - including Macquarie Harbour, which is very topical at the moment because of genuinely concerning challenges for our industry - have different environmental conditions. Our team manages our stocking plans and we have an adaptive management strategy to ensure our fish and the environment are healthy. Even so, in Macquarie Harbour we have faced environmental non-compliance incidents that compel us to do even more.



We are committed to sound environmental practices and scientific rigour at all our marine sites and are constantly working to better understand the environmental profiles of our sites, and the organic inputs from our farming operations. Macquarie Harbour shows that we still have more to do, but we are working from a solid foundation.

We have excellent environment credentials. Our record of compliance across our operations, as independently assessed by the Aquaculture Stewardship Council (ASC) in partnership with WWF-Australia, leads our industry. To demonstrate our commitment to driving world-class sustainability we are integrating the United Nations' 2030 Sustainable Development Goals into all aspects of our business. This will ensure that Tassal continues to be the leader in sustainability across Australia and a global leader for sustainable salmon aquaculture.

We are proud of Tassal's farming practices, and the team are passionate and committed to improving our practices, protecting Tasmania's marine environment, and supporting our employees and customers in producing a healthy, premium and food-safe product for our consumers.

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How will Tassal manage the risk associated with Macquarie Harbour?

Mark Ryan

Due to unexpectedly adverse climatic conditions over the last few years, including the record water temperatures of the 2015/16 summer, we have been concerned about conditions in Macquarie Harbour. We voluntarily reduced our stocking rates there by 20% as early as 2015. To ensure that environmental balance is restored, we agree that recent regulatory adjustments to address the situation are necessary.

Monitoring late in 2016 picked up non-compliances at our Franklin lease, one of three we currently operate in Macquarie Harbour. At that point a decision was made to fully destock the site, in accordance with the directions of the main regulatory agency, and we started this process early in January 2017. The harvesting was planned to ensure appropriate consideration of the environment, our fish and the safety of our people through the process. We remain committed to protecting the Harbour to ensure the long-term sustainability of the area for the entire community, which includes maintaining salmon industry jobs on Tasmania's west coast.

Tassal takes full responsibility for our own operations, and we are working with the government authorities, our industry, the local community and with independent agencies to restore the waterway's marine environment to good health. We own our part in the current position in Macquarie Harbour. We see this as a learning for Tassal. We are always learning and adapting. We will continue to improve.

It is important for people to understand: the Franklin Lease will recover – benthic impacts from salmon farming are reversible by nature. We'll only restock the lease if and when it is restored to full compliance for salmon to be farmed there again, and we'll be informed by the hard lessons from the environment in Macquarie Harbour of recent years and the scientific and operational adjustments that they demand.

Our commitment to sustainable practices for salmon farming is the result of many years of dedicated effort by our own personnel, working in partnership with the world's most expert environmental group when it comes to sustainable food, WWF, and meeting the stringent independent requirements of the ASC. The success of our business relies on a



healthy environment, healthy fish and the support of local communities in which we operate.

We will continue to engage with stakeholders to manage the Macquarie Harbour waterway and our leases within it. In the medium term, while appropriate future stocking levels for Macquarie Harbour are reviewed, we may halve the input of Tassal smolt into the Harbour to approximately 1 million to ensure its sustainability.

Across our operating areas, we have effective risk mitigation strategies in place that will support our continued growth in a sustainable way. Given Tassal's spread of operations, we can sustainably scale up in our other current lease areas, as well as activating unutilised areas, to compensate for the reduction in Macquarie Harbour.

By maintaining a strong and geographically diversified set of operations, it provides the business with a long-term sustainable growth profile. Part of this diversification and growth is the planned fish farm at Okehampton Bay. Tassal welcomes the findings of the independent Marine Farming Review Panel that has assessed this site as being suitable for fish farming. Tassal will comply with all conditions in the review panel's report regarding this new project.

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The current wholesale and export salmon prices are now at their highest ever level. How is Tassal continuing to manage downside price risk?

Mark Ryan

The continued strength of salmon pricing in both wholesale and export markets is now forecast to continue into FY18, however this is not without risk. To counteract this downside risk, we have obtained a greater ability to flex our supply and sales mix and are agile enough to rebalance sales channels to take advantage of changes in pricing while still maintaining a strong retail business.

