

**New Zealand King Salmon's Prospective  
Financial Information, a reconciliation of  
non-GAAP to GAAP information and  
supplementary financial information**

## A. ABOUT THIS DOCUMENT

The information contained in this document should be read in conjunction with New Zealand King Salmon's Product Disclosure Statement dated 23 September 2016 ("the PDS") and other information presented on the Offer Register.

Capitalised terms in this document have the same meaning as the terms defined in the PDS.

This document contains the following information:

- A description of the pro forma adjustments included within the financial information in the PDS and this document.
- A reconciliation between the GAAP financial information and non-GAAP financial information presented in the Table of Selected Financial Information within Section 7 (New Zealand King Salmon's financial information) of the PDS.
- Prospective financial information for New Zealand King Salmon, including important assumptions that have been made in preparing that prospective financial information.

## B. PRO FORMA ADJUSTMENTS

### Introduction

The information contained in this section provides a description of the pro forma adjustments included within the pro forma information in the PDS and this document.

The pro forma information has been derived from the statutory historical financial information, adjusted for structural changes and non-recurring or infrequent adjustments. We believe these adjustments allow investors to better compare trends in historical financial information and to better compare the historical financial information with the PFI. These adjustments are described below and fall into three broad categories:

1. Adjustments for non-recurring or infrequent items.
2. Timing adjustments (to better reallocate revenues or expenses to the year to which they relate).
3. Adjustments for structural changes to the business.

The pro forma adjustments explain the reconciling steps between the GAAP financial information and non-GAAP financial information presented in the Table of Selected Financial Information within Section 7 (New Zealand King Salmon's financial information) of the PDS.

The information contained in this section should be read in conjunction with the PDS, the other information contained in this Offer Register filing and other information presented on the Offer Register.

### Explanations of Pro forma Adjustments

The Table of Selected Financial Information within Section 7 (New Zealand King Salmon's financial information) of the PDS presents Pro Forma Operating EBITDA, both Net Profit After Tax and Pro Forma Operating NPAT and pro forma operating total debt. The reconciling steps are contained in Section D of this Offer Register filing. Explanations for the pro forma adjustments are provided below.

#### *Adjustments for non-recurring or infrequent items*

##### **Factors influencing Pro Forma EBITDA**

1. **Waihinau / Forsyth mortality events.** Significant mortality events occurred at the Waihinau / Forsyth seafarm during FY2014 to FY2016, for which the Group received insurance proceeds under its livestock policy. The Waihinau / Forsyth seafarm has been fallowed, with key infrastructure moved to the Ngamahau site and, while the site will no longer be used as a full grow out seafarm, Waihinau is intended to be used in late FY2017F as a site during cooler months for the growth of smolt. Using the seafarm in this way is expected to avoid any future mortality events. Accordingly, the abnormal mortality costs at the Waihinau / Forsyth seafarm, net of insurance proceeds, have been adjusted.
2. **EPA cost write off.** In 2011 the Group commenced a process to seek new seawater space via the EPA Board of Inquiry process. This process was established by aquaculture enabling legislation passed in 2011 and allowed for the first new waterspace application by the Group in many years. The Group used this process in the belief it would be more expedient, lower cost and have a higher prospect of success than alternative processes. However, the Group applied for nine sites and after a lengthy and expensive process was initially granted consents for four new seafarms, for which the legal and other professional advisory costs associated with gaining the consents were capitalised. Given the protracted nature of the process and the costs involved, the Group would not favour using the EPA Board of Inquiry process again. Furthermore, after the consents were granted, they were subject to further review via two appeals. On final appeal, the Supreme Court overturned one of the consents and the capitalised value recorded against the overturned consent was written off. The Group believes this write down is a one-off and exceptional cost given the circumstances.
3. **Loss on sale of Ngamahau property.** The business purchased a property near the Ngamahau seafarm to assist with the EPA application. The property was sold when consents had been granted whereupon New Zealand King Salmon realised a loss. This is a one-off cost in relation to gaining the seafarm consents.
4. **Consent swap application expense write off.** All expenses relating to an ongoing initiative being progressed by the Government and the Marlborough District Council to swap all existing low flow seafarm consents to new sites with improved characteristics were written off in FY2016. The consent swap initiative has not been used before and, in the Group's view, is unlikely to be used in the future. Accordingly, these expenses are regarded as one off in nature and, while the process is progressing positively, there is insufficient certainty of outcome to meet the required test under NZ IAS 38- *Intangible Assets* for capitalisation of this expenditure. Our financial forecasts do not assume any benefit as a result of this process.
5. **Fair value gain in employee loans.** In FY2008 New Zealand King Salmon granted interest free loans to certain employees to fund the purchase of shares in New Zealand King Salmon. Between FY2008 and FY2010 an expense was recorded to acknowledge the interest free loan. The outstanding expense was reversed in May 2016. This gain relates to costs incurred prior to the historical review period and has been excluded.
6. **Offer costs.** Costs relating to the Offer that have been recorded as an expense during FY2016 and FY2017F are estimated at \$3.825m.

#### **Factors influencing Pro Forma NPAT**

7. **Impairment of non-current assets.** Impairment of non-current assets has been excluded from the calculation of Pro Forma NPAT. These items mostly relate to a write off of the physical assets ascribed to the Crail Bay site (this write off reflects the economic reality, with this site having been fallowed and all infrastructure removed, this write off does not include the site licence), and impairments against assets taken following a review of all assets in June 2016 in anticipation of the Offer (this impairment charge has been reversed out in recognition of the nature of the review and likelihood

that the impairments would have accrued over an extended period – rather than due to activities and operations in FY2016 only).

8. **Interest rate swap close out costs.** Excluding the cost of closing out interest rate swaps due to the repayment of bank debt through the Offer.

### *Timing adjustments*

9. **Timing adjustment of feed rebate.** Data gathered on feed and related fish performance highlighted issues with a feed formulation from one of our suppliers. In June 2015 an agreement was reached whereby \$913k of feed costs were rebated (and recognised as ‘other income’ in that year). This adjustment moves the recognition of the rebate to the period to which the original feed cost invoices were incurred (FY2014).
10. **Japanese Yen FX contract close out.** To assist with the significant investment requirements of the EPA seafarm consent process commencing in 2012, New Zealand King Salmon closed out 2.15b of JPY contracts with maturity dates through FY2017F realising an approximate \$10m gain recognised in the FY2013 Statement of Comprehensive Income. In the ordinary course of New Zealand King Salmon’s business, however, FX contracts are held to, or near to, maturity and recognised in profit and loss at that point. The effect of closing out these contracts early was to decrease profits in FY2014 to FY2016. This pro forma adjustment restates revenues for foreign exchange gains that would have been recognised as ‘revenue’ in accordance with normal accounting rules had all contracts been held to maturity. A portion of the gains that would have been recognised as ineffective hedges has not been included in this normalisation. If New Zealand King Salmon had not closed out these contracts, alternative funding would likely have been sourced from the shareholders in the form of an increase in shareholder loans or a capital injection. The incremental funding costs associated with that would have been removed within Adjustment 12 below.
11. **Fire insurance claim.** During FY2014 a smokehouse flue caught fire damaging inventory and temporarily raising costs for the business. An insurance payment of \$515k was received in FY2016. This adjustment removes the insurance receipt from FY2016 and adds back that portion of the receipt that relates to additional expense incurred in FY2014.

### *Adjustments for structural changes to the business*

12. **Incremental listed company costs.** Corporate overheads as a listed company are larger than those of a private company. These additional costs have been estimated at \$700k and include items such as increased Director’s Fees, NZX listing fees, ASX listing fees, fees associated with running a share registrar and preparing an annual report, company secretary and investor relations costs, and various other items. To better enable a comparison between historical and forecast financial results, historical results have been reduced as if those costs had been incurred.
13. **Listed company capital structure.** The Group’s previous capital structure included a significant amount of shareholder loans that were converted to ordinary equity on 21 September 2016 or repaid prior to the Offer. This adjustment reverses out the interest cost associated with the shareholder loans (so as to present interest costs as if New Zealand King Salmon had only ever had external bank debt, and the shareholder loans had been ordinary equity).

## **C. OPERATING FINANCIAL INFORMATION**

New Zealand King Salmon has applied full provisions of NZ IFRS. A key element of this application is NZ IAS 41–*Agriculture* which requires biological assets to be measured at fair value less costs to sell and, in addition, NZ IAS 2–*Inventories* which requires the initial cost at harvest to be measured at fair value less costs to sell.

As these standards result in non-cash gains or losses (during the Prospective Period gains are anticipated), we have restated the Pro Forma Consolidated Statement of Comprehensive Income to remove these fair value gains. We believe that the resulting Operating Financial Information provides investors with useful information that enables them to compare the operation of the business across time periods. We plan to report in this manner in the future, which is generally consistent with other international listed salmon companies. Pro Forma Operating NPAT is also the basis of our proposed dividend policy.

No adjustment is required to FY2014 for fair value adjustments as the reported results for this period were prepared under differential reporting requirements and therefore did not include the recognition of biological assets (or the initial cost of inventory) at fair value less costs to sell. As New Zealand King Salmon has applied the full provisions of NZ IFRS to FY2016, FY2015 financial information included in this document is restated to reflect the application of full NZ IFRS (including NZ IAS 41-*Agriculture* and NZ IAS 2-*Inventory*) as included in the FY2016 audited financial statements.

