New Zealand King Salmon

Annual Report 2020

Stronger Together

STRONGER TOGETHER

We are passionate about creating the ultimate salmon experience. As the world's largest producer we are the King salmon experts with more than 30 years of farming, processing and branding this unique breed.

The success of New Zealand King Salmon relies on strong partnerships with diverse people and organisations. These partnerships become strands that weave a stronger future for us, the industry, and New Zealand.

We believe we are stronger together.

IN THIS REPORT

We work to fulfil salmon aquaculture's potential as a positive force for the health of people, nature and our company.

546
EMPLOYEES

NET PROFIT AFTER TAX
$18 million

7,336
TONNES HARVESTED

214
FEMALE TEAM MEMBERS

332
MALE TEAM MEMBERS

TOTAL SALES
44%
NEW ZEALAND
56%
EXPORT

REVENUE OF
$155.3 million

4kg
AVERAGE HARVEST SIZE

$25.1
PRO FORMA OPERATING EBITDA

347
LOCAL SHAREHOLDERS

17
SURFACE HECTARES OF SALMON FARM SPACE, 0.003% OF THE MARLBOROUGH SOUNDS

25%
INCREASE IN KING SHAG NUMBERS LIVING IN THE MARLBOROUGH SOUNDS SINCE 2018

$45k
INTO THE LOCAL ECONOMY WITH TEAM MEMBER VOUCHERS

239kg
OF WASTE COLLECTED OVER 36 BEACH CLEAN-UPS

500+
PORTIONS OF KING SALMON DONATED TO ESSENTIAL HEALTH WORKERS DURING LOCKDOWN

61,647
GREEN KILOMETRES ACROSS OUR 3 ELECTRIC VEHICLES

John Ryder
CHAIRMAN

Grant Rosewarne
MANAGING DIRECTOR & CEO

CHAIR & CEO REPORT

Prior to March this year, this narrative would have followed a similar pattern to previous years with the final quarter reports based around our farming result post-summer. But this has been no ordinary year with Covid-19 turning the world upside down. For New Zealand King Salmon, having manoeuvred through the initial crisis, we are optimistic there is light at the end of the tunnel due to our diversified portfolio of products, brands and geographies.

Farming in optimal water space and mitigating the risk of climate change still remain our greatest challenges to achieving our vision of being the the world's most premium salmon company.

We have made very positive progress this year in developing open ocean aquaculture with our Blue Endeavour application to farm 7kms north of Cape Lambert in the Cook Strait. As we draw closer to a hearing date, extensive work has gone into preparing the modelling and reports required to reassure the wide range of stakeholders involved.

Earlier in the year, the outlook for our industry was given a boost with the Government's launch of a national Aquaculture Strategy aiming to achieve $3 billion in revenue by 2035. This recognition of the huge potential for aquaculture in New Zealand is a significant step forward.

Despite the challenges of Covid-19 and a drop in harvest volume, the business managed to achieve a pro forma operating EBITDA of $25.1 million built on strong pricing and mild summer temperatures. The implementation of our aquaculture model has progressed with positive results secured from our upwelling programme to improve environmental conditions, the adoption of best biosecurity practices and fallowing between crops.

The world abruptly changed for our business on March 25 when the Government imposed a strict lockdown under Alert Level 4 with the objective of eliminating Covid-19 in New Zealand. With borders closed and minimal access to cargo air routes globally, market access for perishable goods was extremely difficult to acquire, and in addition, most restaurant customers around the world rapidly closed their doors.

As a food supplier to supermarkets, the company was extremely fortunate to remain in operation under the designation of an "essential services" business. With astonishing efficiency our teams transitioned to the new normal, applying additional PPE gear on our farms, our hatcheries and in our processing plants, establishing new shift patterns to allow for distancing rules and setting up 120 team members to work from home. We also isolated around 76 team members who were unable to work.

At the same time, our sales and marketing teams were focused on replacing lost customers as quickly as possible. For a company that secures nearly three-quarters of its revenue in the food service channel, rapidly transferring sales into B2C and retail channels presented a major challenge that the team tackled with great determination.

546
JOBS RETAINED DURING THE COVID-19 LOCKDOWN

The initial impact on sales during lockdown was instantaneous with a drop of 50% during the lockdown period. With 546 team members and a factory operating at limited capacity, we were grateful for the Government's support in providing a wage subsidy for companies significantly affected by Covid-19. Without this initial support, we could not have protected all 546 jobs through this period.

There are still challenges to come as we rebuild our business to be even more robust for the future. The experience of Covid-19 has highlighted our strength in diversification of markets, customers, channels and brands, and we will continue to focus on these. In addition, we will reassess our dependence on air freight and highly perishable goods with a review of our freezing capabilities, increased emphasis on longer shelf life and ambient product lines and categories. Rebalancing our supply chain will also contribute to enhanced sustainability outcomes.

OPEN OCEAN FARMING

We have long held the belief that aquaculture has the potential to contribute significantly to New Zealand's sustainable food future and become the country's most valuable industry and greenest primary sector. New Zealand's exclusive economic zone in the ocean is more than 15 times bigger than our land area which presents significant potential.

Farming in the open ocean is our key strategic initiative to achieve sustainable business growth, and our Blue Endeavour application is the first step in developing our open ocean farming operations. Open ocean farming is recognised globally as best practice to achieve better environmental, social and economic outcomes.

It is therefore very heartening to see the publication of an independent business case for open ocean finfish aquaculture in New Zealand. Commissioned by New Zealand Trade and Enterprise (NZTE) and Ministry for Primary Industries (MPI) and published in February, the report states the salmon farming industry could be earning as much as $2 billion for the country by 2049 – more than 20 times the current figure.

The report states that moving offshore is essential for the growth of the industry and reiterates that the future for salmon farming in New Zealand is bright. Farmed salmon has a very low carbon footprint, low water use and low 'land use' from input of raw materials compared to all other animal farming systems.

Our Government recognises the huge potential of the aquaculture industry in New Zealand. We now need to convert this aspiration to reality.

The report also supports the inclusion of open ocean farming in the Government's new Aquaculture Strategy and the recently launched 10 year primary sector plan - 'Fit for a Better World Roadmap – Accelerating Our Economic Potential'. The opportunity for regional employment and sustainable growth without compromising environmental and climate goals is reinforced.

These are truly exciting times when our Government recognises the huge potential of the aquaculture industry in New Zealand. We now need to convert this aspiration to reality.

Once research reports are complete, a commissioners' hearing will be held to consider the Blue Endeavour application, taking into account the submissions over the course of the public consultation. Assuming a positive outcome, we intend to commission an initial farm with the potential to grow 5,000 tonnes of King salmon per cycle, with a second farm of the same size a year later. The growth in volume will be matched by an expected 300 extra jobs for the Top of the South economy with the first harvest anticipated in Q4 CY2023, assuming no significant delay to the application.

SUSTAINABILITY UPDATE

This year, we renewed our 4-star rating with the Global Aquaculture Alliance's Best Aquaculture Practices (BAP) certification programme. We also successfully secured the Aquaculture Stewardship Council (ASC) certification at our Clay Point farm as part of our membership of the Global Salmon Initiative (GSI). The New Zealand King salmon industry's Green/'Best Choice' rating from the globally respected Seafood Watch programme was also renewed this year for a three-year period.

With a growing interest from customers, consumers, community and investors in our response to climate change, and the emergence of a more structured climate related reporting framework for listed companies, our sustainability programme becomes more important every year.

Our certification programmes now incorporate a climate element into the standards, and this year we finalised a life cycle analysis research report to better understand our company's carbon emissions. As anticipated, due to the nutritional requirements of our unique King salmon species and our decision to minimise marine protein in our King salmon diets, our carbon footprint falls at the higher end of aquaculture species, but remains a very good choice when compared with proteins derived from land animals.

Opportunities to reduce our carbon footprint in the short term align with operational goals to improve survival rates and feed conversion ratios, but we will also see incremental gains through the reduction of waste in packaging, consumables and energy usage.

The team is increasingly aware of the need to reduce waste in our supply chain, and we have started to reduce plastic usage in our retail packaging and factory consumables. We have now also embarked on a cooperative industry-wide programme to reduce plastics in aquaculture.

FINANCIAL UPDATE

For the 12-month period ending 30 June 2020, our company delivered a strong performance under the circumstances, recording a profit after tax of $18 million, up 59% on FY19. The company recorded revenue of $155.3 million, down 10% on FY19. The Pro Forma EBITDA, a metric used extensively by the Board as an indication of the underlying profitability for the group, is $25.1 million, within the FY20 earnings range of $25 million to $28.5 million. We achieved strong pricing of $24.54/kg, up 7% on FY19.

Sales volumes were affected by Covid-19, dropping by 50% during lockdown. We recorded volumes of 6,331 tonnes, down 16% on FY19.

Due to uncertainty caused by the impact of Covid-19, higher levels of inventory and ensuring prudent cash availability, the Board has decided not to pay a final dividend in respect of the FY20 year. The payment of dividends will be reviewed next year.

SUMMARY

The Board would like to take this opportunity to acknowledge and thank the entire New Zealand King Salmon team for the past year, especially for the outstanding work and commitment during the global Covid-19 crisis. As we gradually emerge from this devastating global pandemic, we are applying the learnings from Covid-19 to make sure New Zealand King Salmon is even more resilient into the future.

We would also like to thank our broader New Zealand team – our shareholders, customers, our community and our partners for supporting us throughout the year. Again, your support was invaluable, especially during the past few months.

We look forward to an exciting year ahead, in anticipation of a successful outcome with our Blue Endeavour open ocean application, which will enable us to continue creating the ultimate salmon experience for more customers, categories and markets around the world.

John Ryder
CHAIRMAN

Grant Rosewarne
MANAGING DIRECTOR & CEO

AWARDS

NELSON TASMAN CHAMBER OF COMMERCE BUSINESS AWARDS 2019

Large Business Award

WINNER

This award is given to a business that has an annual turnover of more than $3.5 million. The judging panel said it was remarkable that a Nelson business now supplies over 50 percent of the world's King salmon.

Supreme Business Award

WINNER

NZKS took out the Supreme Business Award – judges were blown away by our national and international success and were impressed with the degree of value and support we bring to the Nelson region, particularly all the local businesses we engage with.

NEW ZEALAND INTERNATIONAL BUSINESS AWARDS 2019

Best Large Business

FINALIST

The New Zealand International Business Awards are run by NZTE and celebrate the success of New Zealand business on the world stage. The Best Large Business award recognises success by net return to the New Zealand economy for businesses with total annual revenue over $40 million.

SEAFOOD STARS AWARDS 2019

Young Achiever Award

WINNER

Sam Pearson
Acting Charge Hand

Sam Pearson was recognised for showing fantastic potential in becoming an effective and respected seafood industry leader. A role model for his colleagues, he has the drive, passion and determination to establish an impressive career in aquaculture.

Future Development Innovation Award

WINNER

Denver McGregor, Quality and Compliance Manager

This award was given to Denver McGregor for his research into listeria monocytogenes, a bacteria which can affect seafood. Findings from this research are enabling the seafood industry to make significant savings in the management of listeria monocytogenes and reduce costly product recalls.

Future Development Innovation Award

WINNER

Simon Thomas, Omega Divisional Manager

Simon Thomas has been instrumental in creating a new environmental benchmark by maximising the use of remaining raw materials from King salmon. He has led his team to use the 35 to 40% of the fish left after the fillet is extracted including head, frames, skin, gills, guts and trimmings to create nutritious pet food and treats under the Omega Plus brand.

MARLBOROUGH CHAMBER OF COMMERCE BUSINESS EXCELLENCE AWARDS 2019

Large Business Award

WINNER

This award recognises a business that demonstrates excellence in management and strategy, sales and marketing, sustainability, investing in people, customer experience, health and safety and overall success.

NEW ZEALAND FOOD AWARDS 2020

New Zealand Food Hero 2020

NOMINEE

We were nominated as a New Zealand Food Hero as part of the 2020 New Zealand Food Awards, for salmon donations made to essential healthcare workers across the Top of the South during the Covid-19 lockdown.

PERFORMANCE HIGHLIGHTS

The Board has announced a good financial result, despite challenges posed by Covid-19 and disruptions to supply chains. We achieved net profit after tax of $18.0 million for the full year, up 59% on FY19 due to an increase in biomass and average fish size as we slowed harvest. Despite revenue of $155.3m being down 10% on the previous year, our Pro Forma operating EBITDA of $25.1m was in line with FY19 and within the FY20 earnings guidance range of $25.0m–28.5m.

4kg AVERAGE HARVEST SIZE

7,336 TONNES HARVESTED

PRO FORMA OPERATING EBITDA **$25.1 million**

FINANCIAL PERFORMANCE – KEY INDICATORS

Income Statement ($000,000)	FY2020	FY2019
Sales volume [t]	6,331	7,520
Revenue	155.3	172.6
EBITDA	36.1	23.1
Pro Forma EBITDA	25.1	25.2
Net Profit After Tax (NPAT)	18.0	11.3
Pro Forma Operating NPAT	11.2	12.9
Total assets	274.4	222.1
Cash and cash equivalents	7.1	6.2
Total liabilities	90.0	53.3
Net cash/(debt)	(31.0)	(9.2)
Net cash flows from operating activities	4.2	10.9

Directors and management use non-GAAP profit measures when discussing financial performance in this document. The Directors and management believe that these measures provide information that is useful to stakeholders along with GAAP measures. International financial reporting standards require us to value our biological assets (salmon) and foreign exchange contracts at the end of each year. Changes in the values of these assets are recognised as a gain or loss in our accounts. However, because only a small percentage of these fish are ready for harvest, and because we intend to hold our foreign exchange contracts to completion (taking any associated gain or loss on those contracts at the point at which they are closed out), our approach is to focus on profit or loss prior to these adjustments. Furthermore, the non-GAAP profit measures discussed above are also used internally to evaluate company performance. Non-GAAP profit measures are not prepared in accordance with NZ IFRS and are not uniformly defined, therefore the non-GAAP profit measures reported in this document may not be comparable with those that other companies report and should not be viewed in isolation or considered as a substitute for measures reported by New Zealand King Salmon Investments Limited in accordance with NZ IFRS.

Reconciliation of Non-GAAP to GAAP Financials ($000)	FY2020 Actual	FY2019 Actual
Net Profit/(Loss) After Tax	**18,004**	**11,350**
Add Back:	-	-
Depreciation, amortisation and impairment	9,385	6,234
Net financing cost	1,736	1,092
Income tax expense/(income)	6,949	4,387
Statutory EBITDA	**36,074**	**23,063**
Deduct:		
Fair value (gains)/losses (NZ IAS 41 and NZ IAS 2)	(9,419)	2,103
Lease Adjustments (NZ IFRS 16)	(1,584)	0
Operating EBITDA	**25,071**	**25,166**
Pro Forma adjustments	-	-
Pro Forma Operating EBITDA	**25,071**	**25,166**
Deduct:		
Depreciation and amortisation	(7,948)	(6,234)
Net financing cost	(1,565)	(1,092)
Income tax (expense)/income	(4,319)	(4,976)
Pro Forma Operating NPAT	**11,240**	**12,864**

In calculating Pro Forma Operating NPAT the financing cost and income tax expense differ from statutory due to the adjusting of income tax to reflect tax expense on Pro Forma Operating EBITDA.

BIOLOGICAL PERFORMANCE – KEY INDICATORS

Our FY20 harvest volume decreased to 7,336 tonnes (t) as we faced the disruption of global foodservice markets due to Covid-19. There was a significant increase in closing livestock biomass, with harvest volumes set to increase in the next 6 months. Mortality as a percentage of biomass decreased from 23.2% to 15.0% (2018: 20.4%), with this also impacted by smolt entry timings. Feed cost decreased slightly with seawater feed now exclusively purchased from Australian feed suppliers.

Our key initiative for FY20 and FY21 years targets the protection of fish health, improved survival rates and the adoption of the best possible biosecurity practices.

This year, we achieved:

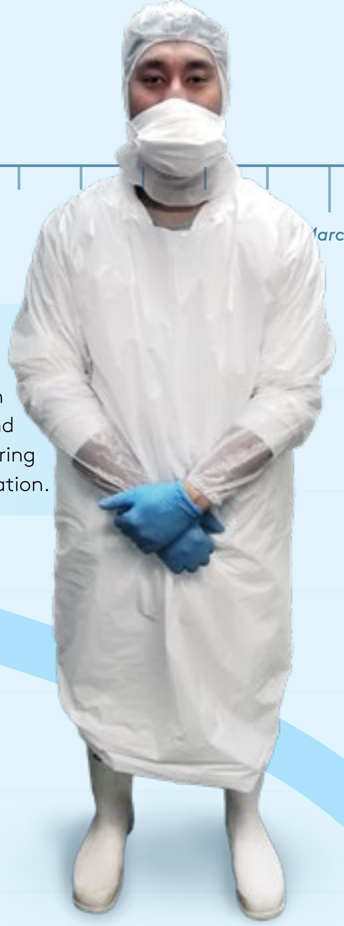
- Upwelling systems installed on all farms to improve flow and provide cooler water from lower depths. The initiative also helped mitigate the effects of Algal blooms and Jellyfish inclusion on nets.
- An increased focus on net cleaning and maintaining the best possible environmental conditions on farms.
- Reduced handling of stock, freeing up team member time for husbandry focus – all stock entered into their eventual harvest farm and no stock graded or pumped.
- A greater focus on feed management – especially during summer – with pleasing improvements seen from tide specific feeding regimes and altered feeding practices during the warmest periods.

The farming of low flow sites continues to pose a challenge in terms of feed discharge and compliance with consent conditions as previously detailed in the MPI Salmon Relocation Process. Improvements seen to date are pleasing with further improvements to fish health and survival expected over the next 2-3 years as the model is refined.

Biological Metrics	FY2020	FY2019
Harvest Volume [t]	7,336	7,931
Feed Conversion Ratio (FCR)	1.76	1.80
Mortality as a % of Biomass	15.0%	23.2%
Closing Livestock Biomass [t]	6,293	5,125
Feed Volume [t]	18,909	19,593

Covid-19: Our Response

Diversification and team-work were two key ingredients for managing through Covid-19.



December | January | February | March | April | May | June

GILLED AND GUTTED SALES (KG)

700,000
650,000
600,000
550,000
500,000
450,000
400,000
350,000
300,000

January
China market slows down

PPE and physical distancing helped keep our team members and customers safe during the Covid-19 situation.

ALERT LEVEL 4

350 TEAM MEMBERS WORKING ACROSS OPERATIONS

120 WORKING FROM HOME

76 UNABLE TO WORK

LOCKDOWN

March 21
120 team members begin setting up to work from home

March 24
Regal radio and digital campaign launched to promote health and immunity benefits of salmon

March 25
NZKS continues operating as an essential service in the primary industry food sector

Smaller teams at the factory with physical distancing and additional PPE requirements rolled out company wide

Cross-promotional partnerships between Ōra King and Regal to increase B2C sales

Omega Plus television ad produced during lockdown

April 13
Team members working on site given $100 supermarket vouchers

April 20
King salmon portions donated to more than 500 essential healthcare workers in the Top of the South

April 23
Successful MPI audit at factory to ensure PPE and distancing rules were in place

May 11
Recognition of the team's contribution during Covid-19, comprising restaurant or supermarket vouchers to spend locally with customers

May 13
Government announces increase in cargo flights to international markets for New Zealand exporters

May 14
Team members begin to return to the office

May 14
Food service begins to reopen in New Zealand with distancing and hygiene regulations in place

May 26
Air charter of 6500kg of salmon from Nelson to Auckland to help meet export connections

What we brought into Covid-19

+ Good sales
+ Strong brands
+ Diversified markets
+ Solid financial base
+ Expertise in food safety
+ Culture of resilience and adaptability

What Covid-19 presented

+ Rapid decline in sales
+ Increased focus on food safety
+ Emerging emphasis on e-commerce
+ Challenges in supply chain and distribution
+ Changes to the way we operate, particularly in our processing facilities

How we responded

+ Strong sales performance
+ Introduction of safe practices for essential workers
+ Ensuring constant supply of PPE for our teams
+ Donations to local community

Opportunities moving forward

+ NZ brand stronger in international market
+ Customers accustomed to e-commerce
+ Improving social license
+ Brand reputation
+ Greater depth in retail channel across fresh, smoked and pet

Ōra King salmon donations during April and May helped feed over 18,000 unemployed hospitality staff and frontline workers across Australia and the US.

National alert level:
1
2
3
4

FUTURE FARMING

Future Farming

The Government launched its Aquaculture Strategy in September 2019 setting the revenue target of $3 billion for the industry to reach by 2035. Currently, the industry is worth $623 million.

Aquaculture could rapidly become New Zealand's most valuable industry as well as its greenest primary sector with open ocean farming highlighted as one of the sustainable pathways to reaching the Government's goal.

Our Blue Endeavour application to farm 7kms north of Cape Lambert in the Cook Strait will create 300 jobs with an associated revenue of $200 million.

The development of open ocean aquaculture is critical to the industry's future and has been supported through independent research.

New Zealand Trade and Enterprise (NZTE) commissioned specialist natural resource and sustainability advisors EnviroStat to create an independent business case for Open Ocean Finfish Aquaculture, published in February.

Their report revealed the immense and ongoing economic benefit open ocean aquaculture can deliver, as well as highlighted the high consumer demand for King salmon and the strong environmental case for open ocean finfish aquaculture.

New Zealand's open ocean is 21 times larger than our landmass. By using a tiny proportion of this area for open ocean farming we can unlock significant benefits for green jobs, for the environment, for New Zealand King Salmon and in turn the New Zealand economy.

On 16 December 2019, public submissions closed on our consent application for Blue Endeavour which will produce 5,000t per 18-month cycle on two farms.

Prior to the application, we consulted a wide range of groups, including iwi, fishing companies, DOC, Forest and Bird, EDS and local community groups. We also developed a wide range of management plans including birds, marine mammals and sharks, fish, navigation and safety management, monitoring and management of biosecurity.

Submissions on Blue Endeavour were overwhelmingly positive, with limited opposition focusing on the need for more research, which is currently underway.

We're expecting a result for our application early next calendar year and remain cautiously optimistic of a positive outcome. Assuming we are successful in our application our first harvest will be towards the end of 2023.

BENEFITS OF OPEN OCEAN FARMING

GREEN JOBS	BOOST FOR REGIONAL ECONOMY	COOLER WATERS	DISTANCE FROM COMMUNITIES	BIOSECURITY

"By farming only a tiny proportion of New Zealand's 430 million hectares of open ocean space, we can unlock significant benefits for green jobs, for our economy and for New Zealand's natural environment."

We work to fulfil salmon aquaculture's potential as a positive force for the health of people, nature and our company.

We are a trustworthy and transparent neighbour and community partner.

We attract and develop talented people across our diverse roles and teams.

OUR PEOPLE, CULTURE AND COMMUNITY

The success of our business is highly dependent on the communities and the environment in which we live and operate, as well as the people who care for our salmon.

PEOPLE AND CULTURE

We take care of our people because we believe they are the key to our success. We recognise the need to attract and retain great talent, supporting them in their professional and personal development.

Our People and Culture team are instrumental in driving our organisational culture as well as providing our managers with support, training, systems and processes which allow them to manage their team members.

Modern human resources practices have changed and respected research recommends having a People and Culture team that is integral to the organisation rather than solely a service function. To bring our team in line with current thinking a new People and Culture strategy has been developed, informed by both international best practice and internal requirements.

The People and Culture strategy has 5 key fundamental principles:

- BUSINESS PARTNERSHIP
- SIMPLIFY
- COMMUNITY
- ANALYSE & MEASURE
- UTILISE TECHNOLOGY

The first successful initiative delivered under our strategy was to expand our existing safety management system into a much broader People and Culture solution. The development of our new i-Recruit tool during the year has simplified our recruitment process, using technology to save time on administration and allowing reporting and analysis of application details. This application has been an excellent example of the team working to deliver a simple yet effective technology-based solution.

ENGAGEMENT

Work to engage our team members has continued with our 2019 engagement survey demonstrating engagement levels at New Zealand King Salmon have remained similar to 2018. Engagement initiatives have continued with our 'Way We Work' and 'Positive Safety Behaviour' initiatives. During FY20 we had 165 Way We Work nominations and 19 winners, and 176 Positive Safety Behaviour nominations with 13 winners. Cross functional visits and opportunities for team members to visit other sites continued during the year. We have also continued to engage our managers with internal conference events, including a leaders' conference, a health and safety representatives conference and a senior leaders' strategy day.

LEADERSHIP

Our focus on raising leadership capability continued through FY20 with the Dale Carnegie leadership programme. The programme provided 6 days of targeted leadership learning, covering leadership behaviours, tools and techniques. With 24 participants on the first course and 23 on the second this training challenged our managers to operate outside their usual norms and review how they have managed in the past.

The team also organised a specialist negotiation training skills programme to help in our plans for future water space as well as improving broader negotiations capability.

Operational training continued with an investment in aquaculture boat skippers training, as well as unit standards training. New Zealand King Salmon was successful in obtaining a training grant from the Tertiary Education Council for basic skills training for our factory teams. Roll out has been delayed by Covid-19 but will begin in the coming months.

Our managers completing their first Dale Carnegie leadership programme

SUSTAINABILITY ACTIONS

Our commitment to the Ten Principles of the UN Global Compact

New Zealand King Salmon is a participant in the United Nations Global Compact, established to drive business awareness and action in support of achieving the UN's Sustainable Development Goals by 2030.

The Global Compact encourages participants to adopt a principles-based approach to doing business more sustainably. This means operating in ways that, at a minimum, meet fundamental responsibilities in the areas of human rights, labour, environment and anti-corruption.

Our aim is to continuously incorporate the Ten Principles of the UN Global Compact into strategies, policies and procedures, fulfilling our basic responsibilities to people and planet, but also setting the stage for more detailed sustainability work in our own industry.

Our first annual Communication of Progress (COP) was submitted and accepted by the Global Compact in August, reporting our achievements to date within these principles.

GROWING LOCAL TALENT

Nelson Tasman Innovation Neighbourhood

This year New Zealand King Salmon continues to be a supporter of the Nelson Tasman Innovation Neighbourhood (NTIN), a diverse group of local organisations who have come together to tackle common business challenges and identify joint opportunities across industries.

Through sharing knowledge, connections and fresh ideas, the group's focus is on improving outcomes for their individual organisations while also contributing to the greater good of the Nelson Tasman community and region.

Summer Interns

One of the main NTIN activities that King Salmon supported was the Summer of Tech Intern Program, providing internships to 4 young professionals – Hannah Ellis, Sophie Cleal, Emily Anderson and Zoe Ward, all of whom went on to do some amazing work in our organisation as well as having the opportunity to visit other local businesses.

NMIT scholarships

We also partner with Nelson Marlborough Institute of Technology (NMIT) to provide scholarships and work experience for local students across our business.

Corban Christie

3rd year Bachelor of Commerce

"I was absolutely thrilled when I learned I had received the scholarship as it was not only recognition of my prior results, but also the support and belief from New Zealand King Salmon that I can thrive in my remaining studies. The idea of becoming a graduate accountant and beginning a full-time career can be daunting at times but this scholarship has helped to reassure me I am on the right path. I would like to sincerely thank New Zealand King Salmon for the scholarship, I am very grateful for the honour."

Yvonne Davis

3rd Year Bachelor of Aquaculture

"I feel extremely grateful to be awarded with this year's 3rd year aquaculture scholarship. For me, it means one less thing to worry about financially. It has come as such a relief and has brightened my view on this year after such a trying time. It has rejuvenated my determination to succeed and I look forward to working alongside New Zealand King Salmon and how it will benefit my future prospects in the aquaculture industry."

Jacob Mills

2nd year student Bachelor of Aquaculture

"A scholarship from a company such as New Zealand King Salmon shows that this company cares about the younger generation of farmers and technicians trying to break into the aquaculture industry. This form of giving to the community shows their support to training students and I look forward to the rest of this journey."

Left to right: Corban Christie, Yvonne Davis, Jacob Mills

SUSTAINABILITY ACTIONS

Available for feedback

We consult with a wide variety of individuals and groups, one-on-one, in larger briefings or at public meetings, depending on the level of communication required.

As with many other companies, we have been impacted by Covid-19 and restrictions forced us to postpone a public meeting in Picton where we would have provided attendees with a company update. We aim to communicate more extensively than is legally required, which means we actively work with various interest groups, including central and local government, iwi, NGOs and community organisations.

Support through sponsorships

From environmental initiatives to youth development programmes, we're involved with a variety of organisations and charities throughout Marlborough, Nelson/Tasman, Golden Bay and Canterbury.

We also support a number of programmes in local schools and nurture the next generation through our scholarships and internship programme with Nelson Marlborough Institute of Technology (NMIT) and the Summer of Tech.

Best Management Practices (BMP)

New Zealand King Salmon, the Marlborough District Council, the Ministry for Primary Industries and other key stakeholders and experts have worked together to develop the Best Management Practice (BMP) guidelines for salmon farming in the Marlborough Sounds. These Best Management Practice guidelines, which cover water quality and benthic (seabed) impact, will help protect the environment while including the local community and industry, and are standards we can proudly promote to the world.

