



INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017



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“We firmly believe we are contributing to a sustainable food future for New Zealand with our vision for best-practice salmon farming.”

— *Grant Rosewarne,
Managing Director & CEO*



DIRECTORS' REPORT



John Ryder
CHAIRMAN



Grant Rosewarne
MANAGING
DIRECTOR & CEO

The New Zealand King Salmon Board is delighted to announce a record first-half profit result for the six-month period to 31 December 2017 (1H18). Strong global demand continues to underpin our growth.

This report marks the halfway point in our second year as a public company, and we remain committed to greater transparency, stakeholder engagement and value creation. We firmly believe we are contributing to a sustainable food future for New Zealand with our vision for best-practice salmon farming.

FINANCIAL PERFORMANCE

For the six-month period ending 31 December 2017, New Zealand King Salmon has recorded a net profit after tax of \$15.7 million, which is up 81% on the comparable six-month period to 31 December 2016 (1H17). The Pro Forma Operating EBITDA is \$19.5 million, marking a 169% increase on what was recorded in 1H17.

The excellent 1H18 results can be attributed to a significant boost in volume and increasing global demand for our salmon. Favourable growing conditions during the FY2017 year allowed us to deliver additional volume to satisfy that demand. 4,392 metric tonnes of gilled and gutted salmon were sold during this financial period, up 29% on 1H17.

The Company also made significant gains in the average selling price of our salmon, as branding penetration increased, mainly due to Ōra King sales rising 22% on the six month period to 30 June 2017.

New Zealand King Salmon is pleased to advise that a fully imputed final dividend of 2.0 cents per share has been declared and will be paid on 23 March 2018.

BUSINESS UPDATE

During this period, we saw a pleasing improvement in Health, Safety and Wellness metrics with the Lost Time Injury Frequency Ratio (LTIFR) down to 11.4 at 31 December 2017 (compared with 24.1 at December 2016).

Sales & Marketing Developments

Business development in new channels overseas has progressed over this period with several new retail customers poised to launch smoked salmon ranges in North America and Asia. Ōra King sales continue to lead growth, particularly in North America with total sales of 1,158 MT, up 70% on 1H17.



“Salmon is rightly considered the most sustainable of farmed animal proteins for its minimal space utilisation, feed efficiency, low carbon footprint, and its ability to work harmoniously with the natural nitrogen cycle.”

——— *Grant Rosewarne, Managing Director & CEO*

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We also launched Ōra King TYEE, a pioneering new aquaculture discovery. The unique characteristics of our breed enable us to grow these rare salmon to over 13 kilograms - delivering our customers an even more luxurious, yet sustainable, sushi experience.

At home, the nationwide advertising campaign featuring Reg the Seal and chef Al Brown, coupled with new product launches of the Regal Manuka Smoked range and an extended Omega Plus range, positioned us well for future sales of our premium branded retail products in New Zealand.

Overall, the weighted average NZ\$/kg sale price was \$20.00, up from \$18.70 in 1H17 and the FY2018 Prospective Financial Information of \$19.20. Strong demand globally as well as market and product mix adjustments have allowed us to improve overall pricing.

Production Developments

Harvest volumes increased by 30% on 1H17 to 4,424 MT, with good survival and growth during the FY2017 summer allowing additional harvest and thus sales. Our feed conversion ratio at 1.74x was a slight improvement on the previous first half year of 1.76x, however mortality rates were higher than 1H17 as New Zealand entered one of its warmest summers on record. Diet and fish performance remain key areas of focus for our aquaculture team.

Mortality is expected to be significantly higher in FY2018 than FY2017 due to the extraordinarily hot summer. We continue to work on solutions to address the risk of rising seawater temperatures - in addition to a strong focus on fish husbandry and animal welfare, this year we have actively managed stocking density on some farms. We see opportunities to improve future survival rates for our fish via preventative immunisation in the hatchery, and specifically targeting robustness in our selective breeding program.