## D. RECONCILIATION OF NON-GAAP TO GAAP INFORMATION

FY2014 NZD 000s	Non-recurring or infrequent items			Timing adjustments		Structural changes			Pro Forma Historical Information
	Statutory Financial Statements	Waihinau / Forsyth Mortality events	EPA Cost Write Off	Fire Insurance claim	Timing adjustment of feed rebate	Japanese Yen FX Contract Close Out	Incremental listed company costs	Listed company capital structure	
Sale of goods	95,064					2,670			97,734
Cost of goods sold	(69,197)			464					(68,733)
<b>Gross Profit</b>	<b>25,867</b>	-	-	<b>464</b>	-	<b>2,670</b>	-	-	<b>29,001</b>
Other operating income	945	(518)			913				1,340
Distribution expenses	(8,129)								(8,129)
Administrative expenses	(14,750)						(700)		(15,450)
Other expenses	(2,313)	1,112	1,160						(41)
<b>EBIT</b>	<b>1,620</b>	<b>594</b>	<b>1,160</b>	<b>464</b>	<b>913</b>	<b>2,670</b>	<b>(700)</b>	-	<b>6,721</b>
Financial income	211								211
Financing costs	(3,009)							1,263	(1,746)
Net financing cost	(2,798)	-	-		-	-	-	1,263	(1,535)
<b>Profit/(loss) before Tax</b>	<b>(1,178)</b>	<b>594</b>	<b>1,160</b>	<b>464</b>	<b>913</b>	<b>2,670</b>	<b>(700)</b>	<b>1,263</b>	<b>5,186</b>
Income tax expense	(352)	(166)	(325)	(130)	(256)	(748)	196	(354)	(2,134)
<b>Net Profit/(loss) for the period</b>	<b>(1,530)</b>	<b>428</b>	<b>835</b>	<b>334</b>	<b>657</b>	<b>1,922</b>	<b>(504)</b>	<b>910</b>	<b>3,052</b>
EBIT	1,620	594	1,160	464	913	2,670	(700)	-	6,721
Depreciation and amortisation	3,592								3,592
<b>EBITDA</b>	<b>5,212</b>	<b>594</b>	<b>1,160</b>	<b>464</b>	<b>913</b>	<b>2,670</b>	<b>(700)</b>	-	<b>10,313</b>

FY2015 (Restated)	Statutory Financial Statements	Non-recurring or infrequent items			Timing adjustments		Structural changes		Pro Forma Historical Information	Fair Value Adjustments	Pro Forma Operating Financial Information	
		Waihinau / Forsyth Mortality events	EPA Cost Write Off	Loss on sale of Ngamahau Property Impairments	Timing adjustment of feed rebate	Japanese Yen FX Contract Close Out	Incremental listed company costs	Listed company capital structure				
<b>Revenue</b>	<b>98,288</b>					<b>2,104</b>			<b>100,392</b>		<b>100,392</b>	
Cost of goods sold	(93,682)								(93,682)	27,949	(65,733)	
Fair value gain / (loss) on biological transformation	29,539								29,539	(29,539)	-	
Freight costs to market	(8,814)								(8,814)		(8,814)	
<b>Gross Profit</b>	<b>25,331</b>	-	-	-	-	<b>2,104</b>	-	-	<b>27,435</b>	<b>(1,590)</b>	<b>25,845</b>	
Other operating income	3,792	(1,829)				(913)			1,050		1,050	
<b>Overheads</b>												
Sales, marketing and advertising	(5,805)								(5,805)		(5,805)	
Distribution overheads	(1,758)								(1,758)		(1,758)	
Corporate expenses	(5,215)						(700)		(5,915)		(5,915)	
Other expenses	(3,961)	2,917	36	465					(543)		(543)	
<b>EBITDA</b>	<b>12,384</b>	<b>1,088</b>	<b>36</b>	<b>465</b>	-	<b>(913)</b>	<b>2,104</b>	<b>(700)</b>	-	<b>14,464</b>	<b>(1,590)</b>	<b>12,874</b>
Depreciation and amortisation	(4,049)								(4,049)		(4,049)	
Impairment of non-current assets	(200)				200				-		-	
<b>EBIT</b>	<b>8,135</b>	<b>1,088</b>	<b>36</b>	<b>465</b>	<b>200</b>	<b>(913)</b>	<b>2,104</b>	<b>(700)</b>	-	<b>10,415</b>	<b>(1,590)</b>	<b>8,825</b>
Finance income	132								132		132	
Finance costs	(1,654)								105	(1,549)	(1,549)	
Net finance costs	(1,522)	-	-	-	-	-	-	-	105	(1,417)	(1,417)	
<b>Profit / (loss) before Tax</b>	<b>6,613</b>	<b>1,088</b>	<b>36</b>	<b>465</b>	<b>200</b>	<b>(913)</b>	<b>2,104</b>	<b>(700)</b>	<b>105</b>	<b>8,998</b>	<b>(1,590)</b>	<b>7,408</b>
Income tax (expense) / credit	(354)	(305)	(10)	(130)	(56)	256	(589)	196	(29)	(1,022)	445	(577)
<b>Net Profit / (loss) for the Year</b>	<b>6,259</b>	<b>783</b>	<b>26</b>	<b>335</b>	<b>144</b>	<b>(657)</b>	<b>1,515</b>	<b>(504)</b>	<b>76</b>	<b>7,976</b>	<b>(1,145)</b>	<b>6,831</b>

FY2016	Statutory Financial Statements	Non-recurring or infrequent items			Timing adjustments		Structural changes			Pro Forma Historical Information	Fair Value Adjustments	Pro Forma Operating Financial Information
		Consent Swap Application Expense	Fair Value Gain in Employee Loans	Offer costs	Impairments	Fire Insurance claim	Japanese Yen FX Contract Close Out	Incremental listed company costs	Listed company capital structure			
<b>Revenue</b>	<b>114,060</b>						<b>2,091</b>			<b>116,151</b>		<b>116,151</b>
Cost of goods sold	(104,883)									(104,883)	30,509	(74,374)
Fair value gain / (loss) on biological transformation	30,223									30,223	(30,223)	-
Freight costs to market	(10,134)									(10,134)	-	(10,134)
<b>Gross Profit</b>	<b>29,266</b>	-	-	-	-	-	<b>2,091</b>	-	-	<b>31,357</b>	<b>286</b>	<b>31,643</b>
Other operating income	1,281					(515)				766		766
<b>Overheads</b>												
Sales, marketing and advertising	(6,815)									(6,815)		(6,815)
Distribution overheads	(2,041)									(2,041)		(2,041)
Corporate expenses	(6,062)	374	(203)					(700)		(6,591)		(6,591)
Other expenses	(1,813)			841						(972)		(972)
<b>EBITDA</b>	<b>13,816</b>	<b>374</b>	<b>(203)</b>	<b>841</b>	-	<b>(515)</b>	<b>2,091</b>	<b>(700)</b>	-	<b>15,704</b>	<b>286</b>	<b>15,990</b>
Depreciation and amortisation	(4,244)									(4,244)		(4,244)
Impairment of non-current assets	(1,037)				1,037					-		-
<b>EBIT</b>	<b>8,535</b>	<b>374</b>	<b>(203)</b>	<b>841</b>	<b>1,037</b>	<b>(515)</b>	<b>2,091</b>	<b>(700)</b>	-	<b>11,460</b>	<b>286</b>	<b>11,746</b>
Finance income	65									65		65
Finance costs	(5,215)									3,780	(1,435)	(1,435)
Net finance costs	(5,150)	-	-	-	-	-	-	-	-	3,780	(1,370)	(1,370)
<b>Profit / (loss) before Tax</b>	<b>3,385</b>	<b>374</b>	<b>(203)</b>	<b>841</b>	<b>1,037</b>	<b>(515)</b>	<b>2,091</b>	<b>(700)</b>	<b>3,780</b>	<b>10,090</b>	<b>286</b>	<b>10,376</b>
Income tax (expense) / credit	(792)	(105)	57	-	(290)	144	(585)	196	(1,058)	(2,434)	(80)	(2,514)
<b>Net Profit / (loss) for the Year</b>	<b>2,593</b>	<b>269</b>	<b>(146)</b>	<b>841</b>	<b>747</b>	<b>(371)</b>	<b>1,506</b>	<b>(504)</b>	<b>2,722</b>	<b>7,656</b>	<b>206</b>	<b>7,862</b>



FY2017F NZD 000s	Non-recurring or infrequent items			Pro Forma Historical Information	Fair Value Adjustments	Pro Forma Operating Financial Information
	Statutory Financial Statements	IPO Transaction Costs	Interest Swap Closeout costs			
<b>Revenue</b>	<b>130,079</b>			<b>130,079</b>		<b>130,079</b>
Cost of goods sold	(117,803)			(117,803)	36,438	(81,365)
Fair value gain / (loss) on biological transformation	41,342			41,342	(41,342)	-
Freight costs to market	(12,040)			(12,040)		(12,040)
<b>Gross Profit</b>	<b>41,578</b>	<b>-</b>	<b>-</b>	<b>41,578</b>	<b>(4,904)</b>	<b>36,674</b>
Overheads						
Sales, marketing and advertising	(8,838)			(8,838)		(8,838)
Distribution overheads	(1,893)			(1,893)		(1,893)
Corporate expenses	(6,764)			(6,764)		(6,764)
Offer costs	(2,984)	2,984		-		-
<b>EBITDA</b>	<b>21,099</b>	<b>2,984</b>	<b>-</b>	<b>24,083</b>	<b>(4,904)</b>	<b>19,179</b>
Depreciation and amortisation	(4,776)			(4,776)		(4,776)
<b>EBIT</b>	<b>16,323</b>	<b>2,984</b>	<b>-</b>	<b>19,307</b>	<b>(4,904)</b>	<b>14,403</b>
Finance income	377			377		377
Finance costs	(1,441)		651	(790)		(790)
Net finance costs	(1,064)	-	651	(413)	-	(413)
<b>Profit / (loss) before Tax</b>	<b>15,259</b>	<b>2,984</b>	<b>651</b>	<b>18,894</b>	<b>(4,904)</b>	<b>13,990</b>
Income tax (expense) / credit	(5,136)	-	(182)	(5,318)	1,373	(3,945)
<b>Net Profit / (loss) for the Year</b>	<b>10,123</b>	<b>2,984</b>	<b>469</b>	<b>13,576</b>	<b>(3,531)</b>	<b>10,045</b>

FY2018F	Statutory Financial Statements	Fair Value Adjustments	Pro Forma Operating Financial Information
NZD 000s			
<b>Revenue</b>	<b>143,610</b>		<b>143,610</b>
Cost of goods sold	(122,771)	33,847	(88,924)
Fair value gain / (loss) on biological transformation	37,589	(37,589)	-
Freight costs to market	(13,610)		(13,610)
<b>Gross Profit</b>	<b>44,818</b>	<b>(3,742)</b>	<b>41,076</b>
Overheads			
Sales, marketing and advertising	(9,600)		(9,600)
Distribution overheads	(2,041)		(2,041)
Corporate expenses	(7,081)		(7,081)
<b>EBITDA</b>	<b>26,096</b>	<b>(3,742)</b>	<b>22,354</b>
Depreciation and amortisation	(5,928)		(5,928)
<b>EBIT</b>	<b>20,168</b>	<b>(3,742)</b>	<b>16,426</b>
Finance income	312		312
Finance costs	(790)		(790)
Net finance costs	(478)	-	(478)
<b>Profit / (loss) before Tax</b>	<b>19,690</b>	<b>(3,742)</b>	<b>15,948</b>
Income tax (expense) / credit	(5,541)	1,048	(4,493)
<b>Net Profit / (loss) for the Year</b>	<b>14,149</b>	<b>(2,694)</b>	<b>11,455</b>

### *Pro forma operating total debt*

Pro forma operating total debt represents the closing balance of all bank debt and finance leases. It does not include shareholder loans which have been converted into ordinary shares or repaid prior to the Offer.