We work within the environmental constraints at each farm site by managing production levels to ensure compliance with agreed consented conditions. Some of our consent conditions are being reviewed in addition to our BMP benthic guidelines.

Beach Clean-ups

As part of our social responsibility commitment, 86 of our team members took part in 36 beach clean-ups and collected over 239kg of waste throughout the year. To mark World Oceans Month our team were out in the Tory Channel cleaning up 10 small beaches close to our salmon farm at Ngamahau in the Marlborough Sounds.

Our Community

NMIT

We sponsor scholarships in aquaculture, business and hospitality. We also donate salmon for the culinary classes.

Fifeshire Foundation

NZKS sponsors the Fifeshire Foundation which gives assistance to local people in domestic hardship or crisis.

Big Brothers Big Sisters

We are a cornerstone sponsor of Big Brothers Big Sisters of Nelson-Tasman.

Graeme Dingle Foundation Marlborough

We are Gold sponsors of this outstanding foundation supporting children across primary and secondary schools in Marlborough. We are also involved with the Career Navigator programme.

We raised $8,750 for the Graeme Dingle Foundation when two team members took part in the 'Drop for Youth' campaign in February 2020.

King Shag Conservation Project

Nelson Marlborough Rescue Helicopter

We are Silver sponsors of this essential service in our region.

Mistletoe Foundation

We are premier sponsors of the foundation which enables school camps and activities at Mistletoe Bay.

Smart and Connected Aquaculture

We are members of this community group which runs initiatives such as Aquaculture Week and holds annual forums focusing on aquaculture projects in the region.

Sounds Salmon Songbirds Cruises

We team up with Marlborough Tour Company and Kaipupu Wildlife Sanctuary to provide these cruises.

Platinum Sponsor of the Havelock Mussel and Seafood Festival

Waikawa Boating Club

We provide prizes for local competitions in their 'NZKS Winter Series' and other events they run throughout the year.

Kaipupu Point Wildlife Sanctuary

We support Picton's local bird and wildlife sanctuary so they can succeed in their environmental goal of restoring a 40-hectare 'mainland' island in the Picton Harbour.

Marlborough Boys College

The First XV rugby team has been named the NZKS First XV for 9 years.

Koru Wildlife Centre

NZKS is a foundation sponsor of this project which specialises in breeding and housing Yellow Crowned Kakariki, Giant Weta and Marlborough Green Geckos.

Elite Sponsors of the Picton Maritime Festival

Queen Charlotte Yacht Club Rebuild

We were proud to sponsor the rebuild of this local club. The main function room will be called the King Salmon Ward Room, opening in November 2020.

Queen Charlotte College

We donate tanks and salmon eggs to the Aquaculture Academy at QCC.

NELSON

WHANGAMOA HILLS

HAVELOCK

LINKWATER

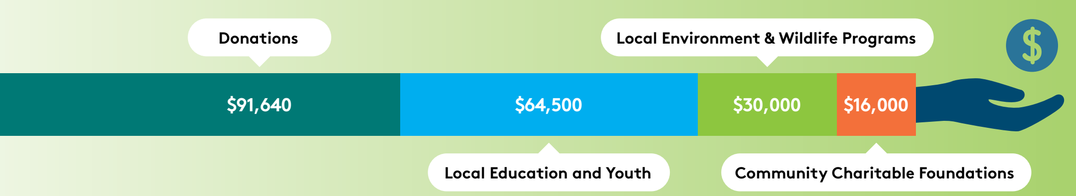
MISTLETOE BAY

WAIKAWA

PICTON

BLENHEIM

$202,140 Total donations and sponsorships



Marlborough Girls College

We sponsor the senior netball team, provide laptops for students, provide an online learning programme, and this year started to support their new Pasifika Group.

Culinary Partners at the Marlborough Wine and Food festival

Key event sponsor of Feast Marlborough

HEALTH, SAFETY AND WELLNESS

Health, Safety and Wellness (HSW) is an essential part of everything we do at New Zealand King Salmon.

OUR FOUR KEY HSW PRINCIPLES:

01 ACCOUNTABILITY

All our team members will have a clear understanding of their health, safety and wellness accountabilities through clarity of expectations and ongoing training.

OUR ACHIEVEMENTS THIS YEAR

July 2019 – June 2020

- Introduction of a health, safety and risk committee.
- Maritime NZ Audit completed and highest level achieved.
- BAP and ASC audits successfully completed.
- Worksafe reviews of traffic management at Bullen Street and Dublin Street offices completed without further actions.
- MPI audits of Covid-19 Alert Level 2 and 3 successfully completed.
- Review completed of hazardous substances at Bullen Street factory.

02 ENGAGEMENT

We will involve all our team members in our plans to improve our health, safety and wellness performance.

OUR ACHIEVEMENTS THIS YEAR

July 2019 – June 2020

- 12 new critical risks identified through consultation with teams.
- Bow tie analysis completed by team members across all levels and departments for 6 of these critical risks.
- Introduction of processing representative meetings for both day and night shifts.
- Annual Safety Representatives conference held.
- 3 cross-functional visits completed.

03 PERFORMANCE

We will actively look to recognise positive health, safety and wellness behaviours and will challenge any team member who fails to set the highest personal standards of health and safety performance, while continuing to improve equipment and infrastructure.

OUR ACHIEVEMENTS THIS YEAR

July 2019 – June 2020

- Representatives trained in mental health to aid in response to wellness issues.
- Health and safety dashboard created and reported on.
- Fillet machine introduced, reducing manual handling in one of our highest risk tasks.
- Introduction of severity rating as a performance indicator.
- New barge and infrastructure at Ruakaka farm.
- Installation of fire systems at Bullen Street.
- Establishment of hazardous substance location at Bullen Street.

04 SYSTEMS & PROCESSES

We will have systems and processes that manage risk in the workplace. We commit to design and engineer high-risk activities out of our business wherever possible.

OUR ACHIEVEMENTS THIS YEAR

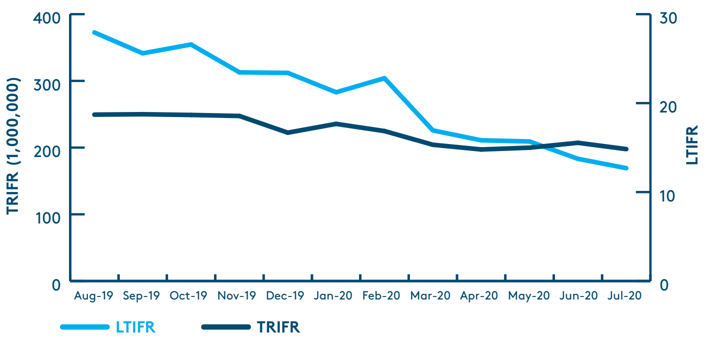
July 2019 – June 2020

- Training system rolling out on isafe.
- New health and safety induction videos created.
- Introduction of early intervention programs.
- Introduction of manual task assessments for RSI risk review.
- Review of our contracts and tender health and safety requirements.

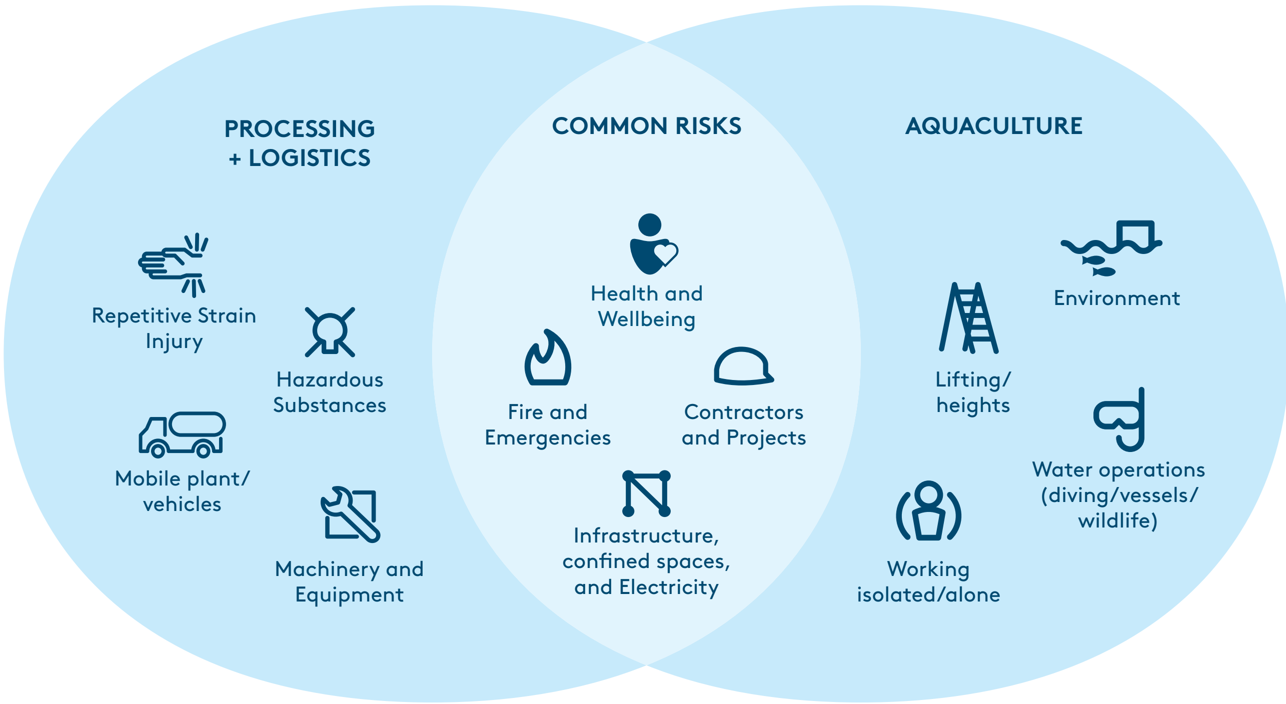
STAYING SAFE AT WORK

Ultimately, we are moving away from measuring safety success as the absence of incidents and moving towards a strong and systematic focus on the presence of controls, particularly around our critical risks.

However, our main health safety and wellness metric remains the lost time injury frequency rate (LTIFR). In August, we introduced the use of early intervention programmes with our physio. Identifying soreness and injury early has seen us reduce LTIFR from 28.1 to 13.7.



Our Health Safety and Wellness policy has been repurposed into a simplified infographic which captures our messages in an easy to understand format.



Right tool for the job

New Zealanders are known for the number 8 wire mantra and the ability to improvise to get the job done in a pinch. We welcome this creativity to health and safety problem solving, but we will always ensure we are using the tool best suited to our critical tasks.

Competent and fit for work

Training isn't always enough; we also want to ensure our people are assessed as competent, ready for work, fit and healthy physically and mentally.

Good communication

Communication is a two-way street and we will ensure all team members have the opportunity to raise concerns and actively participate in their own health, safety and wellness.

Stop, think, act

We will provide training and tools to help our team plan for risk and actively manage it. Above all, team members will know that if the task isn't safe, they have the right and responsibility to stop and make it safe.

Reporting/investigation

iSafe is our health and safety management system. We actively encourage the team to engage with the system for all accidents, incidents and near misses, while systematically looking for ways to improve and simplify our reporting and investigation.

Audits/proactivity

If safety is reactive, we're waiting for incidents to occur before we can implement change. We proactively find ways we can improve our systems through auditing and building team culture that doesn't accept second rate health and safety.

No single points of failure

Safety is not the absence of accidents, it's the presence of controls. When dealing with critical risk we aim for multiple layers of defence and engineer out risk where possible. We never rely on soft controls.

Ask what, not who

We have a systems focused approach to health and safety. When failure does occur, we always ask what failed before we point the finger at who failed. This way we build a culture around health and safety and find more opportunities to improve.

FARMING IN BALANCE

Our vision is to pursue international best practice salmon farming in order to deliver a sustainable food solution for the future.

We work to fulfil salmon aquaculture's potential as a positive force for the health of people, nature and our company.

We are committed to caring for water in our region.

We are committed to using resources responsibly and reducing our impacts wherever possible.

FARMING IN BALANCE

ENVIRONMENTAL SUSTAINABILITY

Delivering high quality products requires quality farming practices with a focus on the responsible management of resources for the long term.

RECOGNISING SUSTAINABILITY

To independently verify our sustainable practices in aquaculture and our supply chain, we are regularly audited or assessed by expert third-party organisations.

Best Aquaculture Practices (BAP)

We hold a four-star rating with the Global Aquaculture Alliance's (GAA) Best Aquaculture Practices (BAP) programme. The four-star rating is the highest designation in the programme, indicating that a product originates from a BAP-certified processing plant, farm, hatchery, and feed mill. New Zealand King Salmon was the first King salmon company to earn the distinction worldwide.

Aquaculture Stewardship Council (ASC)

The Aquaculture Stewardship Council (ASC) is an independent non-profit organisation and labelling organisation that establishes protocol on farmed seafood while ensuring sustainable aquaculture.

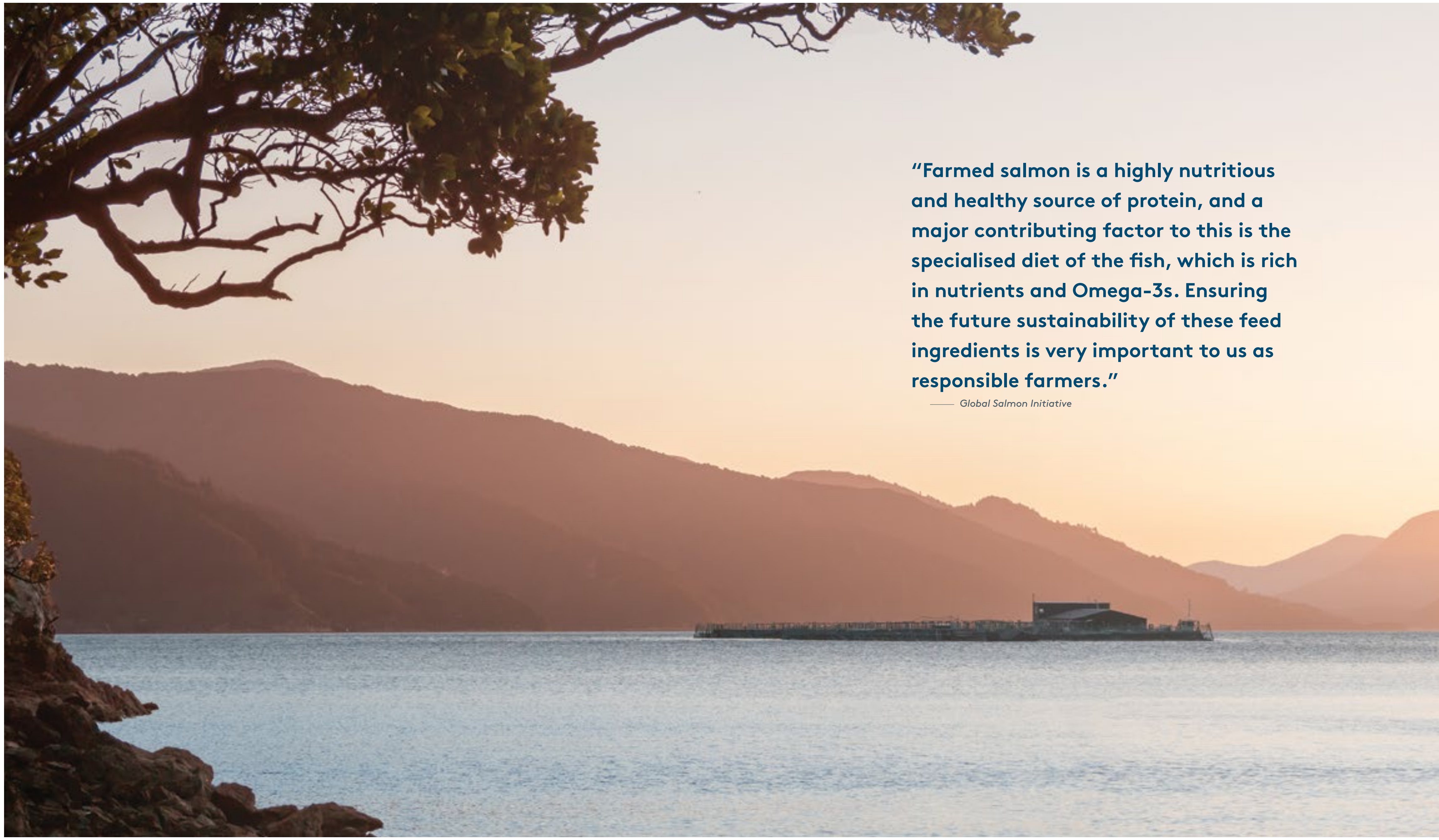
As a member of the Global Salmon Initiative (GSI), we committed to the collective goal of gaining ASC certification which we achieved on our Clay Point farm in January 2020. This goal aims to maintain and grow the industry's license to operate, through improving the reputation of both farmed salmon and salmon farming.

Monterey Bay Aquarium Seafood Watch

The New Zealand salmon industry achieved a second successive Green/'Best Choice' rating from the globally respected Seafood Watch programme. The MBA Seafood Watch Programme helps consumers and businesses choose seafood that supports a healthy ocean.

A+

We are members of A+ Aquaculture, a world class sustainable management framework which enables the New Zealand aquaculture industry to better engage with communities and continuously improve environmental practices while strengthening global demand for seafood.



"Farmed salmon is a highly nutritious and healthy source of protein, and a major contributing factor to this is the specialised diet of the fish, which is rich in nutrients and Omega-3s. Ensuring the future sustainability of these feed ingredients is very important to us as responsible farmers."

—— Global Salmon Initiative

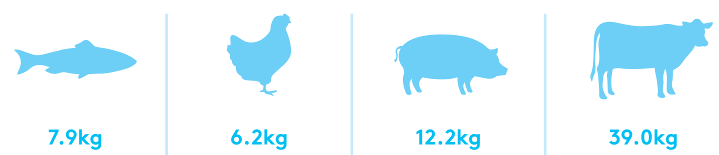
BAP CERTIFIED 4 Star Certified

gsi Monterey Bay Aquarium Seafood Watch A+ New Zealand Sustainable Aquaculture

CLIMATE CHANGE

Climate change is one of the significant challenges for our world, and every organisation or individual has some level of carbon footprint to acknowledge. Farmed fish is considered a climate friendly protein source compared to other animal proteins. Salmon is an important solution to providing the world with vitally important proteins while having a lower impact on the environment.

Comparison of carbon footprint for protein
Kg CO_2/Kg edible meat



Source: SINTEF (2020) Greenhouse gas emissions of Norwegian seafood products in 2017, Mekonnen, M.M. and Hoekstra, A.Y. (2010) T

FARMING IN BALANCE

ADDRESSING CLIMATE

As a starting point in understanding our own context, we commissioned a Life Cycle Analysis report to measure our own carbon footprint which we will use to guide our future carbon minimisation steps. The report also contributed to the GHG emission measurement requirements of the Aquaculture Stewardship Council (ASC) Salmon Standard.

Author of our LCA report, Dr Robert Parker, a seafood life cycle assessment specialist: "Compared to other animal protein sources, the GHG performance of New Zealand King Salmon's products falls within the upper range of fishery and aquaculture-derived products and is higher than most assessed poultry systems, but still lower than many livestock alternatives."

Three broodyears, 2013-2015, were assessed across all farm sites and results were presented in two sections: 'to farmgate', which covers our operations from hatcheries to the sea farm gate and 'post farm gate' which relates to the processes involved after salmon leave the farm including processing, packaging and distribution.

Overall, New Zealand King Salmon's emissions per kilogram harvested are:

[based on economic basis for allocation according to European Union Product Environmental Footprint guidelines. LCA is representative of outcomes at December 2017.]

The report discusses the three main sources of carbon emissions. Parker summarises "Marine net-pen production tends to be less impactful than land-based production due to lower energy requirements to maintain temperature, oxygen, and other environmental conditions (e.g. Liu et al., 2016; Ayer and Tyedmers, 2007). The most consistently effective improvements that NZKS could make to its operations would be achieved through reduction in feed conversion ratios, reductions in animal by-product inclusions in feeds and limitation of air freight where possible."

Summarised on page 31 is an analysis of the major emission sources from the LCA and potential opportunities for reduction.

Efforts in reducing FCR and improving survival will contribute most in reducing our carbon footprint, aligned with current operational priorities. Reducing our reliance on air freight will depend on the proportion of perishable fresh whole salmon sold.

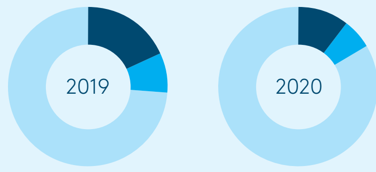
Major emission sources	Constraints to reduction	Opportunities for reduction
Feed Conversion Ratio	Unique nutritional needs of King salmon species Optimal water space Feed composition	Increased survival through existing operational measures Minimisation of fish oil and fish meal in diet composition Single Year Class farming Open ocean farming (Blue Endeavour)
Feed (composition) Degree of animal (usually poultry) input inclusion in feeds heavily influences overall impacts (e.g. Parker, 2018; Pelletier et al., 2009)	Unique nutritional needs of King salmon species Only current alternative to land animal proteins input is increased usage of marine protein, which conflicts with best practice guidelines for feed efficiency Speed of feed commercialisation for King salmon species Size of New Zealand salmon industry	Continued improvements in feed outs and digestibility solutions Change of origin in feed Feed innovations (algaes, alternative proteins) Local feed mill
Airfreight	Proportion of fresh whole salmon sold - limited shelf life requires airfreight Freezing equipment Perception that 'fresh is best' Proportion of geographically distant markets	Continued optimisation of product portfolio and transport choices Diversification into shelf-stable and longer shelf life products eg. petfood, smoked salmon New freezing technology to improve quality Low-carbon air transport options

Timeframe: Short Term · Medium Term · Long Term · Ongoing

Feed is one of our largest sources of carbon. We aim to balance nutrition with sustainability. The choice of protein content is most influential:

Reliance on input sources using by-products from land animals (e.g. poultry) carries a higher carbon cost. But the alternative is increased use of fish as inputs. Marine protein is a great source of Omega 3 and sourced from well managed fisheries, however we aim to substitute most of the fish input with land-animal by-products to minimise our use of wild fish, and maximise the use of by-products from human food production.

Average use of fish meal and fish oil in diets / calendar year:



18.1% fish meal
8.1% fish oil

10.4% fish meal
6.0% fish oil

Feed conversion ratio (FCR)

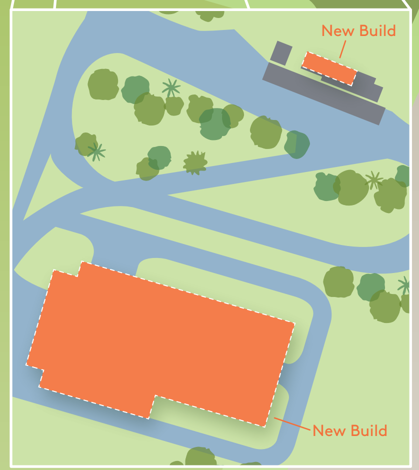
2%

Reduction in 2020, compared to 2019

Broader Climate Risk Assessment

NZKS has commissioned a climate disclosure gap assessment under the likely future reporting framework Taskforce on Climate Related Financial Disclosures (TCFD). The analysis will serve as a useful foundation to decide on a programme of work formalising climate-related governance and management planning and strategy, alongside metrics to measure progress.

Freshwater



Our three freshwater facilities located throughout the South Island collectively breed, hatch and grow smolt for our sea farms. This year we are putting the spotlight on our Tentburn hatchery in South Canterbury, where work has begun on a 3-phase project to revamp our facilities, starting with a new First Feeding complex.

Close to the mouth of the Rakaia River in Canterbury, our Tentburn hatchery receives ova from our Takaka facility. Work is underway on building a new First Feeding complex at Tentburn where we will incubate and hatch eggs. Hatched alevin will then be moved into large tanks where they will learn to surface feed in a controlled environment with state-of-the-art oxygenation, monitoring and alerting systems. Once the fish have reached around 10g in size they will be put into the existing raceways. This new facility will help us achieve our aim to produce more resilient fish moving into the next phase of growth. Building will be completed by November 2020, and we began incubating eggs there from late August.

The First Feeding complex is the first stage in a wider plan to improve our freshwater facilities. Ultimately a second building will be constructed to grow parr to around 50g and a third building will take the fish to a point where they are able to be moved to the sea farms.

At Tentburn plans are also underway to create a new grading and loading building. This will transport fish from raceways to tankers and provide a permanent grading platform, with work scheduled to begin in November 2020.

CREATING THE OPTIMAL SMOLT

Brood stock

Our breeding programme spans 8 generations of salmon with approximately 150 families and more than 200,000 fish. Each year, male and female salmon are assessed for specific performance traits which enable us to determine the best specimens of our breed. With more than 25 years of husbandry practice we are able to ensure our brood stock are strong and healthy.

Nutrition

Feeding commences one month after hatching. Initially, salmon are fed by hand and as they grow this becomes automated. In preparation for life at sea, they are fed a specially formulated diet to help them adapt to the marine environment.

Water quality

We are privileged to have access to high-quality fresh water across all three of our hatchery facilities. At our Takaka hatchery we have some of the clearest water in the world sourced from Te Waikoropupū Springs. At Tentburn water is continuously pumped from two spring-fed streams and at Waiau the supply originates in springs which are fed from the Waiau river catchment. There are processes in place to ensure the water quality is as good when it exits our facilities.

Immunisation

We immunise approximately 2.7 million fish each year before they are transferred to sea farms in order to improve resilience in potential warmer water temperatures and help prevent disease.

Team

Our world-class team of qualified aquaculture specialists have the skills and knowledge to grow and develop our unique breed. We are continuously investing in training and new technology to cover different aspects of the engineering and biology behind growing smolt.

Handling

We minimise handling wherever possible to reduce stress and improve the overall wellbeing of our fish. Our vaccination processes have been refined to reduce intervention and we use a single pipeline to reduce crowding before grading occurs.

Health

Maintaining optimal fish health is a key component in producing resilient and healthy fish. Weekly fish health checks are carried out and external labs are used to help determine the presence of pathogens.

SEAWATER

Our nine Marlborough Sounds sea farms are situated in the Tory Channel, Queen Charlotte Sound and Pelorus Sound.

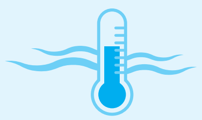
New Aquaculture Model

FY20 saw the full implementation of the single year class model across the farming sites, with Kopaua and Waitata the first farms to undergo complete fallowing, including the removal of all nets from site for repair and disinfection before being returned. These sites were fallowed for around two months before being restocked with smolt, due to be harvested from December 2020.

Single year class is the best practice model in international aquaculture production planning to protect fish health, improve survival rates and deliver the best possible biosecurity. A year class is the name of a group of fish that are the same or a very similar age, hatched within a few months of each other. Adopting this model means we only have a single year class in a farm at any one time, and each year class takes around 18 months to grow from smolt to harvest weight.

Upwelling

Another key system introduced this year was the implementation of upwelling. This uses air to bring water from depth up to the surface and provides two key benefits over the summer period:



Cooler water

Often the deeper water is cooler which can reduce the in-pen temperature for the fish. At our Otanerau farm we regularly saw an in-pen decrease in excess of 1 degree celsius compared to the control sites.

Stronger current

Upwelling creates current for fish to 'sit' in. This allows the water to pass over the gills without the fish having to swim vigorously, allowing a more efficient uptake of oxygen.

Infrastructure improvements

We have continued to invest in infrastructure across our sea farms over the past year. A new barge called the Thomas Song was commissioned in early FY20 for our Waitata sea farm. This barge has capacity for storing 320 tonnes of feed, spread out over eight different 40 tonne silos. With four bedrooms it is the largest feed barge in our fleet and is named after the late Thomas Song who died in 2019. Thomas was a long-standing NZKS board member and was hugely supportive of the salmon farming industry in New Zealand.

The pens and feed barge at Ruakaka farm have also received an upgrade this year. Older style pens were decommissioned and replaced with three new 40m x 40m pens from Scale AQ. To accommodate the new pens and feeding requirements the barge underwent a complete refurbishment. Completed in Nelson, the barge was completely refitted with new accommodation, an office, four 20 tonne feed silos, a workshop and generator room. Progress was delayed slightly due to the Covid-19 lockdown but the barge was in place and feeding fish from mid-June 2020.

Waterspace

Ngamahau farm has been consented for extra feed discharge and there is an application with Marlborough District Council (MDC) to increase feed discharge at Waitata. Farm relocation is still under consideration by MPI in a joint iwi company proposal.

FISH HEALTH AND WELFARE

To give our fish the best chance to reach their potential, New Zealand King Salmon follow two key management plans.

Biosecurity Management Plan

This has been developed to coordinate a well-informed timely response to the detection of risks faced across operations. It is designed to manage pathogen pathways between and within control zones, as well as develop a proactive 'hygiene culture' of on-farm and vector-based management measures, to reduce the spread of pests and diseases.

