



# PRODUCT DISCLOSURE STATEMENT

INITIAL PUBLIC OFFERING OF ORDINARY SHARES IN  
NEW ZEALAND KING SALMON INVESTMENTS LIMITED

23 SEPTEMBER 2016

This document gives you important information about this investment to help you decide whether you want to invest. There is other useful information about this offer on [www.business.govt.nz/disclose](http://www.business.govt.nz/disclose). New Zealand King Salmon Investments Limited has prepared this document in accordance with the Financial Markets Conduct Act 2013. You can also seek advice from a financial adviser to help you to make an investment decision.

JOINT LEAD MANAGERS



FIRST NZ CAPITAL



MACQUARIE

# KEY INFORMATION SUMMARY

## WHAT IS THIS?

This is an offer of ordinary shares in New Zealand King Salmon Investments Limited. Ordinary shares give you a stake in the ownership of New Zealand King Salmon. You may receive a return if dividends are paid or New Zealand King Salmon increases in value and you are able to sell your ordinary shares at a higher price than you paid for them.


If New Zealand King Salmon runs into financial difficulties and is wound up, you will be paid only after all creditors have been paid. You may lose some or all of your investment.

## ABOUT NEW ZEALAND KING SALMON

New Zealand King Salmon is the world's largest aquaculture producer of the premium King salmon species. We operate under our three key brands: Ōra King, Regal and Southern Ocean, and the New Zealand King Salmon label. We have been growing and selling salmon to consumers for more than 30 years.

New Zealand King Salmon has a well-established domestic market presence and share, and a history of successfully selling our products in offshore markets including Australia, North America, Japan, Asia (ex Japan), Europe and others.

Oregon Group is the major shareholder of New Zealand King Salmon and is an investment holding company of the Tiong family of Malaysia. Oregon Group first invested in New Zealand King Salmon in 1996 and will retain an approximately 40% shareholding in New Zealand King Salmon following the Offer.

 For more information, see Section 2 (New Zealand King Salmon and what it does).

## PURPOSE OF THIS OFFER

The purpose of the Offer is to raise capital for New Zealand King Salmon to repay debt, fund future investment and working capital, and to enable Direct Capital to realise its investment by selling up to 40,201,237 Shares (with Direct Capital's remaining Shares to be transferred to, or held by a custodian on behalf of, certain persons on whose behalf those Shares are currently held, including New Zealand King Salmon directors John Ryder and Mark Hutton). The Offer is not underwritten.

Direct Capital is a New Zealand based private equity investor that manages and invests capital in New Zealand and Australian businesses. Direct Capital first invested in New Zealand King Salmon in 2008. In addition, Oregon Group will reduce its shareholding to approximately 40% (by selling 756,131 Shares, and through dilution of its shareholding, under the Offer) and other minority shareholders will sell up to 19.3% in aggregate of their existing Shares.

As part of the Institutional Offer, China Resources Ng Fung has received an allocation equivalent to 10% of the Shares on issue in New Zealand King Salmon following the Offer.<sup>1</sup> China Resources Ng Fung is a leading integrated food enterprise wholly-owned by China Resources Enterprise, Limited. Its operations include food products research and development, production, processing, wholesale, retail, transportation and international trade. It is primarily engaged in the business of meat, rice, fresh produce, assorted foods, international distribution and agriculture industrialisation development projects.

 You can find more information about the use of the proceeds of the Offer in Section 3 (Purpose of the Offer).

## KEY TERMS OF THE OFFER

<b>Description of the equity securities</b>	Ordinary shares
<b>Issue Price</b>	\$1.12 per Share
<b>Priority Offer opens</b>	3 October 2016
<b>Priority Offer closes</b>	12 October 2016
<b>Broker Firm Offer opens</b>	3 October 2016
<b>Broker Firm Offer closes</b>	14 October 2016
<b>Expected commencement of trading on the NZX Main Board and ASX</b>	19 October 2016 (Shares will be allotted no later than the Business Day prior to commencement of trading)
<b>Number of new Shares offered by New Zealand King Salmon</b>	26,785,715 (being 19.4% of the total Shares on issue immediately following the Offer <sup>1</sup> )
<b>Number of existing Shares offered by OfferCo</b>	42,442,370 (being 30.8% of the total Shares on issue immediately following the Offer <sup>1</sup> )
<b>Total number of Shares being offered</b>	69,228,085 (being 50.2% of the total Shares on issue immediately following the Offer <sup>1</sup> )
<b>Liabilities, fees and charges</b>	If you sell your Shares, you may be required to pay brokerage or other sale expenses. You may also be liable for tax on the sale of your Shares. You should seek your own tax advice in relation to your Shares.

These dates are indicative only and may change.

New Zealand King Salmon, with the agreement of the Joint Lead Managers, reserves the right to vary or extend these dates and to withdraw the Offer at any time before the date on which Shares are first allotted. New Zealand King Salmon may also accept late Applications (either generally or in individual cases).

## HOW YOU CAN GET YOUR MONEY OUT

New Zealand King Salmon intends to quote these ordinary shares on the NZX Main Board and on the ASX. This means you may be able to sell them on the NZX Main Board or ASX if there are interested buyers. You may get less than you invested. The price will depend on the demand for the ordinary shares.

<sup>1</sup>The total number of Shares on issue immediately following the Offer is assumed to comprise 69,228,085 Shares offered under the Offer plus 67,749,011 Shares held by existing shareholders and not offered under the Offer and 1,012,337 Shares offered to participants under the New Senior Executive LTI Scheme, which is being established concurrently with the Offer. In addition, 892,857 Shares will be offered under the ESOP. The Shares offered under the ESOP are not included in the number of Shares on issue immediately following the Offer, and therefore are not included in the PFI or capitalisation and investment metrics, as it is not known whether participants will accept the offer of Shares under the ESOP.

## KEY DRIVERS OF RETURNS

ASPECTS OF OUR BUSINESS WHICH DRIVE FINANCIAL PERFORMANCE	OUR KEY STRATEGIES AND PLANS
<b>1. Our brands and products</b>	
<p>Our premium branded Ōra King salmon sells for a higher price (per kg) than other salmon.</p> <p>Sales of smoked salmon products and other value added products are at a higher price than sales of whole fresh fish.</p> <p>Both of these product ranges tend to generate better margins than other products we sell.</p>	<p>A strategic focus for New Zealand King Salmon is to increase the proportion of sales under its three key brands, rather than under the New Zealand King Salmon label. We are also focused on increasing the proportion of fish that meet the Ōra King grade through continuous improvement of our aquaculture practices and researching the factors that improve fish quality.</p> <p>We will also continue to innovate in the value added space to increase revenue and margins from sales of value added products.</p>
<b>2. Who we sell our products to</b>	
<p>Whole fresh fish and processed products are sold through both retail and foodservice channels.</p> <p>Offshore sales are generally made at a higher price to domestic sales.</p>	<p>Our domestic and export sales strategy is to target an increase in the production volume sold offshore from 40% to 55% by FY2021F. The increased volume from our new seafarms will be focused on offshore markets.</p> <p>We plan to expand our Regal smoked salmon presence in key offshore markets in the future (in particular, Asia (ex Japan) and North America).</p> <p>Product innovation and marketing are key strategic initiatives to increase retail sales.</p>
<b>3. How we produce what we sell</b>	
<p>Our total production volume, which is the volume that we have available to sell, is mostly determined by the total amount of suitable seawater space for which we have consents.</p> <p>Other factors influencing production volumes include the efficiency of salmon in converting feed to biomass (FCR) and fish mortality prior to harvest.</p> <p>Feed is our largest cost. Pricing of raw materials used to make feed (including fish meal and fish oil) is a key driver of our profitability.</p>	<p>We have recently been granted consents to operate three additional seafarms in the Marlborough Sounds, which will enable an eventual approximate doubling of production volumes. We are also exploring opportunities for new and improved water space at other locations.</p> <p>We are engaging in research to find ways to improve the diet of our salmon. We manage our feed costs by using multiple manufacturers when viable, using an agreed methodology to determine certain pricing adjustments with our largest supplier and by entering into foreign exchange hedges.</p> <p>We are also examining options to improve automation, and therefore the efficiency, of our operations.</p>

 You should read this table in conjunction with Section 2 (New Zealand King Salmon and what it does).

## KEY RISKS AFFECTING THIS INVESTMENT

Investments in shares are risky. You should consider if the degree of uncertainty about New Zealand King Salmon's future performance and returns is suitable for you. The price of these ordinary shares should reflect the potential returns and the particular risks of these ordinary shares. New Zealand King Salmon considers that the most significant risk factors that could affect the value of the ordinary shares are:

- **Salmon mortality risk** - 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, predators (such

as seals), disease or other factors both known and unknown. Only fish that survive to the point of harvest can be sold. Fish mortalities affect our production volumes. Our forecast mortality rate is 11.0% throughout the Prospective Period.

- **Feed costs and quality risk** - Feed costs could increase, or we may be unable to source feed of an appropriate quality. Feed is our single biggest cost, equivalent to approximately one third of our revenue and is one of the key factors in fish performance (including FCR) and fish health. This means any change in feed cost or quality has a significant impact on our business. Our forecast FCR is 1.76x throughout the Prospective Period.

- **Existing water access risk** - Our operations require access to suitable seawater sites to farm salmon in the Marlborough Sounds. We also use water at the hatcheries and at our processing facilities. Our continued ability to use our existing water access, and the conditions on which that access is granted, are important to the operation of our business.
- **Food safety risk** - Our products could contain harmful bacteria or other organisms. If our products contain harmful bacteria or other organisms and cause a consumer of our products to become unwell or result in a product recall, that could have a severe negative reputational and financial impact on us. New laws could be passed that impose further food safety requirements that may be costly to comply with.
- **Market access risk** - Our salmon is sold to a number of export markets and there is a risk that our access to these markets may be impaired. Our forecast growth is predominantly expected to come from sales offshore. Sales offshore require continued access to key export markets in a timely manner without expensive compliance obligations. As our products are highly perishable, they also require swift clearance at the port.



*This summary does not cover all of the risks of investing in ordinary shares in New Zealand King Salmon. You should also read Section 8 (Risks to New Zealand King Salmon's business and plans).*

## NEW ZEALAND KING SALMON'S FINANCIAL INFORMATION

The financial position and performance of New Zealand King Salmon are essential to an assessment of this Offer.



*You should also read Section 7 (New Zealand King Salmon's financial information).*

### Capitalisation

Number of equity securities being offered	69,228,085
Number of equity securities on issue following the Offer	137,989,433 <sup>1</sup>
Issue Price	\$1.12
Implied market capitalisation <sup>2</sup>	\$154.5 million
Net debt/(cash) on completion of the Offer <sup>3</sup>	(\$2.7 million)
Implied enterprise value	\$151.9 million

### Key investment metrics for the Offer

INVESTMENT METRIC	FY2017F	FY2018F
Implied enterprise value/Pro Forma Operating EBITDA	7.9x	6.8x
Price/earnings per equity security	15.3x	10.9x
Price/Pro Forma Operating NPAT per equity security	15.4x	13.5x
Earnings per equity security	\$0.073	\$0.103
Pro Forma Operating NPAT per equity security	\$0.073	\$0.083
Cash dividends declared per equity security	\$0.036	\$0.041
Implied cash dividend yield (being the dividend per Share divided by its price)	3.24%	3.62%
Implied gross dividend yield (being the implied cash dividend yield adjusted for imputation credits, and other tax credits, expected to be attached to the dividend)	4.49%	5.03%

The key investment metrics above are prepared based on GAAP, as well as certain non-GAAP pro forma operating financial information. More information on pro forma operating adjustments and reconciliations to information prepared in accordance with GAAP is available in the Supplementary Financial Information.

<sup>2</sup>You can find an explanation of implied market capitalisation and implied enterprise value in Section 7 (New Zealand King Salmon's financial information).

<sup>3</sup>Net debt on completion of the Offer is calculated as term debt borrowings plus finance leases less net cash equivalents immediately following completion of the Offer. New Zealand King Salmon expects to have a net cash position of \$2.7 million immediately following completion of the Offer.





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# LETTER FROM THE CHAIRMAN



## Dear Investor,

On behalf of the New Zealand King Salmon Board, I am delighted to invite you to become an investor in our company.

New Zealand King Salmon is the world's largest aquaculture producer of the premium King salmon species and has been selling quality King salmon products for over 30 years. As part of the New Zealand salmon farming industry, we are proud to be recognised as a global leader in sustainable seafood following New Zealand's 'Best Choice' accreditation in the Monterey Bay Aquarium's globally respected consumer guide *Seafood Watch*, in 2015.

We harvest and process more than 6,000 MT of King salmon per year, across our vertically integrated operations in the Marlborough Sounds, Nelson, Golden Bay and Canterbury. Three new seafarms consented in late 2014 will enable us to approximately double existing production over time.

Our premium Ōra King brand, launched in 2012, was developed with the goal of becoming the global leader in great tasting, premium quality King salmon. Ōra King attracts a premium price compared to other fresh farmed salmon and is served by top chefs in leading restaurants across the globe, retaining its branding all the way to the final consumer via the menu. New Zealand King Salmon's premium domestic retail brand, Regal, is the most widely recognised chilled smoked salmon brand in New Zealand, with 84% product awareness and more than 40% market share, and is supported by Southern Ocean, our family value-oriented brand.

In addition to our leading domestic market position, New Zealand King Salmon has established positions in North America, Australia and Japan and a growing presence across the rest of Asia and Europe for our premium Ōra King brand. By investing in New Zealand King Salmon, you will have the opportunity to share in our future as we continue to expand to satisfy growing international demand.

Led by Grant Rosewarne, New Zealand King Salmon has a highly regarded and experienced senior leadership team. My fellow directors and I are confident that New Zealand King Salmon's senior leadership team has the sector knowledge and expertise to continue to deliver for its shareholders.

New Zealand King Salmon is currently 51% owned by Oregon Group, and 42% owned by Direct Capital, with the balance being held by current and former members of the senior leadership team and directors. In addition to the issue of new Shares to raise funds for New Zealand King Salmon, the Offer will enable Direct Capital to realise its investment in New Zealand King Salmon by selling up to 40,201,237 Shares (with Direct Capital's remaining Shares to be transferred to, or held by a custodian on behalf of, certain persons on whose behalf those Shares are currently held, including myself and fellow director Mark Hutton), allowing incoming investors to participate in our future success. In addition, Oregon Group will reduce its shareholding to approximately 40% (by selling 756,131 Shares, and through dilution of its shareholding, under the Offer) and other minority shareholders will sell up to 19.3% in aggregate of their Shares. Together, existing shareholders (Oregon Group and current and former members of the senior leadership team and directors) will retain an approximately 47.7% stake following the Offer, reflecting their ongoing support for New Zealand King Salmon and desire to remain invested in the company alongside new investors. New Zealand King Salmon welcomes China Resources Ng Fung as an approximate 10% shareholder following the Offer, and as a party who can provide support to New Zealand King Salmon with our future initiatives in China.

New Zealand King Salmon's Board and senior leadership team are excited about the opportunity for you to become a part of New Zealand King Salmon's future. I have personally had a longstanding involvement with New Zealand King Salmon as a director and shareholder, and through my independent chairmanship of Direct Capital IV Management. This PDS contains important information about New Zealand King Salmon and the Offer. We encourage you to read this PDS carefully and consider, in particular, Section 8 (Risks to New Zealand King Salmon's business and plans) before making your investment decision.

We look forward to New Zealand King Salmon becoming a publicly listed company and, on behalf of my fellow directors, I welcome your participation in this Offer.

Yours sincerely,

John Ryder  
Independent Chairman

# NEW ZEALAND KING SALMON AND WHAT IT DOES

## OVERVIEW

New Zealand King Salmon is the world's largest aquaculture producer of the King salmon species, accounting for more than 50% of global aquaculture production. King salmon (*Oncorhynchus tshawytscha*) is a Pacific salmon species, comprising only 0.7% of total global salmon aquaculture production and wild catch. King salmon is generally regarded as the premium salmon species in terms of taste and nutritional quality, possessing superior colour, fat and Omega-3 oil content, fillet size and desirable texture characteristics.

We own and operate eight seafarms in the Marlborough Sounds, including three new seafarms consented in 2014 with a 35 year term. Over time the new seafarms will allow us to approximately double existing production.

New Zealand King Salmon was a pioneer in marine salmon farming in New Zealand, utilising King salmon stock introduced from California over 100 years ago. We have been growing and selling salmon to consumers in New Zealand and overseas for over 30 years. We have a well-established domestic market presence and share along with a history of successfully selling our products in offshore markets including Australia, North America, Japan, Asia (ex Japan), Europe and others. During the last financial year, 44% of our revenue was generated from international sales.

We believe New Zealand King Salmon's key points of difference are the rare species of salmon that we produce and the high quality premium brands that we have developed. We believe that under our Ōra King brand, we are one of the first protein companies in the world to achieve branding all the way through to the restaurant menu. Our retail products also have strong brand recognition in New Zealand.

New Zealand King Salmon has three key brands under which we produce a range of products from whole fresh fish to value added products including fillets and portions, cold smoked and wood roasted product. Where these key brands are not used, we generally sell our products under the New Zealand King Salmon label. Our products are sold to international and domestic retail (supermarket) and foodservice customers, such as restaurants, caterers and hotels.

New Zealand King Salmon Investments Limited is the parent company of the Group and is the company that will be listed on completion of the Offer. The New Zealand King Salmon Co Limited, a wholly owned subsidiary of New Zealand King Salmon Investments Limited, is the operating company of the Group and also has a number of subsidiary companies.

## OUR BRANDS

ŌRA KING™





# OUR HISTORY

## A NEW ZEALAND FIRST

Fry introduced to Bubbling Springs hatchery at Takaka. This was the first time salmon had been cultivated in New Zealand.

1976

1976

## SEAFARM FARMING LEGALISED

Legislation passed allowing the raising of salmon in sea farms.

1983

1983

## REGAL SALMON ACQUIRES THE NEW ZEALAND SALMOND COMPANY'S DOMESTIC SALMON FARMS

1992

1992

## ENTRY INTO THE USA MARKET

Mid 1990's

## NEW ZEALAND KING SALMON FORMATION

New Zealand King Salmon formed from the merger of Regal Salmon and Southern Ocean Seafoods. New Zealand King Salmon controls over half the domestic salmon market.

1996

1996

1983

## TENTBURN FUNDED

The New Zealand Salmon Company listed on the stock exchange, raising capital to fund a hatchery at Tentburn.

1986

## REGAL SALMON FORMATION

The South Island Salmon Partnership and South Island Salmon Company merged to form Regal Salmon.

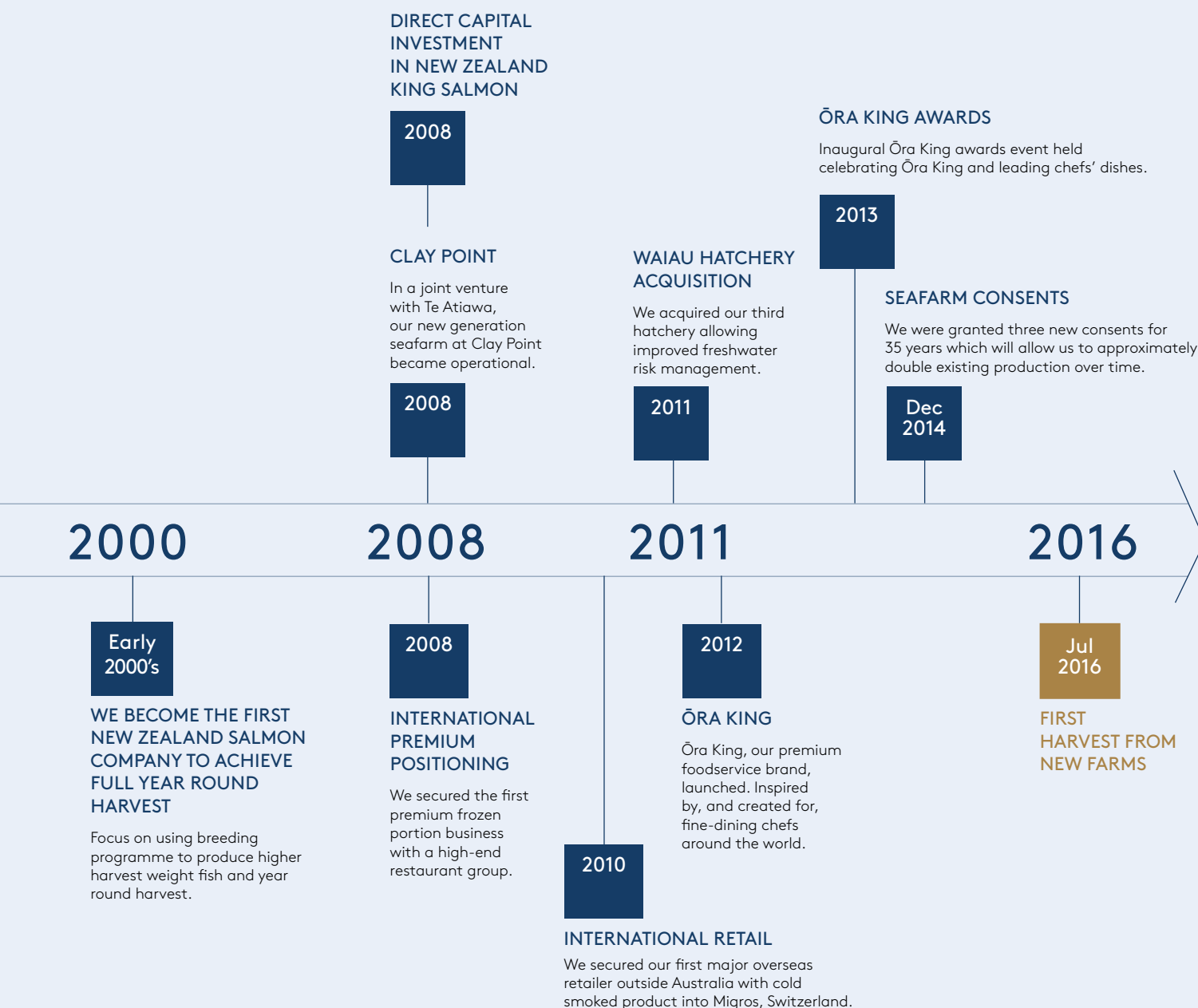
Mid 1990's

## ENTRY INTO THE AUSTRALIAN MARKET WITH FRESH PRODUCTS

1996

## OREGON GROUP FIRST INVESTS IN NEW ZEALAND KING SALMON







# KEY BUSINESS STRENGTHS

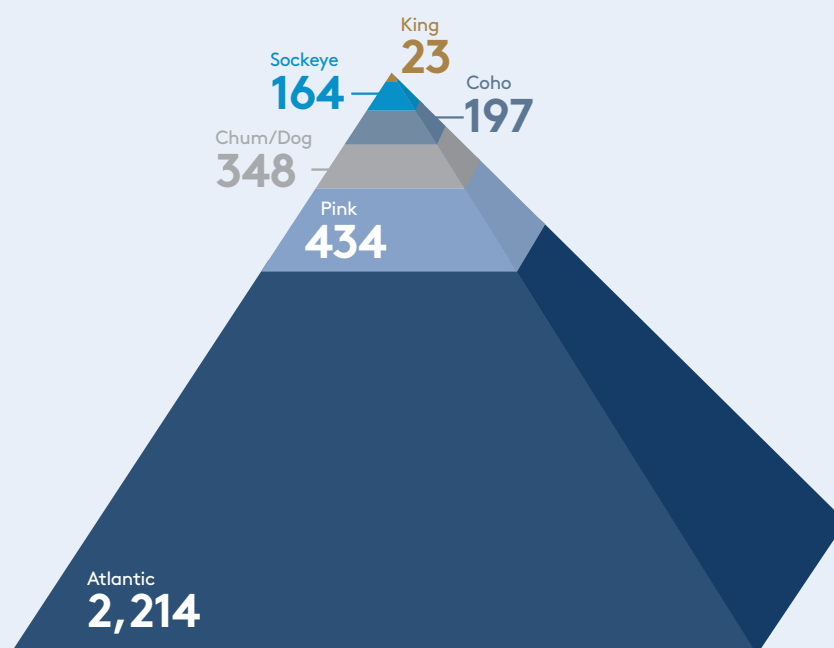
## 1.