NZD 000s	FY2014	FY2015	FY2016	FY2017F	FY2018F
Statutory total interest-bearing liabilities	86,415	89,191	97,030	10,378	10,267
Shareholder loans	(66,371)	(68,591)	(77,541)	-	-
Pro forma operating total debt	20,044	20,600	19,489	10,378	10,267

## E. PROSPECTIVE FINANCIAL INFORMATION

### Prospective consolidated financial statements for the year to 30 June 2017 and 30 June 2018

#### 1. Introduction

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The prospective consolidated financial statements of New Zealand King Salmon Investments Limited comprise the following Prospective Financial Information (“PFI”):

- Prospective consolidated statement of comprehensive income;
- Prospective consolidated statement of financial position;
- Prospective consolidated statement of changes in equity;
- Prospective consolidated statement of cash flows;
- Basis of preparation and significant accounting policies;
- A description of the general and specific assumptions that support the PFI; and
- An analysis of the sensitivity of the PFI to changes in specific key assumptions.

The information contained in this document should be read in conjunction with the PDS and other information presented on the Offer Register.

#### 2. Basis of Preparation

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The PFI has been prepared in accordance with the requirements of Financial Reporting Standard 42: *Prospective Financial Statements*, as required by Clause 53(1)(c) of Schedule 3 to the Financial Markets Conduct Regulations 2014, specifically for the purpose of the Initial Public Offer of shares in New Zealand King Salmon (the “Offer”) and may not be suitable for any other purpose.

The PFI, including the assumptions underlying it, has been prepared by New Zealand King Salmon’s management and approved by the Board. It is based on the Board’s assessment of events and conditions existing at the date of this PDS, the accounting policies and best estimate assumptions set out in Sections 3 and 5 below.

PFI by its nature involves risks and uncertainties, many of which are beyond the control of New Zealand King Salmon. The Board believes that the PFI has been prepared with due care and attention, and consider the best estimate assumptions, when taken as a whole, to be reasonable at the time of preparing this PFI. Actual results are likely to vary from the information presented as anticipated events and results may not occur as expected, and the variations may be material. Accordingly, neither the Directors nor any other person can provide any assurance that the PFI will be achieved and investors are cautioned not to place undue reliance on the PFI.

The prospective consolidated statements of comprehensive income, prospective consolidated statements of changes in equity and prospective consolidated statements of cash flows cover the Prospective Period, comprising the 12 months ending 30 June 2017 (“FY2017F”) and 30 June 2018 (“FY2018F”) (collectively “the Prospective Period”). The prospective consolidated statements of financial position are presented as at 30 June 2017 and 30 June 2018.

Section 5.2 includes disclosures and commentary relating to both the pro forma PFI and the statutory PFI.

The Directors are responsible for and have authorised the issue of the PFI on 23 September 2016. There is no present intention to update the PFI or to publish PFI in the future, other than as required by regulations. The Group will present a comparison of the PFI with actual financial results in its FY2017F and FY2018F annual reports, as required by Regulation 64 of the Financial Markets Conduct Regulations 2014.

The PFI is presented in New Zealand dollars, unless otherwise specified, and is rounded to the nearest thousand dollars or nearest million dollars (as appropriate).

### **3. Significant Accounting Policies**

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The significant accounting policies applied in preparing the PFI are the same as the accounting policies as set out in the audited financial statements for the year ended 30 June 2016 for New Zealand King Salmon Investments Limited which are included on the Offer Register, and remain consistent through the Prospective Period.

Currently there are no anticipated changes to accounting standards under GAAP that are expected to materially affect the Group during the Prospective Period. However, any further changes to GAAP could necessitate changes in the accounting policies currently adopted and any new or amended accounting standards, or interpretation, may affect the actual financial results or financial position.

## 4. Prospective Financial Statements

### 4.1 Prospective consolidated statements of comprehensive income

NZD 000s	FY2017F	FY2018F
<b>Revenue</b>	<b>130,079</b>	<b>143,610</b>
Cost of goods sold	(117,803)	(122,771)
Fair value gain / (loss) on biological transformation	41,342	37,589
Freight costs to market	(12,040)	(13,610)
<b>Gross Profit</b>	<b>41,578</b>	<b>44,818</b>
Overheads		
Sales, marketing and advertising	(8,838)	(9,600)
Distribution overheads	(1,893)	(2,041)
Corporate expenses	(6,764)	(7,081)
Offer costs	(2,984)	-
<b>EBITDA</b>	<b>21,099</b>	<b>26,096</b>
Depreciation and amortisation	(4,776)	(5,928)
<b>EBIT</b>	<b>16,323</b>	<b>20,168</b>
Finance income	377	312
Finance costs	(1,441)	(790)
Net finance costs	(1,064)	(478)
<b>Profit before Tax</b>	<b>15,259</b>	<b>19,690</b>
Income tax expense	(5,136)	(5,541)
<b>Net Profit for the Year</b>	<b>10,123</b>	<b>14,149</b>
<b>Total comprehensive income</b>	<b>10,123</b>	<b>14,149</b>

The amounts shown for 'Cost of goods sold' and 'Fair value gain / (loss) on biological transformation' are impacted by the application of IAS 41 – *Agriculture* and IAS 2 – *Inventory*. These standards effectively require us to recognise the anticipated profit on the future sale of our salmon stocks as biomass is being grown. This means that by the time of harvest, the full expected profit from the sale of each salmon has effectively already been recognised in our accounts.

Other listed salmon companies choose to show Operating Financial Performance which presents financial information based on 'cost' accounting rules, and reversing out fair value adjustments. We present Operating Financial Performance in *Section D – Reconciliation of Non-GAAP to GAAP Information* above.

*The prospective consolidated statements should be read in conjunction with the notes to the prospective consolidated financial statements in Sections 1, 2, 3 above and Sections 5 and 6 below.*

## 4.2 Prospective consolidated statements of financial position

NZD 000s	FY2017F	FY2018F
<b>Assets</b>		
Cash and cash equivalents	5,489	647
Trade and other receivables	11,406	12,499
Inventories	18,515	19,575
Biological Assets	56,937	64,974
Non-current assets held for sale	421	421
Other financial assets	1,475	1,475
Derivative financial assets	141	96
<b>Total Current Assets</b>	<b>94,384</b>	<b>99,687</b>
Property, plant & equipment	38,854	44,449
Intangible assets	3,411	2,954
Goodwill	39,255	39,255
Biological assets	9,781	11,162
Deferred tax asset	1,423	1,343
Derivative financial assets	96	-
<b>Total Non-Current Assets</b>	<b>92,820</b>	<b>99,163</b>
<b>Total Assets</b>	<b>187,204</b>	<b>198,850</b>
<b>Liabilities</b>		
Interest-bearing loans and borrowings	252	178
Trade and other payables	18,535	20,460
Income tax payable	580	580
Employee benefits	2,204	2,433
Derivative financial liabilities	428	992
<b>Total Current Liabilities</b>	<b>21,999</b>	<b>24,643</b>
Interest-bearing loans and borrowings	10,126	10,089
Employee benefits	465	465
Deferred tax liabilities	9,005	9,899
Deferred financial liabilities	992	-
<b>Total Non-Current Liabilities</b>	<b>20,588</b>	<b>20,453</b>
<b>Total Liabilities</b>	<b>42,587</b>	<b>45,096</b>
<b>Net Assets</b>	<b>144,617</b>	<b>153,754</b>
<b>Equity</b>		
Share capital	123,334	123,334
Reserves	(780)	(493)
Retained earnings	22,063	30,913
<b>Total Equity</b>	<b>144,617</b>	<b>153,754</b>

The prospective consolidated statements should be read in conjunction with the notes to the prospective consolidated financial statements in Sections 1, 2, 3 above and Sections 5 and 6 below.

### 4.3 Prospective consolidated statements of changes in equity

NZD 000s	FY2017F	FY2018F
<b>Total Equity</b>		
Balance at beginning of period	37,014	144,617
Capitalisation of shareholder loans to equity	69,890	
Issue of shares	30,000	-
Capitalisation of Offer costs	(1,275)	-
Change in other reserves	1,365	288
Total profit for the period	10,123	14,149
Dividends paid	(2,500)	(5,300)
<b>Balance at End of Year</b>	<b>144,617</b>	<b>153,754</b>
<i>Equity breakdown by component</i>		
Share capital	123,334	123,334
Reserves	(780)	(493)
Retained earnings	22,063	30,913
<b>Total Equity</b>	<b>144,617</b>	<b>153,754</b>

*The prospective consolidated statements should be read in conjunction with the notes to the prospective consolidated financial statements in Sections 1, 2, 3 above and Sections 5 and 6 below.*



#### 4.4 Prospective consolidated statements of cash flows

NZD 000s	FY2017F	FY2018F
<b>Cash Flows From (Used in) Operating Activities</b>		
Receipts from customers	128,910	142,534
Payments to employees and suppliers	(117,897)	(125,966)
Interest paid	(1,064)	(478)
Taxes paid	(3,327)	(4,567)
<b>Net Cash Flows From Operating Activities</b>	<b>6,622</b>	<b>11,523</b>
<b>Cash Flows Used in Investing Activities</b>		
Acquisition of property, plant and equipment	(10,584)	(11,065)
<b>Net Cash Flows Used in Investing Activities</b>	<b>(10,584)</b>	<b>(11,065)</b>
<b>Cash Flows From (Used in) Financing Activities</b>		
Repayment of employee loans	1,283	-
Draw down / (repayment) of Shareholder Debt	(7,651)	-
Draw down / (repayment) of Bank Debt	(9,000)	-
Dividends paid	(2,500)	(5,300)
Capital issued / (bought back)	30,000	-
Transaction costs	(5,100)	-
<b>Net Cash Flows Used in Financing Activities</b>	<b>7,032</b>	<b>(5,300)</b>
<b>Net Increase / (Decrease) in Cash and Cash Equivalents</b>	<b>3,070</b>	<b>(4,843)</b>
Cash and cash equivalents at beginning of the period	2,419	5,489
<b>Cash and Cash Equivalents at End of Year</b>	<b>5,489</b>	<b>647</b>

*The prospective consolidated statements should be read in conjunction with the notes to the prospective consolidated financial statements in Sections 1, 2, 3 above and Sections 5 and 6 below.*

## 5. General and Specific Assumptions

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The following general and specific assumptions have been adopted in preparing the PFI. The general and specific assumptions contained in this section should be read in conjunction with Section 8 (Risks to New Zealand King Salmon's business and plans) of the PDS.