Farm Relocation

The Ministry for Primary Industries' proposal to relocate up to six salmon farms to deeper locations with better water flow ('high-flow sites') in the Marlborough Sounds is set to advance to the next stage with the February 2018 release of the Marlborough Salmon Farm Relocation Advisory Panel recommendations for Government to consider.

We are delighted that the report supports the growing recognition that aquaculture plays a key role in sustainably feeding our planet. Salmon is rightly considered the most



Ngamahau Farm

sustainable of farmed animal proteins for its minimal space utilisation, feed efficiency, low carbon footprint, and its ability to work harmoniously with the natural nitrogen cycle. Add in the benefits of high yield, an abundance of healthy Omega 3's, traceability and a great tasting product, and it's easy to see that this recognition is justified.

The Panel's report endorses the scientific rationale that higher flow sites are most suitable, and that our existing low-flow salmon farms can and should be relocated.

Specifically, the Panel acknowledged the 'distinct environmental advantages' for benthic (sea bed) health as a result of relocation, alongside 'minor or less than minor' effects on the local king shag species and the wider water column. We can see that a positive decision by the Government would contribute to even better environmental, social and economic outcomes for our region. This proposal aligns very well with our new government's vision for swimmable waters, green jobs and strong regional development.

We will continue to focus on improving our existing water space and obtaining the best water space to enable us to help meet the very strong demand we are seeing globally for our branded premium products.

OUTLOOK

Despite our record-breaking 1H18 results, the extraordinarily hot summer has impacted the survival rates of our King salmon, and this is a principal factor behind anticipated lower profits for the second half of FY2018.

Our aquaculture team has been actively preparing the farms in anticipation of the warmer summer months, however this year the water temperatures have been well above average. Our recently-commissioned higher-flow sites have lessened the impact of the sustained heat, although, like many other farmers on land and in the sea, we have had associated performance and survival challenges. As a result, sales volumes will be impacted during the second half of this financial year and into the 2019 financial year. We will report in more detail once the summer period is over, as we did last year, including an update on our progress towards a long-term solution to combat the risk of increasing sea temperatures.

The Company remains in a strong financial position with a positive net cash position as at 31 December 2017, and we are excited about the longer-term prospects for our Company.

The Board would like to take this opportunity to acknowledge the contribution of our team to New Zealand King Salmon's record-breaking financial results. We are certainly progressing well in "Creating the Ultimate Salmon Experience"!

John Ryder
CHAIRMAN

Grant Rosewarne
MANAGING DIRECTOR & CEO

CORPORATE INFORMATION

BOARD OF DIRECTORS

Director	Position	Appointment Date
John William Dudley Ryder	Independent Non-Executive Chairman	21 September 2016
Grantley Bruce Rosewarne	Chief Executive Officer and Managing Director	21 September 2016
Mark Robert Hutton	Independent Non-Executive Director	21 September 2016
Jack Lee Porus	Non-Executive Director	7 November 2017
Paul James Steere	Independent Non-Executive Director	7 November 2017
Thomas Chai Leng Song	Non-Executive Director	21 September 2016
Xin Wang	Non-Executive Director	7 November 2017