Fish Health Management Plan

This is in place to reduce, prevent and control the impact on production from any disease that affects or may affect our King salmon population.

RAPID RESPONSE

We employ a full-time team of experienced fish health advisors that are on farms several times a week collecting information and distributing their findings via monthly fish health reports for each farm. The team has access to a local New Zealand registered veterinarian who can be consulted in the event of an escalated fish health matter.

ROUTINE HEALTH MONITORING

The Fish Health and Welfare Team perform regular farm visits which incorporate:

- Regular biomass assessments using a non-intrusive 3D camera – fish performance is a key fish health indicator
- Monthly fish health checks and biosecurity observations on all sites
- Monitoring of fish health through weekly visual inspection using high definition video monitoring
- Management of disease on every farm each month by sampling fish and having independently certified third-party laboratories confirm diagnosis

PHILOSOPHY OF CONTINUOUS IMPROVEMENT

Our aquaculture team has formal and informal training to continuously improve our knowledge of fish health, welfare and biosecurity. We are investigating new technology to monitor and improve our fish health and welfare – the introduction of the electro stunner is working well in freshwater to humanely cull smolt for pet food. We have also recently assisted the Cawthron Institute in developing King salmon health indicators which help with early warning of potential fish health issues, diagnostics and determining the response to challenges and husbandry changes.

EARLY INVESTIGATION

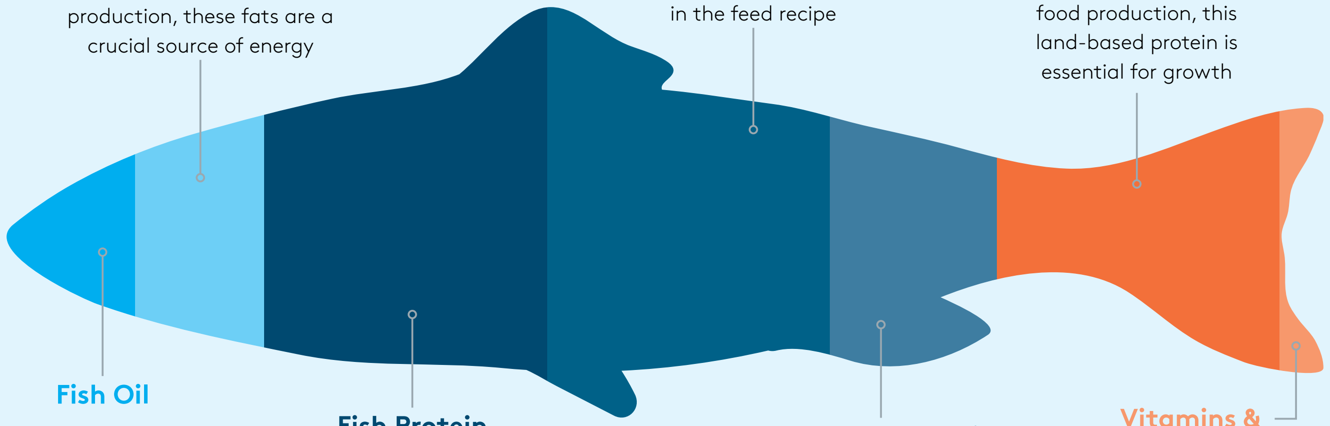
The team can be called to any farm as soon as any fish populations show any signs of being compromised. We use the following resources to help diagnose any problems:

- Waterproof high definition cameras
- Water quality monitoring
- Algae monitoring
- Pathogen DNA analysis
- Bacteriology swabbing
- Histology sampling

FARMING IN BALANCE

Feed

Our feed is specially formulated to provide enough energy for our salmon to thrive whilst also supplying all the essential nutrients for healthy growth.



A more efficient supply chain

In April 2019 we made a change to our feed suppliers and now source the feed used in our seawater production cycle from three leading companies based in Tasmania. This means that feed has less distance to travel, reaches us sooner and creates a more efficient supply chain. Over the next two years we will be comparing fish diets, reviewing feed company support and the supply chain as we look ahead to open ocean farming.

Less marine input

We are committed to growing healthy and nutritious King salmon in a sustainable way, with minimal waste and seabed impact. We are continuously looking at reducing the fish meal and oil content in our feed to minimise the impact on ocean resources, while also balancing the required growth parameters. Our feed suppliers are running research and development trials with high energy diets which would increase the efficiency of our operation.

New technology

A test with new artificial intelligence (AI) feeding software commenced at our Waitata sea farm in winter 2020. This software learns patterns from underwater video footage and analyses how the fish behave and respond during the feeding process. It is then able to deliver a detailed analysis of fish behaviour which allows us to identify risk situations and helps to optimise feeding.

RESILIENT BRANDS

We proudly produce and market a diverse range of King salmon products. From fresh whole salmon to premium pet food, we create King salmon products that are loved both here in New Zealand and worldwide.

We work to fulfil salmon aquaculture's potential as a positive force for the health of people, nature and our company.

We are committed to using resources responsibly and reducing our impacts wherever possible.

Food Safety

Food safety is one of the top two priorities for our company as it is crucial to our business, and most importantly, our customers.

In the past financial year over 23,000 tests have been carried out throughout the production process. Top of the testing list is Listeria, a common bug found in the environment around us. We also ensure traceability of our products throughout our supply chain.

Farming

Safe and humane harvesting processes contribute to producing a high-quality product. 16 checks are carried out in our hatcheries and farms

Processing

Stringent hygiene and cleaning practices which prioritise food safety. 22 checks are carried out in processing

Supply chain

Getting a great final product safely to our consumers and chefs by ensuring quality is maintained throughout the supply chain. 4 checks are carried out in distribution

End users

Consumers, chefs, retailers and pets benefit from healthy and nutritious salmon

FOOD SAFETY CYCLE

Following best practice food safety guidelines to actively sample our products prior to dispatch, a large number of tests are carried out throughout the process from hatcheries to farms and distribution with the majority in our factory. These are precautionary tests and the graph below demonstrates the type of tests which also include ruling out the presence of undesirable heavy metals, residues and bacteria.

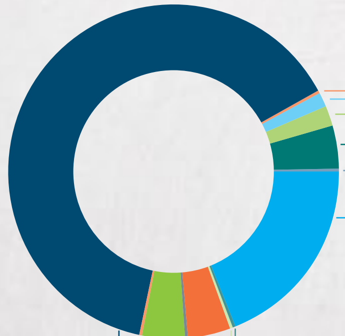
Of the thousands of tests carried out, listeria monocytogenes was only found once in a salmon product, which was destroyed. Of the other tests where listeria was detected, 99% were environmental and in low-risk areas.

We have zero tolerance to listeria.

What We Test For

Total Microbiological Tests

(Checking for absence of, or within approved limits)



Traceability

We have a system to record products and batches from harvest to manufacturing with date and trace so we can track products back through the chain.

An individually numbered gill tag is attached to the salmon that make our Ōra King grade. This provides traceability and evidence of our product's authenticity.

Shelf life

Shelf life is vigorously tested prior to new product launches and monitored throughout the life of each product type.

TESTS CARRIED OUT

23,000

Customer Feedback

Our food safety team takes every piece of feedback from customers (distribution companies and end users) very seriously, carrying out thorough investigations to determine root cause.

Feedback received: 439

Majority of feedback related to vacuum loss in packaging and only two for alleged food poisoning. All complaints were resolved.

To put this in perspective, we sold over 6 million packets of salmon product. This included:

2.8 million	1.4 million	1.2 million
Cold smoked products sold	Hot smoked products sold	Salmon portions sold

What is Listeria monocytogenes?

Listeria is a common bug (bacteria) widely found in the environment, including soil and waterways. There are over 22 species of Listeria that exist but only one species is known to be pathogenic and that is Listeria moncytogenes.

Listeria moncytogenes found in the food chain can cause Listeriosis which causes serious illness in pregnant women, newborns, those with weakened immune systems and the elderly. In severe cases it can kill.

Given Listeria can be prevalent in the environment and can cause illness and death, New Zealand King Salmon focuses heavily on testing for this bug throughout our environment from the farm to our ready-to-eat products.

In the last financial year, we carried out over 12,000 tests, many made up of multiple samples or sample sites, to ensure the focus is where it needs to be.

SUPPLY CHAIN

Every link in our supply chain is crucial in delivering our quality products to the market, in New Zealand and overseas.

The chain includes production planning, procurement, customer services, logistics, coldstore and pick and pack teams, with our information, communications and technology team delivering critical services and systems throughout the chain. It's all about getting a great final product safely to our consumers and chefs by ensuring quality is maintained throughout the supply chain.

PROCESSING

There has been some major investment in the past financial year in the processing factory, centred around food safety.

- New washroom and chiller extension for our cold smoke factory. This enabled smoke and brine operations to take place with much less risk from cross contamination from other processes.
- New hot smoke kiln installation. A single rack Reich Kiln was purchased and installed into our hot smoke factory. The new kiln has enabled complete separation between the raw and cook sides, further reducing the risk of listeria contamination.
- New automated bin wash. The old bin wash building was demolished and a semi-automated bin wash operation installed. As well as washing bins in a consistent manner the wash cycle includes a critical listeria kill step involving a rinse at high temperature.

Other major projects included the installation of new Marel auto-filleting technology, the reorganisation of pick and pack, the movement to shipper sales quantities and the elimination of the use of polystyrene packaging from the smoked business. There was a significant team effort to create a safe environment for our teams to work during Covid-19, including considerable improvements to our whole fish freezing capabilities.

Information Communications and Technology (ICT)

Our ICT team launched the new Microsoft NAV ERP system. This was a business wide project that involved super users from across the business and took 18 months to deliver. Along with the new Economic Response Planning (ERP) system, the team also delivered a new data warehouse and reporting platform over this period to support the ERP platform.

We have continued to develop and fine tune NAV since going live to ensure it meets the needs of our complex business.

The ICT team also had to address the challenges Covid-19 brought to the business. Over the previous two years we had implemented many infrastructure changes and introduced several remote working services to the business that made the transition to working from home very easy. ICT Manager David Wright said he was incredibly proud of the team's ability to assist in getting all office-based team members working successfully from home within 48 hours.

Apart from the major projects listed above, the ICT team completed a cyber risk assessment, Office 365 review, and a farm access review. Also, the team introduced a new carton process in pick and pack and worked on infrastructure for a number of barges and at the hatchery in Takaka.

Over the last twelve months the team experienced 22 priority events that impacted production and a total of 6,359 issues were raised with the helpdesk and of that 6,198 were resolved.

ALL OFFICE-BASED TEAM MEMBERS SUCCESSFULLY WORKING FROM HOME FOR LOCKDOWN WITHIN

48 hours

SUSTAINABILITY ACTIONS

Recycling

Gumboots: We are sending our used gumboots from the processing plant to a gumboot manufacturer in Christchurch where they are recycled into safety mats for use in children's playgrounds. Two shipments of 200kg (approx. 100 pairs) have been sent so far.

Smocks: These are sent to be recycled into rubbish bags or mulch film. So far we have sent 4 pallets each weighing 160kg for a total of 640kg.

Water use

In the processing plant, the water use is recorded

	FY20	FY19	FY18
Volume G&G	7,336t	7,931t	8,018
Fresh water used	66,358m^3	64,111m^3	74,385m^3

Code of Conduct

We are currently working on a set of standard contracts for use throughout the company, as part of this our code of conduct will be built into these generic documents, re-enforcing our commitment to the UN Global Compact.

Sustainability

Sustainability is recognised as a key driver in all tenders and contract negotiations. In the tendering process a conscious decision has been made that sustainability will comprise a minimum 20% weighting when scoring the proposals.

Our EV story

We added a third electric vehicle to our fleet in the past year as part of our ongoing efforts to reduce environmental impact and lead the way in sustainable business practices. Reducing transport emissions is a well-documented part of New Zealand's carbon emissions plan and the initiative is symbolic of the change required by business to help to address this problem. To date our three Hyundai Kona EVs have done a total of 61,647 green kilometres.

NEW PRODUCT DEVELOPMENT

This year our efforts were concentrated on improving margin from fall out products, improving flavours of existing products, and accommodating larger fish into existing products, with Covid-19 putting a temporary halt on some of our trial work.

One notable achievement was a project completed for an international customer with the fastest NPD turnaround in our history. After a request for low trim bone-in fillets for a US customer in December 2019, and trial work completed over the Christmas break, the customer visited us to finalise the specifications of the fillets in person one week before the first production run in January 2020.

In February, the first production run was completed for the US Regal Wood Roasted 100g portions comprising four SKUs. The US team had always wanted to add a hot smoked product to their portfolio, however the existing 200g size was too large, as was the packaging. The project team brainstormed how to package the product using existing machinery and worked out a modification to the existing dyes in the existing machine. Development on portion shape and weight was completed and a new sleeve was designed to fit the tray. The new SKUs are now in the market.

During the Covid-19 Level 4 lockdown, the NPD team supported the rebuild of sales by working on various fast turnaround requests for portions, fillets and existing products for new markets including Japan, China and Australia.

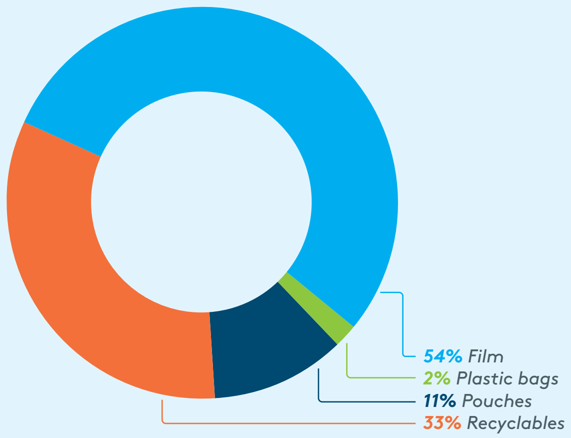
We are currently working towards two exciting new launches for Regal in FY21. Improvement projects progressed well including shelf life, packaging and yield.

Gross margin for new products launched in FY20 was $705,000 and there were 24 SKUs launched.

Our new software system allows us to calculate the packaging weight of our products, giving an overview of how much we have used, the percentage in different packing products and the money spent. It means we can prioritise the products where we can cut down on packaging and waste. We now have a baseline in order to measure improvements in future years

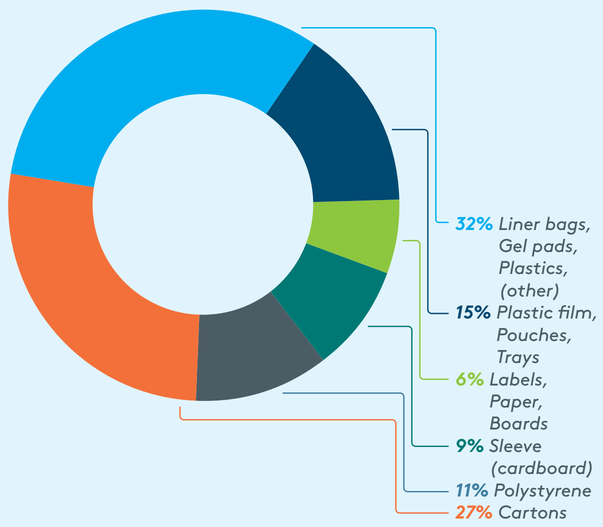
Breakdown of plastic product packaging components used to pack our salmon

% by weight



Breakdown of packaging components used in our factory

% by weight



As the highest proportion of packaging relates to liner bags and gel pads, we have concentrated efforts for reduction here, without compromising quality or food safety. Various projects are underway including a new bin wash to partly remove liner bags from use, and options to reduce factory use or alter the specification to reduce plastic usage overall. We have also begun to review gel pad material and reusability.

Cardboard carton usage has increased, with a corresponding decrease in polybin usage, in our drive to reduce the use of polystyrene.

We have joined the Australian Packaging Covenant Organisation (APCO) which will enable us to analyse our packaging use regularly and we will be able to carry the logo on our products.

RESILIENT BRANDS

SUSTAINABILITY ACTIONS

Packaging Sustainability Group

As a partner in the New Zealand Plastics Packaging Declaration, we have declared our commitment to reaching the ultimate goal of using 100% reusable, recyclable or compostable packaging across our business by 2025.

The Packaging Sustainability group worked on several projects during FY20. Successes in this space included the removal of plastic interleave from our food service Regal packs and from a premium smoked salmon product. This will save the company $11,000 in material cost per annum and 27,883m² of plastic per year from going into the environment (based on figures from FY19).

By moving to plantic-based web for our wood roasted portions and nibbles, we have saved approximately 38,450kgs of petrochemical based material from being produced (based on figures from FY20).

GOAL:

100%

REUSABLE, RECYCLABLE OR COMPOSTABLE PACKAGING ACROSS OUR BUSINESS BY 2025.

RESILIENT BRANDS

ŌRA KING®

Our key focus for the year has been deeper partnerships. We have worked closely with our importers and distributors, with regular outreach, brand education and sales support.

We also extended our ambassador programme, formalising our relationship with 20 North American high-profile chefs and hosting events and collaborations with our Australian, Japanese, Chinese and New Zealand ambassadors. We have grown our social media following and engagement as a key communication tool of choice with our target audience. During the Covid-19 crisis we supported our loyal chefs and donated salmon to feed furloughed foodservice workers, healthcare workers and others in need.

Social Media

In the last three years we have grown our Instagram following from 2,500 to over 13,000 and our reach extends well beyond this — posts featuring Ōra King when shared by some of our loyal high profile chefs reach audiences of over 100,000 regularly and in some instances content can achieve over a million views, as we have seen with a recent collaboration with NZTE and esteemed chef Massimo Bottura.

Our social media strategy enabled us to communicate with our chefs and customers during the Covid-19 lockdown. With most restaurants around the world closed, we were able to utilise our Instagram platform to communicate availability of supply and connect with our ambassadors and loyal customers. Our support for out-of-work foodservice employees included helping to provide over 18,000 meals to those in need. Social media engagement provided a bridge for Ōra King menu listings as restaurants recover and reopen.

Dish by Phil Clark of Phil's Kitchen, Auckland

Ōra King Awards "Sustain"

This year we focused our messaging on the collective efforts to grow our salmon in the most sustainable way possible and were able to activate this through our Ōra King Awards programme with the 2019 theme "Sustain".

We invited chefs to communicate their sustainability story through their dish entry. This theme resonated with our chefs and we achieved our highest level of entries, both in quantity and quality. The competition also stepped up a level with a launch party in Auckland, a series of ambassador videos (telling their sustainability stories), a media launch in Australia, a website interface to enable easier entry, a digital app for those attending awards week, and a very experienced group of judges.

ŌRA KING®

Ambassador Programme

Our ambassador programme is based around key chefs who we identify as being great supporters of Ōra King, and whose relationship with us is formally recognised. The relationship is one which is mutually beneficial, based on a two way exchange of opportunities, networks and social media connections. Their reach enables us to get our story out to a much wider audience, and their telling of the story adds significant credibility. A great example is the article chef Matt Beaudin from Monterey Bay Aquarium wrote in the widely followed Culinary Epicurean publication following his attendance at the Ōra King Awards week.

New Product Development

With an eye to the future, we are researching and developing new packaging which reflects the corporate goal of 100% reusable/recyclable or compostable packaging by 2025. We continue to explore new products in the Ōra King brand family, with a second Ōra King Tyee ocean run trial and a second offer of Ōra King Nui fillets: large impressive fillets with a stunning deep orange colour.

Brand Assets

We invested this year in updating of our brand assets. With the brand now seven years old it was time to refresh and refine some of the imagery and messaging. We now have a range of stunning new images, a new brand book and an updated website.

REGAL

MARLBOROUGH KING SALMON

With over 30 years of leadership in the salmon category in New Zealand, Regal is our premium retail brand. The past year has been tough for the category with increased competition from imported, cheaper Atlantic salmon.

The impact of Covid-19 and the associated boost in grocery channels did not translate from the essentials into salmon, with many seafood serve counters actually closing temporarily.

Fortunately we did not see a decline in retail sales in New Zealand and we saw a lift in our sales in overseas markets. Looking forward, there are ambitious goals to grow the retail share of the business and Regal has a good platform to build on.

Domestically we finished the year with a market share of 38.7% and a brand awareness of 86% amongst smoked salmon shoppers in New Zealand.*

In the US the brand continues to grow, with an increase in the states our retail footprint covers, and some key upscale retail accounts secured. There is a new website for all markets, with tips and recipes making salmon easy and accessible for our shoppers.

In New Zealand our biggest launch this year was of the Regal Oven Ready range: two portions of bone out salmon, with a flavour sachet in a convenient oven ready foil tray. This launch was supported with a video ad featuring Al Brown and Reg the seal following on from the success of this format for the Manuka launch two years ago. While the ad was not on nationwide TV, it was on digital channels and OnDemand where it delivered excellent results with around a 50% completion rate meaning that people watched the ad even if they could skip it.

The launch of our own Atlantic salmon brand Regal Epicurean was designed to offer shoppers closer to the value end of the market the best possible Atlantic salmon. Sales are tracking along nicely, and we are not seeing significant cannibalisation of the Regal King range.

In the US we ventured properly into e-commerce for the first time with the Regal brand, creating our own store-front on Amazon. We can deliver Regal smoked salmon to around 90% of the US in under 48 hours by road. Sales are building on this platform and accelerated dramatically as the impacts of Covid-19 hit. E-commerce will grow in importance for us moving forward.

We also launched 4 flavours of Regal wood roasted salmon into the USA, a market where cold smoked salmon dominates. It is early days, but sales results are encouraging.

Total Regal branded sales for the fiscal year are $32m with $7.3m coming from overseas markets.

Southern ocean

Southern Ocean is our value brand, predominantly sold as smoked salmon products into New Zealand domestic channels. Southern Ocean is the second most recognised brand (after Regal) with 60% awareness*. We are relaunching the brand into new look packaging and a new website and social channels to help attract value shoppers away from imported Atlantic salmon brands.

Nielsen Brand Health Tracker March 2020

Southern Ocean
60%
awareness*

The Omega Innovations team continues to expand our range of premium products and advance the utilisation of remaining raw materials. Our objective remains the same – full nose to tail utilisation of all salmon.

The new year saw the addition of a Research and Development Manager to our Nelson team and a Global Brand Manager for Omega Plus based in Auckland. Our team of six is well placed to continue expanding on the success of our brands and innovating new products for the growing pet food market.

"We have shipped over 95,000 packets of treats and 123,000 cans of salmon-based cat food utilising raw material to China."

Remaining Raw Materials

In late 2018 we invested in re-purposing a factory space specifically to process remaining raw materials into a block format. This was driven out of a customer need to produce consistent input material for New Zealand pet food manufacturers. In FY20 we produced 180 tonnes of block product and will continue to grow this year on year creating additional value for NZKS and minimising the amount of material directed to rendering.

Demand for raw materials into the pet food category continues to strengthen and salmon continues to be a highly desirable input material.

Omega Plus Pet Food and Treats

This year we developed two additional wet cat food recipes, King Salmon & Duck and King Salmon & Beef. In May 2020 we completed the development of a new 125ml King Salmon Oil product designed specifically for the Chinese market incorporating a new natural antioxidant that will better protect the quality of our premium grade salmon oil while meeting our customers demand for all-natural products.

Our export sales of Omega Plus treats to China continues to grow, and with it we have expanded our facilities in Nelson to meet the increased demand. The new packing bay became operational in March 2020 to meet current demand and allow for growth. On May 19, 2020 we celebrated 12 months of sales into China for Omega Plus. We were also successful in achieving a grant through the NZTE International Growth Fund providing us with access to funds to accelerate the growth of this market over the next 3 years. We have shipped over 95,000 packets of treats and 123,000 cans of salmon-based cat food utilising raw material. We have also employed a full-time resource in China to support this market.

Launching Omega Plus into the significant US market is our next challenge.

Driving brand awareness and distribution of Omega Plus in the domestic market is also a focus. We are now using the tagline 'The Salmon Superfood' to showcase the unique health and taste benefits of our range. After researching consumer needs thoroughly, we prepared and launched an advertising campaign in New Zealand to support our domestic strategy.

OMEGA PLUS TREATS SALES INCREASED BY

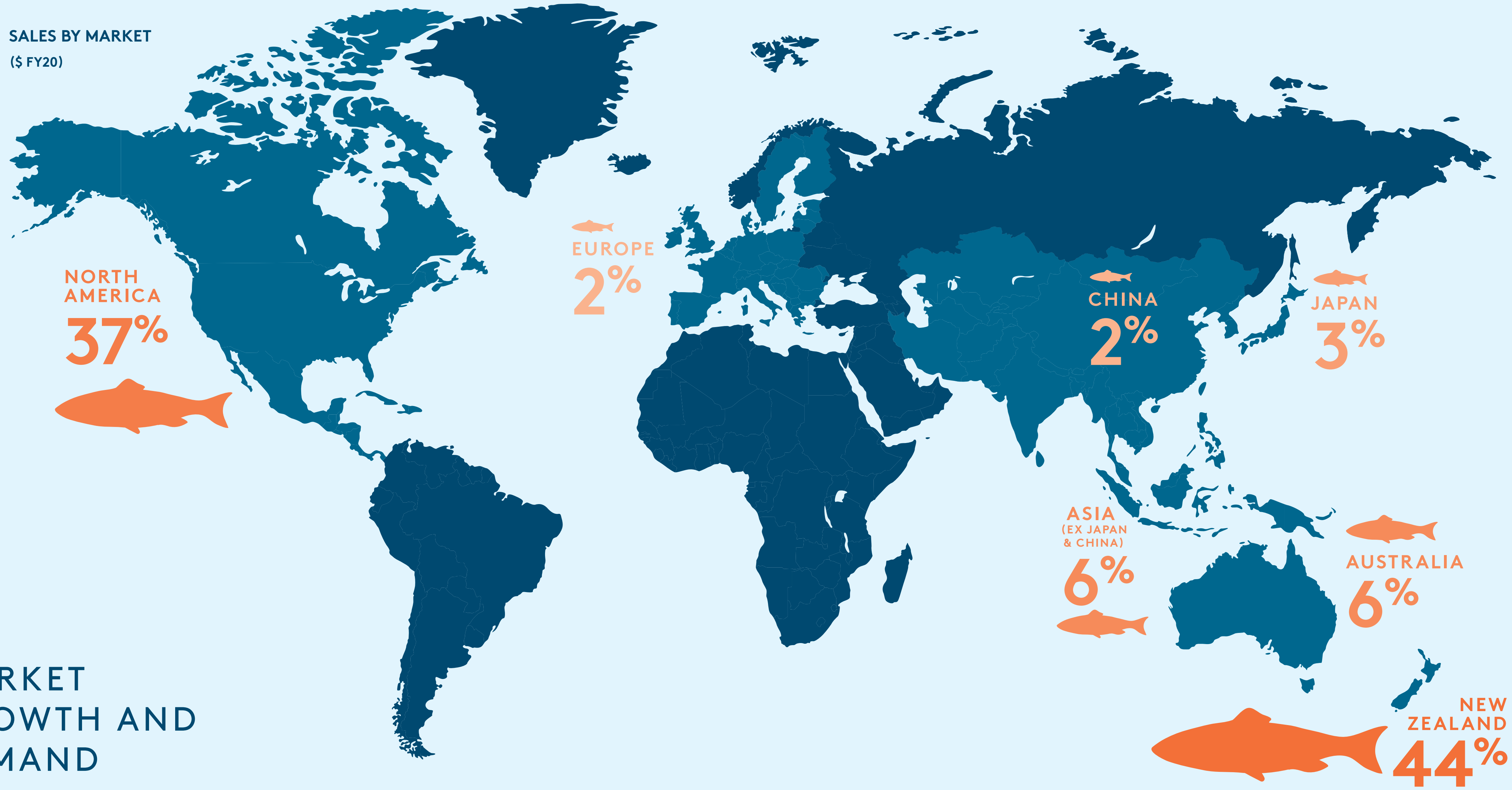
61%

OMEGA PLUS CANNED FOOD SALES INCREASED BY

71%

RESILIENT BRANDS

SALES BY MARKET
($ FY20)



MARKET GROWTH AND DEMAND

Demand for most of the past financial year continued to exceed the available supply, but then came Covid-19 which changed the world — demand dropped substantially and we had to transition from a predominantly foodservice company to growing our retail business.

The first half of the financial year provided very strong demand that exceeded our available supply. As the second half of the financial year arrived, supply was less constrained. Steady gains were being made in the January to March period before Covid-19 struck. Around 50 per cent of our customers are based in the food service sector which saw the greatest negative impact from Covid-19 restaurant shutdowns around the world and the subsequent switch towards retail. During the initial phase fresh salmon and smoked products were not high on shoppers' panic buying lists and it took several weeks for some normal trading patterns to emerge.

China has been through two significant shutdown periods that have hampered the growth that was happening in the first half of the year. Negative publicity regarding Covid-19 detections in wet markets which is where a majority of fresh salmon is traded will have a lingering impact on the recovery.

