



14 December 2016

Sanford Limited 2016 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 2016. As the Chairman has pointed out, the year was once again a very busy one and I would like to provide a little more detail as to what was achieved and how that fits into our strategy overall. In addition to that I will share some insight into some of our main activities planned for 2017 and address recent media around Sanford.

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The overarching objective we are focused on is the creation of maximum value for each kilogram of seafood we catch in the wild or harvest through our aquaculture operations. This value is primarily derived through the development of differentiating factors. The need for differentiation is clearly highlighted by the fact that we play a tiny role in the global supply of seafood (<0.4% of global supply). Economies of scale are easily achieved in other nations, where single species are caught in larger quantities than New Zealand's total supply of fish.

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We, therefore, increasingly shift our attention to a combination of factors ranging from those that are inherent to New Zealand, for example the sustainable management of our fish stocks and the great reputation of our country as a supplier of healthy and safe product, to factors that we can develop over time, for example improved quality, more innovative products, better customer service and others.

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I am very pleased to report that we improved the value (Adjusted EBIT) that we derive from every kilogram of seafood by almost 46% to just over \$0.50/kg. This amount may not sound impressive, but it was only around \$0.35 the year before and lower before then. In the longer term we would want to achieve a return of \$1.00/kg, which again may not sound like a stretching target, but considering that we sell many thousands of tonnes of pelagic species at prices of between \$0.80 and \$1.10/kg, this is rather ambitious.

The volume of pelagic species certainly has an impact both ways. The reduced volume of the skipjack tuna business, both from the International Purse Seine business that we exited last year and our domestic fishery and the deliberate reduction in volume of blue mackerel

earlier in the financial year, to align with reduced demand, resulted in an improved average value per kg.

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However, greater value was created through a concerted effort by our teams around the country to deliver larger quantities of fresh (chilled) fish to the market instead of freezing the fish, as we had done previously. We managed to increase the share of seafood destined for fresh fish counters and the restaurant trade from 7% to 9% of our total portfolio, excluding salmon. Since non-frozen fish sells at a premium and the supply chain is more efficient, returns are more attractive. This development resulted in significant growth of our domestic market, certainly helped along by changing demographics in New Zealand and improved customer relations.

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Another major contributor to the growth of New Zealand as a destination for our seafood has been our salmon business. While we sold most of our salmon in a frozen state to Japan only a few years ago, almost all of the fish is now sold in chilled form into retail throughout New Zealand. We are also airfreighting fresh fish to China and the US and the focus on the Asia Pacific region has resulted in reduced deliveries to other parts of the world.

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Our Greenshell mussel business caught up during the second half of the year. You may remember that we reported a major impact on our mussel supplies as a result of El Niño during the first half of the financial year, mainly due to the excessive availability of mussels that were too large for most of our customer base. We managed to sell these off over time and coupled with satisfactory harvest quantities we managed to make up for the shortfall. Most of our Greenshell mussels are still sold as 'frozen on the half-shell', as are most of our competitor's. The disadvantage of producing mainly frozen half-shell product became apparent through our inability to hold pricing after a favourable movement in the exchange rate and the subsequent reduction in prices through strong competition in this commodity sector. The exchange rate advantage that we might have otherwise experienced was eroded overnight.

It is clear that we need to reduce our dependency on the half-shell product to escape the commodity character of this business. I will share some work we are doing in this respect later during this presentation.

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El Niño also had some positive impact: our squid fishing season was successful, and with other traditional squid fishing nations experiencing very poor catches, we were able to achieve good prices for this product.

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Our two longliners, San Aspiring and San Aotea II, experienced a good toothfish fishing season in the Ross Sea and South Georgia. The absence of illegally caught fish in the market place led to strong demand, especially from China, and prices were firmer.

In this context I would like to highlight that Sanford has been fishing in a small part of the Ross Sea for twenty years. During this time every single fish captured has been recorded to allow for the construction of a great knowledge base about the species. Today the Antarctic toothfish fishery is certified against the standard of the Marine Stewardship Council (MSC), globally recognized as the leading standard for sustainably managed fisheries. The recent agreement negotiated through the Commission for the Conservation of Antarctic Marine Living Resources (CCAMLR) for the world's largest marine protected area is a milestone in international cooperation and stakeholder inclusion. New Zealand has been a driving force in achieving this remarkable goal over many years. The agreement will be implemented towards the end of 2017 and will restrict fishing to very specific areas. As there can be up to 20 international vessels operating in the Ross Sea each summer, we expect operations to become more complex in a smaller fishing area in future, but the opportunity for more effective monitoring and surveillance will be enhanced to prevent illegal fishing.