### WORLD'S LARGEST AQUACULTURE PRODUCER OF PREMIUM PRICED KING SALMON

We are the world's largest aquaculture producer of the King salmon species, representing more than 50%<sup>4</sup> of global aquaculture production of this scarce species.

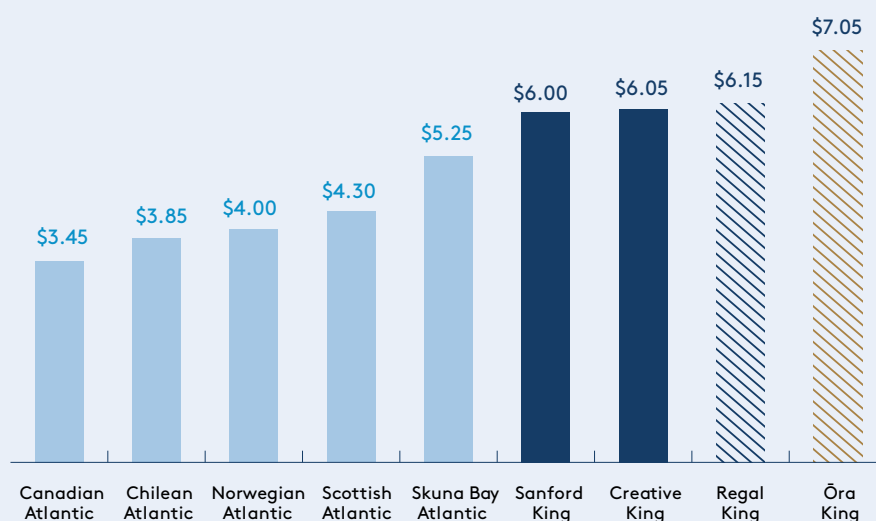
King salmon is generally regarded as the premium salmon species in terms of taste and nutritional quality, possessing superior colour, fat and Omega-3 oil content, fillet size and desirable texture characteristics.

Global production and catch of salmon (000s MT)<sup>4</sup>



King salmon products enjoy premium positioning and premium pricing relative to other salmon species. Ōra King is our highest quality salmon and achieves a further premium.

East Coast, USA – price paid by importers in April 2016 (USD/lb)



<sup>4</sup>Source: Food and Agriculture Organisation of the United Nations, FishstatJ (average, 2013-2014); New Zealand Salmon Farmers Association, 2014.

## 2.

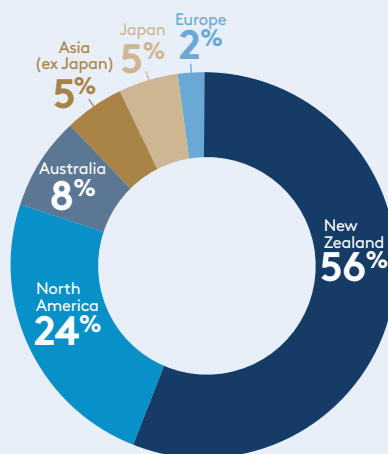
### DIVERSIFIED ACROSS MARKET, CHANNEL, BRAND AND PRODUCT

Our operations are well diversified without over reliance on any one market, channel, brand or product. Through our export relationships with importers and distributors we have the ability to shift volume to the highest value markets while still maintaining a presence in other less premium markets. This provides us with an ability to react to market conditions, competitive activity, currency movements and economic conditions.

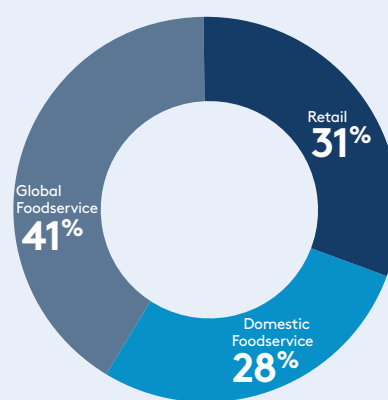
We have an export focus, with sales to offshore markets supported by a strong domestic base. Whole fresh fish and processed products are sold under a range of brands and through both retail and foodservice channels.

Our product diversification allows high margins to be achieved, regardless of fish grades – e.g. a lower graded fish can be processed into a premium smoked product.

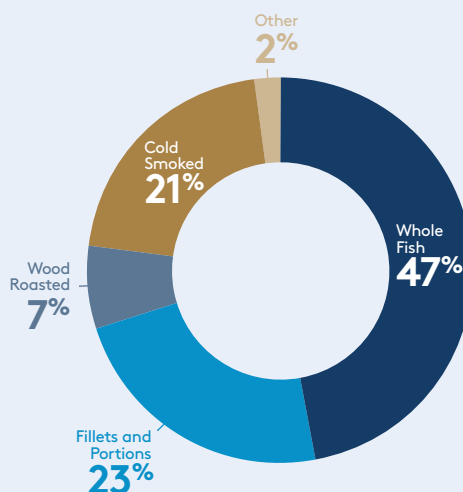
Sales by market (\$, FY2016)



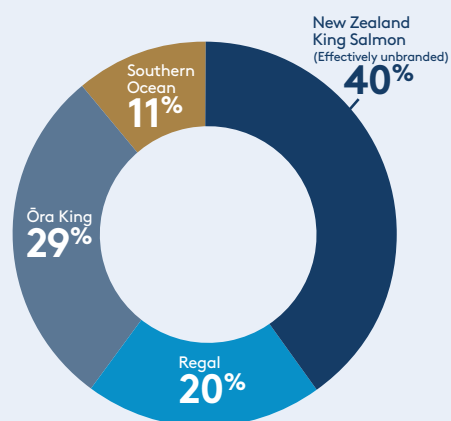
Sales by channel (\$, FY2016)



Sales by product (\$, FY2016)



Sales by brand (\$, FY2016)



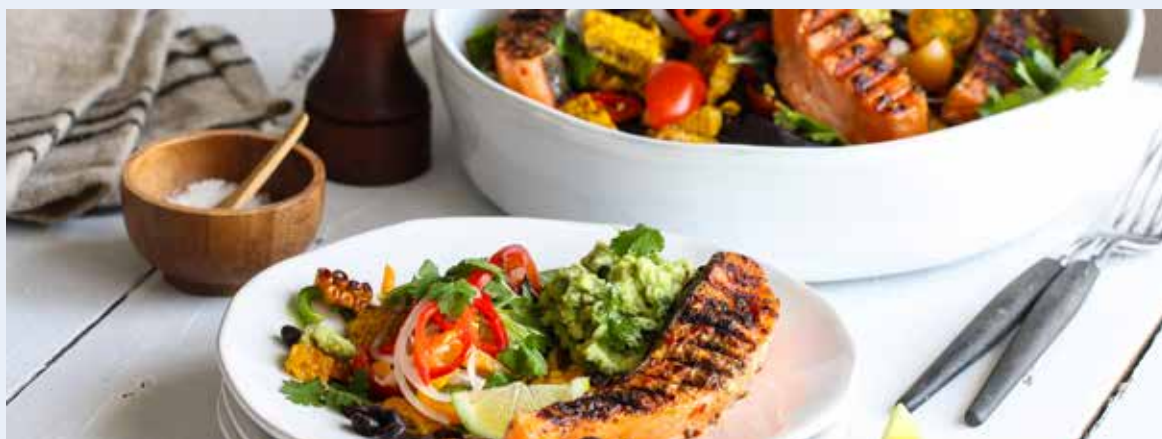
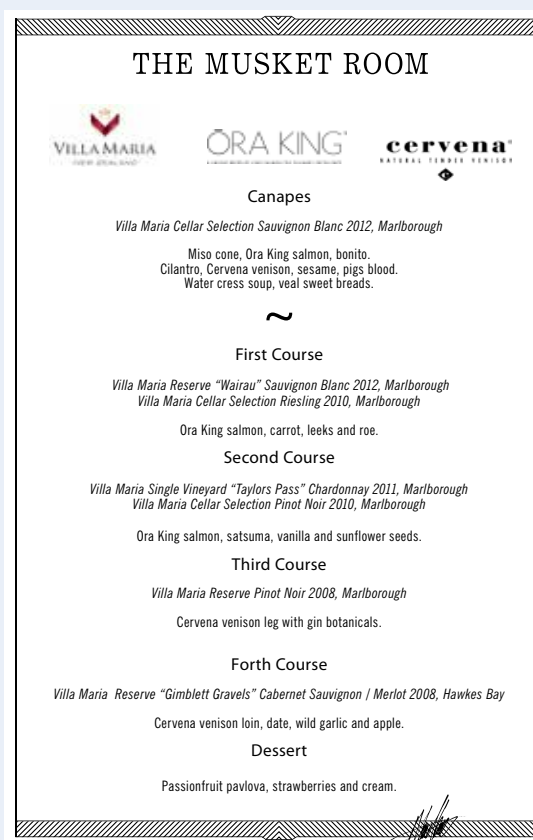


### 3.

#### BRANDING ALL THE WAY TO THE RESTAURANT MENU AND STRONG DOMESTIC RETAIL RECOGNITION

We have been able to achieve what many other protein producers have not, with the inclusion of our Ōra King branding all the way to the menu of more than 400 premium dining restaurants around the world, including the Michelin-starred Musket Room in New York City. This creates a level of consumer brand awareness not generally attainable by protein producers.

Our premium retail brand Regal is an established and trusted brand in New Zealand with a strong domestic following, achieving an 84% net total awareness score in a recent Nielsen study.<sup>5</sup> Regal enjoys a greater than 40% domestic market share combined with a premium position in the marketplace.<sup>6</sup> We plan to expand our Regal smoked salmon presence in key offshore markets in the future (in particular, Asia (ex Japan) and North America).



<sup>5</sup> Source: Nielsen – Regal Brand Health Benchmark Study, March 2016. Chilled smoked salmon category.

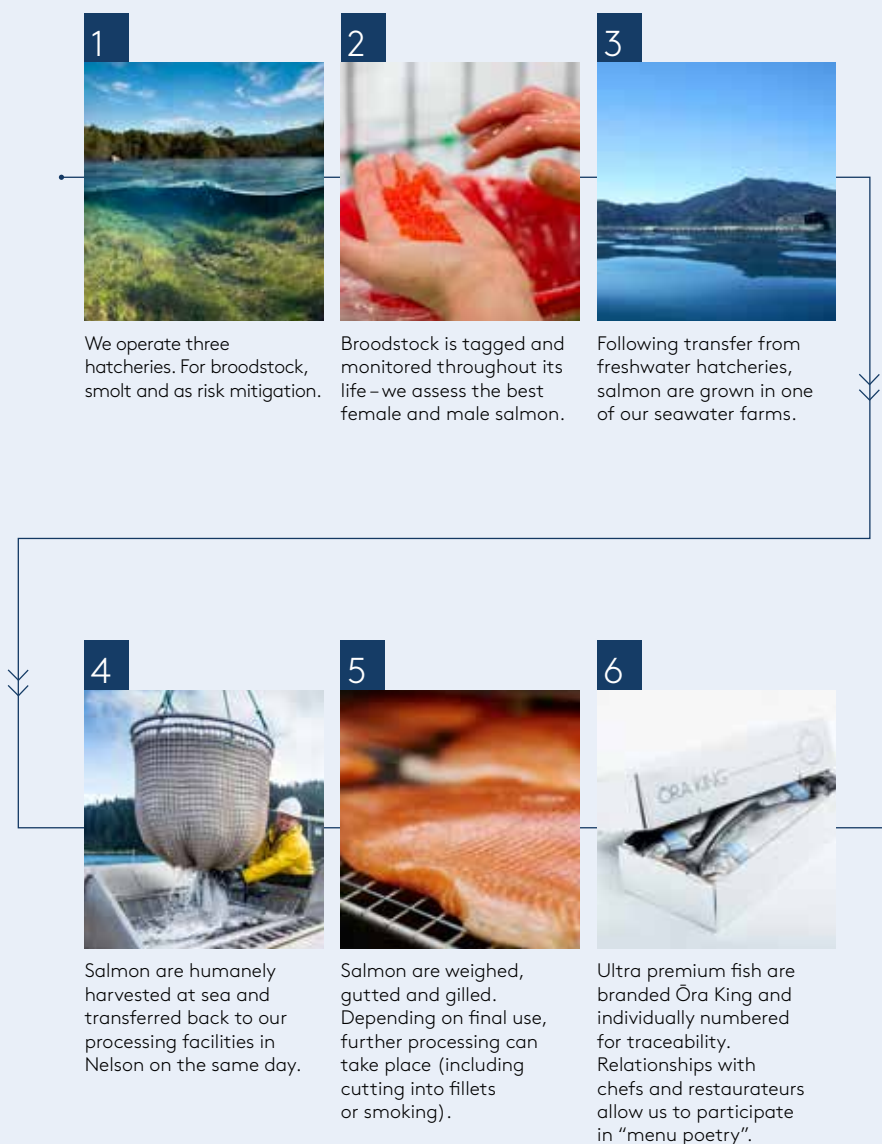
<sup>6</sup> Source: Aztec MAT data to 8 May 2016.

# 4.

## FULL VERTICAL CONTROL

We believe a key component to ensuring the highest possible quality and brand positioning is retaining complete vertical control, enabling year round production, processing and supply of high quality salmon.

We control all elements of the value chain from breeding, hatching and growing through to harvest and processing. Fish are harvested and processed on the same day with fresh whole fish generally dispatched to customers within 24 hours of harvest.



# 5.

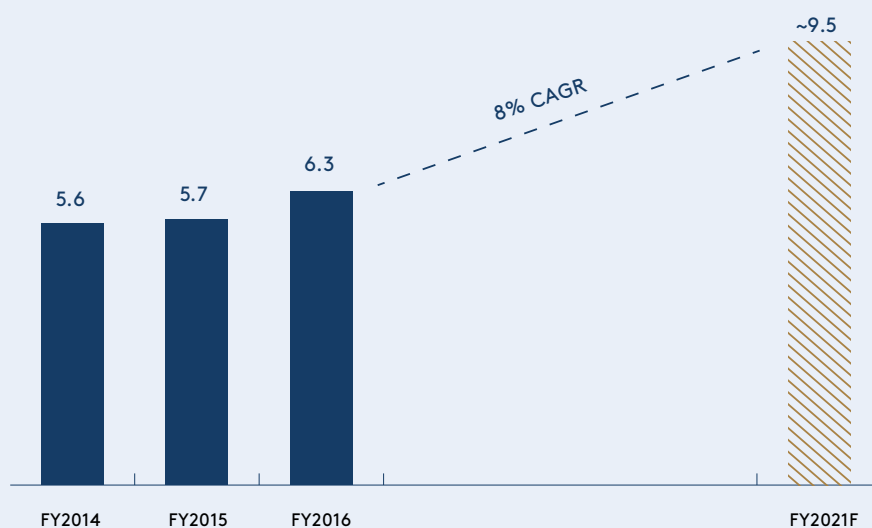
## STRONG GROWTH PROSPECTS

We secured three new 35 year seafarm consents in 2014 which, over time, will allow us to approximately double existing production.

Significant production growth will allow us to capitalise on strong anticipated demand from premium offshore markets including Asia (ex Japan), North America and Europe. The new seafarm consents will allow us to target growth in volumes of approximately 50% over the next five years.

Securing further water space with the optimal characteristics for growing King salmon is an ongoing focus for longer term growth. New Zealand has the world's 10th longest coastline, yet utilisation for finfish aquaculture is very small by world standards.

**New Zealand King Salmon – total harvest volumes actual and forecast (MT 000s, G&G)**



# 6.

## FAVOURABLE DEMAND DYNAMICS

Global salmon prices have been increasing since late 2012, with price neutral global demand for Atlantic salmon growing at 6 to 7% per annum. Ongoing excess demand for salmon is expected to be supported by:

- **Population growth.** The world's population is expected to increase by 31% to 9.6 billion by 2050.
- **Higher protein consumption per capita.** Driven by diet 'westernisation' coupled with increasing GDP per capita.
- **Salmon's superfood characteristics.** Increased focus on healthy eating makes salmon a more popular choice as it is rich in Omega-3, proven to improve heart health, eye health, brain function and metabolism, as well as promote a healthy immune system.
- **Insufficient growth in wild catch.** The World Bank projects total wild caught fish volumes will increase by only 0.2% per annum (CAGR) through to 2030.

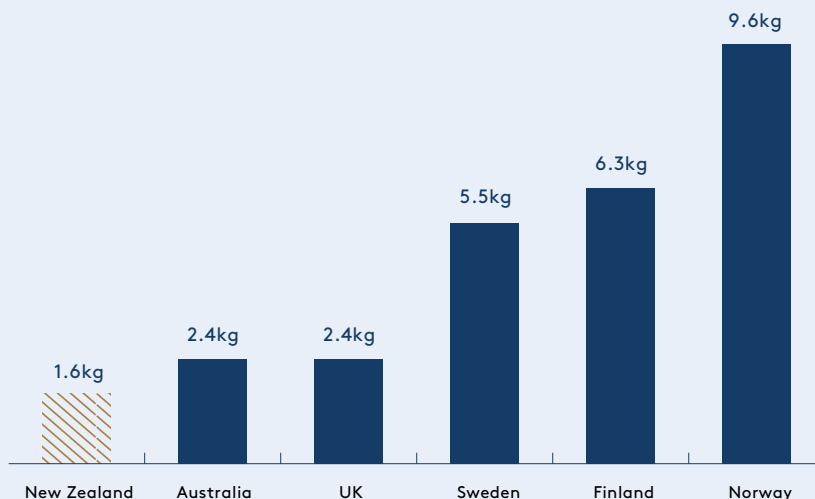
### Further domestic growth

Opportunities to grow our domestic market exist, with New Zealand's per capita salmon consumption low relative to comparable countries.

### Strong export opportunities

We have long established positions in North America, Australia and Japan, and emerging market positions in Asia (ex Japan) and Europe. The increased volume from our new seafarms will be focused on offshore markets where we believe there is significant opportunity.

### Annual salmon consumption per capita<sup>7</sup>



<sup>7</sup> Source: As to Norway, Finland, Sweden and UK, 2014 data from the 2016 Koncept Analytics Global Salmon Fish Market Report; as to Australia, 2014 data from the 2014 Tassal Sustainability Report; and as to New Zealand, 2010 data cited in the 2011 Coriolis Investment opportunities in the New Zealand Salmon Industry Report.





## 7.

INDUSTRY BARRIERS  
PREVENT NEW ENTRANTS

## Geography

Few coastlines across the globe possess the required characteristics (including temperature and water flow) for successful salmon farming. The other major salmon producing countries predominantly farm the Atlantic salmon species. We believe the conditions required to successfully farm King salmon are even more scarce.

## Experience

Establishing a salmon farming operation requires a significant capital investment, access to, or the development of, specialised genetics from a breeding programme and specialist experience. We have developed and refined our farming procedures in the Marlborough Sounds, including proactively developing Best Practice Guidelines with a broad range of local stakeholders to achieve optimal salmon production with lower environmental impact. We have also built a breeding programme over more than 20 years, which is difficult to replicate without considerable investment in expertise and time.

## Regulation

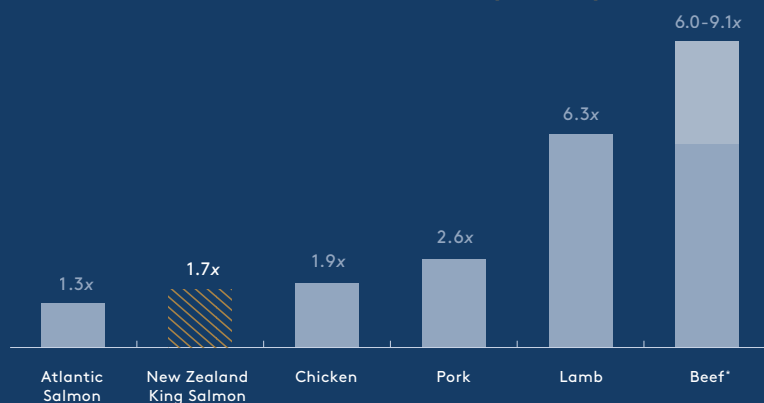
Aquaculture is monitored by regulatory bodies in all producing regions and permits can be difficult to obtain. We have been the most proactive in New Zealand at seeking new consents and were successful in gaining three new seafarm consents in 2014.