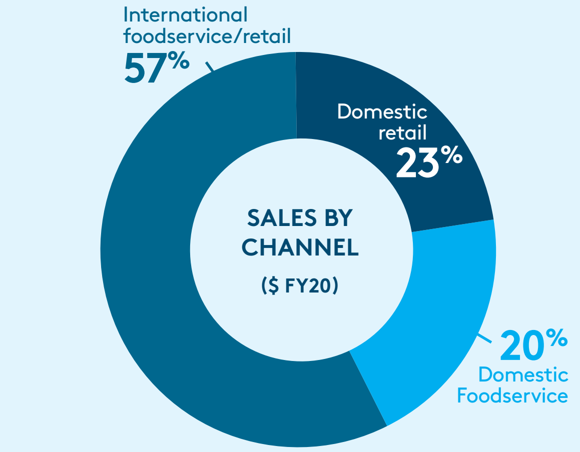
North America started well at the beginning of the year but like all other markets took a severe hit when Covid-19 struck in March. Since that time, we have seen our foodservice channels transition across to online and retail base distribution models. Our fresh sales volumes have nearly recovered to their pre-Covid-19 levels but the portion business into restaurant chains has all but halted as many of these outlets remain closed. Our move in the past couple of years into retail is positioning us well as the transition is away from foodservice. Our Regal branded products are sought after and sales are up five-fold to 120 tonnes.

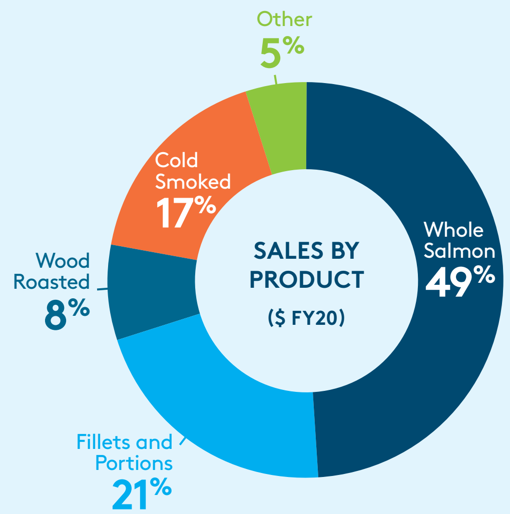
Likewise, in Asia we have focused much of our effort over the past year on our Regal branded salmon into retail stores. Volumes of Regal branded salmon for this financial year were 83% up compared to FY19 and growth remained strong through the lockdown period. Foodservice sales within our Asian markets have remained pleasingly strong throughout this difficult period.

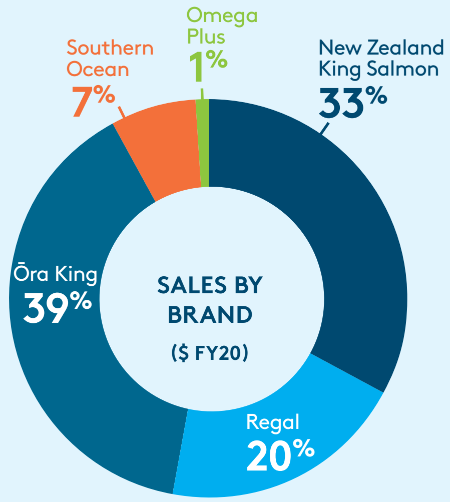
Our Australian market has remained steady throughout the past year. We are predominantly foodservice orientated within this market. Similar to most of our other markets we are moving more of our effort towards retail with our Regal branded products. Europe is very similar but in our shift towards more retail we have embarked on recruiting a retail specialist to add to the European based team.

For many years the Japan market has been strongly retail based for our business. In more recent years we had been building up the foodservice sector, particularly with sushi chain outlets. With the recent changes this is serving us well as the foodservice sector contracts and retail remain steady.

New Zealand retail has remained firm throughout FY20 and continues this trend post the lockdown. New Zealand foodservice was solid through the year but almost entirely shut throughout the lockdown period. Post lockdown has seen a steady increase with diners returning to support and enjoy their local establishments.







BOARD OF DIRECTORS

Our Board brings many years of experience in salmon farming, processing and marketing alongside broader business experience in New Zealand and internationally.

JOHN RYDER
Independent Chairman
MCom (Hons), FCA, CMA

John is a chartered accountant and an active investor and company director. His current roles include Executive Chairman of Qestral Corporation Limited and Independent Chairman of Direct Capital IV Management.

JACK PORUS
Non-Executive Director
BCom, LLB

Jack is joint Managing Partner of law firm Glaister Ennor which he joined in 1972. He is currently the chairman of Pinnacle Life Limited and a director of Neil Corporation Limited and Norfolk Financial Management Limited. Jack is a nominated appointee for major New Zealand King Salmon shareholder Oregon Group.

CATRIONA MACLEOD
Independent Non-Executive Director
GIBio, MSc, PhD, GAICD

Associate Professor Catriona Macleod is a senior scientist with more than 20 years' experience in marine resource, water and aquaculture management. She has provided recommendations to inform regulatory policy and the development of sustainable aquaculture in Australia and internationally.

We welcomed Catriona Macleod to the board in February 2020

"I am very much looking forward to joining the New Zealand King Salmon board and to be working with a company with such strong sustainability credentials."

PAUL STEERE
Independent Non-Executive Director

Paul was the founding CEO of New Zealand King Salmon from its formation and has been a director of New Zealand King Salmon since 2009. Paul is currently Chairman of Nelson Airport Limited, Chairman of Allan Scott Wines, and Chairman of the Aquaculture Advisory Group South Pacific Community. He was recently made a Chartered Fellow of the New Zealand Institute of Directors.

CHIONG YONG TIONG
Non-Executive Director
MCom, BCom

Yong Tiong is Managing Director of Timbergrow Limited and Maraetai Land Development Limited. He is also a director of property development company Neil Corporation Limited and is on the board of Saint Kentigern School in Auckland. Yong is a nominated appointee for major New Zealand shareholder Oregon Group.

LAI PO SING, TOMAKIN
Non-Executive Director
MBA, BBA, FCPA, FCA, FCCA, FCIS, FCS, CIA, CRMA, CISA

Mr Lai is a Director of China Resources Ng Fung Limited and the Vice President, Chief Financial Officer and Company Secretary of China Resources Enterprise Limited. He is the Executive Director, the Chief Financial Officer and the Company Secretary of China Resources Beer (Holdings) Company Limited, which is listed on the Hong Kong stock exchange.

GRANT ROSEWARNE
Managing Director and CEO
MBA (Executive), BAppSc

Grant was appointed CEO of New Zealand King Salmon in 2009. During his time as CEO, Grant has focused on elevating New Zealand King Salmon's unique products from a premium commodity to a worldwide branded food delicacy.

SENIOR LEADERSHIP TEAM

GRANT ROSEWARNE
Managing Director and CEO

See previous page.

ALAN COOK
BA
Chief Operating Officer

Alan joined New Zealand King Salmon in 2019 with 20 years' senior management experience in the aquaculture industry. Alan's career has seen him work in salmon farming on both coasts of Canada, Chile and in Washington State on the US west coast.

ANDREW CLARK
BCom, CA
Chief Financial Officer

Andrew joined New Zealand King Salmon in 2011. Prior to joining NZKS he spent 17 years in the dairy industry where he occupied a number of senior finance roles in New Zealand, the United States, Venezuela and Uruguay.

JEMMA MCCOWAN
BCom, BA
General Manager, Brands & Sustainability

Jemma joined New Zealand King Salmon in 2012 and has overall responsibility for delivering the branding and sustainability programmes. She has 20 years' experience in marketing management and international business. In June 2019 Jemma was appointed as a Future Director by agribusiness company Scales Corporation, under the Institute of Directors' programme.

GRAEME TREGIDGA
General Manager, Sales

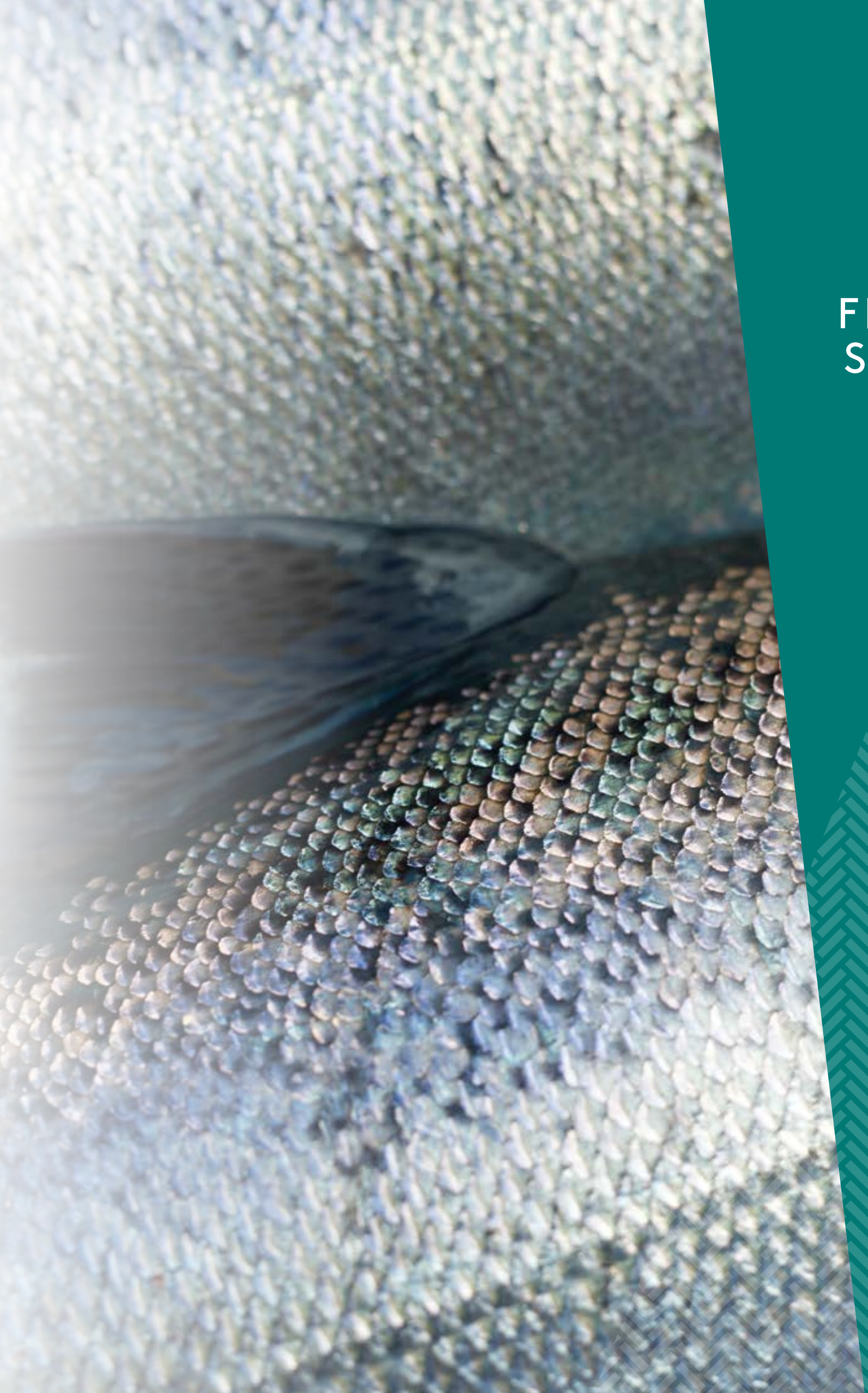
Graeme joined New Zealand King Salmon in 2004. Prior to joining NZKS he spent 16 years in the horticulture industry with various roles in processing, international and domestic sales and management.

SHAUN YOUNG
BCom
General Manager, Supply Chain

Shaun Young has been with New Zealand King Salmon since 2008. He was based in Auckland as General Manager Retail Sales & Marketing before moving to Nelson in early 2015 to take up the role of General Manager Supply Chain. Previously he worked with Goodman Fielder and Cadbury in sales management and analytical roles.

Below left to right: Graeme Tregidga, Jemma McCowan, Alan Cook, Shaun Young, Grant Rosewarne, Andrew Clark.

CONTENTS



FINANCIAL STATEMENTS

Committed to the responsible farming, processing and sale of premium quality King salmon, your investment means we can work towards developing a world-leading aquaculture industry that is the greenest primary industry in the country.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 $000	2019 $000
Revenue from contracts with customers	33	155,344	172,609
Cost of goods sold including fair value uplift at point of harvest	14	(145,768)	(172,147)
Fair value gain on biological transformation	15	64,124	60,002
Freight costs to market		(15,351)	(15,642)
Gross profit		**58,349**	**44,822**
Other income	6	4,247	857
Sales, marketing and advertising expenses		(12,473)	(9,619)
Distribution overheads		(4,131)	(3,600)
Corporate expenses	7	(9,012)	(7,006)
Other expenses	7	(906)	(2,391)
Earnings before interest, tax, depreciation and amortisation		**36,074**	**23,063**
Depreciation and amortisation expense	16,17,18	(9,385)	(6,234)
Finance income	8	12	96
Finance expenses	8	(1,748)	(1,188)
Profit before tax		**24,953**	**15,737**
Income tax expense	9	(6,949)	(4,387)
Net profit after tax		**18,004**	**11,350**
Other comprehensive income			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations	10	154	(244)
Movement on cash flow hedges	10	5,522	(2,374)
Income tax effect of movement on cash flow hedges	10	(1,546)	665
Net other comprehensive income		**4,130**	**(1,953)**
Total comprehensive income		**22,134**	**9,397**
Earnings per share			
Basic earnings per share	11	$0.13	$0.08
Diluted earnings per share	11	$0.13	$0.08

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	Note	2020 $000	2019 $000
ASSETS			
Current assets			
Cash and cash equivalents	12	7,115	6,231
Trade and other receivables	13	12,777	13,502
Inventories	14	35,612	20,830
Biological assets	15	81,784	68,052
Derivative financial assets	26	907	494
Total current assets		**138,195**	**109,109**
Non-current assets			
Property, plant and equipment	16	60,481	51,843
Biological assets	15	10,594	10,180
Derivative financial assets	26	9,120	1,709
Deferred tax asset	9	3,303	2,443
Intangible assets	17	8,655	7,521
Right-of use assets	18	4,581	-
Goodwill	17	39,255	39,255
Total non-current assets		**135,989**	**112,951**
TOTAL ASSETS		**274,184**	**222,060**
LIABILITIES			
Current liabilities			
Trade and other payables	22	14,847	16,499
Employee benefits	23	2,884	2,429
Borrowings	21	1,132	416
Lease liabilities	20	1,347	-
Other financial liabilities	30	149	149
Derivative financial liabilities	26	3,868	2,091
Taxation payable		3,866	605
Total current liabilities		**28,093**	**22,189**
Non-current liabilities			
Employee benefits	23	558	566
Borrowings	21	37,000	15,000
Lease liabilities	20	3,258	-
Deferred tax liabilities	9	18,436	13,507
Derivative financial liabilities	26	2,525	2,046
Total non-current liabilities		**61,777**	**31,119**
TOTAL LIABILITIES		**89,870**	**53,308**
NET ASSETS		**184,314**	**168,752**
EQUITY			
Share capital	28	122,606	122,595
Reserves		2,978	(1,455)
Retained earnings		58,730	47,612
TOTAL EQUITY		**184,314**	**168,752**
Net tangible assets per share			
Net tangible assets per share		$0.96	$0.86

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.
For and on behalf of the Board, who authorised the issue of these financial statements on 26 August 2020.

DIRECTOR
26 August 2020

DIRECTOR
26 August 2020

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2020

		Note	Share Capital $000	Foreign Currency Translation Reserve $000	Hedge Reserve $000	Share Based Payment Reserve $000	Retained Earnings $000	Total Equity $000
Balance as at 1 July 2019			122,595	(639)	(1,391)	575	47,612	**168,752**
Profit for the period			-	-	-	-	18,004	**18,004**
Other comprehensive income/(loss)		10	-	154	3,978	-	-	**4,132**
Total comprehensive income/(loss) for the period			**-**	**154**	**3,978**	**-**	**18,004**	**22,136**
Shares issued		28	11	-	-	-	-	**11**
Share based payment expense			-	-	-	301	-	**301**
Dividends paid	- ordinary	28	-	-	-	-	(6,886)	**(6,886)**
	- supplementary		-	-	-	-	(211)	**(211)**
	- foreign investor tax credit		-	-	-	-	211	**211**
Balance as at 30 June 2020			**122,606**	**(485)**	**2,587**	**876**	**58,730**	**184,314**
Balance as at 1 July 2018			122,579	(395)	318	405	43,394	**166,301**
Profit for the period			-	-	-	-	11,350	**11,350**
Other comprehensive income/(loss)		10	-	(244)	(1,709)	-	-	**(1,953)**
Total comprehensive income/(loss) for the period			**-**	**(244)**	**(1,709)**	**-**	**11,350**	**9,397**
Shares issued		28	16	-	-	-	-	**16**
Share based payment expense			-	-	-	170	-	**170**
Dividends paid	- ordinary	28	-	-	-	-	(7,131)	**(7,131)**
	- supplementary		-	-	-	-	(189)	**(189)**
	- foreign investor tax credit		-	-	-	-	189	**189**
Balance as at 30 June 2019			**122,595**	**(639)**	**(1,391)**	**575**	**47,612**	**168,752**

The above consolidated statements of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 $000	2019 $000
Operating activities			
Receipts from customers		158,080	171,892
Payments to suppliers		(109,849)	(115,746)
Payments to employees		(42,212)	(39,731)
Interest received		12	138
Interest paid		(1,210)	(850)
Insurance and settlement income		311	500
Government grant received - Wage subsidy		3,772	-
Government grants received		97	100
Income tax paid		(4,777)	(5,361)
Net cash flows from/(used in) operating activities	32	**4,224**	**10,941**
Investing activities			
Proceeds from sale of property, plant and equipment		24	10
Purchase of property, plant and equipment		(16,148)	(14,191)
Purchase of intangible assets		(1,643)	(2,709)
Net cash flow (used in)/from investing activities		**(17,767)**	**(16,890)**
Financing activities			
Proceeds from borrowings		22,716	5,000
Gross proceeds from share issue		11	16
Dividends paid		(6,886)	(7,131)
Payment of lease liabilities		(1,414)	(134)
Net cash flows (used in)/from financing activities		**14,427**	**(2,249)**
Net increase/(decrease) in cash and cash equivalents		**884**	**(8,197)**
Cash and cash equivalents at 1 July	12	6,231	14,428
Cash and cash equivalents at 30 June	12	**7,115**	**6,231**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

1. CORPORATE INFORMATION

The consolidated financial statement of New Zealand King Salmon Investments Limited (the Company) and its subsidiaries (together the Group) for the year ended 30 June 2020 were authorised by the directors on 26 August 2020.

New Zealand King Salmon Investments Limited is a profit-orientated company incorporated and domiciled in New Zealand. The Company is registered under the Companies Act 1993 and listed on the NZX Main Board ("NZX") and the Australian Securities Exchange ("ASX"). The Company is a FMC reporting entity under the Financial Markets Conduct (FMC) Act 2013. The Group is principally engaged in the farming, processing and sale of premium salmon products.

2. BASIS OF PREPARATION

A. STATEMENT OF COMPLIANCE

The consolidated financial statements comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and also with International Financial Reporting Standards (IFRS). The financial statements are prepared under NZ GAAP and FMC Act 2013.

B. BASIS OF MEASUREMENT

The financial statements have been prepared on a historical cost basis except for biological assets and financial instruments which have been measured at fair value. The carrying values of recognised assets and liabilities that are designated as hedged items in hedging instruments otherwise be carried at amortised cost are adjusted to recognise changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

The consolidated financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand ($000), except when otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period.

C. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported outcomes of revenues, expenses, assets, liabilities and the accompanying disclosures. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Uncertainties about these assumptions and estimates could result in an outcome that requires a material adjustment to the carrying amount of assets or liabilities in future periods.

Specific areas requiring significant estimates and judgements include:

Valuation of biological assets

The Group recognises stocks of live fish at fair value less costs to sell according to the principles of NZ IAS 41 Agriculture. The fair value is measured using a valuation model that relies on various assumptions and information available at balance date. Inputs include anticipated market prices, quality mix, current weights of livestock relative to expected harvest weight, mortality rates, growth rates and production costs. The income or loss that is ultimately recognised at time of sale may be significantly different from that implied by the fair value adjustment at the end of a reporting period. The fair value uplift from accumulated costs to date has no cash impact. Further details of the valuation and sensitivity to change in key inputs are given in note 15.

Inventory (Finished goods) obsolescence

Inventories are stated at the lower of cost or net realisable value, and the Group uses judgment and estimate to determine the net realisable value of inventory at the end of each reporting period.

Due to the rapid impact of the pandemic virus Covid-19 impacting significantly on finished stock holdings, the Group estimates the net realisable value of inventory for obsolescence and unmarketable items at the end of reporting period and then writes down the cost of inventories to net realisable value. The net realisable value of the inventory is mainly determined based on assumptions of future demand within a specific time horizon.

Impairment testing of intangibles

The Group reviews the carrying value of goodwill on an annual basis and assesses whether it is impaired according to the principles of NZ IAS 36 Impairment of Assets. This requires the goodwill to be allocated to cash generating units with which it would naturally be associated and the value in use of the cash generating units to be estimated. The value in use is estimated using a standard industry model that relies on various assumptions and information available at balance date. Inputs include estimations of the growth rate of the Group, future market conditions, prices, and discount rates. Further details of the value in use assessment are given in note 17.

Valuation of financial derivatives

The Group recognises financial derivatives at fair value according to the principles of NZ IFRS 13 Fair Value Measurement. The value is calculated by a third party expert using an industry standard model. Inputs to the model are obtained externally by the service provider. Further details of the valuation are included in note 25.

Useful lives of assets

The Group estimates the useful lives of property, plant and equipment and intangible assets based on historical performance and currently consented future asset uses.

Revenue from contracts with customers

The Group reviews individual transactions to determine the amount and timing of revenue from contracts with customers.

D. FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

The Group's consolidated financial statements are presented in New Zealand dollars, which is also the parent company's functional currency. The Australian subsidiary's functional currency is Australian dollars which is translated into the presentation currency in these financial statements. The USA subsidiary's functional currency is United States dollars which is translated into the presentation currency in these financial statements.

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency and then translated by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange at balance date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

3. SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF CONSOLIDATION

The financial statements comprise the financial statements of New Zealand King Salmon Investments Limited and its subsidiaries (per note 27) as at 30 June each year. Subsidiaries are all those entities over which the Company has control.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent company using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

B. BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition date fair value of assets acquired by the Group and the liabilities assumed by the Group. Acquisition related costs are expensed as incurred and included in administrative expenses. Any contingent consideration to be transferred by the Group is recognised at fair value at acquisition date.

C. FINANCIAL INSTRUMENTS

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model. Subsequently the Group applies the following accounting policies for financial instruments:

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and call deposits. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits net of outstanding bank overdrafts.

Trade and other receivables

Short term trade and other receivables are not discounted and are initially stated at cost. Gains and losses are recognised in the profit or loss when the receivables are written off or impaired.

For trade receivables and contract assets, the Group applies a simplified approach in calculating an allowance for expected credit loss (ECL). Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL's at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Loans

Loans and amounts owing from related companies are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans are derecognised or impaired.

Trade and other payables

Trade and other payables are carried at cost due to their short term nature and are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid, and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30-60 days of recognition.

Interest bearing borrowings

After initial recognition interest bearing borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on establishment of loan facilities that are yield related are included as part of the carrying amount. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date. Borrowing costs are generally recognised as an expense when incurred, with the exception of borrowing costs associated with a qualifying asset which are capitalised as part of the cost of that asset.

Financial guarantees

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributed to the issuance of the guarantee. Subsequently the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at balance date and the amount recognised less cumulative amortisation.

Derivative financial instruments and hedging

The Group uses derivative financial instruments including forward currency contracts, options and interest rate swaps to hedge risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured to fair value at balance date. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The fair values of forward currency contracts are calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair values of interest rate swaps are determined by reference to market values for similar instruments.

The Group designates its derivative financial instruments as hedges of a particular risk associated with a recognised asset or liability or a highly probable commitment that could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the hedge reserve, while the ineffective portion is recognised in profit or loss as other income or expenses.

Amounts accumulated in equity are transferred to profit or loss when the hedged item affects profit or loss.

D. INVENTORIES

Inventories including raw materials, work in progress and finished goods are valued at the lower of cost or net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials – the cost of fish is measured at fair value at harvest date. The cost of other raw materials is based on the purchase price including import duties and other taxes, transport, handling and other costs directly attributable to the acquisition of the goods and materials. Costs are determined on a weighted average basis.

Manufactured finished goods and work in progress – cost of direct materials, labour and a proportion of manufacturing overheads appropriate to the state of manufacture. Costs are assigned on the basis of weighted average costs. The cost of items transferred from biological assets is their fair value less costs to sell at the date of harvest.

Net realisable value – the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

E. BIOLOGICAL ASSETS

Biological assets include fish livestock measured at fair value less estimated costs to sell. The net gain or loss resulting from the fair value measurement is recognised in profit or loss.

The fair value of fish livestock is derived from the amount expected to be received from the sale of the asset in an active market. The target live weight of the harvestable fish is defined as a fish with a live weight of 4kg or greater. Many fish are harvested with a live weight above or below this weight.

For brood stock and fish where little biological transformation has taken place since initial cost was incurred, cost less impairment is used as an approximation of fair value. This value is used up to the point at which fish are transferred to sea water. Fish stock is transferred to inventory at the time of harvest. The transfer is recorded at its fair value which is deemed to be cost for the purposes of inventory valuation.

F. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Depreciation is provided on a straight line basis over the estimated useful lives of the assets as follows:

Freehold land ....not depreciated
Freehold buildings ....twenty to fifty years
Building fit out ....three to twenty five years
Leasehold improvements......................five to ten years
Plant, furniture and fittings ....three to twenty years
Motor vehicles.....................................five to ten years
Sea vessels...ten to twenty years

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively if appropriate. An asset's carrying value is written down immediately to its recoverable amount if its carrying value is greater than its estimated recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

G. LEASES

At the inception of a contract, the Group is required to assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration.

Right of use assets

The Group recognises right of use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right of use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

The Group's lease portfolio

Property leases

The Group's real estate includes office buildings and storage facilities. The Group classified these office spaces as operating leases under NZIAS 17, and has recognised some storage contracts that meet the identifiable criteria as a Right of use asset and corresponding liability portfolio under NZ IFRS 16.

Vehicle leases

The Group's lease vehicles are predominantly used by sales staff and the transportation of personnel between operating locations. These vehicles were classified as operating leases under NZIAS 17 and are generally held for a term of 3 years. During the Covid-19 pandemic Level 4 restrictions several lease contracts were due to expire and were renewed for an additional period of one year as replacement negotiations were not accessible during this time.

Plant and Equipment Leases

The Group sometimes leases machinery used for the production or processing of salmon. The current leases relate to equipment being utilised for the upwelling on sea farms and various forklifts operated throughout the company. The Group has elected to apply the recognition exemption for short-term leases for all other machinery employed for less than 12 months duration and for leases where the underlying asset is of low value.

Contracts not recognised under NZIAS 17

The Group has transport contracts that have not been recognised as leases under NZIAS 17 but on assessment of NZ IFRS 16 can identify an asset to which the contract relates. These leases have been assessed as variable lease payments linked to future performance. These contracts have an operating expense value of $1.7M in the 12 months to 30 June 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

H. INTANGIBLES

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortised but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of useful life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to definite is made on a prospective basis.

A summary of the policies applied to the Group's intangible assets is as follows:

Goodwill and trade marks

Useful lives:..Indefinite

Internally generated or acquired:...........Acquired

Intellectual property, marine farm and hatchery licences and marina berth

Useful lives:..Finite

Amortisation method used: ....Straight line, five to thirty five years

Internally generated or acquired:...........Acquired

Computer Software

Useful lives:..Finite

Amortisation method used: ....Straight line, four to seven years

Internally generated or acquired:...........Acquired

I. RESEARCH AND DEVELOPMENT COSTS

Research costs are generally expensed as incurred. Development expenditures are capitalised as intangible assets when the Group can demonstrate:

- Costs can be reliably measured.
- Completion of the project is technically feasible.
- Resources are available to complete the project.
- There is an intention to use the resulting asset and it will generate future economic benefits.

During the period of development the asset is tested for impairment annually.

J. EMPLOYEE BENEFITS

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave

The liability for long service leave is recognised and measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Defined contribution plans

Contributions made to a defined contribution plan are expensed as incurred.

K. CONTRIBUTED EQUITY

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction net of tax from the proceeds. Other capital raising costs are expensed as incurred.

L. REVENUE RECOGNITION

Revenue from contracts with customers

The Group is in the business of growing, processing and selling King Salmon to customers in New Zealand and overseas. Revenue from contracts with customers is recognised when control of the goods is transferred to the customer at the amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods. The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods before transferring them to the customer.

NZ IFRS 15 established a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Interest income

Revenue is recognised as interest accrues using the effective interest method.