REGISTERED OFFICE

93 Beatty Street
Annesbrook
Nelson
New Zealand

PRINCIPAL PLACE OF BUSINESS

93 Beatty Street
Annesbrook
Nelson
New Zealand

BANKERS

The Bank of New Zealand
81 Riccarton Road
Christchurch
New Zealand

SOLICITORS

Chapman Tripp
Level 35
23 Albert Street
Auckland
New Zealand

AUDITORS

Ernst & Young (EY)
Level 4/93
Cambridge Terrace
Christchurch
New Zealand

INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS
ENDED 31 DECEMBER 2017

*The wasabi patch at
Takaka Hatchery*

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

	Note	UNAUDITED 31 Dec 2017 \$000	UNAUDITED 31 Dec 2016 \$000
Revenue	4	87,688	63,626
Cost of goods sold		(76,244)	(59,239)
Fair value gain on biological transformation		31,204	28,722
Freight costs to market		(8,222)	(6,077)
Gross profit		34,426	27,032
Other income		1,500	738
Sales, marketing and advertising expenses		(5,863)	(4,012)
Distribution overheads		(1,593)	(1,436)
Corporate expenses		(4,048)	(3,513)
Other expenses		(112)	(2,621)
Earnings before interest, tax, depreciation and amortisation		24,310	16,188
Depreciation and amortisation expense		(2,419)	(2,106)
Finance income		88	86
Finance expenses		(425)	(1,572)
Profit before tax		21,554	12,596
Income tax expense		(5,819)	(3,891)
Net profit after tax		15,735	8,705
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):			
Exchange differences on translation of foreign operations		87	(28)
Net movement on cash flow hedges		1,032	1,813
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):			
Share based payment expense		121	41
Net other comprehensive income		1,240	1,826
Total comprehensive income		16,975	10,531
		UNAUDITED	UNAUDITED
Earnings per share		31 Dec 2017	31 Dec 2016
Basic earnings per share	5	\$0.11	\$0.07
Diluted earnings per share	5	\$0.11	\$0.07

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

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

		UNAUDITED 31 Dec 2017 \$000	AUDITED 30 Jun 2017 \$000
ASSETS	Note		
Current assets			
Cash and cash equivalents		15,529	10,647
Trade and other receivables		19,299	11,688
Inventories	6	18,522	16,674
Biological assets	7	74,454	68,556
Non-current assets held for sale		421	421
Other financial assets	12	1	-
Derivative financial assets	9	2,182	2,066
Total current assets		130,408	110,052
Non-current assets			
Property, plant and equipment		38,671	35,726
Biological assets	7	9,126	10,960
Derivative financial assets	9	4,032	3,196
Deferred tax asset		1,761	1,636
Intangible assets		3,598	3,687
Goodwill		39,255	39,255
Total non-current assets		96,443	94,460
TOTAL ASSETS		226,851	204,512
LIABILITIES			
Current liabilities			
Trade and other payables		18,790	13,282
Employee benefits		2,974	3,028
Borrowings	8	1,513	414
Other financial liabilities	12	46	18
Derivative financial liabilities	9	906	1,277
Taxation payable		4,240	2,285
Total current liabilities		28,469	20,304
Non-current liabilities			
Employee benefits		464	451
Borrowings	8	10,016	10,124
Deferred tax liabilities		15,621	14,010
Derivative financial liabilities	9	827	948
Total non-current liabilities		26,928	25,533
TOTAL LIABILITIES		55,397	45,837
NET ASSETS		171,454	158,675
EQUITY			
Share capital	11	122,574	122,518
Reserves		3,035	1,795
Retained earnings		45,845	34,362
TOTAL EQUITY		171,454	158,675
Net tangible assets per share			
Net tangible assets per share		\$1.31	\$1.15

For and on behalf of the Board, who authorised the issue of these financial statements on 28 February 2018.



 DIRECTOR
 28 February 2018



 DIRECTOR
 28 February 2018

The above interim consolidated statement of financial position should be read in conjunction with the accompanying notes.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

	Share Capital \$000	Foreign Currency Translation Reserve \$000	Hedge Reserve \$000	Share Based Payment Reserve \$000	Retained Earnings \$000	Total Equity \$000
UNAUDITED						
Balance as at 1 July 2017	122,518	(515)	2,168	142	34,362	158,675
Profit for the period	-	-	-	-	15,735	15,735
Other comprehensive income/(loss)	-	87	1,032	121	-	1,240
Total comprehensive income/(loss) for the period	-	87	1,032	121	15,735	16,975
Dividend paid	-	-	-	-	(4,252)	(4,252)
Employee share scheme loans repaid	56	-	-	-	-	56
Balance as at 31 December 2017	122,574	(428)	3,200	263	45,845	171,454
UNAUDITED						
Balance as at 1 July 2016	25,296	(527)	(2,195)	-	14,440	37,014
Profit for the period	-	-	-	-	8,705	8,705
Other comprehensive income/(loss)	-	(28)	1,813	41	-	1,826
Total comprehensive income/(loss) for the period	-	(28)	1,813	41	8,705	10,531
Increase in share capital in preparation for IPO	68,914	-	-	-	-	68,914
Shares issued	30,105	-	-	-	-	30,105
Transaction costs arising on share issue	(1,797)	-	-	-	-	(1,797)
Balance as at 31 December 2016	122,518	(555)	(382)	41	23,145	144,767