SUSTAINABILITY AND  
ENVIRONMENTAL IMPACT

Farmed salmon are an efficient form of protein production relative to other animal protein alternatives. Salmon are efficient to farm because they are cold-blooded and virtually weightless in water. Feed conversion ratio (FCR) measures the efficiency of different protein production methods, calculated as the mass (in kg) of feed needed to increase the animal's bodyweight by one kg. The lower the FCR, the more efficiently feed is being converted to live weight.

With increasing global protein consumption, it makes sense for producers and consumers to focus on efficient conversion of feed to live weight to meet the growing demand for food.

Our average FCR over the last five years of 1.7x outperforms land based animal farming alternatives such as pork, sheep and beef. However, the King salmon species has a less efficient FCR than Atlantic salmon, in part due to its higher fat content. The components of New Zealand King Salmon's feed have evolved over time. In 1990, fish meal and fish oil comprised 83% of global salmon aquaculture feed. Our feed currently comprises only 31% of these components, with the remainder substituted by vegetable and land-based animal by-products.

Feed conversion ratio of farmed animal protein production<sup>8</sup>

\*The FCR of beef production has a range due to the varying types of feed used.

Salmon farming generally benchmarks favourably against its animal protein alternatives on most sustainability metrics, with the lowest arable land and irrigation water requirements of the farmed animal protein producers, and lower carbon footprint.

## OUR COMMITMENT TO THE ENVIRONMENT

New Zealand King Salmon is firmly committed to sustainability and managing our resources for the long term. Quality and sustainability are achieved through managing several key factors: maintaining a clean rearing environment; ensuring healthy salmon using proactive aquaculture management; sourcing sustainable and nutritious feed ingredients; and practicing careful and humane harvesting methods.

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 Practice Guidelines for salmon farming in the Marlborough Sounds. These Best Practice Guidelines will help protect the environment while including the local community and industry, and are standards we can proudly promote to the world.

The New Zealand salmon industry was the first and only ocean-farmed salmon producing region to attain the 'Best Choice' (green) accreditation in the Monterey Bay Aquarium Seafood Watch sustainability guide in 2015. Monterey Bay is generally regarded as a global leader in sustainable seafood guides and has rated approximately 90% of global seafarmed salmon aquaculture systems. Of those reviewed, less than 1% have been rated green.



<sup>8</sup>Source: As to Atlantic salmon, Chicken, Pork and Beef, data from the Global Salmon Initiative Sustainability Report 2010; as to Lamb, data from Bjorkli, J. *Protein and energy account in salmon, chicken, pig and lamb*. M.Sc. Thesis, Norwegian University of Life Sciences (UMB), Norway 2002, cited by Skretting.

# OUR BRANDS AND PRODUCTS

## OUR BRANDS

New Zealand King Salmon operates three key brands:

### ŌRA KING™

Ōra King salmon are the best of New Zealand King Salmon's unique breed of King salmon, nurtured throughout their lifecycle to ensure the finest quality. Ōra King salmon is inspired by, and created for, discerning chefs around the world.

Ōra King achieves a notable premium to Regal and other brands of King salmon.



Regal is our premium retail brand positioned by reference to its Marlborough provenance. Whilst Regal is predominantly sold locally, we intend to promote the brand's smoked and wood roasted salmon product portfolio in key offshore markets in the future. The Regal Artisan sub-brand is used for the finest Regal products.

The Regal brand is a long-standing retail brand with the highest level of awareness domestically. In a recent Nielsen study,<sup>9</sup> Regal achieved a net total awareness score of 84%, well ahead of the next highest domestic chilled smoked salmon brand with 52% total awareness.



Southern Ocean is our family value-oriented brand. Southern Ocean is predominantly sold in New Zealand and mostly comprises smoked products. Southern Ocean was the third most recognised brand with total awareness of 50% in the recent Nielsen study referred to above.





Products that are not sold under the key brands above (predominantly fresh fish products) are sold under the New Zealand King Salmon label, effectively as unbranded products. A strategic focus for New Zealand King Salmon is to increase the proportion of sales under its three key brands.

<sup>9</sup> Source: Nielsen – Regal Brand Health Benchmark Study, March 2016. Chilled smoked salmon category.



## FINISHED PRODUCTS

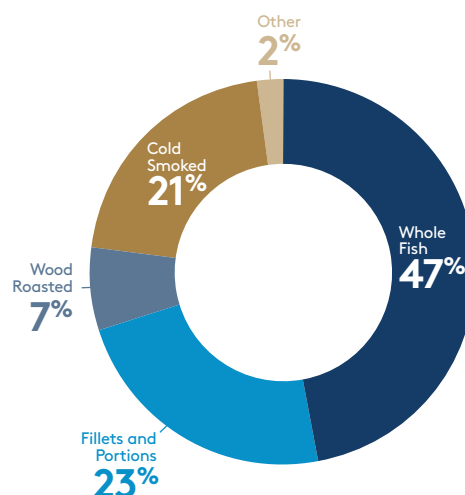
Finished products are broadly separated into four key categories:

WHOLE FISH	FILLETS AND PORTIONS	WOOD ROASTED	COLD SMOKED
Whole fish is typically sold fresh. Whole fish is generally sold either as Ōra King or under the New Zealand King Salmon label. Ōra King salmon are given an individually numbered gill tag for authentication and traceability.	Pre-cut fillets and portions are predominantly sold in a retail pre-pack, vacuum packed or sold in a wholesale format, under our Ōra King or Regal brands, or the New Zealand King Salmon label.	Typically a 200g portion, our wood roasted products are hot smoked using high temperature over aromatic beech wood, either natural or with a subtle flavouring. The product is largely sold under the Regal and Southern Ocean brands.	Our cold smoked products are predominately cured in a dry salt and sugar mix and then smoked at a low temperature in natural beech or manuka wood. The finished products are typically presented as slices in packs sized between 50g and 500g. Cold smoked products are mostly sold under the Regal and Southern Ocean brands, in addition to a boutique range of Ōra King and Regal Artisan products.
			

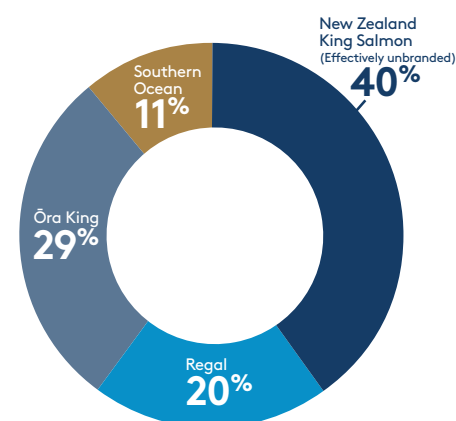
Other products sold include sales of heads, eggs (caviar) and by-products, and emerging revenue streams such as a premium pet food under the Omega Plus brand, which commenced sales through a major New Zealand supermarket chain in September 2016.

The charts to the right show the composition of sales by product and brand for the last financial year:

Sales by product (\$, FY2016)



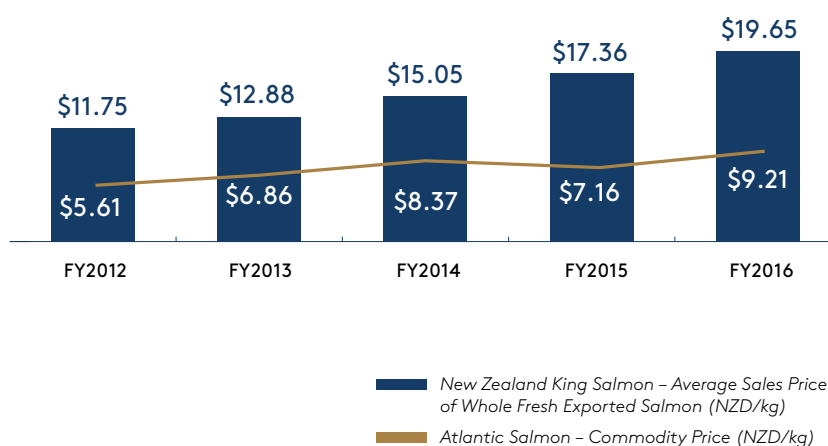
Sales by brand (\$, FY2016)



New Zealand King Salmon fosters strong relationships with its customers, including leading domestic and international chefs and New Zealand food writers and personalities who often become ambassadors for our products. In addition, we host an annual celebration event attended by chefs from around the world, the Ōra King Awards, to recognise leading chefs and creative dishes that use Ōra King salmon both domestically and abroad.

The success of our Ōra King branding in the foodservice category has enabled us to decouple our pricing from movements in the commodity price for Norwegian Atlantic salmon. This is highlighted in the graph to the right which shows the premium pricing received by us for our products.

New Zealand King Salmon – weighted average sales price per kg compared to the commodity price for Norwegian Atlantic salmon converted to New Zealand dollars, FY2012 to FY2016<sup>10</sup>



<sup>10</sup> Source: Fishpool.eu for Norwegian Atlantic Salmon commodity prices (average prices reflect the average commodity price across 52 weeks of data), converted to New Zealand dollars at the average daily closing New Zealand dollar:Norwegian kroner rate (Source: Capital IQ).

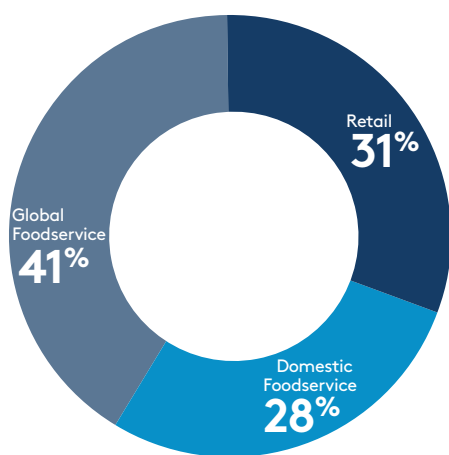
# WHO WE SELL OUR PRODUCTS TO

## KEY SALES CHANNELS

New Zealand King Salmon has an extensive range of customers across a number of discerning markets. During FY2016, we sold our products to more than 280 customers across retail and foodservice channels in more than 15 countries. The needs of each customer and region differ slightly, however, customers can broadly be grouped into one of two key sales channels:

- 1. Foodservice** (e.g. restaurants, caterers, and hotels) which represents approximately 69% of total sales. We generally sell foodservice customers whole fresh fish, pre-cut fillets and portions, and a range of smoked products, usually through distributors. Over 90% of our exports are airfreighted to achieve maximum freshness.
- 2. Retail** (i.e. supermarkets) which represents approximately 31% of total sales. We sell pre-packed value-added products (including wood roasted and cold smoked product), whole fresh fish and pre-cut fillets to our retail customers.

### Sales by channel (\$, FY2016)



## KEY SALES MARKETS

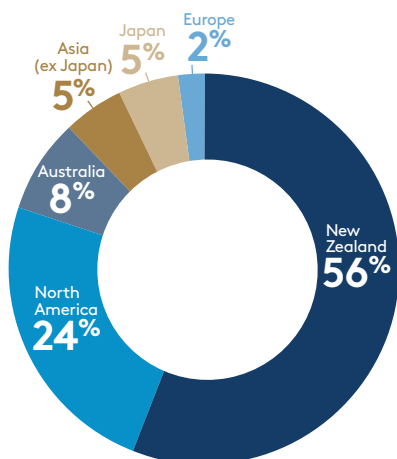
Our key sales markets are New Zealand, North America, Australia and Japan. We also have an emerging presence in Europe and Asia (ex Japan) that we intend to expand when additional production volumes from our new seafarms become available.

We believe that one of our key strengths has been the ability to optimise returns by rebalancing sales to higher margin markets. We have historically been supply constrained in an environment where demand significantly exceeds supply. Notwithstanding an expected material increase in production, we believe that this demand and supply imbalance will continue.

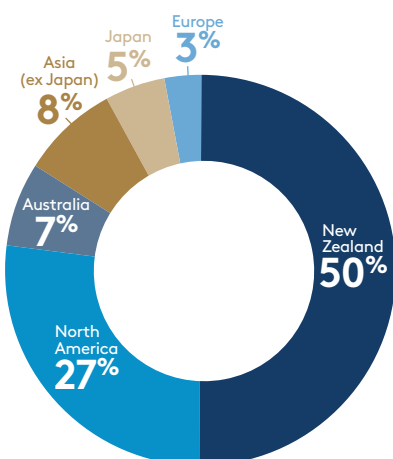
41% of our production volume is sold internationally, generating 44% of our revenue. Our domestic and export sales strategy is to target an increase in export revenue from 44% to 59% by FY2021F. Our returns from export sales are affected by the value of the currencies in which we receive payment for our products. You can find more information about this risk and how we manage it in Section 8 (Risks to New Zealand King Salmon's business and plans).



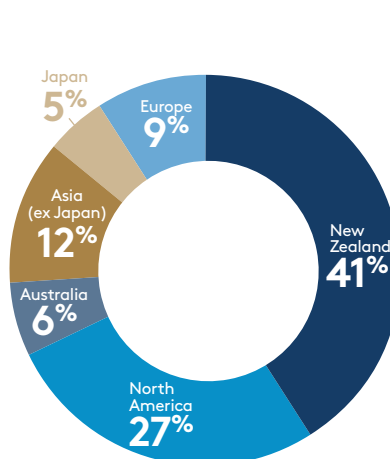
**Sales by market**  
(\$, FY2016)



**Forecast sales by market**  
(\$, FY2018F)

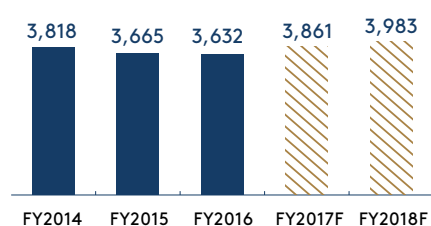


**Target sales by market**  
(\$, FY2021F)



## NEW ZEALAND

Sales in MT, actual and forecast



Foodservice sales are expected to increase due to greater production volumes and increasing appetite for salmon products generally. Due to supply constraints and strong international demand, domestic growth has not been a focus as higher margins have been achieved from exporting products.

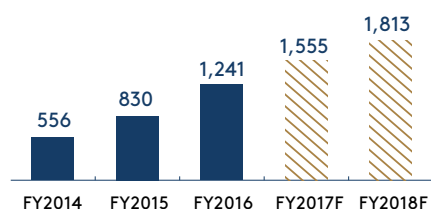
Retail sales are made through the two major supermarket chains in New Zealand. We expect to increase sales by raising awareness of our brands and from continued development of our value-added product range.

Product innovation and marketing are key strategic initiatives to increase retail sales. Product innovation will focus on products that address consumer concerns around how to prepare, cook and present salmon at mealtimes. They are designed to be low fuss, easy to prepare, healthy and tasty meals. As a recent example we launched our Regal salmon potato cakes retail meal product in December 2015.

Several additional sales staff are being recruited in support of New Zealand foodservice and retail sales plans, while an increase in advertising and promotion spend has been budgeted in support of targeted retail sales growth.

## NORTH AMERICA

Sales in MT, actual and forecast



We have been exporting to North America for more than 15 years. We believe this market offers considerable future opportunities for growth as supply constraints have limited the rate of expansion of sales within North America to date. With the benefit of additional production volumes and our recent focus on growing larger fish all year round, we expect to be able to take better advantage of this market opportunity.

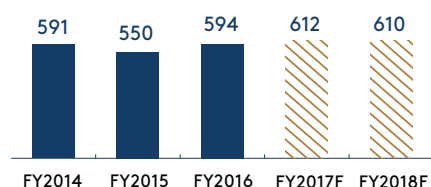
In the foodservice sales channel, our sales have been helped by increased awareness in restaurants of our brands and consumers' focus on sustainability. The New Zealand salmon industry was the first and only ocean-farmed salmon producing region to attain the 'Best Choice' (green) accreditation in the Monterey Bay Aquarium Seafood Watch sustainability guide in 2015. Monterey Bay is generally regarded as a global leader in sustainable seafood guides and has rated approximately 90% of global sea-farmed salmon aquaculture systems. Of those reviewed, less than 1% have been rated green.

We are also exploring opportunities to launch Regal value-added wood roasted and cold smoked products in selected premium retail outlets.

To take full advantage of these opportunities, the North American business development team has recently been expanded.

## AUSTRALIA

Sales in MT, actual and forecast

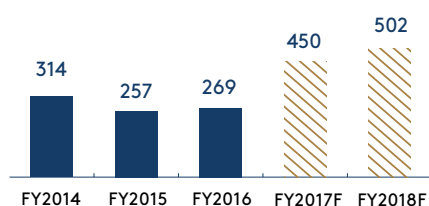


Australia is an established and stable market for New Zealand King Salmon. We have been exporting to Australia for more than 20 years where our focus is on the premium foodservice sales channel with a smaller portion of sales through retail outlets (e.g. seafood shops, delicatessens, and boutique/premium supermarkets).



## ASIA (EX JAPAN)

Sales in MT, actual and forecast



Sales to Asia (ex Japan) are also anticipated to increase, especially in our value added smoked products. In the past, when production volumes have been limited, we have reduced supply to these markets in favour of higher margin markets.

We expect increased sales will be driven by:

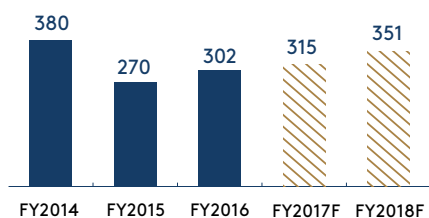
- Continued strong growth in consumption. Salmon is not farmed in Asia due to unsuitable climate and water conditions. However, imports of salmon to South East Asia, China and Hong Kong have grown at an annual rate of 10.6% since 1990. We expect continued growth in consumption reflecting the westernisation of diets and health benefits of salmon, together with increasing GDP in those markets.
- Freight advantages compared to other key markets due to New Zealand's relative proximity to these markets.
- The positive image of New Zealand food in these markets.

While New Zealand King Salmon does not currently export to China directly (apart from Hong Kong), it is a target market because of strong growth in imports of salmon and increased demand for premium food products.

Sales to Asia (ex Japan) also includes small sales volumes to the Pacific Islands.

## JAPAN

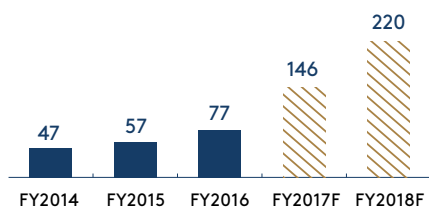
Sales in MT, actual and forecast



Japan is a longstanding export market for New Zealand King Salmon. However, as other export markets have grown, coupled with a significant devaluation of the Japanese Yen, we have re-focused within Japan on higher margin foodservice accounts and complementary premium retail channels, primarily through our Ōra King brand.

## EUROPE

Sales in MT, actual and forecast



We currently have an emerging presence in Europe. Europe is a target market for New Zealand King Salmon due to established, premium channels for high quality seafood items and the expectation that it will be a higher margin market.

We expect to be able to carve out a strong niche, catering to a premium segment within the European market. Now that we have the production volume available 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 later in FY2017F, will enable us to sell further volume into the European market. We already have distribution relationships in the European market that will support the sale of increased volume.

# HOW WE PRODUCE WHAT WE SELL

## PRODUCTION PROCESS

We are a fully vertically integrated operation with key infrastructure located in the Marlborough Sounds, Nelson, Golden Bay and Canterbury. Our 30 year history and experience producing the King salmon species have meant we have generally been able to adapt to changing farming challenges and conditions over time, and this remains an ongoing focus for us.

The production process can be split into three areas:

### HATCHERIES



- This is where we breed salmon and grow smolt to 130 grams for transfer to our seafarms.
- Three hatcheries across the South Island.
- Approximately 30 employees.
- Existing hatcheries have capacity to put approximately 3.5 million smolt to sea annually, or to support an annual harvest volume of some 11,500 MT.

### SEAFARMS



- This is where we grow smolt to harvest weight salmon.
- Eight operational seafarms throughout the Marlborough Sounds.
- Approximately 85 employees.
- Existing seafarms support annual production volumes of approximately 6,000 MT. With the three new seafarms our eventual annual production capacity is expected to increase to more than 12,000 MT.

### PROCESSING FACILITIES



- This is where we process harvested salmon into finished products.
- Processing operations are based in Nelson.
- Approximately 240 employees.
- Core processing infrastructure capacity (for gutting, gilling and grading) is currently estimated at 7,500 MT per annum. This could be doubled by adding an extra shift for limited additional spend.

## BREEDING, HATCHING AND GROWING

The New Zealand King Salmon business is operated in a manner that allows for year round production.