Insurance proceeds

Insurance proceeds are recognised in the financial statements when receipt is virtually certain and can be measured reliably.

M. TAXES

Income taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST, except when:

- The GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- Receivables and payables, which are stated with the amount of GST included.
- The net amount of GST recoverable from or payable to the taxation authority is included as part of receivables or payables in the balance sheet.
- Commitments and contingencies are disclosed net of the amount of GST recoverable from or payable to the taxation authority.
- The Group recognises uncertain tax positions as a liability where it is probable that an outflow of resources will be required.

N. SHARE-BASED PAYMENTS

Certain employees of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions). The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in Note 25.

That cost is recognised in employee benefits expense, together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of comprehensive income for the period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

4. NEW STANDARDS ADOPTED AND STANDARDS ISSUED NOT YET ADOPTED

A. NEW STANDARDS ADOPTED

NZ IFRS 16: Leases

The Group adopted NZ IFRS 16: Leases, effective from 1 July 2019. The transitional approach adopted by the Group is the modified retrospective approach. Under this method, the Group has not restated comparatives therefore reclassifications and adjustments are recognised in the opening balance sheet as at 1 July 2019.

The adoption of NZ IFRS 16 resulted in the following changes:

» In the Income Statement an increase in Earnings before Interest, Tax, Depreciation and Amortisation is a result of the decrease in operating expenses which have been reclassified to 'finance costs' includes interest and depreciation expense associated with lease liabilities and right of use assets.

» In the Statement of Cash Flows lease payments are now split between principal repayments classified within 'financing activities' and interest repayments classified within 'operating activities'. Previously lease payments were included within payments to suppliers within 'operating activities'.

At inception, the Group has assessed that it is reasonably certain to exercise all renewal options available under the contracts for property relating to office space and storage facilities to the full extent allowed for under the contracts.

The practical expedient available allowing the use of hindsight in determining the lease term has been used as vehicle leases are not customarily extended by the Group.

The weighted average incremental borrowing rate on adoption was 3.65%.

B. NEW STANDARDS NOT YET ADOPTED

Standards issued but not yet effective are not expected to have a material impact on the financial statements when they become effective.

5. SEGMENT INFORMATION

Segment results

The Group has reviewed the operating segments and considers that there is only one operating segment. This is based on management's on going review of the business and operations and as crystallised by the pandemic Covid-19 virus. The strategy is to focus on branded, premium priced and differentiated sales in all markets/channels/customers so as to maximise longer term sales and overall margins. The Group has executed this strategy during the Covid-19 situation, resulting in product being deployed to certain other markets, channels and customers.

For management purposes, the Group is organised into one business unit (2019: three business units based on geographical sales market and customer channel). The operating results of the whole business are monitored for the purpose of making decisions about resource allocation and performance assessment.

Segment performance - Refer also Note 33 for detail of disaggregation of revenue by product, brand and geographical area.

	2020 $000	2019 $000
Revenue	**155,344**	**172,609**
Segment EBITDA	**36,074**	**23,063**

Segment profit reconciles to profit before income tax as follows:

	2020 $000	2019 $000
Segment EBITDA	**36,074**	**23,063**
Depreciation, amortisation and impairment	(9,385)	(6,234)
Net finance costs	(1,736)	(1,092)
Group profit before tax	**24,953**	**15,737**

Prior year comparatives have been restated to respond to the change to a single operating segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. OTHER INCOME

Other income	2020 $000	2019 $000
Grants received	97	100
Grants received - Wage subsidy	3,772	-
Insurance settlements	311	534
Claim received	-	84
Profit on sale of property, plant and equipment	26	10
Other income	41	129
Total other income	**4,247**	**857**

7. EXPENSES

Corporate and other expenses include:	2020 $000	2019 $000
Trade receivables written off	18	2
Impairment of trade receivables	76	38
Research cost	278	440
Loss on sale of assets	51	12
Lease rentals	1,941	1,428
Directors' fees	465	414
Other directors' expenses	4	12
Donations	14	22

Employee benefits expense	2020 $000	2019 $000
Wages and salaries	36,017	32,473
Defined contribution plan expenses	872	785
Restructuring costs	-	(38)
Other employee benefits expenses	5,301	4,800
Outsourced labour	593	1,035
Total employee benefits expense	**42,783**	**39,055**

8. FINANCE INCOME AND COSTS

Finance income	2020 $000	2019 $000
Interest income	12	96
Total finance income	**12**	**96**

Finance costs	2020 $000	2019 $000
Bank facility fees	586	290
Interest on bank loans and overdrafts	993	898
Interest on leases	169	-
Total finance costs	**1,748**	**1,188**

9. INCOME TAX

Recognised in the consolidated statement of comprehensive income	2020 $000	2019 $000
Current income tax expense	4,437	4,228
Deferred tax relating to origination and reversal of temporary differences	2,512	159
Total income tax expense/(credit) in the statement of comprehensive income	**6,949**	**4,387**
Tax amounts posted directly to other comprehensive income	**1,546**	**(665)**
Reconciliation of tax expense to statutory income tax rate		
Profit/(loss) before tax	24,953	15,737
Income tax using the company tax rate 28%	6,987	4,406
Non deductible/non assessable items	49	(50)
Under provision - previous year	(196)	-
Prior period adjustment	(51)	43
Adjustment for varying tax rates	16	(36)
Other differences	144	24
Total tax expense	**6,949**	**4,387**

Statement of financial position deferred tax assets and liabilities *Deferred tax liabilities*	2020 $000	2019 $000
Accelerated depreciation for tax purposes	(3,114)	(3,009)
Fair value adjustment to biological assets	(10,829)	(9,481)
Gains on foreign currency hedges	(2,807)	116
Increase accounting cost for finished goods	(1,607)	(693)
Other provisions	(79)	-
Total deferred tax liabilities	**(18,436)**	**(13,067)**
Deferred tax assets		
Provision for doubtful trade debtors	45	19
Provision for employee benefits	787	739
Share based payments	167	167
Losses on foreign currency hedges	1,791	426
Other provisions	513	652
Total deferred tax assets	**3,303**	**2,003**
Net deferred tax liability	**(15,133)**	**(11,064)**

Statement of comprehensive income deferred tax assets and liabilities *Deferred tax liabilities*	2020 $000	2019 $000
Accelerated depreciation for tax purposes	105	(202)
Fair value adjustment to biological assets	1,348	819
Increase accounting cost for finished goods	914	(231)
Other provisions	79	-
Total deferred tax liabilities	**2,446**	**386**
Deferred tax assets		
Provision for doubtful trade debtors	(26)	(4)
Provision for employee benefits	(47)	(54)
Other provisions	139	(169)
Total deferred tax assets	**66**	**(227)**
Deferred tax (credit)/expense	**2,512**	**159**

Imputation credit account

The imputation credit account balance in the New Zealand King Salmon Company Group as at 30 June 2020 is $4,023k (2019: $8,638k).

10. COMPONENTS OF OTHER COMPREHENSIVE INCOME

Movement in reserves	2020 $000	2019 $000
Forward currency contracts		
Reclassification during the year to profit or loss	(45)	13
Income tax effect	13	(4)
Realised/unrealised net gain/(loss) during the year	5,796	(1,935)
Income tax effect	(1,623)	542
Interest rate swaps		
Realised/unrealised net gain/(loss) during the year	(229)	(451)
Income tax effect	64	126
Currency translation differences		
Translation of foreign operations	154	(244)
Net movement in other comprehensive income	**4,130**	**(1,953)**

11. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing the profit for the year attributable to shareholders of the Company by the weighted average number of ordinary shares on issue during the year. Diluted earnings per share are calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of shares that would be issued on conversion of all dilutive potential ordinary shares into ordinary shares.

Earnings per share	2020 $000	2019 $000
Profit attributable to ordinary equity holders	18,004	11,350
	# of Shares 000	**# of Shares 000**
Weighted average number of ordinary shares for basic and diluted earnings per share	138,986	138,548
Basic earnings per share	$0.13	$0.08
Diluted earnings per share	$0.13	$0.08

12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents	2020 $000	2019 $000
Cash at bank and on hand	6,387	5,350
Short-term deposits	728	881
Total cash and cash equivalents	**7,115**	**6,231**

13. TRADE AND OTHER RECEIVABLES

Trade and other receivables	2020 $000	2019 $000
Trade receivables	9,921	11,868
Allowance for expected credit losses	(90)	(146)
Prepayments	1,604	1,195
Other receivables	1,342	585
Total trade and other receivables	**12,777**	**13,502**

Trade receivables generally have 20-30 day terms and are recognised at their realisable value. Collectability of trade receivables is reviewed on an ongoing basis. Impairment losses are recognised net of insurance proceeds when there is objective evidence that the Group will not be able to collect the debt.

Ageing analysis of trade receivables	2020 $000	2019 $000
> 90 days overdue	41	76
61 - 90 days overdue	33	27
31 - 60 days overdue	20	8
< 30 days overdue	1,226	970
Not yet due	8,601	10,787
Total receivables	**9,921**	**11,868**

Receivables impairment movement	2020 $000	2019 $000
As at 1 July	146	110
Additional provisions for impairment	54	142
Receivables written off during the year	18	2
Reversal of unused amounts	(128)	(108)
As at 30 June	**90**	**146**

14. INVENTORIES

Inventories	2020 $000	2019 $000
Raw materials	9,184	11,901
Work in progress	1,192	1,017
Finished goods	25,236	7,912
Total inventories	**35,612**	**20,830**

The closing cost of finished goods as at 30 June 2020 includes a fair value uplift at point of harvest of $7,939k (2019: $3,428k) and an impairment provision of $2,201k (2019: $1,261k).

Amount of inventories recognised as an expense in the statement of comprehensive income	2020 $000	2019 $000
Cost of inventories recognised as an expense	144,828	172,400
Movement in net realisable value provision (increase)/decrease of inventory	940	(253)
Total cost of goods sold including fair value uplift at point of harvest	**145,768**	**172,147**

The cost of inventories recognised as an expense for the year ended 30 June 2020 includes a fair value uplift at point of harvest of $54,802k (2019: $61,851k). This cost is included in cost of goods sold in the Statement of Comprehensive Income.

The cost of inventory includes fish harvested measured at their fair value less costs to sell ("deemed cost") at harvest date based on management's expected future sales pricing and mix of salmon products. At 30 June 2020, around 10% of budgeted FY21 sales volumes are expected to be sold at returns materially below deemed cost plus further manufacturing costs. As a result, the overall deemed cost of inventory on hand takes this into account and is therefore reduced by the impact of the lower expected FY21 sales prices.

The estimated unrealised fair value gain from cost at 30 June 2020 is decreased from the prior year end estimation due to expected increased costs of working and selling due to Covid-19 and a change in product mix to incorporate a proportion of lower value frozen product sales. Core sales volumes are expected to return to pre Covid-19 levels during the second half of FY21.

15. BIOLOGICAL ASSETS

The Group has three hatcheries in the South Island and nine operational marine salmon farms in the Marlborough Sounds. The fish livestock typically grow for up to 31 months before harvest.

Biological assets	Cost $000	Fair Value Gain $000	Total $000
As at 1 July 2019	44,370	33,862	78,232
Increase due to biological transformation [1]	84,126	67,399	151,525
Decrease due to harvest [2]	(63,144)	(59,312)	(122,456)
Decrease due to mortality [3]	(11,648)	-	(11,648)
Changes in fair value [4]	-	(3,275)	(3,275)
As at 30 June 2020	**53,704**	**38,674**	**92,379**

[1] Biological transformation fair value is impacted by volume increases and fish weight at reporting date relative to the target fish harvest weight of 4 kgs (proportional recognition).

[2] Harvested fair value is included in cost of goods sold in the statement of comprehensive income and is calculated by multiplying the current years harvest (biomass) by the prior years estimated gross margin per kg (recognised at 100%).

[3] Mortality cost is expensed directly to the statement of comprehensive income in the period which it occurs and is not subject to a fair value uplift.

[4] Changes in fair value are impacted by movements in margin primarily being changes in sales price and costs to sell (fish cost, harvest, processing and freight to market).

Biological assets	Cost $000	Fair Value Gain $000	Total $000
As at 1 July 2018	42,667	36,787	79,454
Increase due to biological transformation	85,636	57,567	143,203
Decrease due to harvest	(66,468)	(62,926)	(129,394)
Decrease due to mortality	(17,465)	-	(17,465)
Changes in fair value	-	2,434	2,434
As at 30 June 2019	**44,370**	**33,862**	**78,232**

Fair value gain/(loss) recognised in profit and loss	2020 $000	2019 $000
Gain arising from growth of biological assets	67,399	57,567
Movement in fair value of biological assets	(3,275)	2,434
Total fair value gain on biological transformation	**64,124**	**60,001**

Harvested biomass	2020 t	2019 t
Total live weight harvested for the period	**8,336**	**9,013**

Estimated closing biomass	2020 t	2019 t
Closing fresh water stocks	158	100
Closing sea water stocks	6,136	5,073
Total estimated closing biomass live weight as at period end	**6,294**	**5,173**

Fair value measurement

Measurement of fair value is performed using a fair value model. The method of valuation therefore falls into level 3 of the fair value hierarchy as the inputs are unobservable inputs.

The valuation of biological assets is carried out separately for each site at a brood and strategy level. Estimated actual cost up to the date of harvest per site is used to measure the expected margin at the time the fish is defined as ready for harvest, being 4.0kg live weight. Selling price is estimated at balance date based on the most relevant future market price at expected harvest date. The expected gross margin is recognised proportionately based on average biomass at reporting date. Fair value measurement commences at the date of transfer to sea water as this is considered the point at which the fish commence their grow out cycle.

Fair value risk and sensitivity

The Group is exposed to financial risks relating to the production of salmon stock including increasing climate change volatility, climatic events, disease and contamination of water space.

The Group seeks to produce and market the highest quality salmon products. Extensive monitoring and benchmarking is carried out to provide optimum conditions and diets to maximise fish performance during the grow out cycle. Sales are maintained in a range of brands, products and markets to maximise returns from the quality mix of fish harvested. The Group has insurance to cover some of the risks relating to the livestock.

The estimated unrealised fair value gain from cost at 30 June 2020 is decreased from the prior year end estimation due to expected increased costs of working and selling due to Covid-19 and a change in product mix to incorporate a proportion of lower value frozen product sales. Core sales volumes are expected to return to pre Covid-19 levels during the second half of FY21. Changes in these assumptions will impact the fair value calculation. The realised profit which is achieved on the sale of inventory will differ from the calculations of fair value of biological assets because of changes in key factors such as the final market destinations and product mix of inventory sold, changes in price, foreign exchange rates, harvest weight, growth rates, mortality, cost levels and differences in harvested fish quality.

Leaving all other variables constant a 15% increase/decrease in average future sales prices would increase/decrease the fair value of biological assets on hand and profit before tax by $19.4m (2019: 10% increase/decrease $10.2m) (excludes the impact of finished goods), while a 15% increase/decrease in future harvest volume would increase/decrease the fair value of biological assets on hand and profit before tax by $5.8m (2019: 10% increase/decrease $3.3m).

A 15% increase/decrease in costs to sell would increase/decrease the fair value of biological assets on hand and profit before tax by $13.6m (2019: 10% increase/decrease $6.8m). Changes in fish health and environmental factors may affect the quality of harvested fish, which may be reflected in realised profit via both achieved sales price and production costs.

16. PROPERTY, PLANT AND EQUIPMENT

Cost	Freehold land and buildings $000	Plant, equipment and fittings $000	Vehicles and sea vessels $000	Construction in progress $000	Total $000
As at 1 July 2018	9,996	61,372	2,357	4,734	78,459
Additions	-	-	-	14,191	14,191
Disposals	-	(1,352)	(71)		(1,423)
Transfers from WIP	860	11,072	1,120	(13,052)	-
As at 30 June 2019	**10,856**	**71,092**	**3,406**	**5,873**	**91,227**
Additions	-	-	-	16,148	16,148
Disposals	-	(727)	(79)	-	(806)
Transfers from WIP	515	16,488	235	(17,238)	-
As at 30 June 2020	**11,371**	**86,853**	**3,562**	**4,783**	**106,569**
Depreciation and impairment					
As at 1 July 2018	1,940	31,467	1,327	-	34,734
Depreciation	363	5,337	248	-	5,948
Disposals	-	(1,248)	(54)	-	(1,302)
As at 30 June 2019	**2,303**	**35,556**	**1,521**	**-**	**39,380**
Depreciation	405	6,757	279	-	7,441
Disposals		(681)	(52)	-	(733)
As at 30 June 2020	**2,708**	**41,632**	**1,748**	**-**	**46,088**
Net Book Value					
As at 30 June 2019	**8,553**	**35,536**	**1,885**	**5,873**	**51,847**
As at 30 June 2020	**8,663**	**45,221**	**1,814**	**4,783**	**60,481**

Property, Plant and Equipment is stated at historical cost less depreciation and any impairment adjustments. Historical cost includes expenditure that is directly attributable to the acquisition of Property, Plant and Equipment. Asset residual values and useful lives are reviewed, and adjusted if appropriate, at each balance day or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. New Zealand King Salmon has considered the effects Covid-19 may have on the carrying value of its specialised assets, and has concluded there is no evidence of technical or functional obsolescence which would impact the carrying value of its assets in use.

Borrowing costs

There were no borrowing costs capitalised in 2020 (2019: $nil).

17. INTANGIBLES

Cost	Development in progress $000	Trademarks $000	Farm and hatchery licenses $000	Software $000	Goodwill $000	Total $000
As at 1 July 2018	830	242	4,572	2,645	39,255	47,544
Additions	2,680	-	12	-	-	2,692
Disposals	-	-	-	(219)	-	(219)
Transfers from WIP	(17)	-	-	17	-	-
As at 1 July 2019	**3,493**	**242**	**4,584**	**2,443**	**39,255**	**50,017**
Additions	1,643	-	-	-	-	1,643
Disposals	-	-	(289)	-	-	(289)
Transfers from WIP	(2,394)	-	-	2,394	-	-
As at 30 June 2020	**2,742**	**242**	**4,295**	**4,837**	**39,255**	**51,371**
Depreciation and impairment						
As at 1 July 2018	-	200	830	2,144	-	3,174
Amortisation	-	-	168	118	-	286
Disposals	-	-	-	(220)	-	(220)
As at 30 June 2019	-	200	998	2,042	-	3,240
Amortisation	-	-	168	341	-	509
Disposals	-	-	(287)	-	-	(287)
As at 30 June 2020	**-**	**200**	**879**	**2,383**	**-**	**3,462**
Net Book Value						
As at 1 July 2019	**3,493**	**42**	**3,586**	**401**	**39,255**	**46,777**
As at 30 June 2020	**2,742**	**42**	**3,416**	**2,454**	**39,255**	**47,909**

Goodwill

Goodwill resulted from the acquisition of The New Zealand King Salmon Co Limited and is subject to annual impairment testing. The Group performs an annual impairment test in June each year. The Group considers the relationship between its market capitalisation and its book value, among other indicators, when reviewing for indicators of impairment.

The goodwill is allocated to the New Zealand King Salmon Company's one cash generating unit. Refer to note 5 for reassessment of operating segments. The recoverable amount of the cash generating unit has been determined based on a value in use calculation using future estimated cash flows, capital expenditure and changes in working capital over a five year period, plus an estimated terminal value. The terminal value calculation assumes sea farm consents expiring in 2021 and 2024 will be renewed on reasonable commercial terms to enable water space to continue to be utilised. The forecasts were based on actual results and expected future use of water space licences currently held, before fair value adjustments to biological assets. The growth rate used to estimate the cash flows of the unit beyond the five-year period is 0.83% p.a. (2019: 1.72% p.a.). A discount rate of 6.01% p.a. (2019: 7.61% p.a.) has been applied to discount future estimated cash flows to their present value. The net present value of these future estimated cash flows exceeds the carrying amount of the CGU, therefore the Group has concluded that there is no impairment to the goodwill.

The calculation of value in use is most sensitive to changes in sales prices, exchange rates, sales volumes and fish performance. Reasonably probable changes in the assumptions used would not cause the carrying value of goodwill to exceed the recoverable amount for the cash generating unit.

Trademarks

Trademarks are externally acquired and are carried at cost less impairment. They have indefinite useful lives and are assessed annually for impairment. No impairment has been recognised during the period (2019: nil).

18. RIGHT-OF-USE ASSETS

	Land and Buildings $000	Motor Vehicles $000	Plant and Equipment $000	Total $000
Asset recognition on transition at 01 July 2019	3,617	380	449	4,446
Additions	-	199	1,105	1,304
Remeasurement	268	-	-	268
Depreciation for the period	(752)	(225)	(460)	(1,437)
Carrying amount 30 June 2020	**3,133**	**354**	**1,094**	**4,581**
Cost	3,885	579	1,554	6,018
Accumulated Depreciation	(752)	(225)	(460)	(1,437)
Carrying amount 30 June 2020	**3,133**	**354**	**1,094**	**4,581**

19. LEASE LIABILITIES

	Land and Buildings $000	Motor Vehicles $000	Plant and Equipment $000	Total $000
Liability recognition on transition at 01 July 2019	3,617	380	449	4,446
Additions	-	199	1,105	1,304
Remeasurement	268	-	-	268
Interest for the period	127	13	30	170
Lease payments made	(698)	(213)	(502)	(1,413)
Lease liabilities 30 June 2020	**3,187**	**366**	**1,052**	**4,605**

Short term leases

The Group recognised $974k of payments for short term lease equipment in the 12 months to 30 June 2020.

Low value leases

The Group does hold lease commitments for equipment that meets the definition under NZ IFRS 16 – Low value leases.

20. LEASE LIABILITIES CURRENT/NON-CURRENT

	2020 $000	2019 $000
Current	1,347	-
Non-current	3,258	-
Total	**4,605**	**-**

21. INTEREST BEARING LOANS AND BORROWINGS

	2020 $000	2019 $000
Current interest bearing loans and borrowings		
Secured bank loans	97	-
Other borrowings	1,035	416
Total current interest bearing loans and borrowings	**1,132**	**416**
Non-current interest bearing loans and borrowings		
Secured bank loans	37,000	15,000
Total non-current interest bearing loans and borrowings	**37,000**	**15,000**

The Company has facilities with BNZ for $60m, secured by a general security deed over the assets of the Group. The expiry date of facility A of $20m is 18 October 2021, facility B of $20m expires on 18 October 2023, and facility C of $20m expires on 18 October 2024. At balance date $20m of facility A was drawn and $17m of facility B was drawn (June 2019: $15m). Subsequent to balance date, the financial covenants relating to interest coverage and leverage ratios have been amended for the FY21 year and facility A extended to 18 October 2022.

22. TRADE AND OTHER PAYABLES

	2020 $000	2019 $000
Trade payables	12,969	10,294
Other payables	1,878	6,205
Total trade and other payables	**14,847**	**16,499**

23. EMPLOYEE BENEFITS

	2020 $000	2019 $000
Current employee benefits		
Bonuses	171	85
Employee annual and sick leave benefits	2,453	2,264
Long service leave	260	80
Total current employee benefits	**2,884**	**2,429**
Non-current employee benefits		
Long service leave	558	566
Total non-current employee benefits	**558**	**566**

Long service leave

Long service leave provisions are calculated based on the expected future payments to employees, discounted to their net present value.

24. COMMITMENTS AND CONTINGENCIES

Capital commitments

The Group has entered into agreements to purchase plant and equipment. As at 30 June 2020 the total commitment is $2,598k (2019: $3,265k).

Contingencies

The Group has a contingent liability of $784k in respect of a fish transport contract requiring the Group to purchase three bulk tankers (including modifications made in 2018), should the fish transport contract be terminated early (2019: $809k).

Guarantees

The Group has three guarantee facilities totalling $115k (2019: $115k).

25. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group uses derivative financial instruments to hedge certain risk exposures. Financial risk management is the responsibility of the Chief Financial Officer in accordance with the Treasury Policy approved by the Board of Directors. In addition, the Group has a Treasury Committee, a sub-committee of the Board's Audit and Finance Committee that oversees financial risk management.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. This comprises of two key types of risks; currency and interest rate risk.

Currency risk

The Group has exposure to foreign exchange risk as a result of transactions denominated in foreign currency, arising primarily from normal trading activities, but also from the net investment in the foreign subsidiary.

The Group manages its foreign currency risk by hedging its future exposure in respect of its import purchases and its export sales, over a maximum of five years, when exposures are considered highly probable. The Group hedges this exposure with the use of forward foreign exchange contracts and options. NZKS have a policy of hedging foreign exchange exposures within a range of hedging limits broadly summarised as follows: Up to two years – 15% to 100%, two to five years – 0% to 50%. The notional contract amounts of forward foreign exchange contracts and options outstanding at balance date were $87.5m on the import side (2019: $54m) and $283m on the export side (2019: $151.9m), for delivery over the next five financial years, in line with anticipated payment dates.

The Group imports feed from Chile and Australia, purchases of which are in United States and Australian dollars respectively. The Group exports salmon to many countries, the major ones being Australia, Japan and the United States. Sales are denominated in Australian dollars (AUD), Japanese yen (JPY) and United States dollars (USD) respectively. In order to protect against exchange rate movements and to manage the inventory costing process, the Group has entered into forward exchange contracts and options to hedge the net exposure to AUD, JPY and USD respectively.

The cash flows are expected to occur up to 60 months from 1 July 2020. The profit or loss within cost of sales will be affected as sales are made.

Foreign exchange forward contracts are designated as hedging instruments in cash flow hedges of highly probable forecast sales in USD, AUD and JPY and forecast purchases in USD, and AUD. We have hedged 50-55% of the net exposure of these forecast transactions. The foreign exchange forward contract balances vary with the level of expected foreign currency sales and purchases and changes in foreign exchange forward rates.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign exchange and commodity forward contracts match the terms of the expected highly probable forecast transactions (i.e., notional amount and expected payment date). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the foreign exchange and commodity forward contracts are identical to the hedged risk components. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

The hedge ineffectiveness can arise from:

» Differences in the timing of the cash flows of the hedged items and the hedging instruments
» Different indexes (and accordingly different curves) linked to the hedged risk of the hedged items and hedging instruments
» The counterparties' credit risk differently impacting the fair value movements of the hedging instruments and hedged items
» Changes to the forecasted amount of cash flows of hedged items and hedging instruments

The NZ dollar equivalent of unhedged currency risk on assets at balance date is $474k (2019: $143k) whilst the NZ dollar equivalent of unhedged currency risk on liabilities at balance date is $133k (2019: $83k).

Currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in AUD, USD and JPY exchange rates. The impact on the Group's pre-tax profit is the result of a change in fair value of monetary assets and liabilities. The impact on the Group's equity is due to changes in the fair value of forward exchange contracts and options designated as cash flow hedges.

	Change in AUD rate	Equity $000	Profit $000
2020	+5%	(2,652)	(257)
	-5%	6,251	284
2019	+5%	(2,483)	14
	-5%	2,745	(15)
	Change in USD rate	**Equity $000**	**Profit $000**
2020	+5%	13,245	328
	-5%	(7,031)	(362)
2019	+5%	4,148	(330)
	-5%	(4,561)	365
	Change in JPY rate	**Equity $000**	**Profit $000**
2020	+5%	2,775	14
	-5%	(262)	(15)
2019	+5%	1,176	(30)
	-5%	(1,275)	33

Interest rate risk

The Group has exposure to interest rate risk that arises mainly due to the Group's long term debt obligations with floating interest rates. Interest earned on call deposits are based on the current interest rate. Interest rate swaps are used to manage interest rate risk, current swap cover out to 2024. The amount of company borrowing covered using swaps at balance date was $10m (2019: $10m).

NZKS have a policy of fixing interest rates within a range of 50% to 100% of the exposure. Forward starting swaps have been used to further extend maturities out to 2024 ($6m). The fixed interest rates for the existing swaps range between 4.3% and 5.01% (2019: 4.3% and 5.01%) and the floating rate of 1.58% is aligned to the floating quarterly bank bill rate. The loss on interest rate swaps at balance date was $1,847k (2019: $1,608k), which has been taken to reserves.

Interest rate sensitivity

The following table demonstrates the sensitivity of the fair value of the interest rate swaps to a reasonably possible change in interest rates:

	2020 $000	2019 $000
Impact of an increase of 50 basis points	224	263
Impact of a decrease of 50 basis points	(230)	(271)

Credit risk

Credit risk is the risk of financial loss that arises if a counterparty to a financial instrument does not meet its contractual obligations. Financial instruments which potentially subject the Group to credit risk principally consist of bank balances, trade receivables, derivative financial instruments and financial guarantees.

Customer credit risk is managed centrally subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive external credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables and contract assets are regularly monitored and any shipments to major customers are generally covered by trade credit insurance.

An impairment analysis is performed at each reporting date using the accounts receivable aging report to measure expected credit losses. The impairment analysis is based on days past due for all customers with coverage by trade credit insurance. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity.

Financial instruments are only entered into with banks that have in place an executed International Swaps and Derivatives Association (ISDA) Master Agreement with the Group.