### 5.1 General Assumptions in Respect of the PFI

- **Economic environment** – there will be no material changes in the economic outlook for the New Zealand and international markets in which we sell products, beyond normal market movements in prices.
- **Political, legislative and regulatory environment** – there will be no material change to the political, legal or regulatory environments in which the Group acquires its inputs, sells its products or otherwise operates, including in relation to biosecurity controls, food safety regulations, resource management or sea water regulations, and restrictions on the importation of salmon into the offshore markets in which New Zealand King Salmon sells or intends to sell its products.
- **Biosecurity** – there will not be any disease incursion or other biosecurity events or any other adverse publicity about us, other New Zealand salmon producers, or New Zealand food products, whether or not legitimate.
- **Competitive environment** – there will be no material change in the competitive dynamics of the markets in which the Group operates or sells its products, including any material change in competitor activity. It is assumed that no new entrants will materially change the competitive environment in which the Group operates and no existing participant will leave the Group's key markets.
- **Industry conditions** – there will be no material change in the general industry structure, third party relationships, trends in seasonal demand or general employment conditions.
- **Key suppliers and customers** – other than a potential reduction from three main feed suppliers to two, there will be no change in key suppliers or customers and existing contractual, business and operational arrangements will remain in place. We target a balanced spread of suppliers at any point in time. However, from time to time, there may be transition periods between suppliers which result in greater concentration with a supplier or suppliers. We are currently in such a transition period, but expect to return to the targeted mix across a range of suppliers within the Prospective Period. Should any suppliers or customers be lost it is assumed they could be replaced on materially similar terms. Key suppliers and customers will comply with their contractual obligations.
- **Disruption to operations** – there will be no material disruption to operations, including through plant and equipment failure, nature disasters, environmental conditions (including water temperature), accidents, fires, product supply or quality issues or through normal hazards associated with activities (including disruptions to or affecting any of the Group's key suppliers or customers).
- **Operating environment** – there will be no material costs incurred through either industrial or contractual disputes.
- **Business acquisitions or disposals** – there will be no material business acquisitions or disposals by the Group.
- **Management of the Group** – no key personnel will leave the Group, and management resources will be sufficient for the Group's requirements.
- **New Zealand and international tax laws** – there will be no material change to the tax rates or laws (including income tax, excise tax, import duties or goods and services tax) in New Zealand or the offshore markets in which the Group operates.

- **Financial Reporting Standards** – there will be no change in financial reporting standards or accounting interpretations which would have a material effect on us.
- **Accounting for the Offer** – Offer costs to 30 June 2016 have been expensed in the statement of comprehensive income. The balance of Offer costs are forecast to be expensed to the statement of comprehensive income and capitalised on the statement of financial position in FY2017F as appropriate.

## 5.2 Specific Assumptions

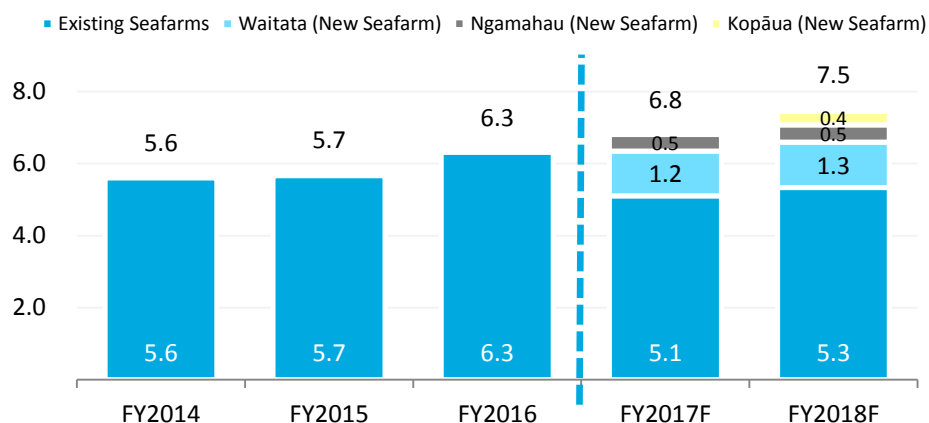
### 5.2.1 Harvest volumes

New Zealand King Salmon’s financial performance is strongly influenced by the harvest volumes that it achieves. Unlike other manufacturing or food producing industries, there is a limited amount of consented waterspace in New Zealand with restrictions that effectively limit the amount of salmon that can be grown at any seafarm.

In addition, King salmon take an average of approximately 24 months to reach their average harvest live weight which is assumed to be 4.4kgs. This means that increases in production due to the three newly consented seafarms (and future expected increases in the consented feed discharge limits) take time to be reflected in our financial results. It also means that, at the time of writing, the fish that are expected to be harvested through FY2017F are already at sea.

As shown in the chart below, harvest volumes are expected to increase in both FY2017F and FY2018F. The increase in harvest volumes is due to incremental harvest volumes from the new seafarms, with the harvest from existing seafarms forecast to decline (principally due to the cessation of using Waihinau as a grow-out seafarm). Two new seafarms (Waitata and Ngamahau) are currently in operation with fish to be harvested through the Prospective Period. The third new seafarm, Kopāua, has recently had smolt entered and is to be further developed with funds raised through the proposed Offer. It is forecast to contribute to the harvest in FY2018F.

**Historical and forecast harvest volumes (existing and new seafarms) (MT 000s, G&G)**



Over time the volume harvested will depend on the Net Growth in Available Biomass which has been forecast using the following formula:

$$\text{Net Growth in Available Biomass} = \frac{\text{Feed Discharged}}{\text{FCR}} \times (1 - \text{Premature Mortality \%}) \times \text{G\&G Factor}$$

Where:

- Feed Discharged is the total amount of feed (in kg) that is discharged across all of our seafarms (and to a much lesser degree, our hatcheries);
- FCR is the expected Feed Conversion Ratio and describes the amount of feed (in kg) required to increase the animal's bodyweight by one kg. FCR is considered by management to be the best proxy for fish performance, excluding mortality;
- The Premature Mortality % is the percentage of fish that die prior to harvest and are therefore not able to be sold (described as the biomass lost due to mortality as a percentage of the total growth in biomass prior to mortalities in any given year); and
- The G&G Factor reflects the proportion of fish biomass that comprises the guts and gills of the salmon. The biomass net of guts and gills variable has been observed historically at 88%. There have not been, and are not expected to be, any significant biological changes to our salmon that have or are expected to change the relative size of the gills and guts as a proportion of the whole fish. Accordingly this assumption is fixed at 88% through the PFI. All references to volumes in this document are references to the equivalent gutted and gilled ("G&G") weight.

The table below shows historical and forecast amounts for each of these assumptions. Further commentary is provided below.

Key Operating Metrics					
	FY2014	FY2015	FY2016	FY2017F	FY2018F
<b>Seafarms</b>					
Feed Discharged (MT 000s)	13.5	13.7	16.0	17.6	18.0
FCR	1.83x	1.70x	1.91x	1.76x	1.76x
Premature Mortality %	14.5%	18.7%	13.7%	11.0%	11.0%
<b>Hatcheries - Net Biomass Grown</b>					
	0.4	0.4	0.5	0.5	0.5
<b>Harvest Volumes (MT 000s)</b>					
Existing Seafarms	5.6	5.7	6.3	5.1	5.3
New Seafarms				1.7	2.2
<b>Total</b>	<b>5.6</b>	<b>5.7</b>	<b>6.3</b>	<b>6.8</b>	<b>7.5</b>

### **Feed Discharged**

The amount of feed that can be discharged is mostly governed by consent but also by the commercial limits of certain low flow sites. We tend to discharge feed closely to the lesser of the consented limit, seabed limit (considering benthic impact requirements) or the commercial potential of low flow sites.

We have a degree of control around feed discharge (for example if we approach feed limits at a particular seafarm we can slow down the rate of feeding, bring forward a harvest or even move fish between sites).

The increase in feed discharged in FY2016 over FY2015 is due to our new seafarms becoming operational. Additional feed discharged in our new seafarms continues to explain increases in total feed discharge amounts through the Prospective Period.

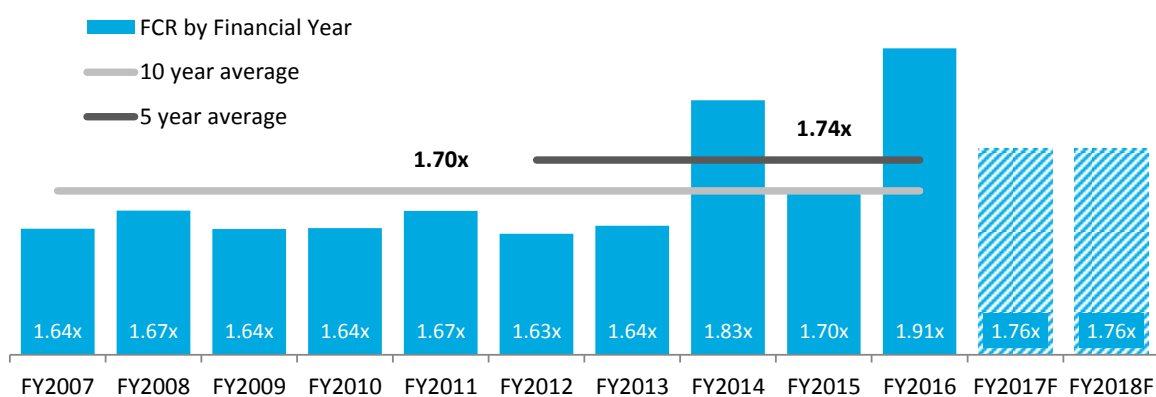
### **FCR**

With feed discharge volumes typically fixed, FCR determines the growth of biomass, which in turn drives the available harvest volumes. A more efficient (lower) FCR results in higher potential harvest volumes and vice versa.

