ASX/Media Release

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RESULTS ANNOUNCEMENT FOR TWELVE MONTHS TO 30 JUNE 2021

Huon Aquaculture Group Limited (ASX: HUO) delivered a statutory loss of $128.0 million for the twelve months ended 30 June 2021 ($4.9 million NPAT pcp), including a non-cash impairment charge of $113.9 million ($79.9 million after tax). Despite a 24% increase in revenue to $426.4 million on the strength of a 39% increase in harvest tonnage, earnings were significantly impacted by COVID-19. The reduction in global demand for salmon resulted in the international salmon price remaining depressed for much of the year. This impacted pricing across all Huon's distribution channels, particularly the lower priced spot export market. The scheduled increase in production resulted in the channel mix shifting towards the international market (44% of total volume) and contributed to a 10% drop in the overall average price to $11.97/HOG kg.

On 6 August 2021 Huon announced it had entered into a Scheme Implementation Deed with JBS to acquire 100% of Huon shares by way of two alternative schemes of arrangement ("Schemes"), and on 13 August, provision for the making of a recommended parallel takeover bid by JBS ("Offer"). This was the result of an extensive review process over a period of six months, initiated by the Board following a number of unsolicited approaches. The Board considers the Schemes and Offer to be in the best interests of Huon shareholders subject to the qualifications set out below.

SUMMARY OF BUSINESS PERFORMANCE

- Operating EBITDA of $16.7 million in line with guidance. Operating EBITDA fell 65% on pcp due to a 10% fall in the average price, exacerbated by an increase in production that resulted in a shift in the channel mix to spot export sales at materially increased freight costs
- The average harvest weight increased 4% to 5.24kg from 5.04kg in pcp, reflecting both the excellent growing conditions in the first half and improved operating efficiencies
- Strong gains in the domestic retail market with record sales achieved through increased marketing, the launch of new ranges of value added products and new contract wins
- Cash flow from operations was negative $3.0 million reflecting increased working capital requirements as freight costs doubled on pcp to $66 million
- Increased working capital requirements were offset by the $66m capital raise resulting in a 20% decrease in net debt from $167.3 million to $133.3 million with gearing unchanged at 54%

FINANCIAL SUMMARY

12 months ending 30 June		2021	2020	% Change
Tonnage	t	35,611	25,566	39%
Revenue[1]	$M	426.4	339.9	24%
Revenue per HOG kg	$/kg	11.97	13.30	-10%
EBITDA[2]	$M	(113.2)	48.8	↓
NPAT	$M	(128.1)	4.9	↓
Operating EBITDA[3]	$M	16.7	47.3	-65%
Operating NPAT[4]	$M	(36.9)	3.9	↓
Fair value adjustment of Biological Assets	$M	(16.0)	1.5	↓
Biological Assets	$M	218.3	264.0	-17%
Operating cash flow	$M	(3.0)	8.4	-136%
Net debt[5]	$M	133.3	167.3	-20%
Total gearing ratio[6]	%	54.2%	54.3%	0%
Earnings per share	c	(120.79)	5.63	↓

1 Revenue from the sale of goods
2 EBITDA is earnings before interest, tax, net depreciation and amortisation
3 Operating EBITDA excludes impairment charges and the impact of the Fair Value Adjustment of Biological Assets
4 Operating NPAT excludes impairment charges and the impact of the Fair Value Adjustment of Biological Assets and related tax impact
5 Net Debt excludes lease liabilities
6 Total Gearing Ratio is measured as debt (net of cash)/net assets, excluding lease liabilities

COVID-19 IMPACTS

While there was some respite in the last few months of the year from the challenges faced by Huon during much of FY2021, the overall pressures placed on the business from the market related impacts from COVID-19 were significant. The two main contributors were the 12% fall in the average international salmon price in FY2021 compared to the previous year and the significant increase in freight charges due to limited access to international flights. The impact of these were amplified by the commencement of Huon's ramp up in production as part of its five year strategy to expand capacity to meet future growth in domestic demand.