Maximum exposures to credit risk as at balance date are:

	2020 $000	2019 $000
Cash and short term deposits	7,115	6,231
Trade and other receivables	12,777	13,502
Derivative financial assets/(liabilities)	3,603	(2,058)

The above maximum exposures are net of any recognised provision for losses. No collateral is held on the above amounts.

Concentrations of credit risk

Bank balances are maintained with several banks but mainly with Bank of New Zealand. There is a wide spread of debtors, in terms of size and geographical location within New Zealand and overseas. Concentration of credit risk in trade receivables is not considered significant as the Group's customers operate in different market channels and geographic areas.

Liquidity risk

The Group performs cash flow forecasting activities on a daily basis to ensure it has sufficient cash to meet operational needs and monitors performance against bank covenants on a monthly basis. Surplus cash is invested in short-term or money market deposits.

Undrawn committed facilities and/or liquid assets are maintained at all times at an amount sufficient to cover the forecast cash payments to employees, suppliers, tax authorities and banking institutions as they fall due.

The following table analyses the contractual and expected cash flows for all financial liabilities:

As at 30 June 2020	Less than one year $000	Between one and two years $000	Between two and five years $000
Bank loans	834	36,263	-
Credit card facilities	350	-	-
Lease liabilities	1,347	1,385	1,873
Trade and other payables	14,847	-	-
Financial guarantee contracts	115	-	-
Total non-derivative liabilities	**17,493**	**37,648**	**1,873**
Forward foreign currency exchange contracts	83,311	81,869	135,606
Forward foreign currency options	36,576	20,219	13,037
Interest swaps	224	253	495
Total derivative liabilities	**120,111**	**102,341**	**149,138**
As at 30 June 2019			
Bank loans	438	14,562	-
Lease liabilities	-	-	-
Credit card facilities	300	-	-
Trade and other payables	16,499	-	-
Financial guarantee contracts	115	-	-
Total non-derivative liabilities	**17,352**	**14,562**	**-**
Forward foreign currency exchange contracts	43,467	59,325	41,486
Forward foreign currency options	13,105	16,144	39,887
Interest swaps	583	658	726
Total derivative liabilities	**57,155**	**76,127**	**82,099**

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of cash and short term deposits, trade receivables, trade payables and other current liabilities is considered a reasonable approximation to their fair value due to the short term maturities of these instruments.

The carrying value of the BNZ loan drawing of $37M is considered a reasonable approximation of its fair value due to the short term maturities of the drawings. The Group has the discretion to roll these short term drawings out within facility A ($20m) to 18 Oct 2021, and within facility B ($17m) to 18 Oct 2023.

The following financial instruments of the Group are carried at fair value:

	2020 $000	2019 $000
Current derivative financial assets		
Forward exchange contracts	599	224
Foreign exchange options	309	270
Total Current derivative financial assets	**907**	**494**
Non-current derivative financial assets		
Forward exchange contracts	8,360	708
Foreign exchange options	759	1,001
Total Non-current derivative financial assets	**9,120**	**1,709**
Current derivative financial liabilities		
Forward exchange contracts	1,684	1,043
Foreign exchange options	435	110
Interest rate swaps	1,749	938
Total Current derivative financial liabilities	**3,868**	**2,091**
Non-current derivative financial liabilities		
Forward exchange contracts	1,642	667
Foreign exchange options	883	797
Interest rate swaps	-	582
Total non-current derivative financial liabilities	**2,525**	**2,046**

Valuation methods

Financial instruments have been categorised into the following hierarchy and valued according to the following definitions, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: Quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

All derivative financial instruments for which a fair value is recognised have been categorised within level 2 of the fair value hierarchy. Industry experts have provided the fair values for all derivatives based on an industry standard model. There were no transfers between Level 1 and Level 2 during the year ended 30 June 2020.

27. CAPITAL MANAGEMENT

Group capital

The capital of the Group consists of share capital, reserves and retained earnings. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders, benefits for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

In addition to this the Group aims to ensure that it meets financial covenants attached to the interest bearing loans and borrowings that define capital structure requirements. There have been no breaches in the financial covenants of any interest-bearing loans and borrowings in the current period.

In order to maintain or adjust the capital structure the Group may adjust dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

28. CAPITAL AND RESERVES

Share capital	2020	2019
Issued shares	**000**	**000**
Ordinary shares	138,986	138,571
Total issued shares	**138,986**	**138,571**

Ordinary shares are fully paid with no par value. Each ordinary share has an equal right to vote, to participate in dividends and to share in any surplus on winding up of the Company. Dividends paid during the year consisted of a fully imputed dividend of $0.03 per share paid on 20 September 2019 (2019: $0.03 per share paid on 21 September 2018). Additionally, a fully imputed interim dividend of $0.02 per share was paid on 20 March 2020 (2019: $0.02 paid on 22 March 2019).

	# of Shares		Share Capital	
	2020	2019	2020	2019
Movement in ordinary share capital	**000**	**000**	**$000**	**$000**
As at 1 July	138,571	138,475	122,595	122,579
Share issue for employee LTI share scheme	415	96	-	-
Share issue recognised on repayment of employee loans	-	-	11	16
Total share capital as at 30 June	**138,986**	**138,571**	**122,606**	**122,595**
Shares held as treasury stock	4	38		
Total shares outstanding at 30 June	**138,982**	**138,533**		

Reserves

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of the foreign subsidiary.

Hedge reserve

The hedge reserve represents the unrealised gains and losses on interest rate swaps and foreign currency forward contracts that the Group has taken out in order to mitigate interest rate and foreign currency risks, net of deferred tax.

Retained earnings

Retained earnings represents the profits retained in the business.

Share-based payment reserve

The share based payment reserve relates to one long term incentive (LTI) scheme and two employee share ownership schemes. All of these schemes involve the Company making interest-free limited recourse loans to selected personnel to acquire shares in the Company. The employees must remain in employment for the duration of the vesting or escrow periods before the employees receive the full benefit of share ownership subsequent to repayment of the loan balance remaining at time of vesting.

Share scheme	Grant date	30 June 2019 shares not yet vested	New shares issued to custodian	Shares allocated from treasury stock	Shares forfeited to treasury stock	Shares vested	30 June 2020 shares not yet vested
		000	000	000	000	000	000
ESOP	14/10/16*	141	-	-	-	(141)	-
LTI IPO 2016	19/10/16*	771	-	-	-	(771)	-
LTI 2017	29/09/17	297	-	-	(2)	-	295
LTI 2018	27/09/18	302	-	-	(1)	-	300
LTI 2019	5/11/19	-	414	38	(1)	-	451
Total share scheme		**1,510**	**414**	**38**	**(4)**	**(911)**	**1,046**

*Fully vested in current year

The estimated value of share options was determined using the Black-Scholes pricing calculator and is being amortised over the restrictive periods. The option cost is treated as an employee expense with the corresponding credit included in the share based payment reserve. The inputs into the option pricing valuation model are the share price of the Group at time of allocation and the compounded risk free interest rate.

Share allocation price for share schemes

Share scheme	Employee Group 1	Employee Group 2	Employee Group 3	Employee Group 4
ESOP	$1.12	-	-	-
LTI IPO 2016	$1.12	-	-	-
LTI 2017	$1.22	$1.77	-	-
LTI 2018	$1.30	$1.95	$2.78	-
LTI 2019	$1.41	$2.13	-	$2.20

29. EVENTS AFTER BALANCE DATE

Covid-19

On 12 August 2020, the Government announced a second wave of Covid-19 outbreak in New Zealand and as a result, the Auckland region moved up to alert Level 3 lockdown restrictions whilst the rest of New Zealand moved up to alert Level 2 lockdown restrictions. This second wave is considered a non-adjusting subsequent event. It is not possible to estimate the impact of the second wave outbreak's near-term and longer effects or the Government's efforts to combat the second wave outbreak and support businesses. This being the case, we do not consider it practicable to provide a quantitative or qualitative estimate of the potential impact of this outbreak, or any future outbreaks, on the Group at this time. The Group continues its farming and processing operations under Levels 2 and 3 lockdown and continues to pursue its strategy of marketing its branded products across the range of customers, markets and products. In the event of a Level 4 lockdown the Group anticipates being able to operate as an essential industry.

	2020	2019
Dividends declared after balance date:	**$000**	**$000**
Final cash dividend	-	4,157

No final dividend was declared in respect of the year ended 30 June 2020 (2019: 3 cents per share).

30. RELATED PARTY DISCLOSURES

Subsidiaries

New Zealand King Salmon Investments Limited has the following trading subsidiaries.

Subsidiary	*Country of Incorporation*	*Equity Interest*
The New Zealand King Salmon Co Limited	New Zealand	100%
New Zealand King Salmon Exports Limited	New Zealand	100%
The New Zealand King Salmon Pty Limited	Australia	100%
New Zealand King Salmon USA Incorporated	United States of America	100%

The principal activity of The New Zealand King Salmon Co Ltd is the farming and processing of salmon. The activity of New Zealand King Salmon Exports Ltd, The New Zealand King Salmon Pty Ltd, and New Zealand King Salmon USA Inc is the distribution of salmon.

At balance date Oregon Group Limited owned 40.02% (30 June 2019: 40.14%) and China Resources Ng Fung Limited owned 9.93% (30 June 2019: 9.96%) of the shares in New Zealand King Salmon Investments Limited.

Transactions with related parties

Sales to and purchases from related parties are made in arm's length transactions both at normal market prices and on normal commercial terms. The following provides the total amount of transactions that were entered into with related parties for the relevant financial year:

	2020	2019
Related party payments	**$000**	**$000**
Good and services purchased from other related parties	238	423
Total related party payments	**238**	**423**
Related party sales		
Goods and services sold to related parties	3,078	1,931
Total related party sales	**3,078**	**1,931**

Sales to and purchases from related parties are made in arm's length transactions, both at normal market prices and on normal commercial terms.

Amounts owing to related parties	2020	2019
Current amounts owing to related parties	**$000**	**$000**
Other amounts owing to related parties	149	149
Total current amounts owing to related parties	**149**	**149**

	2020	2019
Amounts owing by related parties	**$000**	**$000**
Amounts owing by related parties	7	221
Total amounts owing by related parties	**7**	**221**

	2020	2019
Compensation of key management personnel of the Group	**$000**	**$000**
Short-term employee benefits	1,770	1,555
Share based payment expense	49	48
Post employment pension and medical benefits	61	82
Total key management personnel compensation	**1,880**	**1,685**

31. AUDITOR'S REMUNERATION

	2020	2019
	$000	**$000**
Audit fees	191	126
Other assurance	40	33
Tax advisory and compliance	4	44
Transaction advisory services	-	16
Total auditors remuneration	**235**	**219**

Other assurance services include review of the interim financial statements and performance of agreed upon procedures on sustainability information of the Group.

32. RECONCILIATION OF NET OPERATING CASH FLOW TO PROFIT/(LOSS)

	2020	2019
Reconciliation of the profit for the year with the net cash from operating activities	**$000**	**$000**
Profit before tax	24,953	15,737
Adjusted for		
Depreciation and amortisation	9,385	6,234
(Gain)/loss on sale of assets	51	128
Share-based payments	301	170
Net foreign exchange differences	106	(140)
Net loss/(profit) on derivative instruments at fair value through profit or loss	(30)	1
(Increase)/decrease in trade and other receivables and prepayments	725	(1,076)
(Increase)/decrease in inventories and biological assets	(28,928)	(3,027)
Increase/(decrease) in trade and other payables	2,438	(1,725)
Income tax paid	(4,777)	(5,361)
Net cash flow from operating activities	**4,224**	**10,941**

33. REVENUE FROM CONTRACTS WITH CUSTOMERS

A. SALE OF GOODS WITH VARIABLE CONSIDERATION

Some contracts for the sale of goods provide customers with volume rebates. Under NZ IFRS 15, volume rebates give rise to variable consideration.

Volume rebates

The Group provides retrospective volume rebates to certain customers on the quantity of product purchased during the period. The rebate is charged at time of settlement. Therefore the Group does not see the need to recognise a refund liability due to timeliness of the transaction.

B. CONTRACT BALANCES: CONTRACT LIABILITIES

A contract liability is the obligation to transfer goods to a customer for which the Group has received consideration from the customer. If a customer pays consideration before the Group transfers goods to the customer, a contract liability is recognised when the payment is made or when the payment is due (whichever is earlier). Contract liabilities are revenue when the Group performs under the contract.

The Group recognises revenue from the following major sources:

» Ōra King
» Regal
» Southern Ocean
» Omega Plus
» New Zealand King Salmon

C. PERFORMANCE OBLIGATIONS

Information about the Group's performance obligations is summarised below:

Delivery to customer

The performance obligation is satisfied upon delivery of salmon products to the customer, and payment terms generally range between cash on delivery and 20th of the month following invoice date.

On collection

The performance obligation is satisfied upon collection of salmon products by the customer and payment terms are generally on collection.

Receipt into store

The performance obligation is satisfied upon delivery of salmon products when receipted into the customer's store and payment terms are generally on the 20th of the month following invoice date.

CIF, into hold

The performance obligation is satisfied upon delivery of shipping documents including either the bill of lading or way bill dependent on transportation mode. Payment terms generally range between 7 days from invoice date and 20th of the month following invoice date.

	2020	2019
Revenue by Product group	**$000**	**$000**
Whole fish	76,501	84,880
Fillets, Steaks & Portions	32,082	38,624
Wood Roasted	12,075	13,400
Cold Smoked	26,605	30,011
Other	8,082	5,693
Total	**155,344**	**172,609**

	2020	2019
Revenue by Brand	**$000**	**$000**
Ōra King	61,323	65,163
Regal	30,182	30,762
Southern Ocean	10,433	14,783
Omega Plus	1,549	1,006
New Zealand King Salmon	51,857	60,895
Total	**155,344**	**172,609**

	2020	2019
Revenue by Brand	**$000**	**$000**
New Zealand	66,003	79,759
North America	58,432	58,479
Australia	9,280	11,862
Japan	5,275	5,893
China	3,746	3,591
Europe	3,625	3,117
Other	8,981	9,908
Total revenue	**155,344**	**172,609**

Sales net of settlement discounts to one major customer for the year totalled $15.63m or 10.06% of total gross revenue (2019 no major customers were greater than 10% of sales).

INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NEW ZEALAND KING SALMON INVESTMENTS LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of New Zealand King Salmon Investments Limited ("the company") and its subsidiaries (together "the Group") on pages 58 to 85, which comprise the consolidated statement of financial position of the Group as at 30 June 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended of the Group, and the notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the consolidated financial statements on pages 58 to 85 present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2020 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

This report is made solely to the company's shareholders, as a body. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders, as a body, for our audit work, for this report, or for the opinions we have formed.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners* (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Ernst & Young provides taxation services to the Group, has performed a review of the interim financial statements and performs agreed upon procedures in relation to sustainability information of the Group. Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. We have no other relationship with, or interest in, the Group.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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VALUATION AND EXISTENCE OF BIOLOGICAL ASSETS

Why significant

At 30 June 2020, the consolidated statement of financial position includes biological assets (live salmon) of $92.4 million with an estimated biomass of 6,294 metric tonnes measured at fair value less costs to sell. This includes a fair value increase above cost of $38.7 million.

This is a key audit matter because the Group's estimation of the fair value of biological assets involves estimation of year end biomass, and a valuation model that relies on significant estimation including:

- » future biomass growth to harvest;
- » future fish mortalities;
- » forecast sales prices;
- » forecast costs to harvest date and sale;
- » forecast sales product mix; and
- » use of a weight-based methodology, in calculating the present value of estimated gross margin on future fish sales.

Disclosures in relation to biological assets are included in Note 15 to the Group financial statements.

How our audit addressed the key audit matter

In considering the valuation of live salmon we:

- » evaluated the appropriateness of key estimations and assumptions and their impact on discounted future cash flows;
- » tested the mathematical accuracy of the discounted cash flow forecasts;
- » agreed key estimation inputs used by the Group in their model to source data and to board approved budgets;
- » involved our valuation specialists in the evaluation and testing of the mathematical logic and accuracy of the calculations in the valuation model and of the discount rate used;
- » challenged the accuracy of model inputs compared to historical actual values and considered the accuracy of previous input forecasts; and
- » challenged the appropriateness of model assumptions that may be materially impacted by the Covid-19 pandemic (sales price and quantity, freight costs to sell and inventory holding costs), including the sensitivity analysis prepared by management.

In considering live salmon existence we:

- » tested controls over fish count recording of transfers from a fresh water farm to sea farms;
- » considered the key inputs used by the Group in estimating growth and biomass;
- » tested controls over fish quantity and biomass adjustments to the livestock recording system;
- » agreed significant quantity and biomass adjustments made by the Group in the livestock recording system to source data;
- » performed analytical procedures over feed conversion to biomass; and
- » considered the accuracy of historical forecasts of average fish weight and quantity recorded in the livestock recording system to actual fish harvest data.

We also considered the appropriateness and sufficiency of biological assets disclosures included in the Group financial statements.

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GOODWILL IMPAIRMENT ASSESSMENT

Why significant	How our audit addressed the key audit matter
At 30 June 2020, the consolidated statement of financial position includes goodwill arising in business combinations of $39.3 million, assigned to the single cash generating unit (CGU) assessed by management. This is a key audit matter because the annual impairment assessment of goodwill involves significant judgements related to future cash flow forecasts, discount rate and terminal growth rate assumptions. These are key inputs into the discounted cashflow ("DCF") model used to assess the value of the CGU. Disclosures in relation to goodwill are included in Note 17 to the Group financial statements.	In obtaining sufficient, appropriate audit evidence we: » evaluated the basis of the Group's CGU determination; » evaluated the appropriateness of key assumptions; » tested the mathematical accuracy of future cash flow forecasts; » involved our valuation specialists in assessing the discount rate and terminal growth rate applied; » agreed relevant valuation inputs to board approved budgets and compared these with historical actual results. We also considered the accuracy of previous internal forecasts; » performed sensitivity analyses on key future cash flow forecast assumptions, including earnings before interest, tax, depreciation and amortisation (EBITDA), renewal periods of sea farm licence consents and capital expenditure. In doing so we considered the possible impact of Covid-19 on the future cash flow forecast, to understand the impact of reasonably possible changes in key assumptions; » performed sensitivity analysis on the weighted average cost of capital (WACC) assumption included in the value in use calculation; and » considered the appropriateness and sufficiency of goodwill disclosures included in the Group financial statements.

FINISHED GOODS INVENTORY NET REALISABLE VALUE PROVISION

Why significant	How our audit addressed the key audit matter
At 30 June 2020, the consolidated statement of financial position includes finished goods inventory of $25 .2 million (2019: $7.9m), net of a net realisable value provision of $2.2 million (2019: $l.3m). This is a key audit matter because of the significant increase in the volume of finished goods, and the level of judgement involved in management's assessment of the net realisable value provision. Disclosures in relation to inventories are included in Note 14 to the Group financial statements.	In obtaining sufficient, appropriate audit evidence we: » obtained an understanding of management's inventory provisioning process; » compared the net realisable value of aged inventory items and high volume inventory items to subsequent selling values, the 2021 sales plan and the Board approved budget. In doing so, we considered the greater price uncertainty as a result of the Covid-19 pandemic; » tested the mathematical accuracy of the provision calculation; and » considered the appropriateness and sufficiency of inventory disclosures included in the Group financial statements.

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INDEPENDENT AUDITOR'S REPORT

Information other than the financial statements and auditor's report

The directors of the company are responsible for the Annual Report, which includes information other than the consolidated financial statements and auditor's report which is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and, if uncorrected, to take appropriate action to bring the matter to the attention of users for whom our auditor's report was prepared.

Directors' responsibilities for the financial statements

The directors are responsible, on behalf of the entity, for the preparation and fair presentation of the consolidated financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing on behalf of the entity the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located at the External Reporting Board's website: https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/. This description forms part of our auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Bruce Loader.

Ernst & Young

Chartered Accountants
Christchurch
26 August 2020

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CORPORATE GOVERNANCE

CORPORATE GOVERNANCE STATEMENT

The Board of New Zealand King Salmon Investments Limited (the Company) is committed to ensuring that the Company meets best practice governance principles and maintains the highest ethical standards. This Corporate Governance Statement provides an overview of the Company's governance framework. It is structured to follow the NZX Corporate Governance Code (NZX Code) and disclose practises relating to the NZX Code's recommendations.

The Board's view is that the Company complies with the corporate governance principles and recommendations set out in the NZX Code apart from specific areas noted in this report. The Board believes our governance structures and in particular our remuneration approach meets our strategic objectives. In forming our conclusions, we have sought external feedback from shareholders and advisors to challenge our thinking and validate our findings, which we have appreciated.

The corporate governance principles and standards of the Company comply with the:

- Financial Markets Authority's Corporate Governance in New Zealand Principles and Guidelines.
- ASX Corporate Governance Principles and Recommendations.
- NZX and ASX Listing Rules (corporate governance requirements).

The Company's key corporate governance documents referred to in this statement, including charters and policies, can be found on the Company's website, www.kingsalmon.co.nz.

The Company's Corporate Governance Code was reviewed and updated during June 2019. During the latest review, the Company maintained its commitment to best practise corporate governance and as a result has chosen to adopt and report against the recommendations of the NZX Corporate Governance Code 2017 with effect from 22 March 2019, in advance of the date required by the NZX Main Board listing Rules (Listing Rules). The extent to which the Company has followed recommendations in the NZX Code 2017 for the financial year ended 30 June 2020 is detailed in this Corporate Governance Statement. The Company's Corporate Governance Code was approved by the Board on 19 June 2019.

PRINCIPLE 1 – CODE OF ETHICAL BEHAVIOUR

Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation.

RECOMMENDATION 1.1

The Board should document minimum standards of ethical behaviour to which the issuer's Directors and employees are expected to adhere (a Code of Ethics).

Code of Ethics

The Board sets a framework of ethical standards for the Company via its Code of Ethics, which is contained in the Company's Corporate Governance Code. These standards are expected of all Directors and employees of the Company.

The Code of Ethics covers a wide range of areas including the following:

- Standards of behaviour.
- Conflicts of interest.
- Proper use of Company information and assets.
- Accepting gifts.
- Delegated authorities.
- Compliance with laws and policies.

No incidents were reported of breaches in the Code of Ethics policy during the year to 30 June 2020.

Every new Director, employee and contractor is provided with a copy of the Code of Ethics and must confirm that they have read and understand the Code of Ethics. The Code of Ethics is available on the Company's website.

The Code of Ethics is subject to annual review by the Board.

The Company maintains an interest register, on which Directors and executives disclose any interests such as other directorships, shareholdings or ownership, which may potentially lead to conflicts or perceived conflicts of interest.

RECOMMENDATION 1.2

An issuer should have a financial product dealing policy which applies to employees and Directors.

Share trading by Company Directors and Employees

The Board of the Company has implemented a formal procedure to handle trading in the Company's quoted financial products. All Directors, officers, employees, contractors and advisers of the Company and its subsidiaries (together, the Group) must comply with the procedures set out in the Financial Products Trading Policy and Guidelines as detailed in the Company's Corporate Governance Code.

All trading by Directors and senior managers (as defined by the Financial Markets Conduct Act 2013) is required to be reported to NZX and recorded in the Company's securities trading register. A blackout period is imposed for all Directors and employees between the end of the half year and full year and the release to NZX of the result for that period. The policy provides that shares may not be traded at any time by any individual holding material information. The full procedures are outlined in the Securities Trading Policy and Guidelines, which is contained in the Company's Corporate Governance Code.

In addition to the restrictions outlined above, Directors and the senior managers who held or acquired shares in the Company at the time of listing had entered escrow arrangements with the Company. Under these arrangements, each escrowed shareholder agreed not to sell or otherwise dispose of any of the escrowed shares until the first business day after the Company's preliminary announcement has been released to NZX and ASX in respect of its financial results for the year ending 30 June 2018. That escrow was lifted on 30 August 2018, and since then all Directors and senior managers whose shares were subject to escrow have continued to hold their shares at this time, subject to sale during the year of 29,635 shares (2019: nil).

PRINCIPLE 2 – BOARD COMPOSITION & PERFORMANCE

To ensure an effective Board, there is a balance of independence, skills, knowledge, experience and perspectives.

Director Independence

The factors the Company considers when assessing the independence of its Directors are set out in the NZX Listing Rules and ASX Corporate Governance Principles and Recommendations.

A Director is considered to be independent if a Director is not an executive of New Zealand King Salmon, nor has been within the last five years, and if the Director has no direct or indirect interest or relationship that could reasonably influence the Director's decisions in relation to the Company.

As a result of the formal BetterBoards evaluation undertaken in 2018, the Board confirms the designation of John Ryder, Paul Steere and Catriona Macleod as independent directors, noting Paul Steere resigned as CEO of the Company in 2009.

The Board has also determined that the Chair will be an independent director. It is also intended, in the medium term, to have an equal number of independent directors. The board will continue to assess the appropriate options and opportunities to achieving this goal.

The Board will review any determination it makes on a Director's independence on becoming aware of any new information that may affect that Director's independence. For this purpose, Directors are required to ensure they immediately advise the Board of any new or changed relationship that may affect their independence or result in a conflict of interest.

RECOMMENDATION 2.1

The Board of an issuer should operate under a written charter which sets out the roles and responsibilities of the Board.

Responsibilities of the Board

The Board is the ultimate decision-making body of the Company and appoints the Chief Executive Officer and Managing Director (CEO) to whom it delegates the responsibility of managing day to day operations.

The Board is responsible for setting the strategic direction of the Company, directing the Company and enhancing shareholder value in accordance with good corporate governance principles.

CORPORATE GOVERNANCE

In addition to the duties and obligations of the Board under the Companies Act 1993 (the Act) and the NZX Listing Rules, the functions of the Board include:

» Appointing the CEO.
» Providing counsel to, and reviewing the performance of, the CEO and CFO.
» Reviewing and approving the strategic, business and financial plans prepared by management.
» Monitoring performance against the strategic, business and financial plans.
» Approving major investments and divestments.
» Ensuring ethical behaviour by the Company, Board, management and employees.
» Assessing its own effectiveness in carrying out its functions.

The Board monitors these matters by receiving reports and plans from management and appropriate experts, and by maintaining an active programme of Company site visits.

The Board uses committees to address certain issues that require detailed consideration by members of the Board who have specialist knowledge and experience. The Board retains ultimate responsibility for the functions of its committees and determines their responsibilities.

The Board has a statutory obligation to maintain responsibility for certain matters. It also deals directly with issues relating to the Company's mission, appointments to the Board, strategy, business and financial plans.

Details of the Board's role, composition, responsibilities, operation, policies and committees are provided in the Company's Corporate Governance Code.

RECOMMENDATION 2.2

Every issuer should have a procedure for the nomination and appointment of Directors to the Board.

Director nomination and appointment

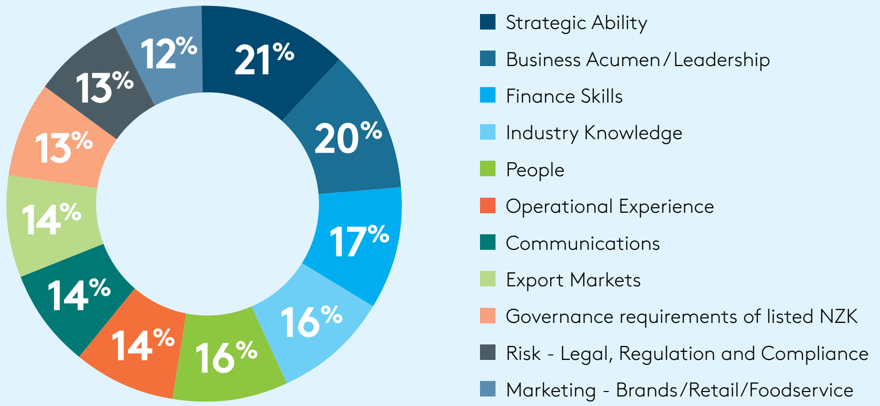
The Board is responsible for appointing Directors. The Nominations and Remuneration Committee manages the appointment process for new Directors and the re-election of existing Directors in order to make a recommendation to the Board. When considering an appointment, the Committee will undertake a thorough check of the candidate and background. Where the Board determines a person is an appropriate candidate, shareholders are notified of that and are provided with all material information that is relevant to the decision on whether to elect or re-elect a Director.

The Nominations and Remuneration Committee also has responsibility for reviewing the composition of the Board to ensure that the Company has access to the most appropriate balance of skills, qualifications, experience, perspectives and background to effectively govern the Company.

The Board has developed a skills matrix setting out the key skills they believe are necessary for governance of the Company. The Board has determined that to operate effectively and to meet its responsibilities it requires competencies in key disciplines covering business acumen, strategic ability, governance, industry knowledge, people, finance skills and export markets.

As detailed in the chart below, the size of each section represents a combination of the skills available and the perceived importance of each of these skills.

Weighted Skills Charts as at June 2020



The skills matrix is used to evaluate whether the collective skills and experience of the Directors meet the Company's requirements both currently and into the future.

The composition of the Board is reviewed to ensure that the Company has access to the most appropriate balance of skills, qualifications, experience, perspectives and background to effectively govern the Company.