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

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

	UNAUDITED 31 Dec 2017 \$000	UNAUDITED 31 Dec 2016 \$000
Operating activities		
Receipts from customers	82,464	59,744
Payments to suppliers	(49,263)	(43,033)
Payments to employees	(17,329)	(15,189)
Interest received	80	78
Interest paid	(293)	(1,052)
Insurance and settlement income	-	214
Other income received	1,352	-
Income tax paid	(2,783)	(1,741)
Net cash flows from operating activities	14,228	(979)
Investing activities		
Proceeds from sale of property, plant and equipment	-	10
Purchase of property, plant and equipment	(5,263)	(3,696)
Purchase of intangible assets	(14)	(49)
Net cash flow from investing activities	(5,277)	(3,735)
Financing activities		
Repayment of revolving loan	-	(9,000)
Government grants received	147	-
Gross proceeds from share issue	-	30,105
Transaction costs arising from share issue	-	(1,797)
Proceeds from shareholder advances	-	1,402
Repayment of shareholder advances	-	(7,651)
Payment of finance lease liabilities	(50)	(70)
Employee share scheme loans repaid	57	-
Dividends received on behalf of Custodian Holders	28	-
Dividends paid	(4,252)	-
Net cash flows from financing activities	(4,070)	12,989
Net increase in cash and cash equivalents	4,881	8,275
Cash and cash equivalents at 1 July	10,648	2,419
Cash and cash equivalents at 31 December	15,529	10,694

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

1. CORPORATE INFORMATION

The interim financial statements of New Zealand King Salmon Investments Limited (the Company) and its subsidiaries (together the Group) for the six months ended 31 December 2017 were authorised by the Directors on 28 February 2018.

New Zealand King Salmon Investments Limited is a profit-orientated company incorporated and domiciled in New Zealand. The Company is registered under the Companies Act 1993 and listed on the NZX Main Board ("NZX") and the Australian Securities Exchange ("ASX"). The Company is an FMC reporting entity under the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013.

The interim consolidated financial statements are for the six months ended 31 December 2017 and have been prepared in accordance with NZ GAAP. New Zealand King Salmon Investments Limited is a profit-orientated entity.

The Group is principally engaged in the farming, processing and sale of premium salmon products.

2. BASIS OF PREPARATION

a. Statement of compliance

The interim consolidated financial statements for the six months ended 31 December 2017 have been prepared in accordance with NZ IAS 34 - Interim Financial Reporting and IAS 34 Interim Financial Reporting, and should be read in conjunction with the annual financial statements as at 30 June 2017 which were prepared in accordance with NZ IFRS and IFRS.

The interim consolidated financial statements for the six months ended 31 December 2017 are unaudited. Comparative information for the interim consolidated statement of financial position is at 30 June 2017 and is audited. Comparative information for the interim consolidated statement of comprehensive income, statement of interim consolidated changes in equity and interim consolidated statement of cash flows is for the comparative six month period and is unaudited.

b. Basis of measurement

The accounting policies adopted in the interim financial statements are consistent with those applied in the annual financial statements as at 30 June 2017.

c. Significant accounting judgements, estimates and assumptions

Management have applied the same principles and used the same key sources of estimation in the preparation of the interim financial statements as those applied to in the consolidated financial statements for the year ended 30 June 2017.

3. SEASONALITY

The Group's business is not considered to be highly seasonal. Sales and related costs vary from month to month with overall variation considered to be immaterial.

4. SEGMENT INFORMATION

Segment results

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

The Group's reportable segments are:

New Zealand Retail

The company provides these customers with pre-packed value added products (including wood roasted and cold smoked product), whole fresh fish and pre-cut fillets.