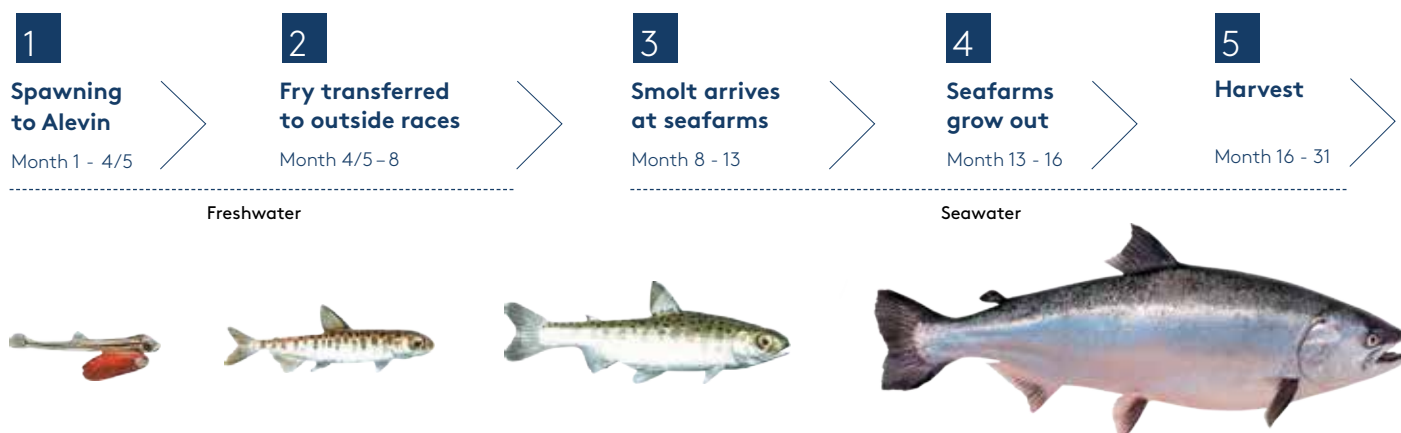
Our unique point of difference begins with our breeding programme. We have been running a breeding programme at our hatcheries for more than 20 years across eight generations of salmon, with approximately 115 families of fish and records on more than 200,000 fish. The fish we use for breeding are referred to as “broodstock”.

We believe the output of this programme, which crosses the traits of observed families for beneficial inherited characteristics, is a fish with superior characteristics to wild King salmon. Our primary focus

has been on developing fish that are bred for culinary excellence and that grow faster, and therefore larger, than wild King salmon, with a higher fat content. Externally conducted studies show that, after two months, New Zealand King Salmon’s fry have grown more than 50% larger than wild King salmon.<sup>11</sup>

Fry typically spend around eight months in the hatchery at which time they are mature enough to undergo smoltification (the ability to exist in salt water). After smoltification, they are transferred to specific seafarms which will ensure the appropriate nurturing to a harvest weight and quality on a year round continuous basis. Typically, our salmon spend around 16 months at the seafarms before harvest.

### Illustrative King salmon lifecycle



<sup>11</sup> Source: Nelson Marlborough Institute of Technology – Salmon Rearing Project, 2013.

## Hatcheries

We operate three hatcheries across the South Island in Tentburn, Takaka and Waiau. The wide geographic dispersion of our hatcheries acts to mitigate the risk of disease or natural disaster. Our key hatcheries have ample water supply which we believe will facilitate any future expansion beyond our eight operational seafarms.

HATCHERY	LOCATION	ACTIVITIES	CONSENT EXPIRY DATES
Takaka	Golden Bay	Production of broodstock and eggs	Fish farm licence currently in renewal process Water permit expires in 2034
Tentburn	Canterbury	Smolt production	Various licences and permits expiring between 2026 and 2038
Waiau	North Canterbury	Backup for broodstock and smolt	Fish farm licence currently in renewal process Water permits expire between 2028 and 2039



## Seafarms

Until recently, we operated five seafarms in the Marlborough Sounds. In December 2014 three new consents were issued, each with a 35 year term, and we recently harvested from the first of these seafarms, Waitata, in July 2016. Unlike some of the existing seafarms (which are converted mussel farms), the new consents are for sites that were selected specifically for King salmon production, with characteristics (such as higher water currents) that will provide better production and environmental outcomes. We expect these new consents will enable us to approximately double existing production over time.

The map opposite shows the location of New Zealand King Salmon's seafarms and the table below provides key information on each seafarm. In the past, we have successfully renewed all consents. The consent for our largest existing seafarm, Te Pangu, was successfully renewed in January 2016 for a further 20 years to 2036.

SEAFARM	LOCATION	MAXIMUM SURFACE STRUCTURE AREA (HA)	MAXIMUM FEED DISCHARGE <sup>1</sup> (MT / P.A.)	CONSENT EXPIRY
Existing Seafarms				
Te Pangu	Tory Channel	1.5	6,000	2036
Clay Point <sup>2</sup>	Tory Channel	2.0	4,000	2024
Otanerau Bay	Queen Charlotte Sound	2.0	3,500	2024
Ruakaka Bay	Queen Charlotte Sound	2.0	4,000	2021
Waihinau Bay/ Forsyth Bay <sup>3</sup>	Pelorus Sound	2.0	3,000	2024
Crail Bay	Pelorus Sound	Not in use – currently fallowed		2024
New Seafarms				
Waitata	Pelorus Sound	1.5	3,000 (current), 6,000 (maximum eventual limit)	2049
Ngamahau	Tory Channel	1.5	1,500 (current), 4,000 (maximum eventual limit)	2049
Kopāua	Pelorus Sound	1.5	1,500 (current), 4,000 (maximum eventual limit)	2049

Notes to table and map:

<sup>1</sup> New Zealand King Salmon will often choose to farm well within the maximum consent limits, particularly at low flow sites.

<sup>2</sup> We lease a portion of the waterspace at this seafarm from Te Atiawa under commercial terms.

<sup>3</sup> A single seafarm operates across these two seafarms on an annual rotation basis. These sites are currently fallowed, but Waihināu is expected to be used from early 2017 to supply smolt to our other Pelorus Sound seafarms.



You should also read Section 7 (New Zealand King Salmon's financial information) which describes the financial impact of events that have occurred at our seafarms in the past.



## New Zealand King Salmon Seafarms



### Legend

- Operational
- Fallowed

## HARVEST AND PROCESSING

Fish are humanely harvested and transferred to our processing facilities in Nelson on the day of harvest. In Nelson, all fish are gutted and gilled, inspected, graded and weighed. Premium fish are graded Ōra King based on a stringent set of quality requirements. Processing commences on the night of harvest, ensuring the freshest possible products are packed for all global markets with despatch of whole fresh fish generally the following morning. Fish will either be sold whole, or go on for

further value-added processing. New Zealand King Salmon's processing operations include wood roasting, cold smoking, marinating, filleting and portioning of salmon. Further planned capital investment is targeted at improving harvesting and processing efficiency, and providing increased capacity for value-added and premium product processing.

## SEAFARM CONSENT CONDITIONS AND BEST PRACTICE GUIDELINES

In New Zealand, consents and regulations for fish farming are primarily legislated under the Resource Management Act 1991 and the Fisheries Act 1996. The Ministry for Primary Industries and the Marlborough District Council administer the regulatory requirements and monitor consent holder activity and effects.

To monitor compliance with consent conditions, reviews of the environmental effects are undertaken annually by independent scientists and reported to Council. Those reports are then subject to scrutiny by scientific and technical officers and are often subject to external peer review. A number of consent conditions provide for an adaptive management process, which allow us to respond to monitoring results by adapting our operations in a manner that will ensure we are or will be compliant with consent conditions within agreed timeframes.

Monitoring results have shown that our seafarms are in overall compliance with the environmental quality standards contained in individual current consents.

With our support, the Best Practice Guidelines have been developed to apply across all of our seafarms, drawing on international science, and are now in the process of implementation. These guidelines will form part of consent conditions, at the latest when existing consents are renewed. To facilitate the transition to best practice, all seafarms are already tested against this performance criteria.

There is currently technical non-compliance against consent conditions at certain test locations at Clay Point and results at Te Pangu demonstrate a need for further sampling in the next 12 months. The monitoring shows effects that are not biologically significant, and non-compliance is localised. An application has been lodged in respect of Clay Point to adopt the Best Practice Guidelines at that site (in place of existing consent conditions), with which we believe the site would currently comply. Minor operational adjustments are being implemented at Te Pangu (which do not adversely affect the economics of the operation of the seafarm).

While the Otanerau and Forsyth seafarms are recognised as complying with their consent conditions (and have been rated "Grade A" by the Marlborough District Council), those farms do not comply with the Best Practice Guidelines at the present time. The Ministry for Primary Industries and the Marlborough District Council are working with New Zealand King Salmon and the community to improve the environmental, social and economic performance of these seafarms.

New Zealand King Salmon's practice has been to work closely with the Marlborough District Council to ensure acceptable environmental performance at our seafarms. That practice will continue.

## KEY COSTS OF THE PRODUCTION PROCESS

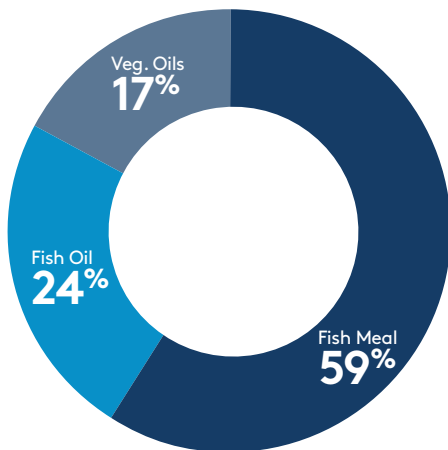
### Feed

Our most significant cost is feed, which annually accounts for ~40% of all cash expenses. Historically, the two most important ingredients in fish feed have been fish meal and fish oil, however, through time the use of these ingredients has been reduced and replaced by agricultural products and poultry by-products. The Global Salmon Initiative, a global salmon industry body of which New Zealand King Salmon is a member, is focused on continuing to reduce the use of fish meal and oil in salmon feed.

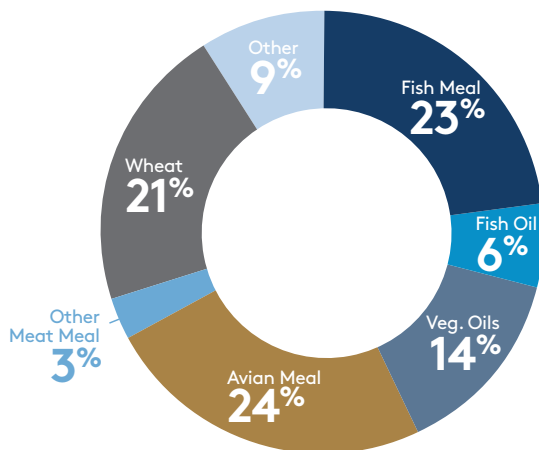
We seek to replicate a wild salmon diet while ensuring the feed we use contains a range of key nutrients, vitamins and trace elements beneficial for salmon growth and human consumption.

No feed company offers a feed composition developed specifically for King salmon and accordingly we have invested in feed development initiatives. We continue to undertake and commission research and work with our suppliers to further understand and refine feed composition to optimise FCR. For example, we are currently working with private science providers and the Government to conduct a four year study into King salmon nutrition that is expected to conclude at the end of 2018. Results to date have shown that diet is crucial in summer and therefore we are developing our first summer specific diet.

**Global salmon aquaculture – components of feed (1990)<sup>12</sup>**



**New Zealand King Salmon – components of feed (Current)**

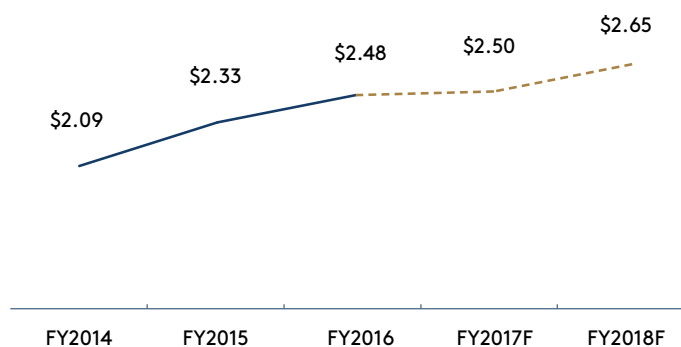


Percentages are approximate and based on our most commonly used feed type.

<sup>12</sup> Source: Marine Harvest – Salmon Industry Handbook 2016.

Feed is made by a range of international manufacturers, and we endeavour to source our feed from multiple manufacturers to enable robust performance benchmarking and ensure adequate price tension. We target a balanced spread of suppliers at any point in time, however, from time to time there may be transition periods which result in greater concentration with a supplier or suppliers for a period during transition. 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. The chart below shows that feed prices, in New Zealand dollars per kg, weighted across all feed types have increased in recent years, primarily due to changes in feed composition (particularly between FY2014 and FY2015), foreign exchange rates and inflation in the costs of the underlying feed components, and are expected to continue to increase for similar reasons.

#### Weighted average feed cost (NZ\$/kg)



#### Labour

Our next most significant cost is direct and salaried labour. We employ approximately 440 people, of whom approximately 350 are involved in production (breeding, growing, harvesting and processing fish).

Fish breeding and growing typically requires access to skilled labour which can be difficult to source domestically. At times, we have recruited offshore when we have needed to replace skilled aquaculture positions.



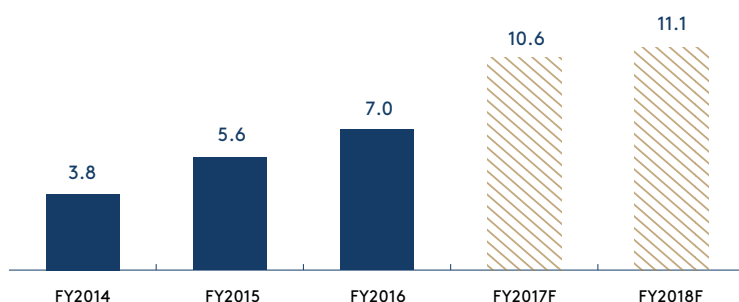
## CAPITAL EXPENDITURE

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
Capital expenditure prior to the Offer	Development of the Waitata and Ngamahau seafarms and 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)) and operating cash flows.	Investment in seafarm and processing operational efficiency including feeding systems and net cleaning capability. This has been funded prior to the Offer.
Capital expenditure during the Prospective Period	<p>Developing infrastructure for the Kopāua seafarm (\$3.6 million).</p> <p>New infrastructure at the Waihināu/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 operating cash flows.</p>
Capital expenditure beyond the Prospective Period	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 cash flows 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 production) is expected to remain approximately within depreciation and amortisation during the same period.

### Historical and forecast capital expenditure (\$m)





# GROWTH STRATEGY AND OUTLOOK

## RECENTLY GRANTED CONSENTS

In 2014 New Zealand King Salmon was granted consents to begin operating seafarms at three new sites.

Seafarm space is a critical determinant of production volumes and these new seafarms will enable a material uplift in production. The new seafarms were selected specifically for King salmon production, with characteristics (such as higher water currents) that will provide better production and environmental outcomes. The resource consents provide for gradual increases in production based on environmental compliance monitoring. We estimate that these new seafarms will enable production to increase by approximately 50% in the next five years and, at full capacity, will allow us to approximately double existing production.

The resulting increase in production is expected to be accompanied by a material improvement in financial performance due to higher volumes for sale, modest efficiencies from economies of scale, and a modest reduction in production costs due to improved automation and technology being adopted at new seafarms.

Demand both locally and offshore for our products is strong and we are confident of being able to sell the increased volume without any adverse impact on prices. In the Prospective Period, we expect to sell approximately 25% of the additional volume domestically, with the remaining 75% being sold offshore.

## FURTHER GROWTH

The Government has indicated its commitment to support the New Zealand aquaculture industry's objective to increase revenues from the aquaculture industry from approximately \$400 million in 2011 to over \$1 billion by 2025.

Our future growth is likely to come from a number of strategic developments both specific to us and industrywide:

- 1. New waterspace.** In order to reach the industry target of over \$1 billion in sales by 2025, further waterspace will be required. The Southland Regional Development Strategy identifies aquaculture as one of the key economic growth priorities for the Southland region. Should waterspace be made available in Southland, we plan to pursue this opportunity.
- 2. Waterspace swaps.** The Government and the Marlborough District Council are working together on the implementation of Best Practice Guidelines for salmon farming in the Marlborough Sounds. A possible outcome of this could be a process to swap some existing low flow seafarm consents for waterspace with improved characteristics and at which compliance with Best Practice Guidelines can be more easily achieved.
- 3. Land based farming facilities.** Land based farming facilities would enable us to grow smolt to a larger size (from approximately 130 grams to 1 kg) before transfer to the open sea.
- 4. By-products.** We have developed a premium petfood product from salmon by-products to be sold under the Omega Plus brand, which commenced sales through a major supermarket chain in September 2016.
- 5. Technological change.** Technology is expected to open up farming opportunities in the open sea. There are a small handful of recent examples of this including Huon's Storm Bay, Aquabest project in the Baltic Sea and SalMar's planned open ocean salmon farming project in Norway.

# THE INDUSTRY WE OPERATE IN

The global salmon industry is dominated by production and sale of the Atlantic salmon species, with King salmon contributing just 0.7% of total global production.

## GLOBAL SALMON PRODUCTION AND DEMAND

In 2014, global salmon production was 3.4 million MT, of which 2.5 million MT (or 74%) was produced in aquaculture. Global salmon aquaculture production grew at an annual rate of 6% in the ten years to 2014. However, the growth in aquaculture production is expected to reduce to an annual rate of 3% in the period 2015 to 2020 as all major producing regions are encountering biological, regulatory or social constraints. If global catch volumes remain at current average volumes, global production growth will slow to an annual rate of 2.6% during that same period.

There are a number of factors expected to constrain future production:

- **Availability of suitable coastlines.** Few coastlines across the globe are suitable for salmon farming. Ideal environments require suitable water temperatures and currents to exchange water, which tend to be found near archipelagos and fjords.
- **Restrictions on new licences.** Salmon farmers in key farming countries (including New Zealand, Norway, Chile, Scotland and Canada) have seen licence conditions and regulation increase.
- **Biological boundaries.** The Chilean salmon farming industry has suffered a number of biological issues, including outbreaks of disease and toxic algal blooms (a natural event), significantly reducing production growth from that region. Some of these issues have caused the industry to review its practices and have led to calls for more stringent regulation. Similar issues could arise in other farming countries.

In contrast to overall increases in global salmon production, total wild catch and aquaculture production of King salmon has decreased over the past 25 years. Production volumes were increasing in the late 1990s but reduced sharply in the mid 2000s following the exit of Marine Harvest in Canada. New Zealand King Salmon believes there are two key reasons why global production of King salmon has not increased:

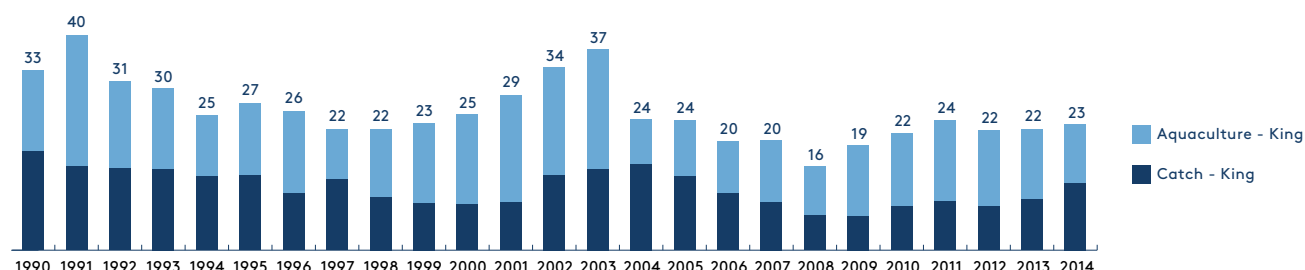
1. Research and understanding of King salmon aquaculture practices is less extensive than it is for Atlantic salmon. This can lead to worse outcomes for producers because aquaculture practices or feed may be suitable for one species but not another.
2. Major international producers of salmon have focused on Atlantic salmon and developing scale in Atlantic salmon production to be successful in that market.

### Coastlines suitable for salmon farming<sup>13</sup>



<sup>13</sup> Source: Marine Harvest – Salmon Industry Handbook 2016.

### Global production of King salmon (aquaculture and wild catch, MT 000s)<sup>14</sup>



Long-term analysis of supply and prices conducted by Kontali Analyse, a Norwegian fisheries and aquaculture analysis company, has concluded that the price-neutral demand growth for Atlantic salmon is between 6 and 7% per annum. In an environment where supply growth is estimated to be below this level of demand growth, prices are expected to remain high or increase. Consumers in a number of developed markets are demonstrating steady increases in per capita consumption particularly where markets have been stimulated by brand building and product innovation. We believe that, reflecting its premium quality and limited global supply, demand for King salmon will continue to grow at similar or better rates to Atlantic salmon demand.

### GLOBAL PRICES

A forecast excess of demand growth over production growth, taking into account possible production reductions relating to Chile's algal bloom outbreak, has resulted in substantial increases in the global prices for Atlantic salmon. King salmon prices are higher and less volatile than Atlantic salmon prices. We believe this is because:

- King salmon is produced in very small volumes, and these volumes have seen little growth over the past 10 years.
- Increasing recognition of King salmon as the premium salmon species in terms of taste, colour, fat and Omega-3 oil content, fillet size and texture.
- Domestic prices are less affected by global movements in supply and demand, given New Zealand's geographic isolation from key producing regions and biosecurity-related limitations on imports.

### THE NEW ZEALAND SALMON INDUSTRY

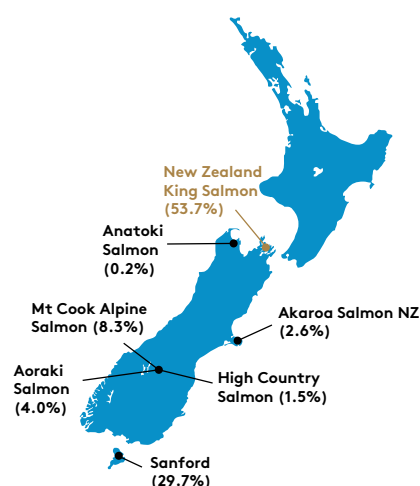
In the 1980s the first salmon seafarms were developed in the Marlborough Sounds. King salmon is the only salmon species farmed in New Zealand due to strict biosecurity laws prohibiting the introduction of live fish.

There were seven producers in the New Zealand market that collectively produced 12,500 MT of King salmon in 2015.<sup>15</sup> New Zealand currently produces an estimated 90% or more of total global farmed King salmon production.

New Zealand King Salmon, Sanford and Akaroa, collectively accounting for 86% of domestic production, have their seafarms in saltwater, while the remaining producers farm in freshwater.