We have reaped the benefits from our ability to optimise sales during the Christmas period in both the wholesale and export markets. The upcoming Easter period is traditionally another strong sales period for the business and we are very well positioned to maximise returns heading into 2H17. Our ability to remain agile in this regard provides a natural hedge against any downside pricing risk. Further, with a lower AUD/USD exchange rate, this also ensures that imports will be less attractive for the Australian market and exports become more attractive for the Australian producers.

The result is that operational and financial returns will be delivered in a balanced and sustainable way that maximises value and minimises risk for our shareholders, employees and local community.

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With earnings continuing to grow, why hasn't operating cash flow grown too?

Mark Ryan

We have, and continue to be, focused on positive cash generation from operations. This enables us to invest in fish growth from both a number and weight perspective, while undertaking a responsible capital spend to underpin sustainable growth in long-term returns.

Tassal's operating cashflow in 1H17 of \$24.0 million was slightly lower than the \$25.5 million generated in 1H16. This is a very positive result given we held back fish harvesting and sales to optimise fish biomass, and even with the significant increase in the volume of feed fed. It is important to note that 60% of the cost of a Salmon Year Class is spent before the first Salmon from that Year Class is harvested.

Overall, this reflects the strength of Tassal's underlying business and operational strategy.

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Why has biomass grown so strongly and what does it mean for earnings going forward?

Mark Ryan

For Tassal, optimising growth in biomass and fish size is the Company's number one production priority. We want to move as quickly as possible to a fish size average of 5kg hog. At 5kg hog it allows us to optimise both growing costs, yield recoveries in processing and sales pricing.

The operational initiatives we have put in place to allow our fish to spend more time in the water, combined with favourable growing conditions, is delivering the results we were planning for. Salmon to be harvested in late 2H17 and FY18 will benefit from our investment and growing from late 2H16 and across 1H17.

The results are very pleasing. Tassal has achieved a step change in underlying biomass and fish size. The standing biomass, which is the amount of live fish in the water was 24,573 tonnes at 31 December 2016. This compares to 15,164 tonnes at 30 June 2016 and 19,596 tonnes at 31 December 2015.

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Is De Costi Seafoods delivering on your expectations at the time you acquired that business?

Mark Ryan

Yes – it certainly has delivered to date – and we expect further growth moving forward as we focus on innovative products and packaging to drive results.

The acquisition of De Costi Seafoods positioned Tassal as the market leader in Australia's \$4.3 billion Seafood Industry. The strategic shift of Tassal from a purely vertically integrated Salmon company to a Salmon and Seafood company has opened strong growth opportunities as we drive seafood sales and category growth, much in the same way as we did with Salmon. We see some real upside leading the Seafood Industry in innovative products and packaging.

In addition, this acquisition was strategically important in stabilising short term profits during times of higher costs. Growing seafood sales will become a material share of overall sales over time, underpin a successful salmon strategy and drive improved cash flows and returns.

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In closing, what is the outlook for FY17?

Mark Ryan

The favourable environmental conditions for fish growth combined with attractive salmon pricing in both wholesale and export markets are forecast to continue throughout FY17 and into FY18. This will provide Tassal with a platform to continue its growth trajectory.

Our increased ability to flex our supply and sales mix uniquely positions us to maximise growth opportunities as they arise as well as providing a hedge against any decline in salmon prices and adverse environmental conditions. We are conscious though that we are still harvesting stock that is a higher cost during 2H17 as it was impacted by the Summer 2015/16.

In line with Tassal's Strategic Plan, the focus for FY17 is to continue to increase domestic Salmon and Seafood consumption while ensuring that operational and asset returns are maximised.

Sustainability is at the core of our operations and we will continue to enhance and accelerate innovation for our farms, our fish, and our wider environmental and community initiatives – further advancing our leading sustainability credentials. We will continue to listen, learn, innovate, improve and adaptively manage.

The operational program and refocused sales mix now in place will allow Salmon stock to recover and build up standing biomass and fish size to a point that will allow the Company to optimise farming, processing, and sales operational returns. Tassal's evolving sales mix supports the maximisation of overall returns to shareholders.

The De Costi Seafoods acquisition has provided Tassal with strong growth opportunities and a key plank for Eastern Seaboard distribution of Seafood. The acquisition has



enabled Tassal to stabilise profits in the short term whilst driving improved cash flows and asset returns in the medium term.

The Board expects that Tassal will be able to continue its growth trajectory and generate increased revenues and operational earnings for FY17.

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Thank you, Mark.

For further information, please contact Tassal on 1300 880 179, or visit www.tassal.com.au

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