A number of areas will be supplemented by on-going director training. The Board noted the range of qualifications, experience, perspectives and background were appropriate at this time. The average tenure of the current directors is 5.8 years.

RECOMMENDATION 2.3

An issuer should enter into written agreements with each newly appointed Director establishing the terms of their appointment.

Letter of appointment

All new Directors enter into a written agreement with the Company setting out the terms of their appointment.

RECOMMENDATION 2.4 AND 2.8

Every issuer should disclose information about each Director in its annual report or on its website, including a profile of experience, length of service, independence and ownership interests.

Board of Directors

A profile of each of the Directors is on pages 54 of this report. The profiles include information on the year of appointment, skills, experience and background of each Director.

The roles of the Board Chair, Audit and Finance Committee Chair, and CEO are not held by the same person.

The Board determines annually on a case-by-case basis on the advice of the Nominations and Remuneration Committee who, in its view, are Independent Directors. The guidelines set out in the NZX Listing Rules (para.3.3.1) are used for this purpose.

Ownership of the Company's shares by Directors is encouraged rather than being a requirement. Directors' ownership interests are disclosed at page 109.

The Board does not have a tenure policy; however, it recognises that a regular refreshment programme leads to the introduction of new perspectives, skills, attributes and experience.

Director period of appointment	0-3 years	3-9 years	9 years +
Number of Directors	3	1	3

Interests Register

The Board maintains an Interests Register. Any Director with an interest in a transaction with the Company must immediately disclose to the Board the nature, monetary value and extent of the interest. A Director who is interested in a transaction may attend and participate at a Board meeting at which the transaction is discussed but may not be counted in the quorum for that meeting or vote in respect of the transaction, unless it is one in respect of which Directors are expressly required by the Companies Act 1993 to sign a certificate.

Particulars of entries made in the Interests Register for the year ended 30 June 2020 are included in the Director Disclosures section on pages 107-109.

RECOMMENDATION 2.5

An issuer should have a written diversity policy which includes requirements for the Board or a relevant Committee of the Board to set measurable objectives for achieving diversity (which, at a minimum, should address gender diversity) and to assess annually both the objectives and the entity's progress in achieving them.

The Company recognises the value in diversity and seeks to ensure that the Board and workforce of the Company are as diverse as the community in which we operate. A formal diversity policy was adopted by the Board on 29 June 2018 and can be found in the Company's Corporate Governance Code at https://www.kingsalmon.co.nz/governance/

The Company does recruit, promote and compensate on the basis of merit, regardless of gender, ethnicity, religion, age, nationality or union membership. The Company does require that people in the workplace are treated with respect in accordance with the Company's Human Resource Policy and Way We Work document.

The Board is committed to increasing the level of diversity at Board and executive level wherever possible, however no measurable objectives were set for the year ended 30 June 2020. The board is currently reviewing the most appropriate measurable objectives for the year ending 30 June 2021 and will report against its progress in meeting any specific diversity objectives in its 2020 Annual Report.

Responsibility for workplace diversity and the setting of measurable objectives is held by the Nominations and Remuneration Committee.

The gender composition of the Company's Board and senior leadership team (SLT) is as follows:

	As at 30 June 2020		As at 30 June 2019	
Position	**Female**	**Male**	**Female**	**Male**
Board	1 (14%)	6 (86%)	0	7 (100%)
Senior Leadership Team	1 (17%)	5 (83%)	1 (17%)	5 (83%)

On 26 February 2020, Catriona Macleod was appointed as a Director.

The company has a long-term target of equal male and female representation at board and SLT level however this target has not yet been achieved.

RECOMMENDATION 2.6

Directors should undertake appropriate training to remain current on how to best perform their duties as Directors of an issuer.

Director Training

The Board does ensure that there is appropriate training available to all Directors to enable them to remain current on how best to discharge their responsibilities and keep up to date on changes and trends in areas relevant to their work. Directors are provided with industry information and receive copies of appropriate company documents to enable them to perform their role. The Board has allocated funding of $1,000 per annum for each Director to provide resources to help develop and maintain skills and knowledge.

Directors are expected to maintain their knowledge of latest governance and business practices in order to perform their duties.

The Board also ensures that new Directors are appropriately introduced to Management and the businesses.

RECOMMENDATION 2.7

The Board should have a procedure to regularly assess Director, Board and Committee performance.

Board Performance Evaluation

The Board annually assesses its effectiveness in carrying out its functions and responsibilities. The Chair of the Board leads the review and evaluation of the Board as a whole, and of the Board Committees, against their charters. The Chair of the Board also engages with individual Directors to evaluate and discuss performance and professional development

In 2018 the Board undertook the Institute of Directors' BetterBoard evaluation. This provided the opportunity for a formal review of Board operations to ensure best practise was being followed. Several of the conclusions of the BetterBoard evaluation are noted in this report and have been implemented, particularly in relation to the structure of Board committees and nominated participates.

PRINCIPLE 3 – BOARD COMMITTEES

The Board should use Committees where this will enhance its effectiveness in key areas, while still retaining Board responsibility.

Board Committees

The Board formally constituted three committees in June 2018: the existing Nominations and Remuneration Committee, the reformed Audit and Finance Committee and the new Health, Safety and Risk Committee. Each committee focuses on specific areas of governance and together they strengthen the Board's oversight of the Company. Committee membership is reviewed annually.

Each Committee has a written charter that is approved by the Board and sets out its mandate. The charters are reviewed annually with any proposed changes recommended to the Board for approval. The charters can be found within the Company's Corporate Governance Code.

Annually each Committee agrees a programme of matters to be addressed over the following twelve-month period. The Committees each annually review their performance against the Committee charter and objectives for the year and report their findings to the Board.

CORPORATE GOVERNANCE

Attendance at Meetings

The table below sets out Director attendance at Board and Committee meetings during the year ended 30 June 2020.

Director	Board	Audit & Finance Committee	Nominations and Remuneration Committee	Health, Safety and Risk Committee
John Ryder *(Chair)*	9/9	3/3	-	-
Paul Steere *(Chair Nominations and Remuneration Committee and Chair Audit and Finance Committee)*	9/9	3/3	2/2	3/3
Jack Porus	8/9	-	2/2	-
Catriona Macleod *(Chair Health, Safety and Risk Committee) (Appointed February 20)*	4/4	-	-	1/1
Lai Po Sing	8/9	-	-	-
Chiong Yong Tiong	9/9	-	-	3/3
Mark Hutton *(Resigned November 19)*	3/4	2/2	2/2	-
Grant Rosewarne *(Executive Director)*	9/9	3/3	2/2	3/3

RECOMMENDATION 3.1

An issuer's Audit and Finance Committee should operate under a written charter. Membership on the Audit and Finance Committee should be a majority of independent Directors and comprise solely of non-executive Directors of the issuer. The Chair of the Audit and Finance Committee should not also be the Chair of the Board.

Audit and Finance Committee

The primary function of the Audit and Finance Committee is to assist the Board in fulfilling its oversight responsibilities relating to the Company:

- To oversee the financial reporting and continuous disclosure processes to ensure that the interests of shareholders are properly protected in relation to financial reporting and internal control and disclosure maintains integrity, transparency and adequacy.
- To provide the Board with an independent assessment of the Company's financial position and accounting affairs.
- To oversee the Company's capital and treasury management.

The members of the Committee are all independent non-executive directors, all with accounting and financial background. The members are Paul Steere (Chair) and John Ryder. The Chair of the Audit and Finance Committee and the Board Chair are different people. The Audit and Finance Committee held three meetings during the period ended 30 June 2020 . The agenda items for each meeting generally relate to financial governance, external financial reporting, external audit, internal controls and processes, and compliance.

RECOMMENDATION 3.2

Employees should only attend Audit Committee meetings at the invitation of the Audit Committee.

Meeting Attendance

The CEO and Chief Financial Officer (CFO) are regularly invited to attend Audit and Finance Committee meetings. The committee also regularly holds private sessions of the committee and external auditors with management excluded.

RECOMMENDATION 3.3 AND 3.4

An issuer should have a Remuneration Committee which operates under a written charter.

Nominations and Remuneration Committee

The Nominations and Remuneration Committee's role is to assist the Board by:

- Establishment of a clear framework for oversight and management of the Company's remuneration structure, policies, procedures and practices to ensure the Company remuneration is fair and reasonable.
- Defining the roles and responsibilities of the Board and senior management.
- Reviewing and making recommendations on Board composition and succession.

In particular, the Nominations and Remuneration Committee's role is to ensure that the Board is balanced in terms of skills and knowledge and to ensure that the method of nomination and appointment of Directors is transparent.

Under the Nominations and Remuneration Committee Charter, the Committee shall comprise of, wherever possible, a majority of independent Directors.

The current members of the Committee are Paul Steere (Chair) (independent, non-executive), Jack Porus (nominated as a Director by Oregon Group Limited and thus not independent), and Grant Rosewarne (Executive Director).

The Committee held two meetings during the year ended 30 June 2020.

RECOMMENDATION 3.5

An issuer should consider whether it is appropriate to have any other Board Committees as standing Board Committees. All Committees should operate under written charters.

Health, Safety and Risk Committee

The Company has since 2015 operated a management Health & Safety Steering Group, generally meeting quarterly and with attendance by a Board Director.

The Board's commitment to ensuring a safe and healthy workplace for team members, contractors and visitors led to it establishing a Health, Safety and Risk Committee in June 2018.

The primary functions of the Health, Safety and Risk Committee are:

- To assist the Board to provide leadership and policy for health and safety.
- To assist the Board to fulfil its responsibilities and to ensure compliance with all legislative and regulatory requirements in relation to the health and safety practices of the Company as those activities affect employees and contractors.
- To support the ongoing improvement of health and safety in the workplace.
- Ensure and overview the identification of risk to the Company's operations, both financial and non-financial, the mitigation measures in place and such further measures to be enacted so risk is managed to as satisfactory a level as practical.

The nominated members of Committee are Catriona Macleod (Chair), appointed April 2020 and Chiong Yong Tiong (nominated as a Director by Oregon Group Limited and thus not independent).

RECOMMENDATION 3.6

The Board should establish appropriate protocols that set out the procedure to be followed if there is a takeover offer for the issuer.

Takeover Protocols

The Board has documented and adopted a series of protocols to be followed in the event of a takeover offer being made, including communication between insiders and any bidder.

It is proposed that the Audit and Finance Committee will oversee the protocols and act as the takeover committee, assuming there are no related parties. The Committee would have responsibility for managing the takeover in accordance with the Board protocols and the New Zealand Takeovers Code.

PRINCIPLE 4 – REPORTING AND DISCLOSURE

The Board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosure.

RECOMMENDATION 4.1

An issuer's board should have a written continuous disclosure policy.

Shareholder Communications and Market Disclosure

The Company's Board is committed to the principle that high standards of reporting and disclosure are essential for proper accountability between the Company and its investors, employees and stakeholders.

The Company achieves these commitments, and the promotion of investor confidence, by ensuring that trading in its shares takes place in an efficient, competitive and informed market. The Company has in place a written Shareholder Communications and Market Disclosure Policy designed to ensure this occurs. The policy includes procedures intended to ensure that disclosure is made in a timely and balanced manner and in compliance with the NZX Listing Rules, such that:

- All investors have equal and timely access to material information concerning the Company, including its financial situation, performance, ownership and governance.
- Company announcements are factual and presented in a clear and balanced way.

CORPORATE GOVERNANCE

The Company is committed to the promotion of investor confidence by ensuring that the trading of Company shares takes place in an efficient, competitive and informed market. The CFO is responsible for the Company's compliance with NZX and ASX continuous disclosure requirements and the Board is advised of, and considers, continuous disclosure issues at each Board meeting or whenever else required.

Significant market announcements, including the preliminary announcement of the half year and full year results, the financial statements for those periods, and any advice of a change in earnings forecast are approved by the Board.

Directors consider at each Board meeting whether there is any material information which should be disclosed to the market.

RECOMMENDATION 4.2

An issuer should make its Code of Ethics, Board and Committee charters and the policies recommended in the NZX Code, together with any other key governance documents, available on its website.

Governance Policies and Charters

The Company's key corporate governance documents, including charters and policies, can be found at https://www.kingsalmon.co.nz/investors/governance/

RECOMMENDATION 4.3

Financial reporting should be balanced, clear and objective. An issuer should provide non-financial disclosure at least annually, including considering material exposure to environmental, economic and social sustainability risks and other key risks.

Financial and Non-Financial Reporting

The Board is responsible for ensuring the integrity and timeliness of its financial reporting. As noted above under 'Board Committees', the Audit and Finance Committee monitors financial reporting risks in relation to the preparation of the financial statements.

The Audit and Finance Committee, with the assistance of management, works to ensure that the financial statements are founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

The Audit and Finance Committee oversees the quality and integrity of external financial reporting including the accuracy, completeness, balance and timeliness of financial statements. It reviews half-year and annual financial statements and makes recommendations to the Board concerning accounting policies, areas of judgement, compliance with financial reporting standards, stock exchange and legal requirements, and the results of the external audit. All matters required to be addressed and for which the Committee has responsibility were addressed during the period under review.

All interim and full-year financial statements are prepared in accordance with relevant financial standards.

Both financial and non-financial disclosures are made at least annually, including reporting of material exposure to environmental, economic and social sustainability risks and other key risks. The Company has a strategic target to develop best-in-class sustainability reporting and to measure and report on key sustainability aspects affecting its businesses.

The Company's Sustainability Report for 2020 is included in this report at pages 16–17 and provides details of the Company's initiatives in this area. The Company-wide report draws on 5 of the United Nations Sustainable Development Goals focusing on the food sector and aquaculture industry both nationally and globally. The five Goals being focused on are: decent work and economic growth, climate action, good health and well-being, responsible consumption and production, and life below water.

PRINCIPLE 5 – REMUNERATION

The remuneration of Directors and senior management should be transparent, fair and reasonable.

Remuneration Report Introduction

This Remuneration Report outlines the Company's overall reward strategy for the year ended 30 June 2020 and provides detailed information on the remuneration arrangements in this period for the Directors of the Company, including the CEO, and other nominated executives.

The Company's Remuneration Policy, which may be amended from time to time, is reviewed at least once a year. The Company has also established a number of additional policies to support a strong governance framework and uphold ethical behaviour and responsible decision making.

Remuneration Policy

The Nominations and Remuneration Committee is responsible for making recommendations to the Board on remuneration policies and packages for Directors, the CEO and nominated executives. The primary objectives of the Remuneration Policy are to provide a competitive and flexible structure that reflects market practice but is tailored to the specific circumstances of the Company and which reflects each person's duties and responsibilities, in order to attract, motivate and retain people of the appropriate quality. This includes the Company responsibility to monitor diversity and ensure pay equity.

The Nominations and Remuneration Committee reviews market data on remuneration structure and quantum. The remuneration packages of the CEO and nominated executives are structured to include a Short-Term Incentive Scheme (STI Scheme) that is directly linked to the overall financial and operational performance of the Company. The CEO and nominated executives may also be invited to participate in the Company's Long-Term Incentive Scheme (LTI Scheme). The long-term benefits of the LTI Scheme are currently solely conditional upon the Company share price meeting certain performance criteria, details of which are outlined below.

Remuneration Structure

In accordance with best practice corporate governance, the structure of non-executive Director remuneration is separate and distinct from the remuneration of the CEO and other executives.

Components of Compensation - Non-Executive Directors

a) Remuneration

The Board seeks to set aggregate remuneration for non-executive Directors at a level which provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

No remuneration is payable to non-executive Directors unless it is approved by the Company's shareholders. The NZX Listing Rules specify that shareholders can approve a per Director remuneration amount or an aggregate Directors' fee pool. Shareholders approved an aggregate fee pool of $520,000 at the November 2019 Annual General Meeting and no adjustment will be sought at the 2020 Annual Meeting.

The aggregate remuneration paid to non-executive Directors and the manner in which it is apportioned amongst Directors is reviewed annually, with any proposed increase in the aggregate pool put to shareholders for approval at the Company's next Annual Shareholders Meeting. The Board reviews its fees to ensure the Company's non-executive Directors are fairly remunerated for their services, recognising the level of skill and experience required to fulfil the role and to enable the Company to attract and retain talented non-executive Directors. The process involves benchmarking against a group of peer companies. In addition, the Board reviews the Committee structure and appropriate level of resourcing required to make an on-going contribution to long term value creation.

Non-executive Directors have no entitlement to any performance-based remuneration or participation in any share-based incentive schemes. This policy reflects the differences in the role of the non-executive Directors, which is to provide oversight and guide strategy, and the role of management, which is to operate the business and execute the Company's strategy. Non-executive Directors are encouraged to be shareholders but are not required to hold shares in the Company.

Each non-executive Director receives a fee for services as a Director of the Company. An additional fee is also paid for being a member of the Board's Nominations and Remuneration Committee, Audit and Finance Committee, and Health, Safety & Risk Committee. The payment of an additional fee recognises the additional time commitment required by Directors who serve on those committees. Directors are also entitled to be reimbursed for costs associated with carrying out their duties.

Annual fees paid to the non-executive Directors of the Company for the period 1 July 2019 to 30 June 2020 were as follows:

		Fees for Serving on Committees			Total
Director	**Base Fee**	**Audit & Finance Committee**	**Nominations & Remuneration Committee**	**Health, Safety & Risk**	**Fees Paid/ Payable**
John Ryder *(Chair)*	$120,000	$0	$0	$0	$120,000
Jack Porus	$60,000	$0	$4,500	$0	$64,500
Paul Steere *(Chair Nominations & Remuneration Committee and Chair Audit & Finance Committee)*	$60,000	$5,844	$5,844	$7,879	$79,567
Catriona Macleod *(Chair Health, Safety & Risk Committee) (Appointed 26 February 20)*	$20,712	$0	$0	$2,676	$23,388
Lai Po Sing	$60,000	$0	$0	$0	$60,000
Chiong Yong Tiong	$60,000	$0	$0	$4,500	$64,500
Mark Hutton *(Resigned 6 November 19)*	$21,095	$3,156	$3,156	$0	$27,407

Remuneration of CEO and Executives

The number of employees of the Company (including former employees), not being Directors, who received remuneration and other benefits in excess of $100,000 in the period 1 July 2019 to 30 June 2020 is set out in the remuneration bands detailed below:

	Number of employees	
Remuneration	**FY20**	**FY19**
$100,000 to $109,999	7	2
$110,000 to $119,999	9	6
$120,000 to $129,999	5	5
$130,000 to $139,999	3	1
$140,000 to $149,999	4	8
$150,000 to $159,999	6	4
$160,000 to $169,999	3	5
$170,000 to $179,999	1	0
$180,000 to $189,999	1	0
$210,000 to $219,999	1	0
$220,000 to $229,999	1	0
$230,000 to $239,999	1	1
$240,000 to $249,999	0	1
$260,000 to $269,999	0	1
$290,000 to $299,999	1	0
$360,000 to $369,999	0	1
$410,000 to $419,999	1	0

** Includes redundancy payments, other prescribed fringe benefits and the option value of LTI Scheme shares*

As set out in further detail below, the total remuneration and value of other benefits paid to the CEO (including under the STI Scheme and LTI Scheme detailed below) for the year ended 30 June 2020 was $512,219 (2019: $697,327).

Components of Compensation – CEO and Other Nominated Executives

a) Structure

The Company aims to reward the CEO and nominated executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group, so as to:

» Reward them for Company performance against targets set by reference to appropriate benchmarks and key performance indicators.

» Align their interests with those of shareholders.

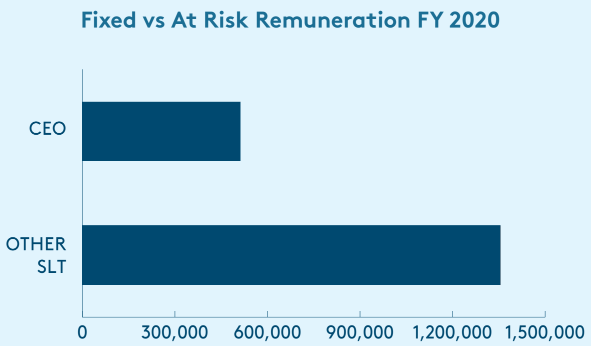
» Ensure total remuneration is competitive by market standards.

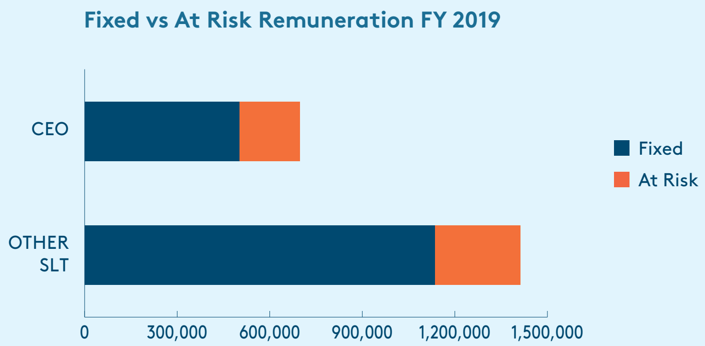
Remuneration consists of both fixed and variable remuneration components. The variable remuneration component comprises the STI Scheme and the LTI Scheme.

The proportion of fixed remuneration and variable remuneration is established for the CEO and for each nominated executive by the Board, following recommendations from the Nominations and Remuneration Committee and the CEO (in the case of the nominated executives only).

The remuneration packages for the CEO and nominated executives are all subject to Board approval. There were no material changes to the remuneration structures or targets for the 2020 year.

The mix of fixed versus variable 'at risk' remuneration payable in respect of 2020 versus 2019 was as follows:





1. **Fixed annual remuneration**

Remuneration levels are reviewed annually to ensure that they are appropriate for the responsibility, experience and performance of the CEO and each nominated executive and are competitive with the market. In addition, the overall mix of variable compensation and their terms are also considered when setting and/or reviewing fixed remuneration.

The CEO and nominated executives receive their fixed annual remuneration in cash and a limited range of prescribed fringe benefits such as superannuation, motor vehicle and health insurance. The total employment cost of any remuneration package, including fringe benefit tax, is taken into account in determining an employee's fixed annual remuneration.

For the financial year ended 30 June 2020, the CEO received $512,219 (2019: $501,925) in fixed annual remuneration.

2. **Variable remuneration – STI Scheme**

The objective of the STI Scheme is to link the achievement of the annual financial and operational targets with the remuneration received by the executives charged with meeting those targets. The total potential remuneration under the STI Scheme is set at a level so as to provide sufficient incentive to the executive to achieve the targets such that the cost to the Company is flexible and in line with the trading outcome for the year.

Actual STI Scheme payments granted to the CEO and each nominated executive depend on the extent to which specific targets set at the beginning of the year are met. The target for 2020 is directly related to achieving budgeted pro-forma operating EBITDA result and Return on Capital Employed.

In future the targets may include a weighted combination of:

» At least 60% for meeting budget or target pro-forma operating EBITDA for the Group.

» Up to 30% for meeting budget or target asset efficiency measures such as Return on Capital Employed for the Group.

» Any balance for strategic objectives and other contributions.

The Nominations and Remuneration Committee considers the performance against the targets and determines the amount, if any, to be allocated to the CEO and nominated executives. STI Scheme payments are delivered as a taxable cash bonus and are payable on completion of the annual audited financial statements.

It should be noted that the level of remuneration detailed in this report for the CEO includes the STI bonus actually paid in 2020 relating to performance in the 2019 financial year. The total cost for the CEO and other nominated executives of the STI Scheme for 2020 was $nil (2019: $471,494) and the total accrual for 2020 is $nil (2019: $nil).

The CEO received $nil in STI Scheme payments in 2020 relating to performance in the 2019 financial year (2019: $117,663 in STI payments in 2019 relating to the 2018 year) and the total accrual for 2020 is $nil.

STI Scheme payment values are set as a percentage of base cash remuneration, being 30% for the CEO and 25% for the other nominated executives for the financial year ended 30 June 2020. For the financial year ended 30 June 2020 there were six executives in the STI Scheme, (2019: six executives).

In addition to the STI Scheme the Board reserves the ability to pay ad hoc bonus payments to any employee, again either directly related to the trading outcome or a specific performance target. For the financial year ended 30 June 2020, there were no ad hoc bonus payments to the CEO or other nominated executives (in 2019, $nil).

3. **Variable remuneration – LTI Scheme**

The LTI Scheme has been designed to link reward with key performance indicators that drive sustainable growth in shareholder value over the long term. The objectives of the LTI Scheme are to:

» Align the CEO and nominated executives' interests with those of shareholders.

» Help provide a long-term focus.

» Retain high calibre senior employees by providing an attractive equity-based incentive that builds an ownership of the Company mindset, encouraging executives to think and act like owners.

The hurdle rate used for the LTI scheme is an absolute share price growth hurdle, which is more challenging over time than a relative Total Shareholder Return (TSR) approach. This approach only rewards executives if the shareholders also do well.

Under the LTI Scheme, the CEO and nominated executives are offered an interest free loan which is to be applied to acquire shares in the Company. Shares acquired under the LTI Scheme are held by a custodian and will only vest to the employee if he or she is still employed by the Company after three years from the date of issue. All dividends paid during this period are offset against the loan balance. Once the shares vest, the employee remains obligated to repay the outstanding balance of the loan. If an employee leaves employment before the expiry of the three-year period, the custodian may exercise a call option to have the employee's beneficial interest in the shares transferred to it in consideration of the custodian taking the balance of the loan. Any shares so transferred can be used for future grants or alternatively the custodian is authorised to sell that employee's shares with the proceeds applied to repay the balance of the loan, with any deficit covered by the Company and any surplus retained by the Company.

Although performance rights are the most prevalent LTI instrument in Australasia the company believes the issue of shares and loans is more relevant for NZKS. The structure is well understood by executives and more closely aligns to the security held by shareholders. In addition, the economic return achieved by executives is more challenging under the current terms.

Each employee's loan amount (which determines how many shares will be acquired) is set as a percentage of their base salary and selected employees will be offered a loan for this amount if the criteria set by the Board are met. For the first three years of the LTI Scheme from 2016, the criterion has been the achievement of a compounding gross TSR of 12.5% (including all distributions) over the reference share price of $1.12, for those executives who joined the scheme at the initial issue at the time of the IPO in October 2016, $1.77 for those who joined the scheme in September 2017, and $2.78 for those who joined the scheme in September 2018. There were no new joiners in shares issued in November 2019 due to the reference share price being higher than market price. The reference share price for any new participants will be set at the time of joining the scheme. A separate issue for the COO was set at $2.20 per share.

An offer may be made under the LTI Scheme to the CEO and nominated executives each financial year and is based on individual performance as assessed by the annual appraisal process. If an executive does not sustain a consistent level of high performance, they will not be nominated for participation in the LTI Scheme. The Nominations and Remuneration Committee reviews all nominated executives, with participation in the LTI Scheme subject to final Board approval. The Board has retained the discretion to vary the applicable criteria for each offer under the LTI Scheme. Once the Board has fixed the criteria for a specific offer under the LTI Scheme, those performance hurdles cannot be varied in respect of that offer.

A further 317,515 shares were allocated in September 2017, being 270,274 at an issue price of $1.22 per share (being a 12.5% Total Shareholder Return over the initial $1.12 IPO share price, and of which the CEO received 94,833 shares) along with matching interest free loans of $329,734 (of which the CEO's loan is $115,697), and 47,241 shares at an issue price of $1.77 per share to new nominated executives, along with matching interest free loans of $83,617.

A further 311,527 shares were allocated in September 2018, being 260,321 shares at an issue price of $1.30 per share (being a 12.5% Total Shareholder Return over the initial $1.12 IPO share price, and of which the CEO received 90,510 shares) along with matching interest free loans of $220,754 (of which the CEO's loan is $117,664), and 33,858 shares at an issue price of $1.95 per share to the 2017 nominated executives, along with matching interest free loans of $66,023, and 17,348 shares at an issue price of $2.78 per share to new nominated executives, along with matching interest free loans of $48,227.

A further 414,488 shares were issued on 05 November 2019 with vesting dates of 172,727 shares being 7 February 2020 and 241,761 shares being 1 September 2022, and of which the CEO received 83,449 shares, along with the matching interest free limited recourse loans of $795,894 (of which the CEO's loan is $117,663). The price to be paid for each share is the issue price at grant date, reduced by any dividends that are applied to the interest free limited recourse loan. No shares vested or expired during the year however 4,475 shares were forfeited during the year.

During the year, a number of employees left the Company, resulting in the forfeiture of 4,475 shares (2019: 28.789) shares, the consequent exercise of call options and redemption of gross loans of $nil (2019: $nil).

As at 30 June 2020, the CEO holds 268,792 shares (2019: 494,223) under the LTI Schemes, which have not yet vested. There is a total of $351,022 (2019: $533,216) in loans outstanding relating to those shares, after applying dividends paid by the Company, to reduce the loan balances.

LTI Scheme loan amounts are set as a percentage of base cash remuneration, being 30% for the CEO and between 5% and 20% for other nominated executives in respect of the financial year ended 30 June 2020. As at 30 June 2020, there were 42 nominated executives in the LTI Scheme, (2019: 45 nominated executives).