To date, the New Zealand salmon industry has been largely unaffected by diseases found in most other salmon producing regions. Certain farming areas including the Marlborough Sounds have experienced the development of a *Rickettsia*-like organism, however, this organism has not been proven to cause fish health issues.

### Share of total New Zealand production<sup>15</sup>



<sup>14</sup> Source: Food and Agriculture Organisation of the United Nations, FishstatJ 2014.

<sup>15</sup> Source: New Zealand Salmon Farmers Association, 2015. In September 2016, Mt Cook Alpine Salmon acquired Aoraki Salmon.



# DIRECTORS AND SENIOR MANAGERS

## BOARD OF DIRECTORS

New Zealand King Salmon's board currently comprises the following:

**John Ryder**  
**Independent Chairman**  
**MCom (Hons), CA, CMA**

John became a director of New Zealand King Salmon in 2009. John is an active investor and company director, and his current roles include Executive Chairman of Alpine Retirement Group Limited and Independent Chairman of Direct Capital IV Management. John was the co-founder of NZX listed Ryman Healthcare Limited (where he was co-Managing Director) and was a director of NZX listed Michael Hill International Limited. He was involved in the initial public offering of both of these companies. John is a Chartered Accountant.

**Paul Steere**  
**Independent Non-Executive Director**

Paul was the founding CEO of New Zealand King Salmon from its formation to 2009 and has been a director of New Zealand King Salmon since 2009. Paul has a background in manufacturing, international trade and fast moving consumer goods having previously held senior executive positions with a British multinational including in Hong Kong and Singapore before joining the NZ Dairy Board as a General Manager for eight years. Paul is currently Chairman of ASX listed Cleanseas Tuna Limited, Chairman of Nelson Airport Limited, a Councillor of Nelson Marlborough Institute of Technology and a director of other substantial private businesses. He served on the National Board of New Zealand Red Cross and its Foundation from 2003 to 2013.

**Mark Hutton**  
**Independent Non-Executive Director<sup>16</sup>**  
**BCom**

Mark became a board member of New Zealand King Salmon in 2008. Mark is a founding Director and Chairman of the investment committee for the Direct Capital private equity funds, and has a background in private equity, specialising in portfolio management, investments, acquisitions and capital funding. Mark is currently a Director of a number of Direct Capital entities and portfolio companies, including George H Investments Limited, Hiway Group Limited, and Stratex Group Limited. Mark is also a Director of NZX listed Scales Corporation Limited.

**Jack Porus**  
**Non-Executive Director**  
**BCom, LLB**

Jack has been a director of New Zealand King Salmon since 2008. Jack is Joint Managing Partner of law firm Glaister Ennor which he joined in 1972. Jack has practiced in all areas of property law, commercial law, trusts and estate planning and is an experienced mediator. Jack is currently the chairman of Pinnacle Life Limited and a director of Neil Corporation Limited, Norfolk Financial Management Limited as well as other substantial private businesses, and is a trustee of numerous personal and charitable trusts. Jack is a nominated appointee for major New Zealand King Salmon shareholder Oregon Group.

**Thomas Song**  
**Non-Executive Director**  
**FCCA**

Thomas has been a director of New Zealand King Salmon since 2008. Thomas is Managing Director of major New Zealand King Salmon shareholder Oregon Group. In this role Thomas is also the chairman of Neil Corporation Limited and Winstone Pulp International Limited. Thomas is a fellow member of the Association of Chartered Certified Accountants (UK).

**Grant Rosewarne**  
**Managing Director and CEO**  
**MBA (Executive), BAppSc**

Grant has considerable international fast moving consumer goods sales, marketing and general management experience. Grant has worked across a number of fast moving consumer goods categories including dairy, wine, fresh produce, and dry grocery as well as foodservice segments from cafes to fine dining. Grant's international business expertise spans Britain, Europe and Australasia, with blue chip companies such as Unilever, Cerebos and Douwe Egberts/Sara Lee.

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

<sup>16</sup> Mark Hutton has been classified as an Independent Non-executive Director on the basis that Direct Capital will sell down its shareholding in New Zealand King Salmon so that it is not a substantial product holder upon completion of the Offer.



## SENIOR LEADERSHIP TEAM

New Zealand King Salmon's senior leadership team, which includes its senior managers (identified with a \* below), currently comprises the following:

**Grant Rosewarne**  
**Managing Director and CEO\***  
**MBA (Executive), BAppSc**

See previous.

**Ruben Alvarez**  
**Chief Operating Officer\***  
**Bachelor of Aquaculture Engineering,**  
**Diploma of Business & Administration**

Ruben joined New Zealand King Salmon in 2014 to lead the aquaculture and processing operations teams. Ruben has more than 25 years of aquaculture experience across multiple countries (including Norway, Scotland and Saudi Arabia) and also includes roles with the world's largest salmon producer, Marine Harvest. Ruben's experience includes roles within both freshwater and seawater operations, as well as other technical operations. During his time as Chief Operating Officer at New Zealand King Salmon, Ruben has implemented photoperiod broodstock, decreased runts and increased the harvest size of fish.

**Andrew Clark**  
**Chief Financial Officer\***  
**BCom, ACA**

Andrew joined New Zealand King Salmon in 2011. His previous roles include 17 years in the dairy industry where he occupied a number of senior finance roles in New Zealand, the United States, Venezuela and Uruguay.

**Graeme Tregidga**  
**General Manager, Sales**

Graeme joined New Zealand King Salmon in 2004. His previous roles included 16 years in the horticulture industry with various roles in processing, sales (internationally and domestic) and management.

**Jemma McCowan**  
**General Manager, Marketing**  
**BCom, BA**

Jemma joined New Zealand King Salmon in 2012 to launch the Ōra King brand in New Zealand and abroad. Her previous roles include 15 years in international business development and marketing for food and consumer products based in New Zealand and the United Kingdom.

**Shaun Young**  
**General Manager, Supply Chain**  
**BCom**

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.

## SUBSTANTIAL SHAREHOLDERS AND RELEVANT INTERESTS HELD BY DIRECTORS AND SENIOR MANAGERS

### Substantial shareholders

As at the date of this PDS, the following shareholders have a relevant interest in 5% or more of the Shares in New Zealand King Salmon:

SHAREHOLDER AND NATURE OF RELEVANT INTEREST	NUMBER OF SHARES	% OF SHARES
Oregon Group Limited is the registered holder and beneficial owner of Shares in New Zealand King Salmon. Oregon Group Limited is majority owned by Callander Limited, a Liberian incorporated company. All of the shares in Callander Limited are bearer shares held by Ik King Tiong on behalf of the Tiong Family. In addition, Sir Hiew King Tiong directs Oregon Group Limited to act in relation to certain matters and therefore he has a relevant interest in the Shares held by Oregon Group Limited. The Shares held by Oregon Group Limited were acquired on 19 May 2014 and 21 September 2016 through a combination of a purchase and an issue (upon the conversion of shareholder loans) for an aggregate consideration of \$48,961,738.	56,378,489	51.16%
Direct Capital Partners Lambda Investments Limited, Pohutukawa Lambda Investments Limited, Direct Management Investments Limited, Biopacificventures Limited, Direct Capital Partners Limited and Hendry Nominees Limited are the registered holders of Shares in New Zealand King Salmon. The Direct Capital entities have written arrangements or understandings in place under which, among other things, they have co-invested in New Zealand King Salmon. Accordingly, each of the Direct Capital entities has the relevant interests in the Shares that the other Direct Capital entities have. In addition, Direct Capital Limited acts as representative and agent in connection with the Shares on behalf of the other Direct Capital entities and therefore has a relevant interest in the Shares held by the Direct Capital entities. The Shares held by Direct Capital were acquired on 23 September 2008 and 21 September 2016 through a combination of purchases and issues (upon the conversion of shareholder loans) for an aggregate consideration of \$40,059,603.	46,127,857	41.86%

The following shareholders are likely to have a relevant interest in 5% or more of the Shares in New Zealand King Salmon immediately following completion of the Offer:

SHAREHOLDER AND NATURE OF RELEVANT INTEREST	NUMBER OF SHARES	% OF SHARES <sup>17</sup>
Oregon Group Limited will be the registered holder and beneficial owner of Shares in New Zealand King Salmon. Oregon Group Limited is majority owned by Callander Limited, a Liberian incorporated company. All of the shares in Callander Limited are bearer shares held by Ik King Tong on behalf of the Tong Family. In addition, Sir Hiew King Tong directs Oregon Group Limited to act in relation to certain matters and therefore he has a relevant interest in the Shares held by Oregon Group Limited.	55,622,358	40.31%
China Resources Ng Fung will be the beneficial owner of Shares in New Zealand King Salmon.	13,798,943	10.00%
The New Zealand Superannuation Fund, being property of Her Majesty the Queen in right of New Zealand and managed by the Guardians of New Zealand Superannuation, will be the beneficial owner of Shares in New Zealand King Salmon.	7,589,285	5.50%

<sup>17</sup> Based on there being 137,989,433 Shares on issue immediately following completion of the Offer, which excludes any Shares issued under the ESOP.

## Shareholdings held by directors and senior managers

The table below sets out the equity securities in New Zealand King Salmon that the directors and senior managers of New Zealand King Salmon have an interest in prior to the Offer (at the date of the PDS) and will likely have an interest in immediately following completion of the Offer.

DIRECTOR OR SENIOR MANAGER	NATURE OF RELEVANT INTEREST	PRIOR TO THE OFFER		IMMEDIATELY FOLLOWING THE OFFER <sup>1</sup>	
		Number of Shares	% of Shares	Number of Shares	% of Shares <sup>2</sup>
John Ryder	Beneficial owner <sup>3</sup>	1,394,644	1.27%	2,019,644	1.46%
Mark Hutton	20% or more indirect interest in Direct Capital Limited and certain of the other Direct Capital entities that hold Shares, resulting in the same relevant interests as Direct Capital Limited and the other Direct Capital entities described in the substantial shareholders table on the previous page <sup>4</sup>	46,127,857	41.86%	500,000	0.36%
Thomas Song	Nil	Nil	Nil	Nil	Nil
Paul Steere	Beneficial owner <sup>5</sup>	734,574	0.67%	734,838	0.53%
Jack Porus	Beneficial owner <sup>5</sup>	104,600	0.09%	372,457	0.27%
Grant Rosewarne	Beneficial owner <sup>5</sup>	1,937,170	1.76%	2,326,407	1.69%
Andrew Clark	Beneficial owner <sup>5</sup>	620,259	0.56%	728,557	0.53%
Ruben Alvarez	Beneficial owner <sup>5</sup>	114,714	0.10%	304,422	0.22%

Notes to table:

<sup>1</sup> Directors and senior managers are permitted to acquire Shares under the Offer. The interests in Shares expected to be held immediately following the Offer reflect the intentions of the directors and senior managers at the date of the PDS in relation to their acquisition of Shares under the Offer and the New Senior Executive LTI Scheme.

<sup>2</sup> Based on there being 137,989,433 Shares on issue immediately following completion of the Offer, which excludes any Shares issued under the ESOP.

<sup>3</sup> These Shares are currently held by Direct Management Investments Limited as bare trustee. Prior to completion of the Offer, these Shares will be transferred to John Ryder to hold directly or as a trustee of his associated family trust.

<sup>4</sup> 500,000 Shares will be transferred by Direct Management Investments Limited to Sirius Capital Investments Limited prior to completion of the Offer. Mark Hutton has an indirect interest in 20% or more of the voting securities of Sirius Capital Investments Limited, and therefore will have the same relevant interest as Sirius Capital Investments Limited in the Shares it holds.

<sup>5</sup> These Shares are currently held by NZKS Custodian Limited as bare trustee, including Shares issued to senior managers under an existing employee share ownership plan. Upon confirmation that the Shares will be quoted, the Shares held by NZKS Custodian Limited will be transferred to these directors and senior managers to hold directly or as a trustee of their associated family trust. In addition, following the Offer, the senior managers will be the beneficial owners of Shares issued to NZKS Custodian Limited on their behalf under the New Senior Executive LTI Scheme (described on page 48), which are included in the numbers of Shares the senior managers are likely to have a relevant interest in immediately following completion of the Offer.

## OTHER EQUITY SECURITIES OF NEW ZEALAND KING SALMON

Under the Constitution, any other class of equity securities of New Zealand King Salmon that ranks equally with, or in priority to, the Shares may be issued without a special resolution of the holders of the Shares. However, the issue of new equity securities in New Zealand King Salmon is governed by the NZX Listing Rules, which requires the approval by ordinary resolution of the holders of the Shares to the issue of new equity securities, except in certain circumstances set out in the NZX Listing Rules.

## DIRECTORS' REMUNERATION AND OTHER BENEFITS

The table below sets out the total remuneration and value of other benefits received by each director of New Zealand King Salmon during FY2016 and expected to be received in FY2017F, as well as the nature of the services to which that remuneration, or those other benefits, relates (other than services provided in a person's capacity as a director).

DIRECTOR	REMUNERATION AND VALUE OF OTHER BENEFITS RECEIVED IN FY2016	EXPECTED REMUNERATION AND VALUE OF OTHER BENEFITS EXPECTED TO BE RECEIVED IN FY2017F		
	Total	Base Fee	Committee Work	Total
John Ryder	\$30,250	\$95,000 (Chair)	Nil (Audit Committee)	\$95,000
Paul Steere	\$30,250	\$55,000	\$10,000 (Audit Committee Chair) \$2,500 (Remuneration Committee)	\$67,500
Mark Hutton	\$30,250	\$55,000	\$5,000 (Remuneration Committee Chair)	\$60,000
Jack Porus	\$30,250	\$55,000	\$2,500 (Remuneration Committee)	\$57,500
Thomas Song	\$30,250	\$55,000	\$5,000 (Audit Committee)	\$60,000
Grant Rosewarne	\$523,287 (as Chief Executive Officer)	\$562,976 (as Chief Executive Officer)		

Jack Porus and Paul Steere are each entitled to additional director fees of \$30,000 and \$20,000 respectively to remunerate them for additional work required in preparation for the Offer and these additional directors fees are not included in the figures in the table above or in the annual pool of directors' fees that will apply from listing. In addition, Direct Capital Limited will be paid a fee of \$75,000 to remunerate it for work required by its directors and executives in preparation for the Offer.

The remuneration paid to the directors in FY2017F will be higher than that paid in FY2016. This reflects that, as a result of the listing of New Zealand King Salmon on the NZX Main Board and ASX, the directors have increased responsibilities and will be required to devote more time to the performance of their duties as directors. The fees for non-executive directors of New Zealand King Salmon that will apply from listing have been fixed as a total pool of \$400,000 per annum. Individual non-executive directors' fees vary depending on their duties, including for committee work, with expected fees for FY2017F included in the table above.

The directors are entitled to be reimbursed for all reasonable travel, accommodation and other expenses incurred by them in connection with their attendance at Board or shareholder meetings, or otherwise in connection with New Zealand King Salmon's business.

New Zealand King Salmon has granted indemnities, as permitted by the Companies Act and the FMCA, in favour of each of its directors. New Zealand King Salmon also maintains insurance for its directors and officers.

The Group has previously granted loans to executives to acquire Shares under the existing senior executive share ownership scheme described over page. Certain of these executives are no longer employed by the Group, but continue to be subject to the terms of the existing senior executive share ownership scheme. One such former executive is now a director (Paul Steere). In accordance with the terms of the existing senior executive LTI scheme, Paul Steere will sell Shares under the Offer sufficient to repay his loan, with the balance of his existing Shares subject to the escrow arrangements described in Section 5 (Terms of the Offer).



## EMPLOYEE REMUNERATION

During FY2016 a number of employees, not being directors of New Zealand King Salmon, received remuneration and other benefits in their capacity as employees that exceeded \$100,000 in value as follows:

REMUNERATION	NO. OF EMPLOYEES
\$100,000 to \$109,999	5
\$110,000 to \$119,999	4
\$120,000 to \$129,999	6
\$130,000 to \$139,999	5
\$140,000 to \$149,999	3
\$150,000 to \$159,999	2
\$170,000 to \$179,999	1
\$180,000 to \$189,999	1
\$200,000 to \$209,999	1
\$210,000 to \$219,999	1
\$310,000 to \$319,999	1
\$420,000 to \$429,999	1

## NEW SENIOR EXECUTIVE LTI SCHEME

Concurrent with the Offer, New Zealand King Salmon has established a senior executive long term incentive scheme which the Board may invite senior executives to participate in on an annual basis. Under the scheme, a senior executive who is invited to participate will be offered an interest free loan by New Zealand King Salmon which must be used to acquire Shares. The amount of the loan will be determined at the Board's discretion, having regard to factors that include New Zealand King Salmon's financial performance and the participant's own performance against set key performance indicators, but will not exceed a set percentage of the participant's base salary. A participant will only benefit in respect of Shares acquired under the scheme (except in very limited circumstances such as in the event of a takeover), if he or she remains in employment with New Zealand King Salmon for a period of three years from the date of acquisition of the Shares. Loans must be repaid on the sale of Shares or if the senior executive leaves New Zealand King Salmon employment.

The first issue of Shares under the scheme (being up to 1,012,337 Shares) is intended to be made contemporaneously with allotment under the Offer, at the Issue Price.

## EXISTING SENIOR EXECUTIVE SHARE OWNERSHIP SCHEME

In addition to the New Senior Executive LTI Scheme, certain senior executives already participate in an executive share

ownership scheme which provides participants with an interest free loan of up to 200% of the amount which the senior executive invests in the Group. As at the date of this PDS, participants in the scheme hold 7,090,731 Shares. The existing scheme will cease upon New Zealand King Salmon being listed and participants are entitled to sell Shares through the Offer, with the proceeds to be used to repay loans made by the Group to participants unless agreed otherwise by New Zealand King Salmon. New Zealand King Salmon has agreed to extend the loan for current senior executives who have agreed to the escrow arrangements described in Section 5 (Terms of the Offer).

## EMPLOYEE SHARE OWNERSHIP PLAN

Concurrent with the Offer, New Zealand King Salmon has established an ESOP, the purpose of which is to facilitate an increase in the level of participation by employees as shareholders, improving the alignment of interests between employees and shareholders.

Under the ESOP, eligible employees of the Group will be able to acquire up to 8,928 Shares (subject to scaling) at the Issue Price. The Shares offered to employees under the ESOP do not form part of the Offer, but are intended to be issued contemporaneously with the Shares allotted under the Offer. Eligible employees participating in the ESOP will be provided with a loan to fund the subscription price for half of the total number of Shares the eligible employee wishes to acquire under the ESOP. Eligible employees participating in the ESOP will need to fund the subscription price for the remaining half of the total number of Shares applied for under the ESOP. Participation in the ESOP is at the invitation and discretion of the board, but to be eligible an employee will generally need to be a permanent employee, not a casual worker, and have had a minimum of 24 months' employment with the Group. The maximum number of Shares offered under the ESOP is 892,857 Shares.

## OTHER GOVERNANCE DISCLOSURES

The Board intends to adopt, from listing, various board policies and charters that are typical for a company listed on the NZX Main Board and ASX. Following listing, the Board will have the power to appoint additional directors to the Board from time to time, in accordance with the NZX Listing Rules. Any director appointed by the Board must retire and seek re-appointment at the next Annual Shareholders' Meeting of New Zealand King Salmon in accordance with the NZX Listing Rules. In addition, any shareholder holding more than 10% of the Shares may appoint a director or directors, with the proportion of directors able to be appointed not exceeding the proportion of Shares held by that shareholder (as permitted by Listing Rule 3.3.8). Any director so appointed is exempt from the requirement to retire by rotation, however, if any such shareholder exercises its right to appoint a director that shareholder may not vote on the election of any other director.

# PURPOSE OF THE OFFER

The purpose of the Offer is to raise capital for New Zealand King Salmon to fund future investment and working capital, repay debt and to enable Direct Capital to realise its investment by selling up to 40,201,237 Shares (with Direct Capital's remaining Shares to be transferred to, or held by a custodian on behalf of, certain persons on whose behalf those Shares are currently held, including New Zealand King Salmon directors John Ryder and Mark Hutton).