Over an extended period, New Zealand King Salmon has generally achieved feed conversion ratios of between 1.60x and 1.70x. During FY2014 and FY2016, we recorded an FCR above that range due to issues principally thought to be related to diet. We monitor FCR closely and are taking a range of measures to improve FCR.

FCR has been assumed at 1.76x throughout the Prospective Period. Whilst this is lower than the FCR recorded in FY2016, it is slightly higher than the average FCR recorded for the past 5 years. We believe that an average observation over a longer period is more suitable for a biological performance indicator such as the FCR and we will be targeting to reduce FCR below the level assumed through the Prospective Period.

### Historical and forecast FCR



### Premature Mortality %

Every year, a number of fish will die prior to harvest. This occurs due to a range of natural factors, and can be increased by unusually warm water, feeding issues, changes in environmental conditions (such as algal bloom, a natural event), predators (such as seals), disease or other factors that are known and unknown. Mortality rates are significantly higher on low flow sites.

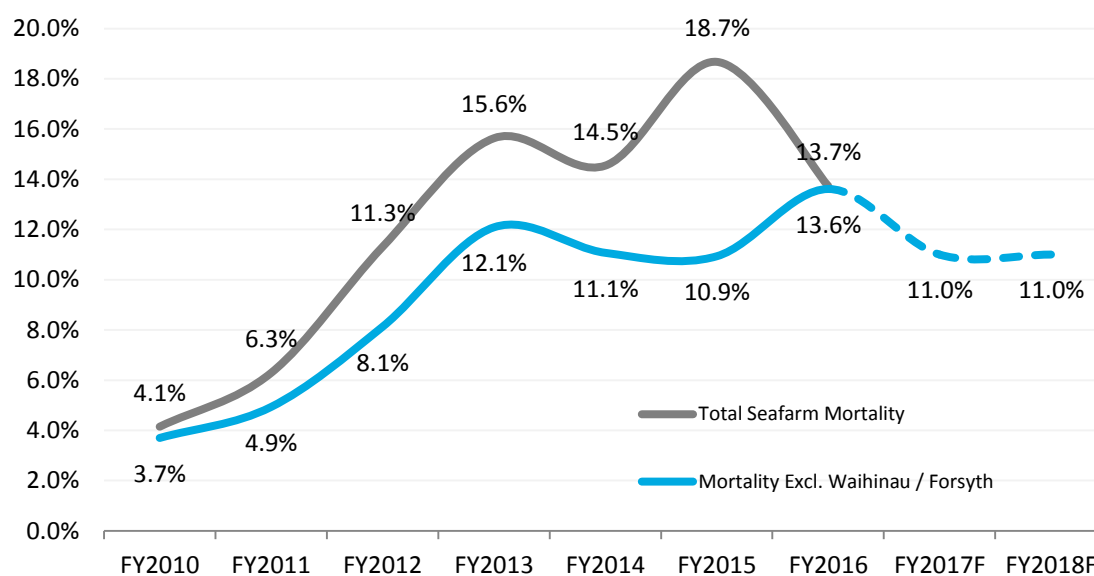
We term a significant increase in the mortality rate at an individual seafarm to more than around 30% as a “mortality event”. Such events have occurred during previous summers at low flow sites in particular and had a material impact on our production volumes. Two of the seafarms at which these events occurred (Waihinau / Forsyth seafarm) have since been fallowed and are no longer expected to be used for year round production.

Other than Ruakaka, which is low flow, the average mortality for all other sites has been relatively consistent for the past three years at 9.8%.

Our average mortality assumption of 11.0% is based on a higher level of mortalities at Ruakaka (which is a decreasing percentage of total production volume) and a slightly lower level of mortalities at all other seafarms. We have assumed no mortality events occur during the Prospective Period.

We monitor mortality closely and are taking a range of measures to try to improve mortality below the rates assumed.

## Historical and forecast mortality rates



### 5.2.2 Revenue, direct costs and operating expenses

#### Revenue

Revenue is driven by the volume of salmon sold both domestically and to export markets, the average price per kg achieved and the foreign exchange rates used to convert sales to New Zealand dollars. Some additional revenue is earned from the sale of heads, eggs (caviar) and by-products.

#### Sales Volume

Sales volume is closely aligned with harvest volume, other than minor losses during further processing. Most of the time, fish will be airfreighted fresh on the day following harvest to our whole fresh customers. Customers who purchase our value added product will typically receive the product within a few days of the harvest.

However, we can build inventories of finished goods (and plan to do this at certain times of the year to meet peak demand periods, such as around Christmas). Inventories can also be built where the size of the fish we harvest may not match our customer's current requirements.

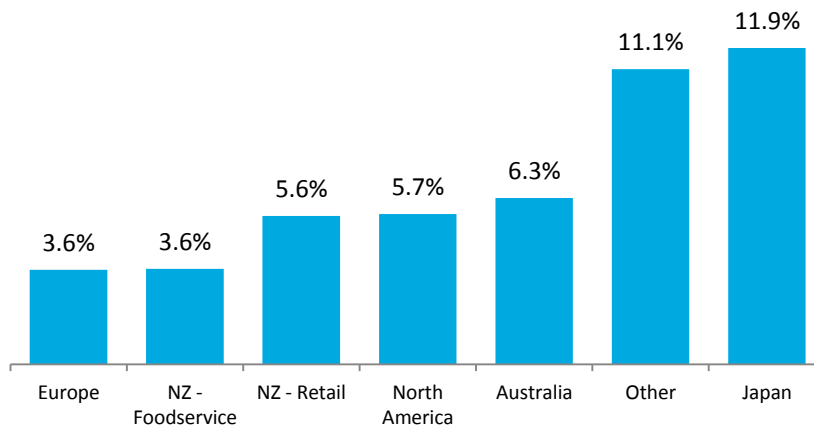
The table below shows sales volume and movements in inventories of finished goods between FY2014 and FY2018F:

Sales Volume					
MT 000s	FY2014	FY2015	FY2016	FY2017F	FY2018F
Sales Volume	5.7	5.6	6.1	6.9	7.5
Increase / (Decrease) in Inventory	(0.1)	0.0	0.2	(0.2)	-

#### Sales Prices in Local Currency

Recently we have achieved consistent annual increases in the weighted average sales prices of our products across all key markets to which we sell our product. In the chart below, we see that the cumulative annual compounding increase in in-market sales prices over the past 6 years is approximately 6% or greater for most markets, although the actual price increase amount varies significantly from year to year:

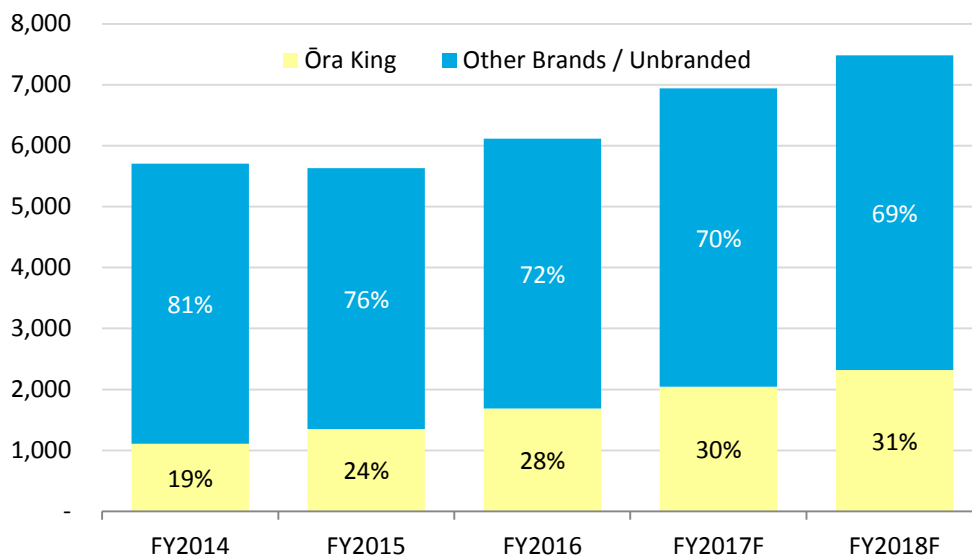
### Compounding average annual sales price (\$ / kg) increases by market (FY2010-FY2016) – local currency



There are three components to the increase in weighted average sales prices:

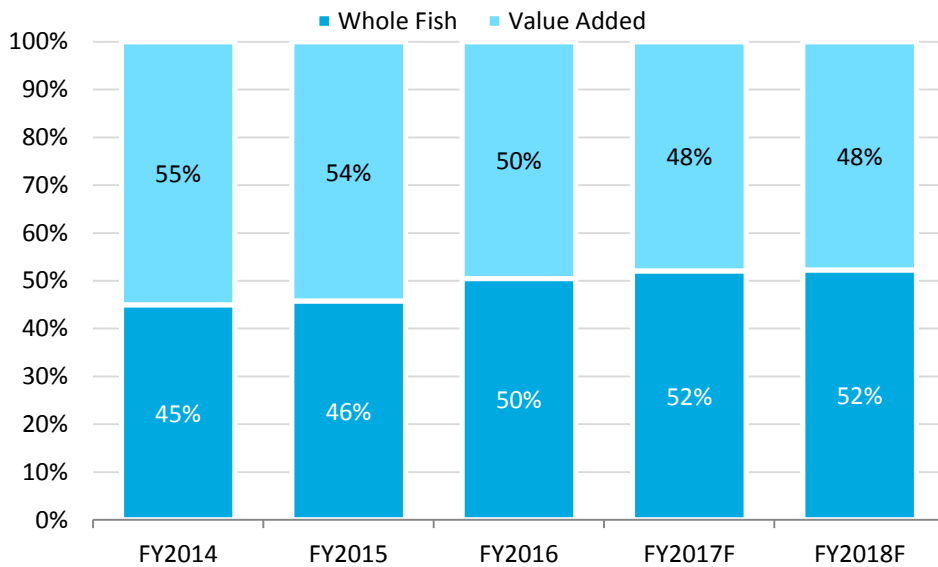
- Direct price increases.** A direct price increase on a single product or item. Direct price increases of 2.3% are forecast for FY2017F and 0.5% for FY2018F.
- Brand Mix.** Sales of Ōra King, which predominantly comprise whole fresh fish sales, achieve a higher price than sales of unbranded or low-branded product (i.e. product sold under the New Zealand King Salmon label). We are focused on growing sales of Ōra King. Since launch in late 2012, sales of Ōra King have grown to approximately 1,700 MT in FY2016, or about 28% of all sales. Our forecasts assume sales of Ōra King continue to increase relative to sales of unbranded or other brands. By FY2018F, sales of Ōra King are forecast to comprise 31% of all sales.