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Overhead costs were higher than expected in 2016, primarily due to the planned expansion of our management and operational people structure. We filled a number of new positions that align well with our customer focus and the change towards value addition. I am very happy about the addition of our Chief Customer Officer to the Executive Team. Andre Gargiulo joined us in February this year and oversees the areas of sales, marketing, innovation and our customer and consumer facing businesses in Melbourne, Australia and New Zealand, which includes, amongst others, the Auckland Fish Market and the Seafood School. Senior positions have since been filled in the areas of Marketing & Consumer, Brand Development and Domestic Sales. All these positions were newly created and we are already reaping benefits from these. We also had to invest into further capabilities in IT and in Human Resources to prepare our organization for the future.

An important thrust in reaching our ambitious vision is strong people engagement. We have not yet achieved our target in that respect. We ascribe this partly to the underlying changes in the way we work with each other, to some extent to the challenge in communicating change all the way through the organization and to some degree to the need for leadership training on all levels. Needless to say, this will be a priority area for our senior management team in 2017. The focus on health and safety has proven that a concerted effort on a specific area can lead to significant engagement by the work force. As mentioned by Paul Norling, the high awareness has led to an improved performance in serious harm injuries and days lost through injuries. The number of total injuries is, however, still on a high level and we will continue improving our safety record. More emphasis is now also placed on the 'health' in 'health and safety' and we are rolling out a program called SanWell to provide relevant

information, excellent resources, opportunities and incentives to enable our employees to take charge of their health, and facilitate constructive lifestyle changes. We work with District Health Boards and invite specialists to share insights. Some very interesting detail on this is provided in our Annual Report.

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How do we continue creating more value for our company? An important element of our value creation process going forward is the development of a strong brand. While the brand is built on the product, its quality and its provenance, the brand has to be supported by the strong and positive reputation of its owner. This is an important reason for our focus being on doing the right thing in everything we do. Our plan for the next year is to develop a differentiated approach to branding our portfolio: from the traditional 'Sanford Blue' to higher end offerings encompassing 'Sanford Black' for premium seafood, and 'Big Glory Bay' highlighting the origin of our salmon, oysters and mussels from of the most beautiful place in the world, Stewart Island. This is only the first brand associated with celebrating our wonderful provenance story and we expect to develop and launch more of these over time to unlock further value.

'Tiaki' will be used for the best quality fish landed through the Precision Seafood Harvesting fishing method. 'Tiaki' is the Maori word for 'care' and we expect this fish to be served in the high end foodservice industry.

The largest share of our seafood will be sold through 'Sanford Blue', but the objective is certainly to diversify increasingly out of commodity.

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To this end we dedicate increasing resource to the development of alternative product forms. I mentioned earlier there is an urgent need for creating a wider product portfolio with our Greenshell mussels and we have launched a variety of products over the last 12 months. These include marinated mussels, mussel powder capsules and pouched mussels ready to eat.

Some of the products we will develop may be niche, but highly valuable. In the longer term we need to extract the most relevant value out of our resources and that may in many cases be a nutraceutical as opposed to a food item.

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It also appears that – in some cases – we are able to extract more value out of our resources by channelling them into pet food instead of creating product for human consumption. Product that previously went into fishmeal or waste is now further refined for cats, dogs and horses.

We introduced a new innovation process in 2016 to enable improved idea collection, filtering and accelerated product development. Investment in this area will need to increase in future to ensure faster project implementation, but the number of interesting projects in the funnel at the moment is very encouraging.

Paul Norling has reflected on the largest two investments into innovation, SPATnz and Precision Seafood Harvesting, which we are very excited about, and I will not detail these any further. Please don't hesitate to refer to our Annual Report and our website ([www.sanford.co.nz](http://www.sanford.co.nz)) for further information on these major projects.

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Please let me now reflect on recent media involving Sanford:

Following the recent launch of the Hauraki Gulf Spatial Plan and subsequent media regarding our view on the plan, the impression was created that Sanford has a serious issue with the proposed plan. This is not the case.

You may remember that Sanford suggested over one year ago to stop fishing within the Hauraki Gulf in return for better data collection from all sectors fishing in the Gulf. We made this proposal as we are worried about the increasing fishing effort brought about by the growing population in and around Auckland and the popularity of charter operators and the limited amount of information available to make sound decisions on total allowable catches. We estimate that at least half of the snapper fished in the Hauraki Gulf is caught by the recreational sector. This has been recognized by the proposed plan and we are very excited that improved reporting is proposed, at least for the charter operators.

Our main concern with the proposal is the underlying notion of condemning fishing methods like bottom trawling to the extent that they should be banned from the whole of the Hauraki Gulf Marine Park, an area that extends well beyond the Gulf itself. Bottom trawling is not destructive in low risk areas, like sandy substrates. We are, therefore, suggesting to take a somewhat more differentiated approach to mapping the risk these fishing methods pose and allow fishing with these methods in areas that are considered low risk. The risk mapping should be done by independent scientists. This approach would not jeopardize the sustainability of the fish and its habitat, nor of the industry, while ensuring access to affordable fish by the public who don't fish recreationally. We strongly believe that the combination of improved monitoring of actual catches by all and a spatial allocation of fishing effort based on the risk that that method poses to the ecosystem would be an excellent outcome that would ensure healthier fish stocks in an improving ecosystem.