New Zealand Foodservice

The company provides these customers with a broad variety of salmon products including whole fresh fish, pre-cut fillets, portions and a range of smoked products.

Export

Predominantly customers based outside New Zealand most of whom currently fall into the Foodservice category as described above.

Segment performance is evaluated at the EBITDA level and results are as follows:

	New Zealand Retail \$000	New Zealand Foodservice \$000	Export Market \$000	Total \$000
UNAUDITED				
Six months ended 31 Dec 2017				
Revenue	22,985	20,752	43,951	87,688
Segment EBITDA	4,728	5,989	13,593	24,310

UNAUDITED

Six months ended 31 Dec 2016

Revenue	17,136	19,490	27,000	63,626
Segment EBITDA	3,944	5,231	7,013	16,188

Depreciation, amortisation, finance income and costs, and fair value gains and losses on financial assets are not allocated to individual segments as the underlying instruments are managed on a group basis.

Segment profit reconciles to profit before income tax as follows:

	UNAUDITED 31 Dec 2017 \$000	UNAUDITED 31 Dec 2016 \$000
Segment profit	24,310	16,188
Depreciation, amortisation and impairment	(2,419)	(2,106)
Net finance costs	(337)	(1,486)
Group profit before tax	21,554	12,596

The Group does not prepare information allocating assets and liabilities to the market facing segments as all material assets and liabilities are managed on a group basis.

	UNAUDITED 31 Dec 2017 \$000	UNAUDITED 31 Dec 2016 \$000
Revenue by geographical location of customers		
New Zealand	43,736	36,626
North America	25,636	14,229
Australia	6,675	6,249
Japan	5,683	2,687
Europe	1,311	946
Other	4,647	2,889
Total revenue	87,688	63,626

Sales net of settlement discounts to two major customers for the period ended December 2017 totalled \$18,842k or 22% of total sales (December 2016 one major customer accounted for \$8,516k or 13%). In both years, these customers were included in the New Zealand Retail segment.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

5. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing the profit for the year attributable to shareholders of the Company by the weighted average number of ordinary shares on issue during the year. Diluted earnings per share assume conversion of all potential ordinary shares in determining the weighted average number of ordinary shares on issue.

	UNAUDITED 31 Dec 2017	UNAUDITED 31 Dec 2016
	\$000	\$000
Earnings per share		
Profit attributable to ordinary equity holders	15,735	8,705
	# of Shares	# of Shares
	000	000
Weighted average number of ordinary shares for diluted earnings per share	138,320	121,439
Basic earnings per share	\$0.11	\$0.07
Diluted earnings per share	\$0.11	\$0.07

6. INVENTORIES

	UNAUDITED 31 Dec 2017	AUDITED 30 Jun 2017
	\$000	\$000
Inventories		
Raw materials	12,593	9,525
Work in progress	141	-
Finished goods	5,788	7,149
Total inventories	18,522	16,674
	UNAUDITED	UNAUDITED
	31 Dec 2017	31 Dec 2016
	\$000	\$000
Amount of inventories recognised as an expense in the statement of comprehensive income		
Cost of inventories recognised as an expense	76,614	59,596
Movement in net realisable value of inventory decrease	(370)	(357)
Total cost of goods sold	76,244	59,239

The cost of inventories recognised as an expense for the period ended December 2017 includes a fair value uplift at point of harvest of \$26,456k (December 2016: \$17,688k).

7. BIOLOGICAL ASSETS

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

UNAUDITED	Cost	Fair value	Total
Biological assets	\$000	\$000	\$000
As at 1 July 2017	45,088	34,428	79,516
Increase due to biological transformation ¹	34,408	27,039	61,447
Decrease due to harvest ²	(32,138)	(26,456)	(58,594)
Decrease due to mortality ³	(2,954)	-	(2,954)
Changes in fair value ⁴	-	4,165	4,165
As at 31 December 2017	44,404	39,176	83,580

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

² Harvested fair value is included under cost of goods sold in the statement of comprehensive income and is calculated by multiplying the current year's harvest (biomass) by the prior year's expected gross margin per kg (recognised at 100%).