The proceeds from the Offer will be used, and relate to our strategy, as follows:

AMOUNT	USE OF PROCEEDS
\$16.7 million	To repay bank debt, including \$7.7 million drawn prior to the registration of this PDS to repay short term shareholder loans of \$3.7 million advanced for the development of new seafarms and \$4.0 million of long term shareholder loans.
\$8.2 million	To fund the development of new seafarm infrastructure at Kopāua, additional aquaculture projects aimed at improving fish performance and spawning times, equipment for the single harvest method to be adopted later in FY2017F, various upgrade projects at our processing facilities and working capital. Actual investment in excess of the \$8.2 million set aside for this purpose is expected to be funded from operating cash flows.
\$5.1 million	To fund Offer costs.
<b>\$30.0 million</b>	<b>Total proceeds from new Shares and the minimum amount that must be raised before the Shares are issued or transferred.</b>
Up to \$45.0 million	Proceeds to be received by Direct Capital for the sale of its existing Shares.
Up to \$2.5 million	Proceeds to be received by Oregon Group and other selling shareholders for the sale of their existing Shares.
<b>Up to \$77.5 million</b>	<b>Total gross proceeds from the Offer.</b>

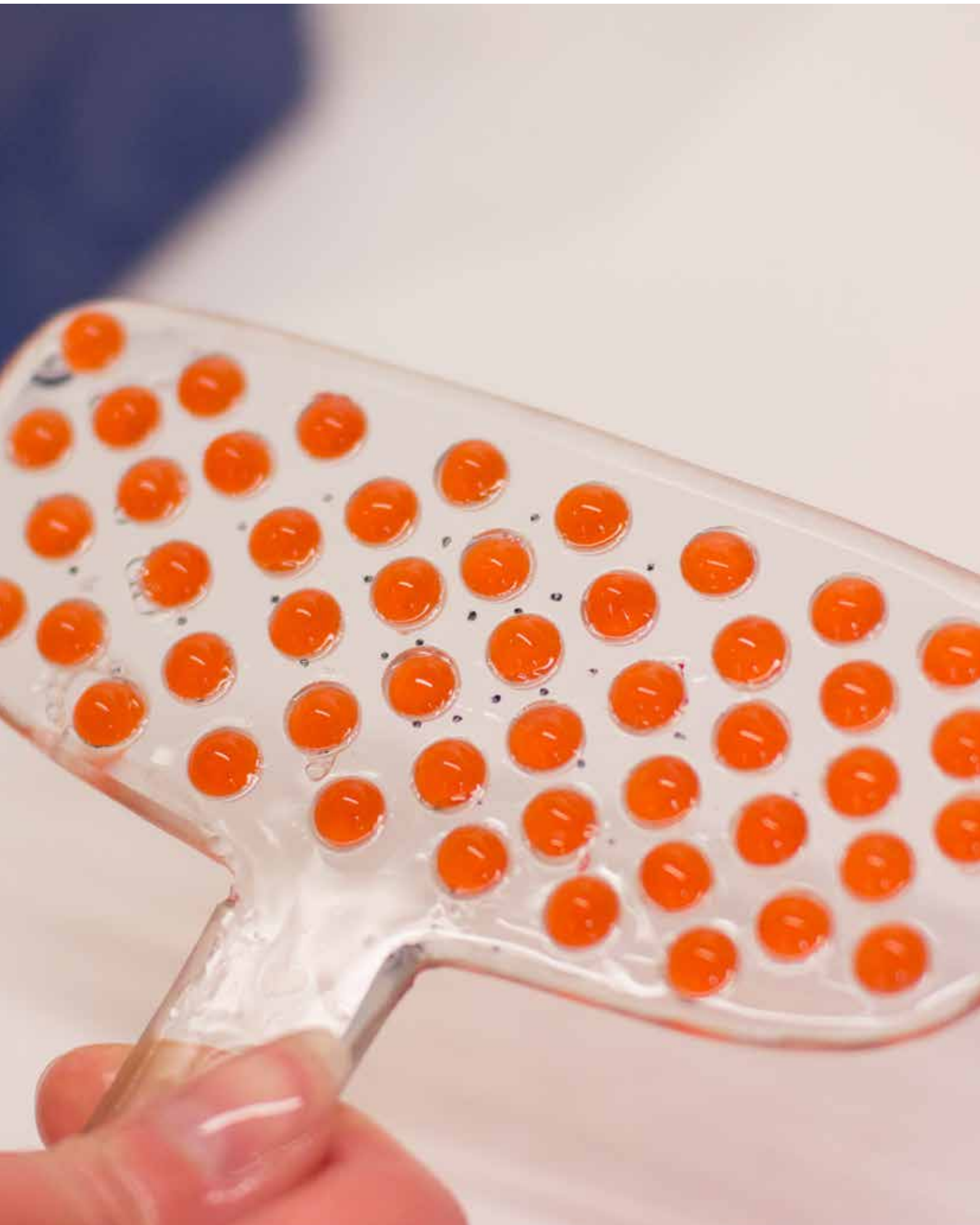
The use of the money raised under the Offer will not change depending on the total amount that is raised, although the number of Shares that Direct Capital and the other selling shareholders are able to sell may change depending on the level of demand in the Priority Offer. The Offer is not underwritten.

# KEY DATES AND OFFER PROCESS

The key dates for the Offer are:


Priority Offer opens	3 October 2016
Priority Offer closes	12 October 2016
Broker Firm Offer opens	3 October 2016
Broker Firm Offer closes	14 October 2016
Settlement and allotment on ASX	17 October 2016
Settlement and allotment on NZX Main Board	18 October 2016
Earliest expected mailing of holding statements	19 October 2016
Expected commencement of trading on the NZX Main Board and ASX	19 October 2016
Expected date of first dividend payment following the Offer	March 2017

This timetable is indicative only and the dates may change. New Zealand King Salmon, with the agreement of the Joint Lead Managers, reserves the right to vary or extend these dates.



# TERMS OF THE OFFER

The table below sets out the terms of the Offer. All Shares are issued on the terms set out in the Constitution (a copy of which is available on the Offer Register).

<b>The Offer</b>	This is an offer of 69,228,085 ordinary shares in New Zealand King Salmon (representing 50.2% of the total Shares on issue immediately following the Offer <sup>18</sup> ). The Issue Price is \$1.12 per Share.
<b>Key dates</b>	 See Section 4 (Key dates and offer process) for information about the key dates.
<b>Structure of the Offer</b>	<p>The Offer comprises:</p> <ul style="list-style-type: none"> <li>• a Broker Firm Offer, which is available only to New Zealand resident clients of Brokers (including Pohutukawa Investors, who will receive an allocation preference), who have received an allocation from their Broker;</li> <li>• the Priority Offer, which is available only to eligible residents of the Marlborough and Nelson Bays regions and any other person whom New Zealand King Salmon determines in its sole discretion to be eligible; and</li> <li>• an Institutional Offer, which was an invitation to bid for Shares made to selected Brokers and Institutional Investors in New Zealand, Australia, Hong Kong and Singapore. As part of the Institutional Offer, China Resources Ng Fung has received an allocation equivalent to 10% of the Shares on issue in New Zealand King Salmon following the Offer<sup>18</sup>.</li> </ul> <p>There is no general public offer under which you may subscribe for Shares. Therefore members of the public who are not eligible to participate in the Priority Offer and who wish to subscribe for Shares must do so through a Broker with an allocation of Shares.</p>
<b>Escrow arrangements</b>	<p>Oregon Group, Direct Capital and the directors and senior executives who currently own Shares (together, the <i>Escrowed Shareholders</i>) have entered into escrow arrangements with New Zealand King Salmon under which each Escrowed Shareholder has agreed not to sell or otherwise dispose of any of the Shares held by them prior to the Offer which they continue to hold upon completion of the Offer until the first day after the date on which New Zealand King Salmon releases to NZX its preliminary announcement of its financial results in respect of the financial year ended 30 June 2018, subject to limited exceptions set out on the Offer Register. Direct Capital's retained Shares will be transferred to, or held by a custodian on behalf of, certain persons on whose behalf those Shares are currently held (provided that any such transferee has agreed to be bound by the terms of the restricted security agreement entered into by Direct Capital). In addition, certain other shareholders who acquired Shares upon conversion of their shareholder loans prior to the Offer have undertaken to New Zealand King Salmon not to sell or otherwise dispose of the Shares held by them prior to the Offer which they continue to hold upon completion of the Offer until the date that is 12 months after the date on which those Shares were issued upon conversion of their shareholder loans.</p> <p>Up to 47.7% of the total number of Shares on issue in New Zealand King Salmon immediately following completion of the Offer<sup>18</sup> will be subject to escrow arrangements.</p>



### Discretion regarding the Offer

The Offerors may withdraw the Offer, or any part of it, at any time before the allotment of Shares with the agreement of the Joint Lead Managers. If the Offer, or any part of it, does not proceed, all relevant Application Monies will be refunded (without interest) no later than five Business Days after the announcement of the decision to withdraw the Offer or any part of it.

The Offerors reserve the right to close the Offer or any part of it early, extend the Offer or any part of it, accept late Applications, settlement or bids either generally or in particular cases, reject any Application or bid, or allocate to any Applicant or any bidder fewer Shares than applied or bid for.

The Offerors reserve the right to refuse any Application or to accept an Application in part only, without providing a reason. If the Offerors refuse an Application or accept an Application in part, the relevant Application Monies will be refunded no later than five Business Days after the last date on which Shares are allotted under the Offer. No interest will be paid on any Application Monies that are refunded.

Refunds will be paid in the manner in which you elect any future dividends to be paid.

 See Section 11 (How to apply) for further information about Applications and how to apply for Shares.

### Allotments

Any New Zealand resident with a CSN will have their Shares allotted under their CSN, if the CSN was provided on their Application Form.

Broker Firm Offer Applicants who do not have a CSN or who do not provide a CSN on their Application Form, will be allocated a CSN at the time of Application. The CSN will be advised at the time the allotment of Shares is confirmed and the associated Authorisation Code (FIN) will be sent as a separate communication by mail on 17 October 2016. Priority Offer Applicants who do not have a CSN will be advised of their FIN prior to the allotment of Shares and will receive their CSN on their holding statement.

Shares allocated under the Offer are expected to be allotted on the ASX on 17 October 2016 and on the NZX Main Board on 18 October 2016.

Holding statements are expected to be sent to all successful Applicants on 19 October 2016. No person accepts any liability should any person attempt to sell or otherwise deal with Shares before a statement confirming allotment is received.

### What you need to do to sell your Shares

If you wish to sell your Shares on the NZX Main Board, after confirming your allocation, you must contact a Broker and have a CSN and an Authorisation Code (FIN). Opening a new broker account can take a number of days depending on the Broker's new client procedures. If you do not have a CSN, you will:

- be assigned one when you set up an account with a Broker; or
- receive one from the Share Registrar.

If you do not have a FIN, it is expected that you will be sent one as a separate communication by the Share Registrar. If you have a Broker and have not received a FIN by the date you want to trade your Shares, your Broker can obtain one, but may pass the cost for doing so on to you.

If you sell your Shares, you may be required to pay brokerage or other sale expenses. You may also be liable for tax on the sale of your Shares. You should seek your own tax advice in relation to your Shares.

### No guarantee

No person guarantees the Shares offered under this PDS. No person warrants or guarantees the performance of the Shares or any return on any investments made pursuant to this PDS.

<sup>18</sup> The total number of Shares on issue immediately following the Offer is assumed to comprise 69,228,085 Shares offered under the Offer plus 67,749,011 Shares held by existing shareholders and not offered under the Offer and 1,012,337 Shares offered to participants under the New Senior Executive LTI Scheme, which is being established concurrently with the Offer. In addition, 892,857 Shares will be offered under the ESOP. The Shares offered under the ESOP are not included in the number of Shares on issue immediately following the Offer, and therefore are not included in the PFI or capitalisation and investment metrics, as it is not known whether participants will accept the offer of Shares under the ESOP.

## COMPONENTS OF THE OFFER

	BROKER FIRM OFFER	PRIORITY OFFER
WHO CAN APPLY?	The Broker Firm Offer is open to New Zealand residents, including Pohutukawa Investors, who have received an allocation from their Broker. You should contact your Broker to determine whether they may allocate Shares to you under the Broker Firm Offer.	The Priority Offer is open to eligible residents in the Marlborough and Nelson Bays regions and any other person whom New Zealand King Salmon determines in its sole discretion to be eligible as at the Priority Offer opening date. In order to be eligible under the Priority Offer you must apply using an address that has a postcode in the Marlborough or Nelson Bays regions, unless New Zealand King Salmon otherwise determines you are eligible. New Zealand King Salmon reserves the right to determine in its sole discretion whether you are eligible to apply in the Priority Offer.
HOW DO YOU APPLY?	 See Section 11 (How to apply) for details about how to apply for Shares.	
HOW MANY SHARES CAN YOU APPLY FOR?	Brokers will determine the number of Shares their New Zealand resident clients may apply for. However, the minimum Application amount is 2,000 Shares.	The minimum Application amount is 1,000 Shares, and thereafter in multiples of 100.  There is no maximum Application amount.
HOW DO YOU PAY FOR YOUR SHARES?	 See Section 11 (How to apply) and the Application Form for details about how to pay for your Shares.	
WHEN DO YOU NEED TO APPLY?	The Broker Firm Offer opens at 9.00am on 3 October 2016. You should send your completed Application Form and Application Monies to your Broker in time to enable forwarding to the Share Registrar by 5.00pm on 14 October 2016.	The Priority Offer opens at 9.00am on 3 October 2016. You should send your completed Application Form and Application Monies to the Share Registrar by 5.00pm on 12 October 2016.
ALLOCATION POLICY	<p>Allocations by Brokers to their New Zealand resident clients will be determined by those Brokers. It will be a matter for Brokers to ensure that their New Zealand resident clients who have received an allocation from them receive their Shares. Broker Firm Offer Applicants should contact the Broker from whom they received their allocation to find out if their Application was successful.</p> <p>Pohutukawa Investors will receive an allocation preference under the Broker Firm Offer through the Pohutukawa Preference Pool. Brokers that receive an allocation of Shares in the Pohutukawa Preference Pool must allocate those Shares to their New Zealand resident clients that are Pohutukawa Investors unless there is a shortfall of demand from those clients, in which case the Broker may allocate those Shares to its New Zealand resident clients at its discretion.</p> <p>The allocation of Shares in the Pohutukawa Preference Pool between a Broker's New Zealand resident clients that are Pohutukawa Investors is at the discretion of the Broker.</p>	<p>If the value of Applications received under the Priority Offer is greater than the value of Shares available under the Priority Offer (as determined by New Zealand King Salmon), Applications will be scaled back in such manner as New Zealand King Salmon may determine. Applicants in the Priority Offer should contact the Share Registrar to find out if their Application was successful.</p> <p>In the event that demand for Shares in the Priority Offer does not meet the quantity reserved for Priority Offer Applicants, the residual Shares may be reallocated at the discretion of New Zealand King Salmon to Brokers or Institutional Investors.</p>

## INSTITUTIONAL OFFER

The Institutional Offer was conducted through the Bookbuild. The Joint Lead Managers invited selected Institutional Investors along with Brokers to bid for Shares in the Bookbuild undertaken by the Joint Lead Managers on 22 September 2016.

All successful participants in the Institutional Offer will pay the Issue Price for each Share allocated to them.

In determining the Issue Price, consideration was given to the following factors:

- the level of demand for Shares in the Bookbuild at various prices; and
- the desire for a successful and consistent aftermarket for the Shares.

## DETAILS OF SHARES OFFERED

	SHARES	% OF SHARES FOLLOWING THE OFFER <sup>18</sup>
New Shares offered by New Zealand King Salmon	26,785,715	19.41%
Existing Shares offered by OfferCo	42,442,370	30.76%
<b>Total Shares being offered</b>	<b>69,228,085</b>	<b>50.17%</b>
Priority Offer	1,339,285	Up to 0.97%
Pohutukawa Preference Pool (which forms part of the Broker Firm Offer)	4,196,857	Up to 3.04%
Shares allocated to China Resources Ng Fung as part of the Institutional Offer	13,798,943	10.00%
Broker Firm Offer and Institutional Offer (excluding the Pohutukawa Preference Pool and Shares allocated to China Resources Ng Fung as part of the Institutional Offer)	49,892,998	36.16%



## LISTING

New Zealand King Salmon expects that trading of the Shares on the NZX Main Board and ASX will commence on 19 October 2016. If admission to list on the NZX Main Board is denied, the Offer will not proceed. Failure to achieve admission to list on the ASX will not, of itself, prevent the issue or sale of Shares under the Offer from proceeding.

### NZX Main Board listing

Application has been made to NZX for permission to list New Zealand King Salmon and to quote the Shares on the NZX Main Board and all the requirements of NZX relating to the application that can be complied with on or before the date of this PDS have been duly complied with. However, NZX accepts no responsibility for any statement in this PDS. The NZX Main Board is a licensed market operated by NZX, which is a licensed market operator, regulated under the FMCA.

### ASX listing

An application will be made to ASX after the PDS has been lodged on the Offer Register for New Zealand King Salmon to be admitted to the official list of ASX as an ASX Foreign Exempt Listing and for quotation of the Shares on the ASX.

If New Zealand King Salmon is admitted to the official list of ASX as a Foreign Exempt Listing, it will need to comply with the NZX Listing Rules (other than as waived by NZX) but will not need to comply with the vast majority of the ASX Listing Rule obligations. Rather, New Zealand King Salmon will need to comply only with the rules specified in ASX Listing Rule 1.15 which are relatively

procedural in nature. New Zealand King Salmon will not be subject to substantive ASX Listing Rule requirements such as the rules on continuous disclosure, periodic reporting, shareholder approval of share issuances, escrow, transactions with persons of influence and significant transactions.

ASX takes no responsibility for the contents of this PDS or for the merits of the investment to which this PDS relates. The fact that ASX may admit New Zealand King Salmon to the official list of ASX and quote the Shares on the ASX is not to be taken as an indication of the merits, or as an endorsement by ASX, of New Zealand King Salmon or the Shares. The ASX is not a licenced market under the FMCA.

## SELLING RESTRICTIONS AND FURTHER INFORMATION

The Offer is only being made to eligible persons under the Priority Offer, New Zealand resident clients of Brokers who receive a firm allocation of Shares and selected Brokers and Institutional Investors in certain jurisdictions including New Zealand, Australia, Hong Kong and Singapore. The Offer is being made in Australia in reliance on the trans-Tasman mutual recognition scheme under Chapter 8 of the Corporations Act 2001 (Cth) and the Corporations Regulations 2001 (Cth).

This PDS is intended for use solely in connection with the Offer. You can find further information on the Offer Register in relation to the terms of the Offer, including the Constitution and additional selling restrictions.

# KEY FEATURES OF ORDINARY SHARES

## KEY FEATURES OF THE EQUITY SECURITIES

All Shares issued under the Offer will be fully paid ordinary shares in New Zealand King Salmon which rank equally with each other and all other ordinary shares in New Zealand King Salmon on issue. The key features of the Shares do not differ from those that apply to other ordinary shares in a company generally.

## DIVIDEND POLICY

During the Prospective Period, our dividend policy is to target a dividend payout ratio of 50% of Pro Forma Operating NPAT for each of FY2017F and FY2018F. Pro Forma Operating NPAT is a non-GAAP profit measure. After the Prospective Period, we expect to increase this to between 50% and 65% of Pro Forma Operating NPAT for each financial year. The expected increase in our targeted dividend payout ratio from this time reflects that the significant investment in both capital expenditure and working capital during the Prospective Period will have been made, resulting in increased free cash flow. We anticipate 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.

Dividends are made at the Board's discretion, and depend on our financial performance. The payment of dividends is not guaranteed, and our 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.





# NEW ZEALAND KING SALMON'S FINANCIAL INFORMATION

## INTRODUCTION

This section contains the following information about the Group's historical and prospective financial information:

- A table of selected financial information.
- A summary of how we generate revenue.
- An overview of historical financial performance.
- An overview of prospective financial performance.
- A table of capitalisation and key investment metrics.

These tables provide key financial information about New Zealand King Salmon. Full financial statements are available on the Offer Register at [www.business.govt.nz/disclose](http://www.business.govt.nz/disclose). If you do not understand this financial information, you can seek advice from a financial adviser or an accountant.

We have prepared prospective financial information (*PFI*) for FY2017F and FY2018F (the *Prospective Period*). The PFI is based on the directors' assessment of events and conditions existing at the date of this PDS and the accounting policies and assumptions set out in the Supplementary Financial Information. The principal assumptions on which the PFI is based are set out under the heading "Overview of prospective financial performance" in this section.

Prospective financial information by its nature is inherently uncertain. It is a prediction of future events which cannot be assured. It involves risks and uncertainties many of which are beyond our control. The Board believes that the PFI has been prepared with due care and attention, and considers the assumptions, when taken as a whole, to be reasonable at the time of preparing this PDS. Actual results are likely to vary from the information presented and variances 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. You should read the PFI in this PDS in light of the assumptions, and in conjunction with the other information in this PDS (including in particular, the information in Section 8 (Risks to New Zealand King Salmon's business and plans)).

## SELECTED FINANCIAL INFORMATION

The table of selected financial information contains the following types of financial information:

- **Statutory historical financial information** as reported in our financial statements.
- **Statutory prospective financial information** which presents the PFI on the same basis as that on which we intend to report under GAAP in the future.
- **Pro forma operating historical financial information** which has been derived from the statutory historical financial information, adjusted for structural changes and non-recurring or infrequent adjustments and reversing out fair value gains associated with the revaluation of livestock pursuant to NZ IAS 41-Agriculture and NZ IAS 2-Inventory. 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 under the heading Pro forma operating adjustments below.
- **Pro forma operating prospective financial information** adjusts the statutory PFI to reflect the pro forma adjustments for the removal of Offer costs and reversing out fair value gains associated with the revaluation of livestock pursuant to NZ IAS 41-Agriculture and NZ IAS 2-Inventory.

The pro forma operating historical financial information and the pro forma operating PFI have been prepared solely for the purpose of inclusion in this PDS. More information about the pro forma operating adjustments, the principal assumptions on which the PFI is based, and reconciliations of pro forma operating financial information to information prepared in accordance with GAAP, is available in the Supplementary Financial Information.

The historical financial information is sourced from audited financial statements, which are available on the Offer Register.

## SELECTED FINANCIAL INFORMATION

FINANCIAL INFORMATION \$M	FY2014	FY2015 (RESTATED) <sup>1</sup>	FY2016	FY2017F	FY2018F
Revenue	95.1	98.3	114.1	130.1	143.6
Revenue Growth %	-	3%	16%	14%	10%
EBITDA	5.2	12.4	13.8	21.1	26.1
Pro Forma Operating EBITDA <sup>2</sup>	10.3	12.9	16.0	19.2	22.4
Pro Forma Operating EBITDA growth %	-	25%	24%	20%	17%
Pro Forma Operating EBITDA margin %	11%	13%	14%	15%	16%
Net profit after tax	(1.5)	6.3	2.6	10.1	14.1
Pro Forma Operating NPAT <sup>3</sup>	3.1	6.8	7.9	10.0	11.5
Dividends declared on all equity securities of the issuer <sup>4</sup>	2.6	-	-	5.0	5.6
Total assets	129.7	155.9	165.7	187.2	198.8
Cash and cash equivalents	1.6	5.5	2.4	5.5	0.6
Total liabilities <sup>5</sup>	111.0	119.2	128.7	42.6	45.1
Pro forma operating total debt <sup>6</sup>	20.0	20.6	19.5	10.4	10.3
Net cash flows from operating activities	2.6	6.9	4.1	6.6	11.5

## Notes to table:

1. As New Zealand King Salmon has applied the full provisions of NZ IFRS to FY2016, all FY2015 financial information included in this PDS 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.
2. Pro Forma Operating EBITDA refers to earnings before interest, tax, depreciation and amortisation, after allowing for the pro forma adjustments outlined on page 60. Pro Forma Operating EBITDA is a non-GAAP profit measure. We consider that Pro Forma Operating EBITDA, which normalises performance for certain structural changes within the business and removes the impact of a number of non-recurring or infrequent items, allows for a better comparison of operating performance over the historical and Prospective Period, and for comparison with that of other companies. However, caution should be exercised as other companies may calculate Pro Forma Operating EBITDA differently. The Offer Register contains full reconciliations between Pro Forma Operating EBITDA and GAAP profit measures.
3. Pro Forma Operating NPAT reflects pro forma adjustments reflected within Pro Forma Operating EBITDA as well as to recalculate interest costs as if we had only had bank borrowings in place since 1 July 2013. The pro forma operating tax expense has been adjusted to reflect the tax implications of the pro forma operating adjustments. Pro Forma Operating NPAT is a non-GAAP profit measure and is not determined in accordance with GAAP. The Offer Register contains reconciliations between Pro Forma Operating NPAT and GAAP profit measures.
4. We did not declare any dividends between FY2015 and FY2016. The FY2017F and FY2018F dividends reflect the forecast expected payment of interim and final dividends. Refer to Section 6 (Key features of ordinary shares) for further details of our dividend policy.
5. Total liabilities includes shareholder loans which have been converted into ordinary Shares or repaid prior to the Offer.
6. 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.