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In this context I wish to state that Sanford is supportive of Marine Protected Areas (MPAs) provided that the introduction of any conservation related measures involve:

1. a multi-stakeholder participation in developing these, and
2. New Zealand's globally recognized scientists in determining the most appropriate measures to be implemented to safeguard the sustainability of our oceans.

Aiming for targets that are not based on scientific insight does not support constructive stakeholder engagement.

New Zealand has the 4<sup>th</sup> largest Exclusive Economic Zone in the world and Sanford supports the development of a visionary oceans strategy that would ensure a healthy environment and sustainable outcomes.

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Sanford has also been in the news in conjunction with reports on discards earlier in the year. These reports cover a period some years ago and I would like to refer you to our Annual Report for further detail on our position on these reports and our objectives on the topic of sustainability in all respects. I am very proud of our Annual Report, which has the financials and our sustainability reporting integrated into a single document. We provide significant transparency in order to highlight the interdependence of our financial success with the sustainability of everything we are involved with and trust that this can serve as an example for continuous value creation.

Last year's report won a number of international accolades for its transparency and style and this year's is quite a bit more substantial on detail. I am thankful for all the work that my team has completed to produce a very honest and transparent insight into our company. We have also included clear targets and objectives, while sharing the risks and challenges we are facing. It's worth a read.

Although you may have gathered that by now, I do want to make one point very clear: the notion that the fishing industry is only out there to pillage the oceans is extremely outdated. Our business relies on healthy resources and we will do everything in our power to ensure their sustainability. We have no Plan B and it would be absurd to think we would stand in the way of measures that support our endeavours!

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A great example would be our involvement in Trident, an industry owned company that provides video surveillance services to the fishing industry. In the absence of a regulated system we embarked on developing a company that would support our endeavour to collect data and provide transparency to our activities at sea. This is not a monitoring tool, but helps us understand what the circumstances are out at sea and what we need to do to improve those. Trident is not there to make money, no dividends have been paid to shareholders and it is not the intention that it ever will. Any profit is reinvested into research. All data collected is available for the Ministry for Primary Industries to utilize further.

While we do rely on our fishermen to do the right thing, it is at times not as straightforward as it may seem. We are, for example, required to return all undersize snapper back to the ocean. This is often referred to as 'discards', which is a rather unfortunate term to use and the objective is to reduce the catch of juvenile fish as much as possible to avoid these returns of small fish to the sea. The fishing industry decided to study the amount of small snapper that is captured through video observation in recent years and found that this number is very small at well below 5% of total catch weight.

Naturally, we are interested in eliminating the catch of small fish as it doesn't add much value to our business at this size, but will instead become valuable in years to come. Returning the fish to the sea after capture doesn't necessarily guarantee its survival as traditional trawling fatigues the fish, often leading to mortality upon catch. Again it is in our interest to mitigate the catch of small fish and ensure its survival.

In this respect we are excited about the Primary Growth Partnership project that was mentioned earlier. Precision Seafood Harvesting is a game changer in fishing, leading to improved quality and enabling much greater survival of fish that might need to be returned to the sea. Paul Norling mentioned earlier the significant amount of money that Sanford and two of our competitors in New Zealand are spending on trialling this advanced fishing method and we look forward to launching our first branded product from Precision Seafood Harvesting under the brand 'Tiaki' early in 2017.

The very recent announcement of the Marine Stewardship Council certification of three of New Zealand's orange roughy fisheries as being sustainably managed is not only a significant milestone in a fishery improvement process that span over 15 years, but also underpins the global leadership role that New Zealand plays in managing our fisheries as we now have more than 75% of our country's deep water fishing volume certified to the MSC standard. This is an achievement that we can all be proud of, but we are not sure whether the people of New Zealand appreciate the enormity of this level of certification in a global context. The seafood industry certainly needs to do a much better job at communicating these successes in future.

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With the increasing demand for protein globally, with an ageing and more health conscious population in our major markets and the shift towards more natural product from trusted sources, we are in a very attractive position with our seafood business and our focus on bringing beautiful New Zealand seafood to discerning and health conscious New Zealanders and their families and to customers and consumers around the world. I would like to share a brief video with you that captures the essence of what we are about and where we are heading:

(Video)

My sincere thanks to the Board for their guidance and support of the strategy we have agreed and are implementing. I am very happy to have some very capable Executive Team colleagues in Andre Gargiulo, Clement Chia and Greg Johansson and appreciate their enthusiasm and passion for our business. However, we wouldn't be able to do what we do if it wasn't for the many hard working colleagues across our business who are trying to make a difference every single day. I thank the Sanford team for their great contribution to our company's success.