³ Mortality cost is expensed directly to the statement of comprehensive income in the period which it occurs.

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

AUDITED	Cost	Fair value	Total
Biological assets	\$000	\$000	\$000
As at 1 July 2016	36,348	16,602	52,950
Increase due to biological transformation	70,330	50,606	120,936
Decrease due to harvest	(56,346)	(37,019)	(93,365)
Decrease due to mortality	(5,244)	-	(5,244)
Changes in fair value	-	4,239	4,239
As at 30 June 2017	45,088	34,428	79,516

	UNAUDITED	UNAUDITED
	31 Dec 2017	31 Dec 2016
	\$000	\$000
Fair value gain/ (loss) recognised in profit and loss		
Gain arising from growth of biological assets	27,039	27,992
Movement in fair value of biological assets	4,165	730
Total fair value gain on biological transformation	31,204	28,722

	UNAUDITED	AUDITED
	31 Dec 2017	30 Jun 2017
	kg 000	kg 000
Estimated closing biomass		
Closing freshwater stocks	158	142
Closing seawater stocks	6,526	6,085
Total estimated closing biomass live weight	6,684	6,227

	UNAUDITED	UNAUDITED
	31 Dec 2017	31 Dec 2016
	kg 000	kg 000
Live weight harvested for the period (metric tonnes)	5,027	3,861

Fair value measurement

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

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

Fair value risk and sensitivity

The Group is exposed to financial risks relating to the production of salmon stocks including climatic events, disease and contamination of water space.

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

The estimate of unrealised fair value gain from cost is based on several assumptions. Changes in these assumptions will impact the fair value calculation. The realised profit which is achieved on the sale of inventory will differ from the calculations of fair value of biological assets because of changes in key factors such as the final market destinations of inventory sold, changes in price, foreign exchange rates, harvest weight, growth rates, mortality, cost levels and differences in harvested fish quality.

Leaving all other variables constant a 5.0% increase/decrease in estimated average future sales prices would have increased/decreased the fair value of biological assets on hand at balance date and profit before tax by \$5.9m (excludes the impact of finished goods), while a 5.0% increase/decrease in future harvest volume would increase/decrease the fair value of biological assets on hand and profit before tax by \$2.0m.

A 5% increase/decrease in estimated future costs to sell would decrease/increase the fair value of biological assets on hand at balance date and profit before tax by \$4.0m. Changes in fish health and environmental factors may affect the quality of harvested fish, which may be reflected in realised profit via both achieved sales price and production costs.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

8. INTEREST BEARING LOANS AND BORROWINGS

	UNAUDITED 31 Dec 2017 \$000	AUDITED 30 Jun 2017 \$000
Current interest bearing loans and borrowings		
Finance lease liabilities	201	144
Other borrowings	1,312	270
Total current interest bearing loans and borrowings	1,513	414
Non-current interest bearing loans and borrowings		
Finance lease liabilities	16	124
Secured bank loans	10,000	10,000
Total non-current interest bearing loans and borrowings	10,016	10,124

The Company has facilities with BNZ for \$30m, secured by a general security deed over the assets of the Group. The expiry date of facility A of \$18m is 25 November 2020, and facility B of \$12m expires on 18 October 2019. At balance date \$10m of facility A was drawn (June 2017: \$10m).

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The carrying value of the BNZ loan drawing of \$10m is considered a reasonable approximation of its fair value due to the short term maturities of the drawings. New Zealand King Salmon Investments has the discretion to roll these short term drawings out to 2020.