## PRO FORMA OPERATING ADJUSTMENTS

New Zealand King Salmon believes that certain adjustments are required to enable a better comparison of operating performance over the historical period, a comparison of operating performance between the historical and Prospective Period, and a comparison of operating performance with that of other companies.

Adjustments have been classified into five categories:

**1. Removing the impact of fair value gains and losses.** The application of NZ IAS 41–*Agriculture*, and NZ IAS 2–*Inventory* effectively results in the Group recognising expected profits from the sale of livestock prior to sale. Other international listed salmon companies will typically present ‘Operating’ results which remove the impact of these gains or losses. We also believe that Operating results enable a better comparison of financial performance between periods.

**2. Adjustments for non-recurring or infrequent items.**

These adjustments are:

- Adjustments affecting Pro Forma EBITDA:
  - Removing “mortality event” costs (net of insurance receipts) that relate to the Waihinu/Forsyth seafarms which have been followed.
  - Removing a write down in intangible assets relating to a seafarm consent that was overturned at the Supreme Court.
  - Removing a loss on sale recognised on the sale of property near the new Ngamahau seafarm that was purchased to assist the consent process.
  - Removing costs associated with the current initiative to swap certain seafarm consents.
  - Reversing out a fair value gain related to adjustments in the value of loans made to employees to fund the purchase of Shares.
  - Removing transaction costs associated with the Offer.
- Adjustments affecting Pro Forma NPAT:
  - Excluding deductions for impairment charges on the basis of their non-recurring or infrequent nature. These charges include a write off of tangible assets at the Crail Bay seafarm which is not being used for production and other impairments following a review in anticipation of the Offer.
  - Excluding the cost of closing out interest rate swaps due to the repayment of bank debt through the Offer.

**3. Timing adjustments (to better reallocate revenues and expenses to the year to which they relate).**

These adjustments are:

- A reallocation of income recognised in FY2015 that relates to rebates for feed purchases made during FY2014.
- A reallocation of gains on foreign exchange contracts taken early, to the year in which the gain would have been realised had the contracts been held to maturity.
- Reallocating insurance receipts relating to a fire that occurred in FY2014 from the FY2016 period when they were received.

**4. Adjustments for structural changes in the business.**

These adjustments are:

- Adding incremental costs associated with running a listed company.
- Removing interest costs associated with shareholder loans that have been converted to ordinary Shares or repaid prior to the Offer.

**5. Income tax expenses / (income) recalculations.**

Adjustment has been made to include any additional income tax expense or income that would have resulted due to the adjustments outlined above.

The table on the following page reconciles Net Profit / (Loss) After Tax to EBITDA and EBITDA to Operating EBITDA. It then shows the impact of each of the adjustments listed above through both the historical and Prospective Period.

\$NZ 000s	FY2014	FY2015	FY2016	FY2017F	FY2018F
<b>Net Profit/(Loss) After Tax</b>	<b>(1,530)</b>	<b>6,259</b>	<b>2,593</b>	<b>10,123</b>	<b>14,149</b>
Add Back:					
Depreciation, amortisation and impairment	3,592	4,249	5,281	4,776	5,928
Net financing cost	2,798	1,522	5,150	1,064	478
Income tax expense/ (income)	352	354	792	5,136	5,541
<b>Statutory EBITDA</b>	<b>5,212</b>	<b>12,384</b>	<b>13,816</b>	<b>21,099</b>	<b>26,096</b>
Deduct:					
Fair value (gains) / losses		(1,590)	286	(4,904)	(3,742)
<b>Operating EBITDA</b>	<b>5,212</b>	<b>10,794</b>	<b>14,102</b>	<b>16,195</b>	<b>22,354</b>
Pro forma adjustments					
<b>Non-recurring or infrequent items</b>					
Waihinau/ Forsyth mortality events	594	1,088	-	-	-
EPA cost write off	1,160	36	-	-	-
Loss on sale of Ngamahau property	-	465	-	-	-
Consent swap expense write off	-	-	374	-	-
Fair value gain on employee loans	-	-	(203)	-	-
Offer costs	-	-	841	2,984	-
	<b>1,754</b>	<b>1,589</b>	<b>1,012</b>	<b>2,984</b>	-
<b>Timing adjustments</b>					
Timing adjustment of feed rebate	913	(913)	-	-	-
Japanese Yen FX contract close out	2,670	2,104	2,091	-	-
Fire insurance claim	464	-	(515)	-	-
	<b>4,047</b>	<b>1,191</b>	<b>1,576</b>	-	-
<b>Structural changes</b>					
Incremental listed company costs	(700)	(700)	(700)	-	-
<b>Pro Forma Operating EBITDA</b>	<b>10,313</b>	<b>12,874</b>	<b>15,990</b>	<b>19,179</b>	<b>22,354</b>
Deduct:					
Depreciation and amortisation	(3,592)	(4,049)	(4,244)	(4,776)	(5,928)
Net financing cost	(1,535)	(1,417)	(1,370)	(413)	(478)
Income tax (expense) / income	(2,134)	(577)	(2,514)	(3,945)	(4,493)
<b>Pro Forma Operating NPAT</b>	<b>3,052</b>	<b>6,831</b>	<b>7,862</b>	<b>10,045</b>	<b>11,455</b>

## A SUMMARY OF

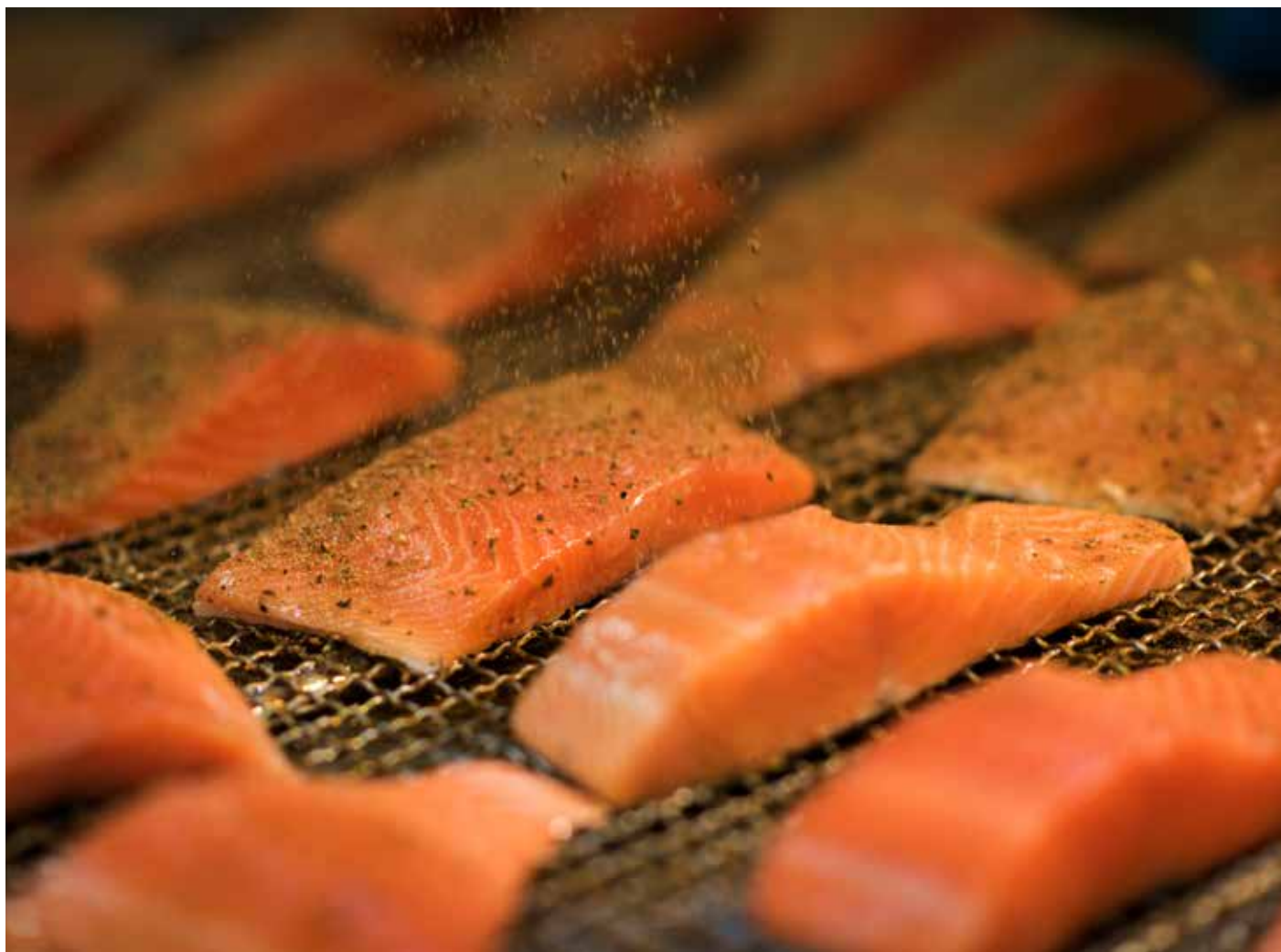
## HOW WE GENERATE REVENUE

We generate revenue by selling salmon to export and domestic customers:

- **Export salmon sales:** Export sales are our key focus due to the higher margins attainable. During FY2016 approximately 44% of sales revenues were received from sales made to customers across 15 export markets. Export sales have increased from approximately 32% of sale revenues in FY2014 and are expected to continue to increase through the Prospective Period. Our ability to grow export sales volumes with existing customers, win new customers and establish new markets will be key drivers of future revenue growth.
- **Domestic salmon sales:** In recent times, we have slightly reduced sales domestically as higher margin export markets have been prioritised. During FY2016 approximately 56% of sales revenues were received from sales made domestically. Per capita salmon consumption, as well as our ability to maintain or grow our market share, are key drivers of domestic salmon sales. We are focused on product innovation and marketing to increase domestic sales in the Prospective Period.



*You can find more information about the key drivers of our financial performance in Section 1 (Key drivers of returns).*



## OVERVIEW OF

## HISTORICAL FINANCIAL PERFORMANCE



## INTRODUCTION

This section provides an overview of the pro forma operating historical financial performance of the Group and should be read in conjunction with the table set out under the heading “Selected Financial Information” on page 59.

The terminology ‘weighted average sales price per kg’ is used in this PDS to refer to the weighted average net sales price per kg, in New Zealand dollars, of gilled and gutted salmon. The weighted average sales price per kg is affected by: underlying sales prices, the mix of sales by brand, product and market and movements in exchange rates with export trading partners.

FY2015 FINANCIAL PERFORMANCE  
RELATIVE TO FY2014

Between FY2014 and FY2015 our revenue grew by 3.4% to \$98.3 million, which was driven by an increase in the weighted average sales price per kg of approximately 6.3% offset by a 1.3% reduction in sales volumes.

The key driver of our revenue growth in FY2015 was an increase in sales to the North American market. Revenues from this market benefitted from a material increase in the sales of premium Ōra King salmon. In aggregate, total revenues from the North America market increased by 76% due to both an increase in volumes sold as well as an increase in the weighted average sales price per kg reflecting increased sales of Ōra King salmon.

Pro Forma Operating EBITDA increased by 25% to \$12.9 million. Additional revenues from the increased weighted average sales price were achieved with only a relatively minor increase in total pro forma operating costs.

FY2016 FINANCIAL PERFORMANCE  
RELATIVE TO FY2015

Between FY2015 and FY2016 our revenue grew by 16.0% to \$114.1 million, which was driven by an increase in the weighted average sales price per kg of approximately 6.8% and an increase in volumes sold of 8.6%. Key drivers of our revenue growth in FY2016 included:

- Export salmon sales revenue growth of approximately 40% was primarily driven by increased revenues from all export markets and especially increased sales to North America which grew by more than 70%.
- A reduction in the New Zealand dollar relative to the United States dollar.
- A 25% increase in sales volume of our premium branded, and higher margin, Ōra King salmon, which was mostly sold in North America.

Pro Forma Operating EBITDA growth of 24% to \$16.0 million was primarily driven by the revenue growth described above.



## OVERVIEW OF

## PROSPECTIVE FINANCIAL INFORMATION

## INTRODUCTION

This section provides an overview of the pro forma operating prospective financial performance of New Zealand King Salmon and should be read in conjunction with the table set out under the heading "Selected Financial Information" above.

The table below lists the key drivers of our financial performance and briefly outlines the principal assumptions and forecasts for

each of these key drivers in the Prospective Period. A full description of assumptions and sensitivities for the PFI is available in the Supplementary Financial Information.

More detail about the prospective financial performance for the Prospective Period is provided below.

KEY DRIVER	PRINCIPAL ASSUMPTIONS AND FORECASTS
<b>Our brands and products</b>	<p>Our forecasts assume sales of Ōra King continue to increase relative to sales of products under our other brands and unbranded products. By FY2018F, sales of Ōra King are forecast to comprise 31% of all sales.</p> <p>As sales of value-added products are also forecast to grow, our forecasts do not provide for any material change in the product mix achieved in FY2016.</p>
<b>Who we sell our products to</b>	<p>Our forecasts assume that approximately 75% of the increased harvest volume available from new seafarms will be exported. 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).</p>
<b>How we produce what we sell</b>	<p>Our harvest volumes are forecast to increase by approximately 8% in FY2017F and by approximately 10% in FY2018F.</p> <p>We have assumed an FCR of 1.76x and a mortality rate of 11.0% throughout the Prospective Period.</p> <p>Our sales volumes are expected to increase by 13.5% in FY2017F and 7.8% in FY2018F. A relatively higher growth rate in sales volume in FY2017F is due to a forecast net reduction in finished goods inventories.</p> <p>On a weighted average New Zealand dollar cost per kg, we have forecast the cost of feed to increase by approximately 1% in FY2017F, with an underlying increase in feed cost partially offset by the mix of feed suppliers, and by 6% in FY2018F.</p> <p>The cost of fish harvested comprises feed, labour and overheads. For FY2017F the cost of fish harvested is forecast to increase by \$6.8 million. On a per kg basis the cost of fish harvested is forecast to remain broadly in line with FY2016 (at \$8.25/kg sold in both FY2016 and FY2017F). For FY2018F the cost of fish harvested is forecast to increase by a further \$5.4 million, or an increase from \$8.25/kg sold to \$8.37/kg sold.</p> <p>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 to \$3.50/kg in FY2017F and to \$3.46/kg in FY2018F.</p>

## FY2017F FORECAST FINANCIAL PERFORMANCE RELATIVE TO FY2016

Between FY2016 and FY2017F our revenue is forecast to increase by 14.0% to \$130.1 million. This forecast growth is expected to be driven by increased sales volumes in both domestic and export markets. The key factors that we believe will drive this forecast performance are summarised below:

- Total sales volumes are forecast to increase by 13.5%. This increase is due to additional harvest volumes from the new Waitata seafarm (from which we began harvesting salmon in July) and Ngamahau seafarm (from which we expect to begin harvesting salmon in December) as well as a 150 MT net sell down in inventories of finished products. Notable forecast increases in sales include:
  - o Export sales volumes are forecast to increase by 24% due to forecast increased sales in all key export markets. In particular, we have forecast further significant sales volume growth to North America, as well as Asia (ex Japan) and Europe reflecting strong demand from these markets that we have not previously had adequate production volumes to satisfy. These markets have demonstrated strong demand for the premium foodservice brand Ōra King. In addition, a large increase in sales and marketing expenditure on in-market business development personnel has been forecast to support the additional sales volumes in these markets.
  - o Domestic sales volumes are expected to increase by approximately 6% with increased attention and focus on the retail market especially. New products and increased advertising and promotional expenditure have been forecast to support this sales growth.
- The weighted average sales price, expressed in New Zealand dollars per kg, across all sales is expected to increase by 1.0%. This reflects a 2.3% direct price increase in the underlying sales prices of all products offset by slightly stronger NZD/USD exchange rates, and product mix, including an assumed lower price for inventories sold down. A lower growth in the weighted average sales price per kg relative to recent years has been forecast in recognition of increased sales volumes.
- In aggregate, our feed and other input costs are expected to remain broadly in line with costs incurred in FY2016 on a per kg sold basis. Pro Forma Operating Group overheads are assumed to increase by 13%, mostly due to a 30% increase in sales, advertising and promotional expenditure to support the increased sales volume.

We expect Pro Forma Operating EBITDA to increase by 20% primarily driven by the forecast revenue increase described above.

## FY2018F FORECAST FINANCIAL PERFORMANCE RELATIVE TO FY2017F

Between FY2017F and FY2018F our revenue is forecast to increase by 10.4% to \$143.6 million. This forecast growth is expected to be driven by increased sales volumes in both domestic and export markets and a favourable product and market mix change resulting in an increase in the weighted average sales price per kg. The key factors that we believe will drive this forecast performance are summarised below:

- Total sales volumes are forecast to increase by 7.8%. This increase is due to additional harvest volumes from the three new seafarms. The last seafarm to reach harvest, Kopāua, has recently received smolt and is forecast to commence harvest in or around January 2018. Notable forecast increases in sales include:
  - o Export sales volumes are forecast to increase by approximately 14% due to forecast increased sales in most key export markets. In particular, we have forecast ongoing strong sales volume growth to our key export markets of North America, Asia (ex Japan) and Europe.
  - o Domestic sales volumes are expected to increase by approximately 3% as we consolidate and improve slightly upon domestic consumption gains that have been forecast for FY2017F.
- The weighted average sales price, expressed in New Zealand dollars per kg, across all sales is expected to increase by 2.4%. This reflects a 0.5% direct price increase in the underlying sales prices of all products coupled with improvement in our hedged foreign exchange position and favourable product and market mix changes.

We expect Pro Forma Operating EBITDA to increase by 17% primarily driven by the forecast revenue increase described above, offset by a 9% increase in sales, advertising and promotional expenditure to support the additional sales volume.

## PRO FORMA OPERATING NPAT

Our dividend policy is based on Pro Forma Operating NPAT. The key drivers of movements in Pro Forma Operating NPAT over the FY2014 to FY2018F period include:


- Improvements in Pro Forma Operating EBITDA recognised over the period.
- Higher depreciation and amortisation reflecting capital investment primarily in new seafarms and processing operations.
- A reduction in interest due to bank debt repaid from the proceeds of the Offer.
- An increase in taxation, reflecting the movements above.

## DIVIDENDS

We expect to declare dividends during the Prospective Period as follows:

- In respect of FY2017F, we expect to declare dividends of \$5.0 million, being 50% of forecast Pro Forma Operating NPAT. This dividend is targeted to be paid in two equal instalments with an interim dividend payable in March 2017 and a final dividend in September 2017.
- In respect of FY2018F, we expect to declare dividends of \$5.6 million, being 50% of forecast Pro Forma Operating NPAT. This dividend is targeted to be paid in two equal instalments with an interim dividend payable in March 2018 and a final dividend in September 2018.

We anticipate that dividends will be fully imputed.

 For more information about our dividend policy, including after the Prospective Period, see Section 6 (Key features of ordinary shares).



# CAPITALISATION AND KEY INVESTMENT METRICS

## CAPITALISATION

Number of equity securities being offered	69,228,085
Number of equity securities on issue following the Offer	137,989,433
Issue Price	\$1.12
Implied market capitalisation	\$154.5 million
Net debt / (cash) on completion of the Offer <sup>19</sup>	(\$2.7 million)
Implied enterprise value	\$151.9 million

## EXPLANATION OF IMPLIED MARKET CAPITALISATION AND IMPLIED ENTERPRISE VALUE

Implied market capitalisation is the value of all of the issuer's equity securities, as implied by the price of the ordinary shares being offered. It tells you what the Offerors are proposing that New Zealand King Salmon's equity is worth.

Implied enterprise value (EV) is a measure of the total value of the business of New Zealand King Salmon, as implied by the price of the ordinary shares being offered. Implied enterprise value is the amount that a person would need to pay to acquire all of New Zealand King Salmon's equity securities and to settle all of the Group's borrowings. It is a measure of what the Offerors are proposing the business of the Group as a whole is worth.

New Zealand King Salmon's EV and implied market capitalisation have been calculated on the assumption that 137,989,433 Shares will be on issue immediately following completion of the Offer. If the number of Shares on issue immediately following completion of the Offer is greater than 137,989,433 Shares, due to Shares being issued under the ESOP, New Zealand King Salmon's EV and implied market capitalisation immediately following the completion of the Offer will be higher.

