



16 December 2015

Sanford Limited 2015 Annual Meeting  
Mr Volker Kuntzsch  
Chief Executive Officer's Address

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Good afternoon ladies and gentlemen,

Thank you for the opportunity to present to you the annual report for 2015. The Chairman has provided a lot of detail and has already pointed out that 2015 was a busy year. I would like to share with you a little more insight into some of the activities and outcomes of the year, while providing some context for our strategic approach.

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New Zealand plays a minor role in the global seafood business. Total worldwide catches exceed 160 million tons of which NZ contributes less than 0.4%. This circumstance requires us to differentiate ourselves and sell our rather limited resource at a premium instead of trying to outcompete others by offering similar products. We don't have the economies of scale others have and we are not blessed with 100's of millions of consumers on our doorstep.

We do, however, have a number of advantages that we need to exploit: a wide range of wonderful species, sustainably managed and above all, the provenance. NZ has an excellent reputation around the globe.

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Global fisheries production continues its upward trend, but it is clear that the aquaculture industry is responsible for all the growth, while wild catches are stagnant at around 90 million tons per annum. With respect to our business, the bigger picture certainly requires a very different strategic approach to fishing than to aquaculture to derive greater value from seafood. Globally, not many seafood companies combine fishing and farming under one roof, and the challenge is to determine an appropriately differentiated approach.

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The common dominator, however, is the customer. With the customer in mind, the above facts have driven our actions over the last 18 months, primarily with the aim of shifting the focus from commodity to added value. With fishing quota and aquaculture volume delivering over 100,000 tons of seafood this is not an easy feat. More importantly though, we had to understand what "adding value" actually means. After interviewing our customers around the world, listening to the expertise we have within Sanford and enhancing our developing perspective with international experiences and trends in food - and particularly in seafood consumption we have concluded that adding value should focus on:

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- Improving the quality of our products and service,
- Differentiating our products through innovation, and
- Building a well-respected brand.

This requires a significantly different mind-set as the focus shifts from resource extraction to food manufacturing.

Most interestingly though, it became apparent that to create real value, our focus needed to be on increasing the share of fresh fish as opposed to frozen fish, especially with our inshore species, and offering these to discerning customers around the world. After all, consumers are increasingly committed to producing food from scratch again, using predominantly fresh, not frozen, ingredients. While frozen fish is often frozen within hours of catch, thus optimally capturing the inherent quality of the raw material, many consumers still tend to view fresh fish as the premium quality and more convenient to handle.

We have therefore embarked on restructuring our company to some extent to accommodate these focus areas, while at the same time reducing effort in areas that were strategically of lesser value or remained unprofitable after several years of alternative approaches.

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With the changes to our organisation we have added approximately \$2m in salary cost per annum, but the advantages of having professional supply chain management and procurement in place are already evident through improved inventory management and the introduction of structured supplier relationships and cost savings.

We have exited the international purse seining activity of catching skipjack tuna in the South Pacific Islands as this part of our business accumulated ongoing losses. Furthermore, we were not able to align this activity with the increasing exposure of our brand and our commitment to sustainability. We also took an impairment on our Australian fishing quota as our expertise is clearly in NZ waters and the absence of economies of scale and limited opportunities for collaboration with other quota owners in Australian waters created ongoing financial and managerial challenges. Our activities in Australia will now focus primarily on marketing our product through Sanford Australia in Melbourne.

Our business is subject to climatic and biological circumstances. These are, at times, adverse with unfortunate consequences. Due to limited mussel supplies, reduced spat catches and lower than expected yields we had to take the step of closing our Christchurch processing facility in April, leading to the redundancy of over 230 people. With the engagement of our site management and employers in the region we managed to place the majority of our workforce in new jobs and I thank our team for their dedicated support and commitment to handling this process in an effective and caring manner.

All mussel processing in the South Island is now concentrated in Havelock in the Marlborough Sounds. While our mussel business experienced a challenging year in terms of supply and pricing, we were able to combat the shortfall to some extent through the sale of mussels out of inventory.

Another important part of our aquaculture business, King salmon, performed well and we are excited about the fact that an increasing share of this species remains in NZ as fresh fish, whereas it was previously exported as a frozen commodity.

Our fishing business overall had a good year with catches reflecting the sustainable management of NZ's fish stocks. The diverse range of species we are able to utilize efficiently underpins our endeavour to offer an excellent portfolio of species to our customers.

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This is then also the basis of the new image we have decided to create for ourselves: Against the background of our big blue backyard we combine the excellent resources we harvest with the passion and care that we exhibit in working and living in this wonderful environment to arrive at a very fresh and appealing new logo and the tag line "Beautiful New Zealand Seafood".

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We have decided on a more emotionally charged tagline in order to create a greater understanding for who we are and what we stand for.