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

	UNAUDITED 31 Dec 2017 \$000	AUDITED 30 Jun 2017 \$000
Current derivative financial assets		
Forward exchange contracts	1,763	1,776
Foreign exchange options	419	290
Total Current derivative financial assets	2,182	2,066
Non-current derivative financial assets		
Forward exchange contracts	2,256	1,882
Foreign exchange options	1,776	1,314
Total Non-current derivative financial assets	4,032	3,196
Current derivative financial liabilities		
Forward exchange contracts	9	519
Foreign exchange options	53	24
Interest rate swaps	844	734
Total Current derivative financial liabilities	906	1,277
Non-current derivative financial liabilities		
Forward exchange contracts	-	451
Foreign exchange options	642	307
Interest rate swaps	185	190
Total Non-current derivative financial liabilities	827	948

The carrying value of obligations under financial leases differs from fair value as follows:

	UNAUDITED		AUDITED	
	As at 31 Dec 2017		As at 30 Jun 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$000	\$000	\$000	\$000
Obligations under finance leases	217	200	267	233
Total obligations under finance leases	217	200	267	233

Valuation methods

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

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

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

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

All derivative financial instruments for which a fair value is recognised have been categorised within level 2 of the fair value hierarchy. Industry experts have provided the fair values for all derivatives based on an industry standard model.

10. COMMITMENTS AND CONTINGENCIES

UNAUDITED

Capital commitments

The Group has entered into an agreement to purchase plant and equipment. As at 31 December 2017 the total commitment is \$1,720k (June 2017: \$1,137k).

Contingencies

The Group has a contingent liability of \$1,018k in respect of a fish transport contract requiring the Group to purchase three bulk tankers (including modifications made in 2017), should the fish transport contract be terminated early (June 2017: \$995k).

11. CAPITAL AND RESERVES

Share capital	UNAUDITED	AUDITED
	31 Dec 2017	30 Jun 2017
Issued shares	000	000
Ordinary shares	138,475	138,158
Total issued shares	138,475	138,158

Ordinary shares are fully paid with no par value. Each ordinary share has an equal right to vote, to participate in dividends, and to share in any surplus on winding up of the Company. Dividends paid during the period ended December 2017 consisted of a fully imputed final dividend of \$0.02 per share and a fully imputed special dividend of \$0.01 paid on 18 September 2017 (December 2016: nil).

Movement in ordinary share capital	# of Shares		Share Capital	
	UNAUDITED	AUDITED	UNAUDITED	AUDITED
	31 Dec 2017	30 Jun 2017	31 Dec 2017	30 Jun 2017
	000	000	\$000	\$000
<i>As at 1 July</i>	138,158	25,295	122,518	25,296
Shareholder loans converted to share capital	-	26,941	-	70,202
Shares issued by way of 2.11 to 1 share split	-	57,955	-	-
Issue of new shares pursuant to IPO	-	26,786	-	30,000
Transactional costs arising on share issue	-	-	-	(1,797)
Employee offer pursuant to IPO	-	1,181	-	1,322
Employee share scheme loans repaid	-	-	56	-
Share issue for employee share scheme	317	-	-	(2,505)
As at 31 December or 30 June	138,475	138,158	122,574	122,518

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

Reserves

Foreign currency translation reserve

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

Hedge reserve

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

Share based payment reserve

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

The senior leadership LTI scheme was established prior to the IPO and relates to 3,176,878 shares in the Company. The ordinary shares in the Company are security for the interest-free limited recourse loans and are held in escrow until after the financial results have been announced for the year ending 30 June 2018. Loans relating to 114,714 shares were repaid during the period.

The senior executive LTI scheme was established at the time of the IPO with 993,671 ordinary shares in the Company being issued at an issue price of \$1.12 per share. The ordinary shares in the Company are security for the interest-free limited recourse loans, are held by a Custodian and will vest three years from the granting date of 19 October 2016. During the period, 164,548 of these shares were forfeited. On 29 September 2017 a further 317,215 shares were issued, being 270,274 shares issued to existing senior executive shareholders at an issue price of \$1.22 per share, and 47,241 shares issued to new senior executive shareholders at an issue price of \$1.77 per share. These shares will also vest three years from the granting date. The price to be paid for each share is the issue price at granting date, reduced by any dividends that are applied to the interest-free limited recourse loans. No shares vested or expired during the period.

The employee share ownership scheme was established at the time of the IPO and relates to 187,076 ordinary shares in the Company. The ordinary shares in the Company are security for the interest-free limited recourse loans which may remain in place whilst the holder is in employment with the Company. Loans relating to 20,538 shares were repaid during the period by employees leaving the Company.