## KEY INVESTMENT METRICS FOR THE OFFER

INVESTMENT METRIC	FY2017F	FY2018F
Implied enterprise value/Pro Forma Operating EBITDA	7.9x	6.8x
Price/earnings per equity security	15.3x	10.9x
Price/Pro Forma Operating NPAT per equity security	15.4x	13.5x
Earnings per equity security	\$0.073	\$0.103
Pro Forma Operating NPAT per equity security	\$0.073	\$0.083
Cash dividends declared per equity security	\$0.036	\$0.041
Implied cash dividend yield (being the dividend per Share divided by its price)	3.24%	3.62%
Implied gross dividend yield (being the implied cash dividend yield adjusted for imputation credits, and other tax credits, expected to be attached to the dividend)	4.49%	5.03%

The key investment metrics above are prepared based on GAAP, as well as certain non-GAAP pro forma operating financial information. More information on pro forma operating adjustments and reconciliations to information prepared in accordance with GAAP is available in the Supplementary Financial Information.

<sup>19</sup> Net debt on completion of the Offer is calculated as term debt borrowings plus finance leases less net cash equivalents immediately following completion of the Offer. New Zealand King Salmon expects to have a net cash position of \$2.7 million immediately following completion of the Offer.

# RISKS TO NEW ZEALAND KING SALMON'S BUSINESS AND PLANS

This section sets out a description of the circumstances that New Zealand King Salmon is aware of that exist or are likely to arise that significantly increase the risk to New Zealand King Salmon's financial position, financial performance or stated plans. We have outlined our assessment of the likelihood, nature and potential magnitude of the impact of the circumstances. These risks are based on the knowledge and assessment of the directors as at the date of this PDS and it is possible that other risks may emerge over time.



## SALMON MORTALITY RISK

What is it?	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.
Why is it significant?	<p>Only fish that survive to the point of harvest can be sold. Fish mortalities in a given year affect our production volumes.</p> <p>In addition, a disease or other biological issue could have a longer term effect on the viability of our continued operations.</p>
Our assessment of the likelihood, nature and potential magnitude of any impact	<p>We know that each year a certain number of fish will die prior to harvest. Our forecast mortality rate is 11.0% throughout the Prospective Period. Given the factors that influence this are both known and unknown, it is likely that actual mortality figures will differ from projected mortality figures.</p> <p>An increase in mortality would reduce our production volumes. However, the magnitude of any impact is impossible to predict, as there are a number of unknown factors and unforeseen events that can affect mortality. 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. The seafarms at which these events occurred have since been fallowed, are no longer expected to be used for year round production or represent a decreasing percentage of production volume.</p> <p>While insurance is available for certain significant events, it will not provide complete cover for losses due to mortality because of policy exclusions, excesses and other limitations.</p> <p>We manage this risk by focusing on improving the water flow and water temperature of our seafarms, actively monitoring fish health, geographic separation of our facilities, and maintaining appropriate netting and other facilities at our seafarms. These steps should reduce the likelihood and impact of any disease or predators, as well as being part of our best practice approach.</p> <p>In addition, we believe that our breeding program will enable our King salmon to adapt to gradual changes in environmental conditions.</p>



## FEED COSTS AND QUALITY RISK

What is it?	Feed costs could increase or we may be unable to source feed of an appropriate quality.
Why is it significant?	<p>Feed is our single biggest cost, equivalent to approximately one third of our revenue. This means any change in feed cost or quality has a significant impact on our business.</p> <p>Feed is one of the key factors in fish performance (including FCR) and fish health. Given the rarity of King salmon globally, research and development to design feed specifically for King salmon is not extensively undertaken by global feed companies.</p>
Our assessment of the likelihood, nature and potential magnitude of any impact	<p>It is considered unlikely that feed costs will increase beyond the level we will be able to pass on to customers or that we will be unable to source appropriate feed.</p> <p>We endeavour to source feed from multiple suppliers, reducing our dependence on any one supplier, and are trialling a number of alternative feed suppliers. 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.</p> <p>We benchmark to measure fish performance and cost of various diets, allowing us to better respond to feed cost and quality opportunities and issues. Poor quality feed is one of many factors that can result in a higher FCR through poor fish performance. We have generally achieved an FCR 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. Our forecast FCR is 1.76x during the Prospective Period. We are working with Seafood Innovations (a research body associated with Government), Cawthron Institute (a private science provider) and international feed suppliers to undertake research into improving feed for the King salmon species.</p> <p>If we are unable to consistently source quality feed it could affect our reputation for premium products, may affect the premium prices we can command for our products or may have a negative impact on production costs. An increase in the global price of feed will not affect all salmon producers in the same way and may make farmed King salmon less competitive.</p>

## EXISTING WATER ACCESS RISK

What is it?	Our operations require access to suitable water sites to farm salmon in the Marlborough Sounds. We also use water at the hatcheries and at our processing facilities.
Why is it significant?	Our continued ability to use our existing water access is important to the operation of our business as many of our existing water sources would not be easy to replace. Our operations are subject to various resource consents and other regulatory requirements with which we must comply in relation to the use of water, and these requirements may change from time to time. Community acceptance of our business is also important, as community groups and others could put pressure on central or local Government to restrict our existing access to water if they oppose our operations.
Our assessment of the likelihood, nature and potential magnitude of any impact	<p>The likelihood of us losing access to our existing water sources is considered low, but if we did the impact could be severe depending on whether the loss affected all or only some of our facilities. We engage with community groups and council to be a good corporate citizen, which we believe reduces the likelihood that community acceptance of our business decreases.</p> <p>It is possible that local Government may impose additional or varied conditions on our resource consents or other regulatory approvals, which may impose increased costs to comply with these conditions or a reduction in our production volumes. The likelihood and magnitude of any such change is unknown.</p> <p>If we lose access to our existing water sources, without securing appropriate alternatives, our production volumes would be adversely affected.</p>

## FOOD SAFETY RISK

What is it?	Our products could contain harmful bacteria or other organisms, such as listeria, which is unique as it can grow below 4°C.
Why is it significant?	<p>If our products contain harmful bacteria or other organisms, it could cause a consumer of our products to become unwell or, if detected, could result in a product recall.</p> <p>New laws could be passed that impose further food safety requirements that may be costly to comply with. Currently, we wash our fresh salmon and impose strict operating procedures to reduce the level of any listeria bacteria to a safe level, but the Government could require that further steps are taken. It may require significant capital expenditure to comply with any future requirements or those requirements may reduce our operational performance.</p>
Our assessment of the likelihood, nature and potential magnitude of any impact	<p>We consider the likelihood of there being a food safety incident to be low, given the rigorous steps we take to minimise the chance of contamination and regular testing on our fish for any food safety issues. In 2015, the Government undertook a consultation process, which included a suggestion that raw seafood would need to undergo processing for listeria. This was removed from the final published regulation. The likelihood of any further change in this area by the Government is unknown.</p> <p>We have forecast to spend more than \$7 million upgrading and improving our processing facilities during the next two years. This expenditure includes expansion of existing facilities and capabilities, replacement of older equipment and further improvements in food safety. As a result, this expenditure is expected to further reduce the likelihood of any incidents occurring.</p> <p>Any food safety incidents could result in reputational damage or regulatory consequences (including fines, penalties, loss of licences or temporary shutdowns of facilities). The potential magnitude of any food safety incident could be severe, which is why New Zealand King Salmon takes food hygiene very seriously.</p>

## MARKET ACCESS RISK

What is it?	Our salmon is sold to a number of export markets and there is a risk that our access to these markets may be impaired.
Why is it significant?	Our forecast growth is predominantly expected to come from sales offshore. Sales offshore require continued access to key export markets in a timely manner without expensive compliance obligations. As our products are highly perishable they also require swift clearance at the port, however, given our small shipment sizes, distribution issues with individual shipments are unlikely to be material.
Our assessment of the likelihood, nature and potential magnitude of any impact	<p>A closure of foreign markets or introduction of new rules that have an impact on the time products spend at the port would affect our sales. However, the impact is not considered likely to be severe, as our sales team works closely with foreign ministries to ensure product compliance prior to it leaving New Zealand and in the past we have moved products between markets in response to changes in pricing demand.</p> <p>Historically, markets have closed and rules of access have changed. It is likely that this will occur at some point in the future.</p> <p>However, given the global demand for King salmon, we expect that if one market is closed or subject to more onerous access rules we will be able to find alternative channels to sell the same production, although the margins may be lower in the short term.</p>

## BROODSTOCK AND HATCHERY RISK

What is it?	<p>We run a breeding programme at our hatcheries using our broodstock to produce eggs. Our hatcheries also grow our smolt prior to their transfer to the seafarms. The continued viability of our broodstock, eggs and smolt is subject to a range of natural factors, and can be threatened by changes in environmental conditions, disease or other factors that are known and unknown.</p>
Why is it significant?	<p>Our unique point of difference begins with our breeding programme. An issue with the viability of our broodstock could affect our continued ability to produce premium products that command a premium price.</p> <p>Only smolt that survives to the point of transfer to our seafarms has the potential to ultimately be harvested. Eggs that do not hatch or smolt that dies may affect the quality of fish that are harvested, as the pool of smolt to select to transfer to the seafarms will be smaller.</p>
Our assessment of the likelihood, nature and potential magnitude of any impact	<p>We maintain our broodstock across our three hatcheries in the South Island. The wide geographic dispersion acts as a backup in the case of a natural disaster or other incident that affects the viability at one hatchery. However, although unlikely, it is possible that natural factors, or disease, could affect more than one hatchery. If our broodstock died or otherwise became less viable, we may be unable to produce salmon at the same volume or quality as we do currently. Any issues with our breeding programme could also affect our reputation for producing a premium product.</p> <p>If the pool of smolt that survives to transfer is smaller or lower quality than expected, it could result in lower quality fish at harvest, adversely affecting our reputation, pricing and sales. In certain months we have a lot of smolt at particular hatcheries, which increases the risk that an incident at those hatcheries could have a material adverse effect upon us.</p> <p>We manage these risks by selecting hatcheries with access to high quality water flow, actively monitoring fish health, managing timing of transfer of eggs and smolt and geographic separation of our facilities. These risks are therefore considered unlikely to arise, although the impact could be severe, particularly if it affected more than one hatchery.</p>

## GROWTH OPPORTUNITIES RISK

What is it?	The three new seafarm consents obtained in December 2014 will, over time, permit us to approximately double existing production. In order to continue to grow our business thereafter, we will need to obtain access to additional water.
Why is it significant?	Ideal sites for aquaculture require certain currents and water temperatures to create good conditions for salmon growth. This means that those sites are rare and may be difficult to obtain access to or may require resource consents that are subject to conditions which limit our ability to use them. The information in our PFI does not assume that we will gain access to additional suitable water sites above the sites to which we already have access.
Our assessment of the likelihood, nature and potential magnitude of any impact	Obtaining additional water space consents has been challenging, however, there are a number of options and time to explore these. If we are unable to secure new water sources, we may be unable to meet our longer term growth aspirations.  We are actively examining a number of ways to achieve improvements in our water space. These include discussions around potential swaps of existing water space for water space with improved characteristics, water space that may become available in Southland, and technologies that may permit seafarms in the open sea.

## FOREIGN EXCHANGE RISK

What is it?	Our business is exposed to changes in the value of the currencies in which we pay for our feed and receive payment for our King salmon products.
Why is it significant?	We currently pay for more than 80% of our feed, our single biggest cost, in Australian dollars and the remainder in United States dollars. We also pay certain expenses in our overseas markets in the local currency and may pay for equipment purchases in foreign currency, although these are less significant amounts.  By revenue, we export 44% of our products to a range of countries and we expect this proportion to grow over time. Currently, 26% of our sales are made in United States dollars and 8% are made in Australian dollars.
Our assessment of the likelihood, nature and potential magnitude of any impact	Our foreign exchange exposure is, to a degree, naturally hedged because we both buy and sell in these currencies. We hedge our exposure to Australian dollars, United States dollars and Japanese Yen up to 48 months out, with a focus on the shorter term.  The goal of our hedging policy is to create more certainty for our business and to provide us time to adjust the markets into which we sell if there is a significant movement in foreign exchange rates that is expected to persist.  However, fluctuations in foreign exchange rates can be volatile and unpredictable. As a significant portion of our business is exposed to foreign exchange rates, negative movements could have a significant negative effect on our financial performance, particularly over the medium to longer term.

# TAX

Tax can have significant consequences for investments. If you have queries relating to the tax consequences of investing in ordinary shares, you should obtain professional advice on those consequences.



# WHERE YOU CAN FIND MORE INFORMATION

Further information relating to New Zealand King Salmon and the Shares is available on the Offer Register which can be found at [www.business.govt.nz/disclose](http://www.business.govt.nz/disclose) (for example, the Constitution and financial statements). A copy of the information on the Offer Register is available on request to the Registrar of Financial Service Providers.

Further information relating to New Zealand King Salmon is available on the Companies Office register of the Ministry of Business, Innovation and Employment. This information can be accessed on the Companies Office website at [www.business.govt.nz/companies](http://www.business.govt.nz/companies).

Once New Zealand King Salmon is listed, we will be required to make half-yearly and annual announcements to NZX and ASX and such other announcements required by the listing rules from time to time. You will be able to obtain this information free of charge by searching under ticker code "NZK" on NZX's website ([www.nzx.com](http://www.nzx.com)) and ASX's website ([www.asx.com.au](http://www.asx.com.au)).





# HOW TO APPLY

You should read this PDS and other available information carefully before applying for Shares. You can apply for Shares as follows:

- **Broker Firm Offer:** You can apply for Shares under the Broker Firm Offer by completing the Broker Firm Offer Application Form at the back of this PDS in accordance with the instructions provided by your Broker, including as to how you should make payment for your Shares.
- **Priority Offer:** You can apply for Shares under the Priority Offer by either:
  - o completing the Priority Offer Application Form online at [www.shareoffer.co.nz/newzealandkingsalmon](http://www.shareoffer.co.nz/newzealandkingsalmon) following the on screen instructions (you will be required to download a copy of this PDS as part of the online Application process); or
  - o completing the Priority Offer Application Form at the back of this PDS in accordance with the instructions on the Application Form.
- **Institutional Offer:** Full details of how to participate, including bidding instructions, were provided by the Joint Lead Managers to invited participants.

## PRIVACY POLICY

If you apply for Shares, you will be asked to provide personal information to the Offerors, the Share Registrar and their respective agents who will collect and hold the personal information provided by you in connection with your Application.

Your personal information will be used for considering, processing and corresponding with you about your Application and in

connection with your holding of Shares, including sending you information concerning New Zealand King Salmon, your Shares and other matters New Zealand King Salmon considers may be of interest to you by virtue of your holding of Shares.

To do these things, the Offerors or the Share Registrar may disclose your personal information to each other, their respective related companies and agents, contractors or third party service providers to whom they outsource services such as mailing and registry functions. However, all of these parties will be bound by the same privacy policies as the Offerors and the Share Registrar.

In addition, if you elect to pay by one-time direct debit, the Share Registrar will communicate with your nominated bank (including providing your personal information) for the purposes of processing your payment.

Failure to provide the required personal information may mean that your Application Form is not able to be processed efficiently, if at all.

Where the Offerors and the Share Registrar hold personal information about you in such a way that it can be readily retrieved, you have a right to obtain from the Offerors and the Share Registrar confirmation of whether or not they hold such personal information, and to access and seek correction of that personal information under the Privacy Act 1993 by contacting the privacy officers of the Offerors and the Share Registrar at their respective addresses shown in Section 12 (Contact Information).

You can also access your information on the Share Registrar's website [www.investorcentre.com/nz](http://www.investorcentre.com/nz) (you will be required to register with your CSN and Authorisation Code (FIN)).

# CONTACT INFORMATION

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# GLOSSARY

APPLICANT	an investor who makes an application for Shares under the Offer
APPLICATION	an application to subscribe for Shares under the Offer
APPLICATION FORM	an application form attached to, or accompanying, this PDS
APPLICATION MONIES	the amount payable on Application
ASX	ASX Limited, or the financial market operated by ASX Limited, as the context requires
ASX LISTING RULES	the listing rules of ASX, in force from time to time
BEST PRACTICE GUIDELINES	the Best Management Practice guidelines for salmon farming in the Marlborough Sounds developed collaboratively between New Zealand King Salmon, Marlborough District Council, Ministry for Primary Industries and other key stakeholders and experts, a copy of which is available at <a href="http://www.marlborough.govt.nz">www.marlborough.govt.nz</a>
BOARD	the board of directors of New Zealand King Salmon
BOOKBUILD	the process arranged by the Joint Lead Managers through which selected Institutional Investors, and selected Brokers, submitted bids for the number of Shares they wished to purchase across a range of prices for the Shares. That information was then used to assist with the determination of the Issue Price and allocation of the Shares
BROKER	an entity designated as an NZX Firm under the Participant Rules of NZX
BROKER FIRM OFFER	the portion of the Offer that is open to New Zealand resident clients of Brokers, including Pohutukawa Investors, who have received an allocation from a Broker
BUSINESS DAY	a day on which the NZX Main Board is open for trading
CAGR	compounding annual growth rate
CHINA RESOURCES NG FUNG	China Resources Ng Fung Limited
COMPANIES ACT	Companies Act 1993
CONSTITUTION	the constitution of New Zealand King Salmon
CSN	Common Shareholder Number
DIRECT CAPITAL	Direct Capital Partners Lambda Investments Limited, Pohutukawa Lambda Investments Limited, Direct Management Investments Limited, Biopacificventures Limited, Direct Capital Partners Limited and Hendry Nominees Limited
ESOP	the employee share ownership plan established by New Zealand King Salmon under which up to 892,857 Shares will be issued to eligible employees concurrently with the allotment of shares under the Offer
FCR	feed conversion ratio, calculated as the mass (in kg) of feed needed to increase an animal's bodyweight by 1 kg
FMCA	Financial Markets Conduct Act 2013
FY	a financial year ended 30 June, if followed by F this indicates prospective or forecast information
G&G	gilled and gutted
GAAP	Generally Accepted Accounting Practice
GROUP	New Zealand King Salmon Investments Limited and each of its subsidiaries
INSTITUTIONAL INVESTOR	investors who the Joint Lead Managers reasonably believe to be a person to whom an offer or invitation in respect of Shares may be made without the need for a PDS or other formality, other than a formality with which the Offerors are willing to comply
INSTITUTIONAL OFFER	the invitation to selected Brokers and Institutional Investors in New Zealand, Australia, Hong Kong and Singapore to participate in the Bookbuild
ISSUE PRICE	\$1.12 per Share
JOINT LEAD MANAGERS	First NZ Capital Securities Limited and Macquarie Capital (New Zealand) Limited (acting through its affiliates)

LOW FLOW	in respect of a seafarm, a site at which water currents are low
MORTALITY RATE	the annual percentage mortality of salmon in seawater, calculated as the biomass of annual salmon mortalities in kg divided by the annual growth of salmon in kg
MT	metric tonnes
NEW SENIOR EXECUTIVE LTI SCHEME	the senior executive long term incentive scheme established by New Zealand King Salmon under which up to 1,012,337 Shares will be issued in the first grant to participants concurrently with the allotment of Shares under the Offer
NEW ZEALAND KING SALMON	New Zealand King Salmon Investments Limited or the Group, as the context requires
NZD OR NZ\$ OR \$	New Zealand Dollar
NZX	NZX Limited
NZX LISTING RULES	the listing rules of the NZX Main Board, in force from time to time
NZX MAIN BOARD	the main board equity security market operated by NZX
OFFER	the offer of Shares pursuant to the Broker Firm Offer, the Priority Offer and the Institutional Offer
OFFERCO	NZK Limited
OFFERORS	New Zealand King Salmon and OfferCo
OFFER REGISTER	the online offer register maintained by the Companies Office known as 'Disclose' which can be found at <a href="http://www.business.govt.nz/disclose">www.business.govt.nz/disclose</a>
OREGON GROUP	Oregon Group Limited
PDS	this document, being a product disclosure statement prepared in accordance with the requirements of the FMCA and lodged with the New Zealand Registrar of Financial Service Providers and with the Australian Securities and Investments Commission in reliance on the Trans-Tasman mutual recognition scheme in Chapter 8 of the Corporations Act 2001 (Cth) and the Corporations Regulations 2001 (Cth)
PFI	prospective financial information
POHUTUKAWA	Pohutukawa Lambda Investments Limited (being a member of Pohutukawa Private Equity Fund), the holder of 10.83% of the Shares as at the date of this PDS
POHUTUKAWA INVESTOR	any person who was recorded in the share register of Pohutukawa as a holder of redeemable preference shares in Pohutukawa as at 5.00pm on 23 September 2016 and who has a New Zealand address
POHUTUKAWA PREFERENCE POOL	the pool of Shares reserved for Pohutukawa Investors under the Broker Firm Offer, being 4,196,857 Shares
PRO FORMA OPERATING EBITDA	Pro Forma Operating EBITDA refers to earnings before interest, tax, depreciation, amortisation, after allowing for the pro forma adjustments outlined in Section 7 (New Zealand King Salmon's financial information). Pro Forma Operating EBITDA is a non-GAAP profit measure
PRO FORMA OPERATING NPAT	Pro Forma Operating NPAT is net profit after tax that has been adjusted to reflect pro forma adjustments reflected within Pro Forma Operating EBITDA as well as to recalculate interest costs as if we had only had bank borrowings in place since 1 July 2013. The pro forma tax expense has been adjusted to reflect the tax implications of the pro forma adjustments. Pro Forma Operating NPAT is a non-GAAP profit measure. Beyond the Prospective Period, we expect Pro Forma Operating NPAT to be calculated as statutory net profit after tax adjusted for the after tax impact of fair value movements arising from the application of NZ IAS 41-Agriculture and NZ IAS 2-Inventory
PRIORITY OFFER	the portion of the Offer which is only available to eligible residents of the Marlborough or Nelson Bays regions and any other person whom New Zealand King Salmon determines in its sole discretion to be eligible
PROSPECTIVE PERIOD	FY2017F and FY2018F
SHARE REGISTRAR	Computershare Investor Services Limited
SHARES	ordinary shares in New Zealand King Salmon Investments Limited
SUPPLEMENTARY FINANCIAL INFORMATION	the document entitled "New Zealand King Salmon's Prospective Financial Information, a reconciliation of non-GAAP to GAAP information and supplementary financial information" on the Offer Register









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