### Sales of Ōra King as a percentage of total sales



- Product Mix.** Value added products (fillets and portions, wood roasted and cold smoked) generally sell for a higher price per kg than whole fish. While increasing the sales percentage of high margin value added products is a key strategic goal, our forecasts do not provide for any material change in the product mix achieved in FY2016:

## Product mix – whole fish vs. value-added



### Market Mix

Our financial forecasts assume that approximately 75% of the increased harvest volume available from new seafarms will be exported reflecting the strong demand we are receiving from current and prospective international customers.

In FY2016, export sales (in MT) comprised 41% of all sales. This is forecast to increase to 47% of all sales by FY2018F, with a significant increase in sales volumes to North America, Europe and Asia (ex Japan).

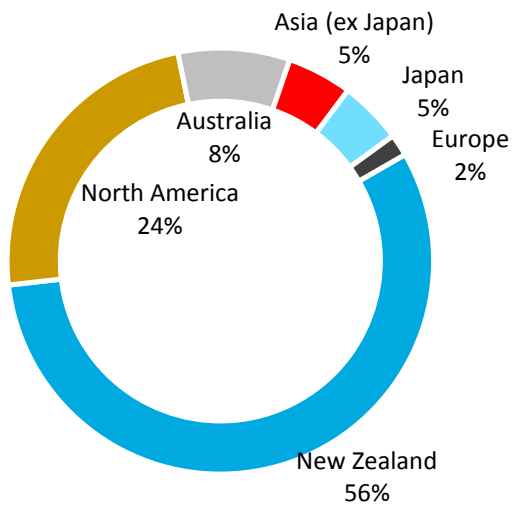
To support the strong growth in export sales we are undertaking a range of initiatives. Some of these initiatives include:

- Two additional personnel have recently been appointed in North America increasing the business development team in that market from two to four. The roles have responsibilities to grow foodservice and retail sales in that market.
- We are at an advanced stage of simplifying our harvest methods from multiple methods catering to specific markets, to one method that meets the requirements of all export markets. This development, scheduled for the second half of FY2017F, will enable us to sell further volume into the European market.
- Further appointments in export and local markets to support sales growth.

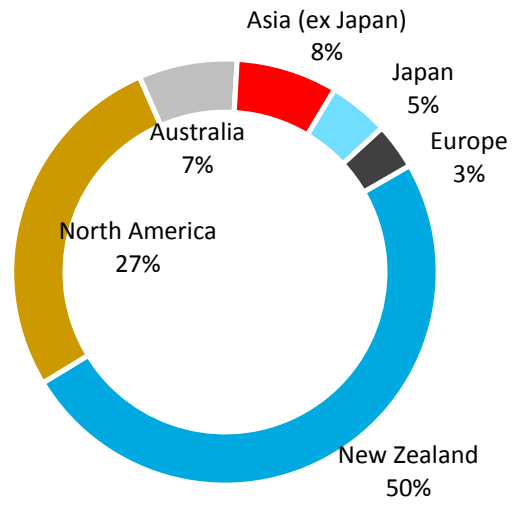
Domestically, we are focused on product innovation and marketing to address consumer queries around how to prepare, cook and present salmon at mealtimes.



Sales by market (\$, FY2016)



Sales by market (\$, FY2018F)



### Sales by market and foreign exchange rates

The table below sets out historical actual and forecast sales volumes by key markets (G&G weight), the weighted average sales price (in local currency) per kg, and exchange rates for FY2014 through FY2018F for major currencies. Foreign currency is covered in further detail in Section 5.2.3.

Sales by Market		FY2014	FY2015	FY2016	FY2017F	FY2018F
<b>Sales Volumes by Market (MT 000s)</b>						
Domestic Sales						
Foodservice		2.0	2.1	2.1	2.2	2.3
Retail		1.8	1.6	1.5	1.6	1.7
		3.8	3.7	3.6	3.9	4.0
Export Sales						
North America		0.6	0.8	1.2	1.6	1.8
Australia		0.6	0.6	0.6	0.6	0.6
Asia (ex Japan)		0.3	0.3	0.3	0.4	0.5
Japan		0.4	0.3	0.3	0.3	0.4
Europe		0.0	0.1	0.1	0.1	0.2
		1.9	2.0	2.5	3.1	3.5
Total Sales		5.7	5.6	6.1	6.9	7.5
<b>Average Sales Price per kg</b>						
Domestic Sales						
Foodservice	NZD	16.29	16.84	17.05	17.09	17.18
Retail	NZD	17.39	18.36	19.25	19.28	19.44
	NZD	16.81	17.50	17.97	18.02	18.16
Export Sales						
North America	USD	13.53	14.71	14.74	14.97	15.05
Australia	AUD	14.21	15.35	15.14	16.10	16.18
Asia (ex Japan)	NZD	17.11	19.54	21.16	20.02	22.34
Japan	JPY	1,177	1,387	1,428	1,385	1,400
Europe	NZD	20.83	21.26	24.82	21.95	23.11
<b>Foreign Exchange Rates</b>						
NZD:AUD		0.85	0.89	0.91	0.90	0.91
NZD:USD		0.77	0.79	0.68	0.69	0.69
NZD:JPY		72.18	77.96	77.52	77.03	73.92

#### Notes:

1. Average Sale Prices are gross sale prices.
2. Sales made to Europe and Asia (ex Japan) are made across a wide range of currencies including New Zealand dollars. For simplicity we have presented the average New Zealand dollar price achieved.
3. Historical foreign exchange rates reflect the actual exchange rates achieved by the Group, including hedging. Forecast foreign exchange rates are presented as forecast exchange rates taking into account hedging instruments in place as at 30 June 2016 and a combination of spot rates and forecast spot foreign exchange rates as at 11 July 2016 for any unhedged balance.
4. Our top 10 customers account for approximately 55% of revenues.

## Direct costs

Direct costs include feed costs, other aquaculture costs (which mostly comprise labour), harvest and processing costs, freight and other costs.

Direct costs have been forecast based on FY2016 costs adjusted for inflation and other factors, such as operating efficiency initiatives. Pro forma adjustments have been applied in the historical period presented below to reflect pro forma adjustments, direct costs are also presented on an Operating basis (i.e. prior to the recognition of any fair value adjustments) as described in Sections B and C of this document.

Direct Costs NZD Millions	Pro forma operating				
	FY2014	FY2015	FY2016	FY2017F	FY2018F
Cost of Fish Harvested	43.2	43.9	50.4	57.2	62.6
Harvest & Processing	21.2	20.5	22.7	23.9	26.0
Freight & Other	9.6	9.5	10.7	12.3	13.9
	74.0	73.9	83.8	93.4	102.5
<i>\$ / kg</i>					
Cost of Fish Harvested (\$ / kg sold)	7.57	7.81	8.25	8.25	8.37
Harvest & Processing (\$ / kg harvested)	3.77	3.57	3.59	3.50	3.46
Freight & Other (\$ / kg sold)	1.68	1.70	1.75	1.77	1.86
Pro Forma Operating Cost of Goods Sold					
Deduct: Freight charges reported separately	(8.1)	-	-		
Add: Depreciation in COGS / Other	2.9	-	-		
Add: Feed rebate classified as 'Other income'	-	-	0.5		
Add / (Deduct): Reclassification adjustments	-	0.6	0.2		
Pro Forma Operating Cost of Goods Sold / Direct Costs	68.7	74.5	84.5	93.4	102.5

## Cost of fish harvested

The cost of fish harvested comprises feed, labour and overheads. On a cost per kg sold basis, this cost will be affected by movements in the growth efficiency metrics (specifically the FCR and Premature Mortality %) as described above. If the FCR or Premature Mortality % improve the cost on a per kg basis sold will reduce and vice versa.

For FY2017F the cost of fish harvested is forecast to increase by \$6.8m. On a per kg basis the cost of fish harvested is forecast to remain broadly in line with FY2016 (\$8.25 / kg sold).

For FY2018F the cost of fish harvested is forecast to increase by a further \$5.4m, or an increase from \$8.25 / kg sold to \$8.37 / kg sold.

In addition to the FCR and Premature Mortality %, the key factors influencing the cost of fish harvested on a \$ / kg sold basis are as follows:

- **Feed.** Our feed costs are affected by feed recipes, global raw material commodity prices, FX rates, hedging cover and supply chain costs. We manage our total cost of feed by sourcing from various suppliers, monitoring movements in global prices, investigating potential recipe changes to either lower the cost or improve fish performance, and agreeing appropriate volume incentives with our suppliers.

We have forecast the cost of feed, in New Zealand dollars per kg, to increase by approximately 1% in FY2017F with an underlying increase in feed cost partly offset by a change in mix of feed suppliers.

The price of feed, in New Zealand dollars per kg, is forecast to increase by 6% in FY2018F which aligns to the assumed increase in local currency feed costs.