The total cost of the LTI Scheme:

Cost LTI Scheme	SLT LTI Shares	LTI Shares	LTI 2017	LTI 2018	LTI 2019
Total shares issued	3,062,164	993,671	317,515	311,527	414,488
Shares issued to CEO	1,937,170	308,880	94,833	90,510	83,449
Allocation cost to P&L	$321,309	$128,447	$236,283	$356,723	$252,725
Allocation cost to CEO	$195,925	$39,927	$70,571	$103,641	$50,881

On 1 September 2020, LTI shares issued on 29 September 2017 will vest in those team members who are employed by the Company at the time. As at 30 June 2020 this relates to 295,268 shares of the original 317,515 shares allocated, with the remainder having been forfeited due to employees leaving the Company. Once the shares vest, employees remain obligated to repay outstanding loans in the event of sale of the shares or if leaving the Company. Employees may also choose to sell the vested LTI shares on-market (subject to usual employee share trading procedures) and would then be obligated to repay the loans.

Senior Executive Share Ownership Scheme

The CEO and certain other executives were participants in an executive share ownership scheme prior to the IPO, in which participants have been provided with an interest free loan of up to 200% of the amount which the senior executive invests in the Company. As at 30 June 2020, 3,062,164 shares were held by executives via the Ownership Scheme, partly funded by interest free loans of $1,240,625. Of this, the CEO holds 1,937,170 shares under the Ownership Scheme, supported by a loan of $700,000.

These shares, which have been subject to sale restrictions since the IPO, were released from escrow on announcement of the 2018 financial results. During the 2020 year there were no changes to the shareholding under this scheme.

Shares held by the CEO and nominated executives

The total numbers of shares allocated under the Senior Executive Share Ownership Scheme and LTI Schemes as at 30 June 2020 are as follows:

	Allocation Date	Vesting Date	Number of Shares					
Scheme			**Weighted average share price**	**Balance at start of year**	**Granted during the year**	**Vested during the year**	**Lapsed or transferred during the year**	**Balance at the end of the year**
Senior Executive Share Ownership Scheme	Various 2011-2016	29 August 2018	Pre IPO	3,062,164	-	-	-	3,062,164
LTI IPO Scheme	19 October 2016	19 October 2019	$1.12	770,621	-	770,621	-	-
LTI 2017 Scheme	29 September 2017	1 September 2020	$1.29	301,579	-	-	1,584	299,995
LTI 2018 scheme	27 September 2018	1 September 2021	$1.42	311,527	-	-	1,481	310,046
LTI 2019 scheme - senior executive	5 November 2019	7 February 2022	$2.20	-	172,727	-	-	172,727
LTI 2019 scheme	5 November 2019	1 September 2022	$1.49	-	279,625	-	1,410	278,215
Totals				**4,445,891**	**452,352**	**770,621**	**4,475**	**4,123,147**

CEO	Allocation Date	Vesting Date	Number of Shares					
Scheme			**Weighted average share price**	**Balance at start of year**	**Granted during the year**	**Vested during the year**	**Lapsed or transferred during the year**	**Balance at the end of the year**
Senior Executive Share Ownership Scheme	Various 2011-2016	29 August 2018	Pre IPO	1,937,170	-	-	-	1,937,170
LTI IPO Scheme	19 October 2016	19 October 2019	$1.12	308,880	-	308,880	-	-
LTI 2017 Scheme	29 September 2017	1 September 2020	$1.22	94,833	-	-	-	94,833
LTI 2018 scheme	27 September 2018	1 September 2021	$1.30	90,510	-	-	-	90,510
LTI 2019 scheme	5 November 2019	1 September 2022	$1.41	-	83,449	-	-	83,449
Totals				**2,431,393**	**83,449**	**308,880**	**-**	**2,205,962**

It should be noted under the relevant accounting standards the loans granted to participants in both the Executive Share Ownership Scheme and LTI Schemes participants are not recorded on the company balance sheet.

As at the end of the financial year ended 30 June 2020, the total balance owing under the loans advanced to the CEO under the Senior Executive Share Ownership Scheme and the LTI Schemes was $1,325,075 (2019: $1,233,791).

Under accounting standard IFRS 2 Share Based Payments, as the LTI shares are classified as options, the total cost of each annual allocation is spread across the three years of the vesting period from the date of issue.

As a result, the total expense recorded in the Statement of Comprehensive Income for the financial year ended 30 June 2020 is $243,356 (2019: $192,067) including $63,734 (2019: $72,119) incurred for the CEO. The total cost relating to each financial year will include the pro rata share of several allocations.

The total annual cost of the LTI scheme relating to shares issued from 2016 to 2018 is detailed below. In addition, the annual allocation spread across the three years of the vesting period is as follows:

Financial Year	LTI Year	Allocation Cost at Grant Date	P&L Amortisation
2017	IPO - Oct 2016	$1,112,911	$142,206
2018	2017	$413,351	$262,783
2019	2018	$429,049	$192,067
2020	2019	$801,301	$243,356
2021	2020		$202,925
2022	2020		$110,143
2023	2020		$14,540

It should be noted the table above records the accounting cost to the company. It does not relate to the economic benefit received by the executive, which is directly linked to the share price movement over the vesting period.

Employee Share Ownership Scheme

At the time of the Company's initial public offering, it established an employee share ownership scheme to facilitate an increase in the level of participation by employees as shareholders, which improves the alignment of interests between employees and shareholders. Under the scheme, each eligible employee was offered an interest free loan up to $5,000 to fund 50% of the subscription price for the shares which employee wished to acquire in the Company. Employees are obliged to repay their loans when the shares are sold or when they leave the Company.

A total of 187,076 shares were issued at the time, supported by loans of $104,762 from the Company. During the period, no employees holding have left the Company (2019: 35,712), and no shares have been sold by current employees (2019: 2000 shares resulting in repayment of $1,112 of loans). As at 30 June 2020, the following shares were held by employees under the Employee Share Ownership Plan:

	Allocation Date	Vesting Date	Number of Shares		
Scheme			**Balance at start of year**	**Sold during the year**	**Balance at the end of the year**
Employee Share Ownership Plan	19 October 2016	19 October 2016	140,650	-	140,650

PRINCIPLE 6 - RISK MANAGEMENT

Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board regularly verifies that the issuer has appropriate processes that identify and manage potential and material risks.

RECOMMENDATION 6.1

An issuer should have a risk management framework for its business and the issuer's Board should receive and review regular reports.

Risk Management Framework

The Board is responsible for ensuring that key business and financial risks are identified, and that appropriate controls and procedures are in place to effectively manage those risks.

The Health, Safety and Risk Committee has overall responsibility for ensuring that Company's risk management framework is appropriate and that it appropriately identifies, considers and manages risks.

Risk management is an integral part of the Company's business. A risk management framework incorporating a risk register is used to identify those situations and circumstances in which the Company may be materially at risk and for which risk mitigation activities are appropriate. This approach is intended to provide a comprehensive, company-wide awareness of risk in senior management, supported by a consistent method of identifying, assessing, controlling, monitoring and reporting existing and potential risks to the Company's business.

The Company has designed and implemented a risk framework for the oversight and management of financial and non-financial business risks, as well as related internal compliance systems that are designed to:

» Ensure team members and contractors work in a safe and healthy working environment.
» Optimise the return to stakeholders whilst also protecting their interests.
» Safeguard the Company's assets, biological assets and the environment.
» Maintain food quality standards and product quality.
» Fulfil the Company's strategic objectives.
» Manage the financial and non- financial risks associated with the business.

The Board has delegated responsibility to the Health, Safety & Risk Committee to establish and regularly review the Company's risk management framework. As part of this framework the Committee is tasked with identifying situations and circumstances in which the Company may be materially at risk and initiating appropriate action through the Board or CEO. A risk management policy is overseen by the CEO and supports a comprehensive approach to the management of those risks identified as material to the Company's operations. Risk management is a standing item on the agenda for Health, Safety & Risk Committee meetings, with detailed reports provided by senior management.

The CEO and CFO have provided the Board, through the Audit and Finance Committee, with assurances that in their opinion financial records have been properly maintained, that the financial statements comply with those accounting standards under which the Company must report and that the statements give a true and fair view of the Company's financial position and performance. These representations are given on the basis that a sound system of internal controls and risk management is operating effectively in all material respects in relation to financial reporting.

In managing the Company's business risks, the Board approves and monitors policy and procedures in areas such as treasury management, financial performance, taxation and delegated authorities.

Insurance

The Company has insurance policies in place covering most areas where risk to its assets and business can be insured at a reasonable cost.

RECOMMENDATION 6.2

An issuer should disclose how it manages its health and safety risks and should report on their health and safety risks, performance and management.

Health and Safety

The Board and management are committed to promoting a safe and healthy working environment for everyone working in, or interacting with, the Company. The Company strives for continuous improvement that takes us beyond compliance in health, safety and wellness. This includes the reviewing of our health and safety policy statement as well as the systems and processes that support our safety objectives.

The Company's Health, Safety & Risk Committee Charter creates a shared responsibility for all our team members and contractors to so far as reasonably practicable take all steps in providing a working environment that promotes health and wellbeing. Effective controls based on industry knowledge and best practice guidelines inform and support our risk management across in all areas of the business.

The Company uses a risk-based approach, having identified a number of critical risk areas, being

» Maritime operations
» Fire, electricity and natural events
» Heights and lifting
» Confined spaces
» Mobile plant and equipment
» Construction activity

Each of these critical risk areas has initiatives designed to eliminate, isolate or minimise risk.

The Company uses a combination of leading and lagging performance measures in health and safety.

Further information is included in the Sustainability Report at pages 28 – 31.

PRINCIPLE 7 – AUDITORS

The Board should ensure the quality and independence of the external audit process.

RECOMMENDATION 7.1 AND 7.2

The Board should establish framework for the issuer's relationship with its external auditors.

The external auditor does attend the issuer's Annual Shareholders Meeting to answer questions from shareholders in relation to the audit.

External Auditor

The Company's Audit and Finance Committee is responsible for oversight of the Company's external audit arrangements to safeguard the integrity of financial reporting. The Company maintains an External Auditor Independence Policy to ensure that audit independence is maintained, both in fact and appearance.

» The policy covers the following areas:
» Appointment of the external auditor.
» Provision of other assurance services by the external auditor.
» Pre-approval process for the provision of other assurance services.
» External auditor lead and engagement partner rotation.
» Hiring of staff from the external auditor.
» Relationships between the external auditor and the Company.
» Reporting on fees and non-audit work.

The role of the external auditor is to audit the financial statements of the Company in accordance with applicable auditing standards in New Zealand and to report on its findings to the Board and shareholders of the Company.

The External Auditor Independence Policy is available in the Corporate Governance Code which is available on the Company's website at https://www.kingsalmon.co.nz/investors/governance/

Ernst & Young is the Company's current external auditor. Bruce Loader is the current audit engagement partner, in his forth year following a partner rotation after the 2016 audit. Fees paid to Ernst & Young are included in note 31 of the notes to the financial statements.

Both the Company's Audit and Finance Committee Charter and the External Auditor Independence Policy require the external auditor to be independent, recognising the importance of facilitating frank dialogue between the Audit and Finance Committee, the auditor and management. The External Auditor Independence Policy requires that the audit partner is rotated after a maximum of five years.

The Audit and Finance Committee Charter requires the Committee to facilitate the continuing independence of the external auditor by assessing the external auditor's independence, qualifications, overseeing and monitoring their performance. This involves monitoring all aspects of the external audit, including the appointment of the auditor, the nature and scope of its audit and reviewing the auditor's service delivery plan.

The auditor has been invited to attend the Annual Shareholders' Meeting and will be available to answer questions about the audit process and the independence of the auditor.

RECOMMENDATION 7.3

Internal audit functions should be disclosed.

Internal Audit

The Company does not have an internal audit function. However, the Company does have a quality and compliance team dedicated to food hygiene in relation to the processing of harvested fish through to finished goods that are dispatched to the end customer. The objective of the quality and compliance team is to enhance and protect the organisational value of the Company by providing risk-based and objective assurance. The management Health and Safety Steering Group has overseen internal safety audits throughout the farming and manufacturing process. The Health, Safety and Risk Committee now oversees this function.

Where necessary, external expertise is obtained for specific audit activities.

Independent Professional Advice

With the approval of the Audit and Finance Committee, Directors are entitled to seek independent professional advice on any issue related to the fulfilment of his or her duties, at the Company's expense.

PRINCIPLE 8 – SHAREHOLDER RELATIONS

The Board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer.

RECOMMENDATION 8.1

An issuer should have a website where investors and interested stakeholders can access financial and operational information and key corporate governance information about the issuer.

Shareholder Relations

The Company is committed to maintaining a full and open dialogue with its shareholders and other stakeholders. Annual reports, NZX releases, governance policies and charters and a variety of corporate information are posted on the Company's website.

The Company's preference is for electronic communications in the interests of sustainability and efficiency; however, each shareholder is entitled to receive a paper copy of each annual report.

The Company has an Annual Meeting page in the Investors section on its website. Documents relating to meetings are available.

Shareholder meetings will be held at a time and location to encourage participation in person by shareholders. Annual meetings are currently held in the Nelson/Marlborough region, reflecting the head office and production locations for the Company.

The Company's website includes a range of information relevant to shareholders and others concerning the operation of the Company, including information about the sites we operate, Aquaculture Best Management Practices (BMP), certifications, our brands and the corporate governance policies of the Company.

RECOMMENDATION 8.2

An issuer should allow investors the ability to easily communicate with the issuer, including providing the option to receive communications from the issuer electronically.

Electronic Communications

Shareholders have the option of receiving their communications electronically. This is the companies preferred method of communication.

Contact details for the Company's head office are available on the website.

RECOMMENDATION 8.3

Shareholders should have the right to vote on major decisions which may change the nature of the company in which they are invested in.

Major Decisions

Directors' commitment to timely and balanced disclosure is set out in its Shareholder Communications and Market Disclosure Policy and includes advising shareholders on any major decisions. Where voting on a matter is required the Board encourages investors to attend the meeting or to send in a proxy vote. Shareholders may raise matters for discussion at the Annual Shareholders' Meeting either in person or by emailing the Company with a question to be asked.

RECOMMENDATION 8.4

Each person who invests money in a company should have one vote per share of the company they own equally with other shareholders.

Voting

The Company conducts voting at its Annual Shareholder Meetings by way of poll and on the basis of one share, one vote.

RECOMMENDATION 8.5

The board should ensure that the annual shareholders notice of meeting is posted on the issuer's website as soon as possible and at least 28 days prior to the meeting.

Notice of Meeting

The Company's Notice of Meeting will be available at least 28 days prior to the meeting on the Shareholder Meetings page in the Investors section of the website.

DIRECTOR DISCLOSURES

The following persons were Directors of New Zealand King Salmon Investments Limited and its subsidiaries during the year ended 30 June 2020:

	John Ryder	Mark Hutton*	Jack Porus	Chiong Yong Tiong	Paul Steere	Grant Rosewarne	James V. Kilmer	Justin Reynolds	Catriona Macleod	Lai Po Sing
New Zealand King Salmon Investments Limited	✓	✓	✓	✓	✓	✓			✓	✓
New Zealand King Salmon Co. Limited	✓		✓		✓	✓				
New Zealand King Salmon Exports Limited					✓	✓				
New Zealand King Salmon USA Incorporated					✓	✓	✓			
New Zealand King Salmon Pty Limited					✓	✓		✓		
NZKS Custodian Limited	✓	✓	✓		✓	✓				
King Salmon Limited					✓	✓				
MacCure Seafoods Limited					✓	✓				
Omega Innovations Limited					✓	✓				
Ōra King Limited					✓	✓				
Regal Salmon Limited					✓	✓				
Southern Ocean Salmon Limited					✓	✓				
Southern Ocean Seafoods Limited					✓	✓				

* Mark Hutton resigned November 2019

INTERESTS REGISTER

The following entries were made in the interests register of the Company during the year ended 30 June 2020:

Share Dealings by Directors

Dealings by Directors and key senior managers during the year ended 30 June 2020 as entered in the Interest Register of the Company are as follows:

Name of Director/Senior Executive	No. of Shares	Nature of Interest	Acquisition/Disposal	Consideration	Date
Grant Rosewarne	4,039	Beneficial Owner	Acquisition	$1.80 per share	28 June 2019
Grant Rosewarne	83,449	Beneficial Owner	Acquisition	$1.41 per share	5 November 2019
Paul Steere	5,315	Beneficial Owner	Acquisition	$1.80 per share	28 June 2019
Andrew Clark	1,063	Beneficial Owner	Acquisition	$1.80 per share	28 June 2019
Andrew Clark	38,149	Beneficial Owner	Acquisition	$1.41 per share	5 November 2019

DIRECTOR DISCLOSURES

Disclosure of interest in the Interests Register

Details of Directors disclosures entered in the interests register for the Company as at 30 June 2020 were as follows:

Director	Name of Interest	Nature of Interest
John Ryder *(Chair)*	Direct Capital V Management Limited	Director
Jack Porus	Glaister Ennor	Partner
Paul Steere	Nelson Airport Limited	Chairman
	Nelson Marlborough Institute of Technology	Deputy Chairman
	Allan Scott Wines	Chairman
	Kaynemaile Limited	Chairman
	Aquaculture Advisory Panel, South Pacific Community	Chairman
Lai Po Sing	China Resources Ng Fung Limited	Director
	China Resources Ng Fung International Distribution Company Limited	Director
Chiong Tiong	Aotea Dairy Limited	Director
	Forestland Investment Limited	Director
	Aotea Housing Limited	Director
	Maraetai Land Development Limited	Director
	The Lumberbank New Zealand Limited	Director
	Waimarino Forests Limited	Director
	CEP Auckland Limited	Director
	Nugent Fitness Limited	Director
	Neil Corporation Limited	Director
	Winstone Pulp International Limited	Director
	Oregon Group Limited	Director
	Ernslaw One Limited	Director
	The Neil Group Limited	Director
	Neil Construction Limited	Director
	Timbergrow Limited	Director
Grant Rosewarne	Aquaculture New Zealand	Director
	Seafood New Zealand	Director

Relevant Interests

The table below records the ordinary shares in which Directors had a relevant interest as at 30 June 2020.

Name of Director	Number of ordinary shares Beneficial	Number of ordinary shares Non-Beneficial
John Ryder *(Chair)*	2,167,644	-
Jack Porus	372,457	-
Paul Steere	785,325	-
Grant Rosewarne	2,629,225	-

Neither Chiong Yong Tiong nor Lai Po Sing held any relevant interests (beneficial or non-beneficial) as at 30 June 2020.

Use of Company Information by Directors

No notices were received from Directors pursuant to section 145 of the Companies Act 1993 to use Company information, received in their capacity as Directors, which would otherwise not have been available to them.

Directors' Liability

As permitted by the Company's Constitution and in accordance with Section 162 of the Companies Act 1993, the Company has indemnified all Directors and arranged Directors' and Officers' Liability Insurance which ensures that, to the extent permitted by law, Directors will incur no monetary loss as a result of actions undertaken as Directors. Certain actions are specifically excluded, for example, the incurring of penalties and fines, which may be imposed in respect of breaches of the law.

Shareholder Information

As at 30 June 2020 there were 138,985,635 ordinary shares on issue in the Company, each conferring on the registered holder the right to vote on any resolution at a meeting of shareholders, held as follows:

Size of Holding	Number of Shareholders	%	Number of Shares held	%
1 - 4,999	1,680	56.51	3,290,380	2.37
5,000 - 9,999	572	19.24	3,859,689	2.78
10,000 - 49,999	600	20.18	11,233,804	8.08
50,000 - 99,999	45	1.51	3,005,704	2.16
100,000 - 499,999	54	1.82	10,902,667	7.84
Over 500,000	22	0.74	106,693,391	76.77

20 Largest Shareholders

Set out below are details of the 20 largest shareholders of the Company as at 30 June 2020:

Shareholder	Number of Shares	% of shares
Oregon Group Limited	55,622,358	40.02
New Zealand Central Securities Depository Limited	19,204,308	13.81
China Resources Ng Fung Limited	13,798,944	9.92
FNZ Custodians Limited	4,537,831	3.26
Investment Custodial Services Limited	2,655,000	1.91
Grantley Bruce Rosewarne & Julie Ann Rosewarne	2,173,641	1.56
John William Dudley Ryder	1,989,644	1.43
NZKS Custodian Limited	1,317,706	0.94
MA Investments Two Limited	920,734	0.66
Kevin Glen Douglas & Michelle McKenney Douglas	914,029	0.65
Custodial Services Limited (A/c 4)	770,483	0.55
Richard Pelham Garland & Susan Jane Garland	697,322	0.50
Forsyth Barr Custodians Limited	647,115	0.46
Custodial Services Limited (A/c 3)	644,280	0.46
Andrew Christopher Clark & Christine Elizabeth Clark	620,259	0.44
Peter Plowman	606,184	0.43
Sirius Capital Investments Limited	500,000	0.35
James Douglas & Jean Ann Douglas	457,013	0.32
Kevin Douglas & Michelle Douglas	457,013	0.32
Paul James Steere	452,272	0.32

Substantial Product Holders

Set out below are details of the substantial product holders of the Company as advised by notice to the Company as at 30 June 2020. The number of shares shown below is as advised in the most recent substantial product holder notices given to the Company and may not be their holding as at 30 June 2020.

Shareholder	Number of Shares	Class of Share
Oregon Group Limited	55,622,348	Ordinary
China Resources Ng Fung Limited	13,798,944	Ordinary
Guardians of New Zealand Superannuation	8,957,866	Ordinary

Annual Shareholders Meeting

Due to Covid-19 restrictions, the Company's 2020 Annual Shareholders' Meeting will be held online (from Nelson) on 3rd November 2020. Shareholders will be given an opportunity at the meeting to ask questions and comment on relevant matters. Notice of Meeting will be sent to shareholders in advance of the meeting.

Exercise of NZX Disciplinary Powers

NZX Limited did not exercise any of its powers under Listing Rule 5.4.2 in relation to the Company during the year ended 30 June 2020.

Donations

Donations made by the Company during the year ended 30 June 2020 totalled $13,802 (2019: $21,564).

CORPORATE DIRECTORY

BOARD OF DIRECTORS

John William Dudley Ryder
Independent Non-Executive Chair

Grantley Bruce Rosewarne
Chief Executive Officer and Managing Director

Jack Lee Porus
Non-Executive Director

Paul James Steere
Independent Non-Executive Director

Lai Po Sing
Non-Executive Director

Chiong Yong Tiong
Non-Executive Director

Catriona Macleod
Independent Non-Executive Director

BANKERS

The Bank of New Zealand
Deloitte Centre
Level 6, 80 Queen Street
Auckland
New Zealand

AUDITOR

Ernst & Young (EY)
Level 4, 93 Cambridge Terrace
Christchurch
New Zealand

LAWYERS

Chapman Tripp
Level 35, 23 Albert Street
Auckland
New Zealand

Gascoigne Wicks
79 High Street
Blenheim
New Zealand

Duncan Cotterill
197 Bridge Street
Nelson
New Zealand

NEW ZEALAND KING SALMON INVESTMENTS LIMITED

Ticker: NZK
Listed on the NZX Main Board and as a Foreign Exempt Listing on the ASX
NZ company number: 2161790

Registered Office
93 Beatty Street
Annesbrook
Nelson 7011
New Zealand

Postal Address
PO Box 1180
Nelson 7040
New Zealand

Telephone
+64 3 548 5714

Website
www.kingsalmon.co.nz

Investor Relations
investor@kingsalmon.co.nz

SHARE REGISTRY

Computershare Investor Services Limited
Level 2
159 Hurstmere Road
Takapuna,
Auckland 0622
New Zealand

+64 9 488 8777

enquiry@computershare.co.nz

Computershare Investor Services Pty Limited
Yarra Fall
452 Johnston Street
Abbotsford VIC 3001
Australia

+61 3 9415 4083

enquiry@computershare.co.nz

GLOSSARY

ASX

Australian Securities Exchange

CEO

Chief Executive Officer

EBIT

Earnings Before Interest and Tax

EBITDA

Earnings Before Interest, Tax, Depreciation and Amortisation

FCR

Feed Conversion Ratio

FOB

Free on Board, a term which means that the price for goods includes delivery at the seller's expense on to a vessel at a named port and no further. The buyer bears all costs thereafter (including costs of sea freight)

FY

Financial Year

G&G

Gilled and gutted weight

GAAP

New Zealand Generally Accepted Accounting Practice

Group

New Zealand King Salmon Investments Limited and its subsidiaries

IPO

Initial Public Offering

LTI Scheme

Long term incentive scheme

New Zealand King Salmon

New Zealand King Salmon Investments Limited

NPAT

Net Profit after Tax

NZ IFRS

New Zealand equivalents to International Financial Reporting Standards

NZX

New Zealand Stock Exchange

PDS

Product Disclosure Statement dated 23 September 2016 as published by New Zealand King Salmon Investments Limited

PFI

Prospective Financial Information contained in the New Zealand King Salmon Investments Limited Registered Product Disclosure Statement dated 23 September 2016

SLT

Senior leadership team, comprising CEO, and senior management direct reports

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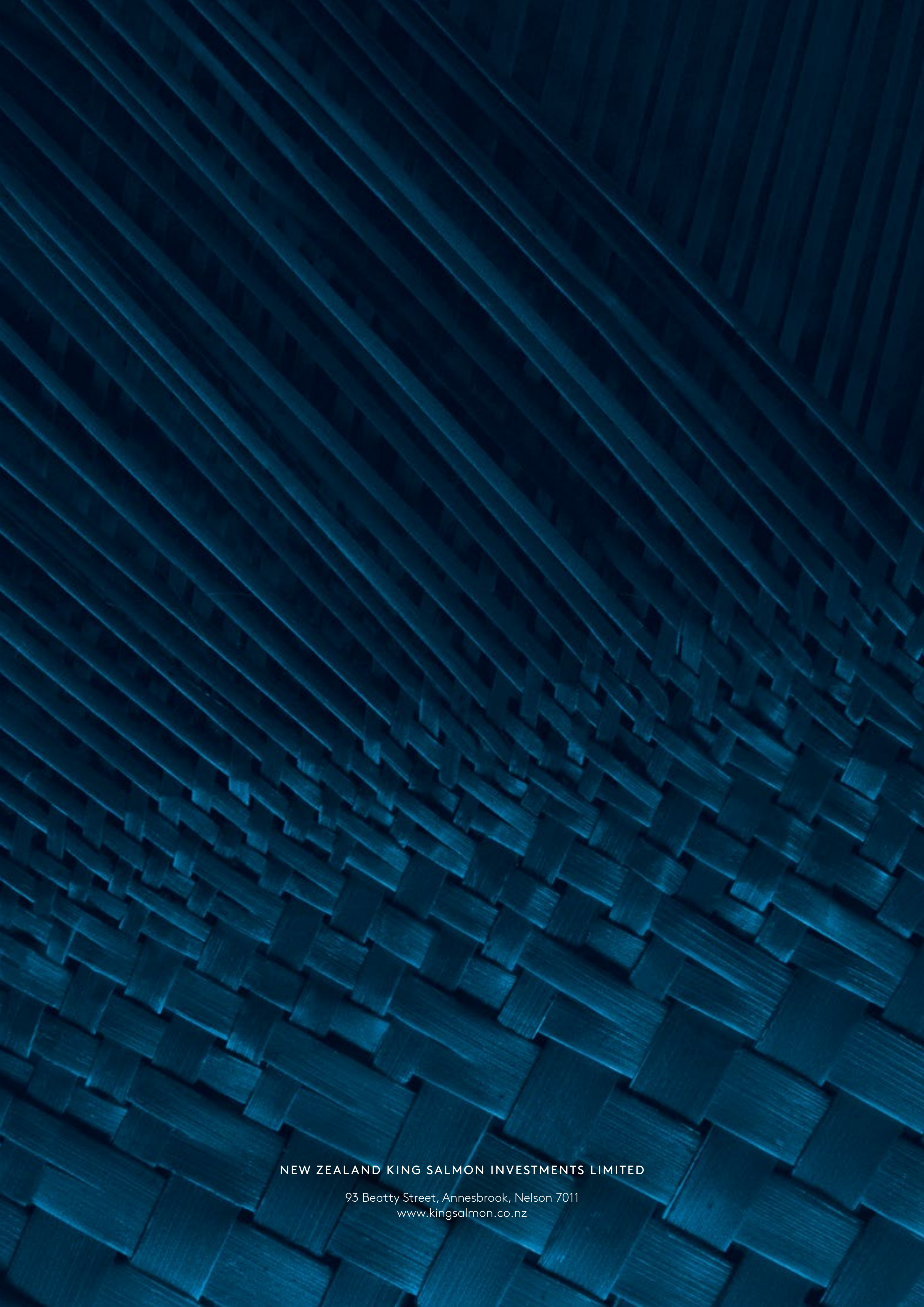

NEW ZEALAND KING SALMON INVESTMENTS LIMITED

93 Beatty Street, Annesbrook, Nelson 7011
www.kingsalmon.co.nz