Retained earnings

Retained earnings represents the profits retained in the business.

12. RELATED PARTY DISCLOSURES

Subsidiaries

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

<i>Subsidiary</i>	<i>Company of Incorporation</i>	<i>Equity Interest</i>
The New Zealand King Salmon Co Limited	New Zealand	100%
The New Zealand King Salmon Pty Limited	Australia	100%
New Zealand King Salmon Exports Limited	New Zealand	100%
New Zealand King Salmon USA Inc.	United States of America	100%

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

At balance date Oregon Group Limited owned 40.17% (30 June 2017: 40.3%) of the shares in New Zealand King Salmon Investments Limited.

Transactions with related parties

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

	UNAUDITED 31 Dec 2017 \$000	UNAUDITED 31 Dec 2016 \$000
Related party payments		
Interest paid - Oregon Group Limited	-	272
Interest paid - Other shareholders	-	194
Good and services purchased from other related parties	4	1
Total related party payments	4	467
Related party sales		
Goods and services sold to related parties	(550)	(431)
Total related party sales	(550)	(431)

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

	UNAUDITED 31 Dec 2017 \$000	AUDITED 30 Jun 2017 \$000
Amounts owing to related parties		
Current amounts owing to related parties		
Other amounts owing to related parties	46	18
Total current amounts owing to related parties	46	18

	UNAUDITED 31 Dec 2017 \$000	AUDITED 30 Jun 2017 \$000
Amounts owing by related parties		
Amounts owing by related parties	57	94
Total amounts owing by related parties	57	94

	UNAUDITED 31 Dec 2017 \$000	UNAUDITED 31 Dec 2016 \$000
Compensation of key management personnel of the Group		
Key management personnel compensation		
Short-term employee benefits	1,372	1,390
Share based payment expense	121	41
Post employment pension and medical benefits	75	55
Total key management personnel compensation	1,568	1,486

13. EVENTS AFTER BALANCE DATE

The Ministry for Primary Industries initiated a process which may result in a swap of certain water space licences for alternative water space which remains ongoing at the date of completing these financial statements. On 14 February 2018 the Marlborough Salmon Farm Relocations Advisory Panel report to the previous Minister for Primary Industries was made publicly available by the Minister of Fisheries. The Minister has indicated that he will consider the report and will take some months to issue a decision. The outcome of this process could create significant changes to the Group's operations in future.

Subsequent to the end of the period there has been significantly lower than normal fish survival rates at sea farms for this time of year. The abnormal survival rates are expected to continue in the short term, and are expected to return to normal historical survival rates as the extraordinarily high summer temperatures return towards normal temperatures. These are considered non-adjusting subsequent events. The financial effect of these events cannot be reliably estimated, as it is highly dependent on a range of future impacts including sales prices, product mix, harvest volume, mortality and harvested fish cost.

REVIEW REPORT



Chartered Accountants

Review Report to the Shareholders of New Zealand King Salmon Investments Limited ("the company") and its subsidiaries (together "the group")

We have reviewed the interim financial statements on pages 10 to 21, which comprise the statement of financial position of the group as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows of the group for the six month period ended on that date, and a summary of significant accounting policies and other explanatory information.

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

Directors' Responsibilities

The directors are responsible for the preparation and fair presentation of interim financial statements which comply with New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the interim financial statements that are free from material misstatement, whether due to fraud or error.

Reviewer's Responsibilities

Our responsibility is to express a conclusion on the interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting. As the auditor of the group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Basis of Statement

A review of interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on those financial statements.

We provide taxation advice to the group. We have no other relationship with, or interest in, the group.

Conclusion

Based on our review nothing has come to our attention that causes us to believe that the accompanying interim financial statements, set out on pages 10 to 21, do not present fairly, in all material respects, the financial position of the group as at 31 December 2017 and its financial performance and cash flows for the six month period ended on that date in accordance with New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting.

Our review was completed on 28 February 2018 and our findings are expressed as at that date.

Christchurch

A member firm of Ernst & Young Global Limited



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