Salmon volumes destined for overseas markets, whether under contract to retail outlets in Asia and the US or the spot market, increased by 51% on FY2020. Pricing in these markets, particularly the highly competitive spot market, was on average 22% below that received in the domestic market during the year. The shut-down of international commercial flights was a major impediment to gaining access to the markets Huon needed to sell 44% of its FY2021 harvest. While the government stepped in to provide industry support via the International Freight Assistance Mechanism, Huon's cost of freight to export markets doubled, further eroding margins.

On the positive side, the initial downturn in demand in the domestic market that was experienced in the first few months of COVID quickly reversed. Huon achieved record sales into the wholesale channel for the year, despite the restricted operations of hotels, catering, events and tourism dependent industries continuing to impact the food services sector. Volumes sold into the retail market rose 63% to record levels as consumers responded to a major advertising campaign designed to drive brand awareness and boost Huon Salmon sales nationally.

Huon's strong focus on increased sales and volumes into the domestic market succeeded in capturing the majority of volume growth in the market during the year, increasing its share of both the wholesale and retail segments.

OPERATIONAL SUMMARY

Huon began FY2021 with significant biomass in the water, including fish for harvest carried over from FY2020 due to COVID related constraints on sales and distribution. Growing conditions during the first half were exceptional with overall volumes boosted by strong fish performance which resulted in a record average weight of 5.77kg for the harvest. However, the extended warm conditions in summer impacted fish growth in the second half resulting in a much lower average weight (4.73kg) and higher feed costs.

Over the course of the year Huon further reduced its cost of production per HOG kg (excluding freight), a key indicator of the gains being achieved from changing the way Huon farms. This fell from \$10.20 to \$9.65, assisted by the significant increase in volumes. However an additional \$34m in freight charges over this period compared to FY2020 weighed heavily on the business.

With **sales into the spot export market** accounting for 27% of revenue, the significant fall in export prices during the year was the main contributor to the 10% drop in the overall weighted average sales price to \$11.97/HOG kg. The planned increase in production for FY2021 together with increased fish size, delivered added impetus to sourcing new and reliable markets both domestically and offshore. During the year **contracted volumes sold into the international market** increased 151%, accounting for 11% of revenue. As Huon continues to diversify its markets over time, this will limit its exposure to the more volatile pricing environment of the spot export market.

The **domestic retail channel** accounted for a record 7,200 tonnes in FY2021 or 25% of sales compared to 4,400 tonnes (19% of sales in pcp). Huon made strong, direct gains in the retail segment with salmon sales up 61% as a result of an intensive advertising campaign nationally, the launch of a new range of value added products and increased focus on customer development. A new processing facility was opened in Western Australia in December to strengthen Huon's ability to meet major retail contracts and create value-added products on-site to meet local demand. Huon also succeeded in winning two new 3 year contracts to supply Coles and Woolworths which commenced in the latter months of the financial year. Huon expects this to boost the retail channel's share of Huon's total volume sales from 20% to around 32% in FY2022.

Volumes in the **domestic wholesale market** quickly recovered from the downturn in the second half of FY2020, with volumes sold through this channel up 18% in FY2021 compared to the previous year. However, pricing was significantly impacted (-15% on pcp) due in part to the ongoing disruption to the food service sector from COVID. While tonnages during the year were the highest on record, this channel now represents 38% of sales revenue compared to 47% in pcp due to the fall in price and overall increase in production. The anticipated recovery in the food services sector over the next couple of years, also highlights the potential for further growth in this channel.

CAPITAL MANAGEMENT

In order to ensure the business remained well capitalised during the COVID-19 operating period, Huon raised $66 million through a placement and SPP in August 2020. Funds were used to reduce debt and improve liquidity.

In February 2021 Huon booked an impairment charge of $113.9 million due to downgraded cash flow projections based on the decline in salmon prices, high freight costs, the uncertainties within the global economy and its reduced expectations for operating earnings (EBITDA) in FY2021. The Company continues to have the support from its lenders agreeing in August 2021 to extend the revised terms for its banking facilities agreed in February 2021 for the period until 30 September 2022, on and from such date the previous financial covenants recommence.