- **Aquaculture labour costs.** Aquaculture labour costs have been forecast as follows:
  - For our existing seafarms - based on the FY2016 labour cost per kg harvested at our existing seafarms increased for wage inflation.
  - For our new seafarms – based on the total FY2016 labour cost for those seafarms, increased by 10% in FY2017F and by a further 30% in FY2018F to recognise incremental harvest volumes and growth in biomass at these sites.
  - For our hatcheries – based on the total labour cost across our three hatcheries (which has been relatively static for the past three years) with an allowance for inflation and increased cost to handle additional volumes.
- **Aquaculture Overheads.** Overheads include salaried and supervisory personnel, repairs and maintenance costs, insurance, net cleaning and diving team costs, and various other items. This cost has been assumed to increase by 6.6% in FY2017F and a further 3.0% in FY2018F to recognise increases in the size of our total seafarms as Kopāua is fully developed.

### **Harvest and Processing Costs**

Harvest and processing costs are forecast to increase by 5.3% in FY2017F and by a further 9.0% in FY2018F due to additional volumes being harvested.

On a dollar per kg harvested basis, total harvest and processing costs are forecast to reduce from \$3.59 / kg in FY2016 to \$3.50 / kg in FY2017F and to \$3.46 / kg in FY2018F. The improvement in costs on a per kg basis reflects operational efficiencies associated with increased scale, and certain efficiency initiatives to automate processes that are currently manual.

### **Freight and Other Costs**

Freight and other direct costs are forecast to increase by 15.1% in FY2017F and 13.1% in FY2018F. The largest component of these costs is domestic and international freight costs. Freight costs have been forecast by applying the FY2016 cost per kg rates of freighting product to our key sales markets against forecast sales volumes by market.

### **Other costs**

Other costs largely comprise sales, marketing, advertising and promotion costs and corporate costs. Pro forma adjustments have been applied in the historical periods presented below to reflect pro forma adjustments 4, 5 and 12 described in Section B of this document.

Other costs NZD Millions	Pro forma operating				
	FY2014	FY2015	FY2016	FY2017F	FY2018F
Sales and Advertising	6.4	5.8	6.8	8.8	9.6
Distribution	1.9	1.8	2.0	1.9	2.0
Corporate <sup>1</sup>	6.5	5.9	6.6	6.8	7.1
	14.8	13.5	15.4	17.5	18.7
Sales and Advertising (\$ / kg sold)	1.12	1.03	1.11	1.27	1.28

Notes:

1. Pro forma corporate costs for the historical period have been increased for the assumed level of incremental costs of running a listed company (\$0.7m).

### **Sales and Advertising Overhead**

Sales and advertising overhead has been forecast to increase by \$2.0m in FY2017F, and a further \$0.8m in FY2018F to support the additional forecast sales volumes. This expenditure covers additional in-market sales personnel and money for various advertising and promotion campaigns. On a spend per kg basis, this expenditure is set to increase faster than the growth in volume with the cost increasing from \$1.11 / kg sold in FY2016 to \$1.27 / kg sold in FY2017F and \$1.28 / kg sold in FY2018F.

### **Distribution Overhead**

A small reduction in distribution overheads is forecast in FY2017F reflecting the expected sell down in finished goods inventories (finished goods are stored frozen). Costs are forecast to increase in FY2018F due to inflation.

### **Corporate Overhead**

Corporate overhead is forecast to increase with inflation.

### **Offer Costs**

Advisory, brokerage and other fees associated with the Offer that will be paid by New Zealand King Salmon are expected to amount to \$5.1 million. A total of \$3.8 million is to be expensed through FY2016 and FY2017F with the remaining \$1.3 million capitalised to equity.

### **Share based payments to employees**

The cost of any share based payments to employees is not material and no costs have been included in the PFI.

## **5.2.3 Foreign exchange and hedging**

New Zealand King Salmon has significant foreign exchange ("FX") exposure in relation to:

- Movements in the Australian dollar relative to the New Zealand dollar in respect of its Australian sales and feed purchases. While sales to Australia comprise 8% of total sales, with the majority of feed purchases made in Australian dollars, the Group is a net buyer of Australian dollars.
- Movements in the US dollar relative to the New Zealand dollar in respect of its North American sales and purchases of feed in US dollars. The Group is a net seller of US dollars.
- Movements in the Japanese Yen relative to the New Zealand dollar in respect of its Japanese sales.

A significant proportion of the Group's costs are in foreign currency, including feed costs in particular. The Group has a hedging policy to manage net FX exposure, using instruments taken out for up to 48 months. The business constantly looks to review its hedged position.

The FY2017F forecast assumes:

- A rate of 0.90 Australian dollar to one New Zealand dollar, 0.69 US dollar to one New Zealand dollar, and 77 Japanese Yen to one New Zealand dollar.
- Hedging contracts were in place for 95% of Australian dollar exposure, 45% of US dollar exposure, and 92% of Japanese Yen exposure.

The FY2018F forecast assumes:

- A rate of 0.91 Australian dollar to one New Zealand dollar, 0.69 US dollar to one New Zealand dollar, and 74 Japanese Yen to one New Zealand dollar.
- Hedging contracts were in place for 90% of Australian dollar exposure, 30% of US dollar exposure, and 95% of Japanese Yen exposure.

## 5.2.4 Depreciation, amortisation and capital expenditure

Depreciation and amortisation in the PFI is based on the existing rates of depreciation and amortisation adjusted for planned capital expenditure. Depreciation rates adopted in the PFI are based on an assessment of the useful lives of assets and are not expected to change in the PFI.

The Group's forecast depreciation and amortisation expense, and forecast capital expenditure is shown in the table below:

Depreciation, Amortisation and Capital Expenditure					
NZD Millions	FY2014	FY2015	FY2016	FY2017F	FY2018F
Cash capital expenditure	3.8	5.6	7.0	10.6	11.1
Depreciation	(3.2)	(3.5)	(3.8)	(4.3)	(5.5)
Amortisation	(0.4)	(0.5)	(0.5)	(0.5)	(0.5)
<b>Total depreciation and amortisation</b>	<b>(3.6)</b>	<b>(3.9)</b>	<b>(4.3)</b>	<b>(4.8)</b>	<b>(5.9)</b>

Numbers may not add due to rounding

Capital expenditure over the FY2014 to FY2016 historical period exceeded depreciation and amortisation expense and included significant growth related capital expenditure in relation to gaining new seafarm consents, and investment in infrastructure to commence seafarming operations at the Waitata, Ngamahau and Kopāua seafarms. This investment will continue in FY2017F and FY2018F to further expand capacity.

Increased capital expenditure for FY2017F and FY2018F includes a number of growth initiatives, totalling approximately \$15.3 million to further increase our seafarm capacity and the processing capacity of post-harvest operations and to implement operational efficiency projects. When considering capital expenditure, we aim to utilise the latest global developments, apply our specific experiences to our seafarm infrastructure, provide the best environs for our salmon and minimise environmental impacts.

	Capital expenditure required to double production over time	Other significant capital expenditure projects
<b>Capital expenditure prior to the Offer</b>	Development of the Waitata and Ngamahau seafarms and initial establishment of the Kopāua seafarm (\$5.7 million). This has been funded prior to the Offer through a combination of short term shareholder loans (which will be repaid from the proceeds of the Offer as described in Section 3 (Purpose of the Offer) of the PDS) and operating cashflows.	Investment in seafarm and processing operational efficiency including feeding systems and net cleaning capability. This has been funded prior to the Offer.
<b>Capital expenditure during the Prospective Period</b>	<p>Developing infrastructure for the Kopāua seafarm (\$3.6 million).</p> <p>New infrastructure at the Waihinou / Forsyth seafarm to enable smolt rearing at that site from late FY2017F (\$0.3 million).</p> <p>These projects will be funded from the proceeds of the Offer, together with operating cash flows.</p>	<p>Improving processing efficiency and providing increased capacity for value-added and premium product processing (\$7.2 million).</p> <p>Seafarm investments to streamline our harvest method and improve aquaculture returns (\$2.2 million).</p> <p>A contingency provision for other projects or cost increases (\$2.0 million).</p> <p>These projects will be funded from the proceeds of the Offer, together with</p>

		operating cash flows.
<b>Capital expenditure beyond the Prospective Period</b>	Further investment over an approximate 15 year period currently estimated to be between \$8 million and \$10 million to expand capacity at our existing hatcheries and the new seafarms in line with permitted increases in feed discharge limits. This will be funded from operating cashflows expected to be generated beyond the Prospective Period.	Beyond FY2018F and through to FY2021F, total maintenance and growth capital expenditure (including that required to achieve the eventual doubling of seafarm capacity) is expected to remain approximately within depreciation and amortisation during the same period.

The full benefit of capital expenditure initiatives during the Prospective Period will not be realised until after FY2018F.

Depreciation is forecast to increase through the Prospective Period reflecting the capital expenditure forecast for FY2017F and FY2018F.

Amortisation expense comprises the allocation of consent application fees across the useful life of each consent and other intangible assets such as software. It is forecast to remain consistent with FY2016 levels.

Goodwill is forecast to remain at \$39.3 million during the Prospective Period. No impairment of goodwill or any other asset is forecast.

### 5.2.5 Financing

New Zealand King Salmon has entered into a facility agreement with the Bank of New Zealand ("Facility Agreement"). \$16.7 million from proceeds under the Offer will be used to immediately reduce bank debt. After allowing for a repayment of \$7.7 million drawn prior to the registration of the PDS to repay short term shareholder loans of \$3.7 million being advances for the development of new seafarms, and \$4.0 million of long term shareholder loans, bank debt will be reduced by a net \$9.0 million. An expected residual balance of \$8.2 million will be placed into an interest bearing deposit account and used to fund capital expenditure and working capital requirements of the Group.

#### Financing Structure

Immediately following the Offer, the facility available will have the key features set out in the following table:

Facility	Facility size	Expiry Date
Committed Cash Advance Facility Agreement	NZ\$30 million	November 2020

Interest expense is forecast at an average rate of 6.3% reflecting interest rate swaps remaining in place on all term borrowings for both FY2017F and FY2018F.

Bank Debt					
NZD Millions	FY2014	FY2015	FY2016	FY2017F	FY2018F
Term Debt Borrowings	20.0	20.0	19.0	10.0	10.0
Overdraft / (Net Cash)	(1.6)	(5.5)	(2.4)	(5.5)	(0.6)
Net External Indebtedness	18.5	14.5	16.6	4.5	9.4

*Numbers may not add due to rounding*

No interest bearing debt, other than bank debt and finance leases, will exist following completion of the Offer.