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This is what our future focus is all about: the diversity of fresh and appealing New Zealand seafood, ideally delivered as natural and pristine as possible.

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With the introduction of a new logo we have also become active in social media and have recently introduced our new website. Please don't hesitate to visit [sanford.co.nz](http://sanford.co.nz) to experience our company in more detail. Naturally you should also follow us on Facebook and Twitter. You may have noticed that we involve ourselves in a variety of public relations related activities and are starting to communicate more proactively about topics concerning industry, sustainability, climate change and our community involvement - all with the intention of improving transparency and creating a better reputation. This will build our brand value over time.

In addition to creating a strong brand and greater value through the focus on fresh, operational efficiency improvements, and added value items in our frozen portfolio, I am happy to announce the addition of a Chief Customer Officer to our Executive Team. The CCO will start in February with the objective of bringing us closer to our customers and consumers. The focus on fresh necessitates much stronger links with retail and other channels linking us directly to the end users of our product. We have embarked on utilising some innovative distribution channels and I look forward to sharing more information on these at the next Annual Meeting. The CCO will also drive our Innovation Team where we are currently focused on improved utilisation of fish and shellfish by-products.

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With respect to innovation I should also mention the progress being made with Precision Seafood Harvesting, a Primary Growth Partnership project between 3 industry players and a government funded research institute (Plant and Food Research). We will soon be into year 4 of 7 trialling this game changing fishing method. This is an exciting project that strongly supports the emphasis on sustainability and care for marine resources. We will distribute the first commercial quantities harvested with this method under a dedicated brand name in due course.

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We trust that the variability of mussel spat supply will, in future, be greatly reduced through the mussel hatchery, SPATnz, that we officially opened in April this year. SPATnz is a PGP project between Cawthron, Sanford and our mussel growers and enables the selective breeding of mussels to ensure continuous supply of mussel seed and the ability to focus on families with specific traits, e.g. meat quality. We are very encouraged by the results we have seen so far, but we are certainly still in an experimental phase. It has recently been announced that we have secured funding to conduct research on the anti-inflammatory benefits of Greenshell mussels. This research supports further value creation with this species and should ideally culminate in the ability of health claims on the product.

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As you are aware, our fleet of deep sea fishing vessels is complemented by 3 vessels operated by our Korean partners. These vessels support our endeavour to fish our annual catch entitlement in an efficient, sustainable and ethical manner and the standard applied to working and living conditions for all on board aligns with NZ regulations. In addition to MPI observers accompanying every fishing trip, we provide translation services to the crew and facilitate interviews between crew and a confidante to create opportunities for the crews to voice any concerns or issues they may have. The relationship with our Korean partners, Dong Won and Juahm, has been coming along for some decades now and we are pleased with the progress that is being made in the preparation of their respective vessels for reflagging to the NZ flag. We sincerely appreciate their tremendous effort in this respect.

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Tremendous effort is also put into ensuring the health and safety of all employees, share fishers, contractors and visitors to our sites. The fishing industry has a reputation of being one of the more challenging environments when it comes to safety, but much progress has been made to make this industry a much safer workplace. All our vessels are now certified by Maritime New Zealand to the Marine Operator Safety System standard and through a dedicated Compliance Manager and Health & Safety Coordinators at every site we continue to create a culture of permanent awareness on the back of our continuous improvement efforts. However, serious harm injuries have increased during this reporting period and, while the total number is low, we take these very serious. Third party audits and assessments and internal investigations have classified all elements of risk and we have dealt with these one by one to mitigate identified risks. The greater challenge that we face and that needs to be overcome to improve the health and safety of our employees is their own awareness of risk and acceptance of personal responsibility. This requires a change in attitude and greater personal involvement and all members of the Senior Management Team are now driving this awareness across our company.

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Moving back from the 'focus on safety' to the 'focus on fresh'. The 'focus on fresh' will enable us to double the amount of fresh fish over time, but we will still retain a large proportion as frozen product. Some species don't lend themselves to being sold fresh in large quantities, e.g. Blue and Jack mackerel, while the sheer volume of other species, e.g. hoki during the spawning season requires freezing to eliminate waste. In this respect our focus is on decreasing the share of frozen commodity product by creating custom made products. The committed investment into the Granit, a

factory vessel currently operating in Norway, will not only enable a more efficient processing operation at sea, but allow for greater value addition as well.

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Our vision to become the best seafood company in the world drives us to create a great business on the basis of passion, integrity and care. Although we are still some way off our vision we have made great progress on this ambitious journey and I heartily thank my team across all our sites for their tireless input and the many long days during the year.

My appreciation also goes to Paul Norling and the Directors for their guidance during this busy year. 2016 will be busy too, but we have built a great foundation and the direction is now clear.