Having completed a significant capital expenditure program in FY2020, capital expenditure during the year was focused on maintenance capex which totalled $9 million for FY2021. The dividend remains suspended until the business returns to profit.

OUTCOME OF THE STRATEGIC REVIEW

In February 2021 the Board initiated a strategic review as a result of a number of unsolicited approaches to assess potential corporate level transactions for the benefit of shareholders. Grant Samuel was appointed to undertake the strategic review and Ashurst was appointed as legal advisor to the Company.

On 6 August 2021, Huon announced it had entered into a Scheme Implementation Deed with JBS to acquire 100% of Huon shares by way of Schemes of Arrangement. The Schemes value Huon's equity at $3.85 per share or approximately $425 million on a fully diluted basis. The Board considers the Schemes to be in the best interests of Huon shareholders and each Huon Director, including Huon's founding and major shareholders, Frances and Peter Bender, intends to vote all the shares held or controlled by them in favour of the Schemes. On 13 August 2021 Huon entered into a process agreement with JBS to provide for the making of a recommended takeover bid subject to a 50.1% minimum acceptance condition and the Schemes not becoming effective (among other conditions). The offer will be in parallel but not in substitution to the Schemes.

The above recommendations and voting and acceptance intentions from each Huon Director are given subject to the absence of a superior proposal and subject to an Independent Expert concluding the Schemes are in the best interests of shareholders and the Offer is fair and reasonable or not fair but reasonable to Target Shareholders (other than associated shareholders).[1]

Huon Chairman, Neil Kearney, noted that "the Board believes this transaction provides Huon shareholders with an opportunity to realise significant value for their shares. The Schemes and takeover bid provide certainty for Huon shareholders and a compelling premium in cash to recent trading prices for Huon shares".

[1]The obligation on Mr Peter Bender's private company to accept the Offer in respect of 19.9% of Huon shares under the terms of the pre bid acceptance agreement entered into between Mr Bender and JBS is not subject to the absence of a superior proposal or to an opinion from the Independent Expert.

Huon shareholders do not need to take any action at this time. A shareholder meeting is expected to be held in mid to late October at which they will have the opportunity to vote on the Schemes. Materials in respect of the Schemes and takeover bid will be distributed to shareholders in the next 4 weeks.

OUTLOOK

Huon's focus in FY2022 will continue to be on growing the market and locking in contracted sales. Huon intends to manage the harvest over the next two years to the same level as FY2021, at around 35,000 tonnes, given the ongoing constraints in the global market associated with the pandemic. There will also be a continued focus on delivering further productivity improvements in the way Huon farms.

The outlook for revenue is more positive compared to this time last year. International salmon prices increased to an average 64 NOK (+36%) in the last four months of FY2021 compared to the rest of year with Fish Pool[1] futures indicating the price will remain at this level, average 62-63 NOK in FY2022.

In FY2022 Huon will realise its strategic objective of achieving a greater balance in its sales mix. On the back of strong retail sales growth during FY2021, retail demand in the domestic market has returned to its long term average growth rate of 10%pa. In addition Huon will deliver its first full twelve months of sales under two new 3 year contracts with Coles and Woolworths. As a result the proportion of Huon's sales going to the retail sector is expected to increase to around 32%. Huon expects this to be matched by a similar share of sales into both the domestic wholesale channel and the international market.

The proportion of Huon's sales into international markets in FY2022 is expected to reflect the strong foundations that continue to be built with international retail partners throughout Asia (c.12% of sales). At the same time the share of total production being sold into the export spot market is expected to progressively decline over time (c.22% in FY2022) as the domestic market increases its share.

The move to a more stable production profile in the short to medium term, combined with a better balance in the channel mix, will deliver greater certainty of volume and more predictable pricing that should underpin more stable Group financial performance in the future. Huon remains confident that the underlying fundamentals within the global salmon industry of a long term structural shortfall in supply remain in place and the business has the capacity to meet the increasing demand as the global economy emerges from the pandemic.

ENDS

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