### Financial covenants

The Facility Agreement includes the following financial covenants, tested quarterly:

- Leverage Ratio: the ratio of Net Debt on the testing date to the last 12 months' EBITDA must not be greater than 3.00 times.
- Interest Cover Ratio: the ratio of EBIT to net interest expense (each for the last 12 months) must not be less than 2.50 times.

Financial covenants		
	FY2017F	FY2018F
Leverage ratio	0.2x	0.4x
Covenant	3.0x	3.0x
Headroom	92%	86%
Interest cover ratio	18.2x	20.8x
Covenant	2.5x	2.5x
Headroom	629%	732%

### 5.2.6 Taxation

The forecasts assume an effective income tax rate of 34% in FY2017F and 28% in FY2018F. The higher effective tax rate in FY2017F is due to the non-deductibility of Offer costs. Note that cash tax payable is lower than the income tax expense as movements in fair value provisions do not give rise to an immediate cash tax obligation, but instead a deferred tax obligation.

### 5.2.7 Dividends

Dividends are made at the Board's discretion, and depend on New Zealand King Salmon's financial performance. The payment of dividends is not guaranteed, and New Zealand King Salmon's dividend policy may change over time. In declaring dividends, New Zealand King Salmon must comply with the solvency test under the Companies Act and the covenants in our banking facilities.

Dividends are expected to be declared and paid based on a targeted dividend payout ratio of 50% of Pro Forma Operating NPAT for each of FY2017F and FY2018F, thereafter expected to be increased to between 50% and 65% of Pro Forma Operating NPAT. New Zealand King Salmon anticipates that dividends will be fully imputed.

Total dividends declared in respect of FY2017F are expected to be \$5.0 million (3.62 cents per Share), targeted to be paid in two equal instalments in March and September 2017.

Total dividends declared in respect of FY2018F are expected to be \$5.6 million (4.06 cents per Share), targeted to be paid in two equal instalments in March and September 2018.



## 5.2.8 Working Capital

Working Capital					
NZD Millions	FY2014	FY2015	FY2016	FY2017F	FY2018F
Trade and other receivables	8.5	8.7	10.2	11.4	12.5
Inventories (feed, materials, finished goods) (at cost) <sup>1</sup>	8.6	10.9	16.0	17.5	18.5
Biological assets (at cost) <sup>1</sup>	29.3	30.3	36.3	44.9	50.7
Trade and other payables	(10.7)	(10.4)	(15.9)	(18.5)	(20.5)
Provisions and other current liabilities	(2.0)	(1.7)	(2.4)	(2.8)	(3.0)
<b>Net Working Capital (at cost)</b>	<b>33.6</b>	<b>37.6</b>	<b>44.2</b>	<b>52.5</b>	<b>58.2</b>
<i>Net working capital days</i>	<i>129.1</i>	<i>139.8</i>	<i>141.3</i>	<i>147.3</i>	<i>147.8</i>
Inventories fair value revaluation <sup>1</sup>		0.9	1.3	1.0	1.1
Biological assets fair value revaluation <sup>1</sup>		17.3	16.6	21.8	25.5
<b>Net Working Capital as Reported</b>	<b>33.6</b>	<b>55.8</b>	<b>62.1</b>	<b>75.3</b>	<b>84.7</b>

Numbers may not add due to rounding

### Notes:

1. NZ IAS 2-*Inventories* requires us to recognise the initial cost of inventories at harvest, at fair value less costs to sell. NZ IAS 41-*Agriculture* requires us to value our livestock at the fair market value less costs to sell. The treatment of these two standards effectively brings the expected profit into the value of inventories and biological assets. As this does not reflect cash invested by New Zealand King Salmon we have shown the cost based approach to inventories and biological assets reflecting the input costs (as was previously reported by New Zealand King Salmon before the full application of NZ IFRS, previously the Group applied differential reporting exemptions).

On a cost basis, FY2017F working capital is expected to increase by \$8.3 million (\$13.2 million on a reported basis) mostly due to inputs required to grow additional salmon, not all of which will be harvested during FY2017F. Net working capital days are forecast to increase slightly from 141 days to 147 days. Balances have been forecast as follows:

- Trade and other receivables have been based on historical debtor days between FY2014 and FY2016 and include prepaid expenses that are assumed to increase in line with cost inflation.
- Inventories reflect increasing purchases of feed to achieve forecast growth in fish volumes, raw material inventories have been forecast to increase with growth in value sales, whilst finished goods inventories have been forecast to reduce due to a net sell down in inventories of 150 MT.
- Biological assets (at cost) reflect the growth of fish at all seafarms including those which have only recently become operational and are yet to be running at normal production levels. The largest component of the increase in biological assets is feed discharged. For this table biological assets includes both current and non-current values.
- Trade and other payables have been forecast based on historical creditor days in FY2016. During FY2016 New Zealand King Salmon achieved a reduction in creditor days that is assumed to be maintained.
- Provisions and other current liabilities relate to income tax and employee accruals. They are assumed to increase in proportion to movements in sales.

FY2018F working capital is expected to increase by \$5.7 million (\$9.4 million on a reported basis) mostly due to inputs required to grow additional salmon, not all of which will be harvested during FY2018F. Balances have been forecast in the same manner as for FY2017F with the following exceptions:

- Finished goods inventories are forecast to remain static on a volume basis, but to increase on a nominal basis reflecting the increased cost of fish harvested as described above.

## 6. Group Sensitivity Analysis

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PFI is inherently subject to uncertainty and accordingly actual results are likely to vary from PFI and this variation could be material. The PFI is sensitive to a number of variations in certain assumptions used in its preparation. A summary of the likely effect that variations to certain assumptions may have on the PFI is detailed below. The sensitivities for each assumption are not intended to be indicative or predictive of the possible range of outcomes but are for information purposes to allow potential investors to gain an understanding of potential sensitivities of financial outcomes to changes in key assumptions.

Care should be taken in interpreting the sensitivity information set out below. Each movement in an assumption is treated in isolation from possible movements in other assumptions, which is not likely to be the case. Movements in one assumption may have offsetting effects or compounding effects on other variables, the impact of which is not reflected in the PFI. In addition, it is possible that more than one assumption may move at any point in time, giving rise to cumulative effects, which are not reflected in the PFI.

Key assumptions that are considered to have a significant potential impact on New Zealand King Salmon's forecast financial performance are described below.

### **Volume Indicators - FCR**

FCR affects forecast harvest and, therefore, sales volumes. The FCR is forecast to improve from 1.91x in FY2016 to 1.76x through the Prospective Period. This improvement is due to the FCR returning to longer run historical averages.

Should the FCR not improve to the level forecast, or should the FCR improve beyond that forecast (for example to longer term observed levels of between 1.60x and 1.70x) the Group will likely achieve lower or higher harvest volumes, respectively, for a fixed level of feed input. The resulting change in harvest volumes will affect sales volumes and thus sales revenues. The plus or minus 0.05 movement in the FCR sensitivity range provides an illustration of the impact of a higher, or lower, FCR.

### **Volume Indicators – Premature Mortality %**

The level of mortality affects forecast harvest and therefore sales volumes. The mortality percentage is forecast to improve from 13.7% in FY2016 to 11.0% in the Prospective Period. This improvement is expected to be driven by removing production from the Waihinau / Forsyth seafarm which has historically recorded higher levels of mortality, and relative increases in the production from new seafarms which are assumed to demonstrate improved levels of mortality with conditions that are more suited to growing King salmon.

Should the mortality percentage not improve to the level forecast, or should the mortality percentage improve beyond that forecast (for example to levels demonstrated in FY2010 and FY2011) the Group will likely achieve lower or higher harvest volumes, respectively, for a fixed level of feed input. The resulting change in harvest volumes will affect sales volumes and thus sales revenues. The plus or minus 2.0 percentage point ("ppt") sensitivity range provides an illustration of the impact of a higher, or lower, mortality percentage.

### **Direct Price Inflation (Prices)**

Given the relative global scarcity of King salmon to other salmon species, we have strong influence over the price we achieve for our products. Nevertheless, anticipated price increases may be met with stronger than anticipated resistance from our customers, or alternatively we may be able to put through larger price increases across a broader range of products potentially multiple times in the same year.

The plus or minus 1.0 ppt sensitivity range provides an illustration of the impact of higher, or lower, price increases.

### Feed price inflation

Our largest cost is feed, the price of which is influenced by the movement in international raw material commodity prices, feed recipes and other factors. The plus or minus 2.0 ppt sensitivity range provides an illustration of the impact of higher, or lower, feed price inflation.

The table below illustrates the impact on EBITDA of various movements in these assumptions used in the Prospective Period. The sensitivities below do not take into account any mitigating measures that New Zealand King Salmon may take should a change in these assumptions arise. The FY2018F sensitivities for direct price inflation and feed price inflation are cumulative on top of the FY2017F sensitivity.

### FX rates

We are subject to movement in foreign exchange rates on the sale of our goods and purchase of supplies in foreign denominated currencies.

Foreign exchange rates are likely to vary. We hedge our foreign exchange exposure with short and long term instruments, which can be up to 4 years in length. The plus or minus 1 cent / Yen sensitivity range provides an illustration of the impact of higher, or lower, foreign exchange spot rates. Note that net exposures already covered under existing foreign exchange instruments are not affected by this sensitivity.

\$ millions	Sensitivity Range	Impact on EBITDA \$Millions	
		FY2017F	FY2018F
Volume Indicators			
FCR	+ / - 0.05	(1.9) / 2.1	(2.8) / 2.5
Premature Mortality %	+ / - 2.0 ppt	(2.4) / 2.4	(2.4) / 2.4
Direct Price Inflation %	+ / - 1.0 ppt	1.3 / (1.3)	2.8 / (2.8)
Feed Price Inflation %	+ / - 2.0 ppt	(0.4) / 0.4	(1.2) / 1.2
FX Rates			
NZD:AUD	+ / - 1 cent	0.0 / (0.0)	0.1 / (0.1)
NZD:USD	+ / - 1 cent	(0.2) / 0.2	(0.3) / 0.3
NZD:JPY	+ / - 1 Yen	(0.0) / 0.0	(0.0) / 0.0