



14 December 2018

Sanford Limited 2017 Annual Meeting  
Mr Volker Kuntzsch  
Chief Executive Officer's Address

(Slide 1)

Ladies and Gentleman,

Thank you for the opportunity to address you, both in person and per webcast, to report back on the financial year, ended 30 September 2018, my fifth year as CEO overlooking an incredibly diverse, but interesting and rewarding, journey towards a very ambitious vision. I will delve into a little more detail on some of the points raised by our Chairman, but also reflect on the road ahead.

(Slide 2 Steffan Stewart)

The year has been somewhat of an emotional rollercoaster. The very tragic death of 26-year old Steffan Stewart, following an accident onboard the San Granit on 14 November, shocked all of us. Such a tragedy is difficult to fathom and words don't do the sorrow that Steffan's family experiences from this loss any justice. Our thoughts are with them. I have to thank the Deepwater Team, our Human Resources Team and my Executive Team for stepping up in an unprecedented manner during this sad time to support Steffan's family and his crew mates on the vessel, who have all lost a friendly, happy and helpful member of their family.

This tragic accident, which is currently under investigation by relevant authorities, followed a year that was marked by a reduction in serious harm injuries and highlights that the strong focus on Health & Safety needs to continue at all levels. We will share the learnings from this incident across the company and within our industry.

(Slide 3 Solid business performance)

We announced our result in November, describing it as solid considering the headwinds we experienced. While not in line with our ambitious expectations for the year, we managed to deliver a slight improvement in profitability compared to prior year. Although volumes were down 5.6% compared to the previous year, revenue increased by almost 8%, bringing our revenue across the \$500m milestone. This is due to improved pricing and our strategy gaining traction. This is great news as it highlights our growing independence from catch volume and the potential of value creation from our strategic focus areas.

(Slide 4 – Strong cash flow and balance sheet)

As the chairman has already highlighted in his speech, the year was marked by strong improvement in cash flow and we were able to reduce our debt to achieve a much improved gearing and an improved debt/EBITDA ratio.

(Slide 5 FY18 Headwinds)

Both our wildcatch and our aquaculture volumes were subject to climatic impacts, primarily warmer ocean temperatures and algal blooms. Our salmon turned lethargic during summer and stopped feeding, necessitating delivery interruptions to our customers for over two months. Our mussels in the Marlborough Sounds couldn't be harvested for almost two months as they were hit by an algal bloom. However, mortalities across salmon and mussels were low and we expect improved performance across these species in the current year.

We underwent repairs in the Havelock plant following the Kaikoura earthquake in November 2016, which effectively extended the mussel closure by another three weeks.

We believe that the high water temperatures also had consequences on the availability of hoki during this last spawning season. The large hoki quota owners subsequently decided to act precautionary to shelve 20,000 tonnes of New Zealand's annual catch entitlement for the 2019 fishing year. We will revisit this measure at the end of the fishing year in order to determine further action in this regard. We at Sanford believe we can compensate for this reduction by addressing our product portfolio appropriately and I will discuss that in more detail later in the presentation.

In addition to the warmer water temperatures, we were also impacted by adverse weather conditions that limited our inshore fishing days when we had to keep them sheltered in port. The suboptimal efficiency of some of our inshore fishing vessels was to a large extent overcome by attracting private fishermen to deliver catch exclusively to Sanford.

(Slide 6 – Albert Sanford photo)

In order to provide more detail on why we are where we are and where to from here, I would like to take you back in time to the beginnings of Sanford almost one and a half centuries ago. Albert Sanford fished the Hauraki Gulf and sold his product through Sanford-owned fish markets in the Auckland region. Over the decades we have invested more into our fishing operations, added aquaculture operations to our company, while limiting our interaction with customers to a few factory-based fish shops around the country and a small sales department interacting predominantly with wholesalers overseas. That resulted in a very supply driven business model and focus on commodity production.

(Slide 7 – We satisfy customers globally)

Over the last five years we have increasingly realigned our supplies to customer driven preferences. This slide highlights the emerging importance of the domestic market, which previously purchased only approximately 5% of our volume. The current share of over 40% does include volume that is subsequently exported by our customers, but the general supply trend is certainly towards more local consumption. A major driving force behind this is our focus on fresh fish and customer channel strategy, which I will come back to.

(Slide 8 – Diversified revenue)

Nevertheless, the diversity of our business remains impressive across our species and customer portfolios. Greenshell mussels are today the biggest single species in our operations. Our dependency on the US has shrunk considerably. Sanford's diversity does provide its challenges, but also many opportunities that help mitigate both business and environmental variability, particularly the effects of climate change over the long term.

(Slide 9 – Sanford's IR journey)

Detailed information regarding our results and progress against the six outcomes that form part of our business excellence framework are transparently shared in our integrated report, of which you may have already received a copy. We are very proud of this report, having been the first company in the seafood industry globally to publish such a report. We have won several international awards and are often used as an exemplar by business leaders and educators both here in New Zealand and around the world.

The report highlights how far we have come from being a true commodity trader to focusing on adding value to our precious marine resources.

(Slide 10 – 2018 Strategy in action - Branding)

Since Sanford had great expertise in fishing and fish farming and was generally effective at harvesting and processing, our immediate attention was primarily on the customer end of the supply chain over the last few years. The introduction of stronger brand development and a channel strategy taking us closer to the high-end foodservice sector and closer to consumers created the opportunity to improve gross margins significantly. The 'focus on fresh' enabled the execution of this approach to a large extent and helped lift average sales prices for our product.

We have recently acquired the home delivery service 'Fresh Catch' and are now bringing our seafood directly to consumers in the Auckland region. The Auckland Fish Market has also undergone major renovations with the aim of introducing New Zealand's impressive diversity in seafood to Kiwis and tourists alike. The Fish Market opens on Monday, 17 December 2018, and boasts 10 eateries and the Sanford & Sons Fishmonger, which reflects the passion our people have developed over the last 138 years in the business.

(Slide 11 – BGB brand)

The Big Glory Bay brand, which we introduced last year, emphasising our premium quality salmon product and its pristine provenance, achieves a significantly higher margin than our regular king salmon. It is targeted at high-end restaurants, domestically and in a small number of countries overseas, but quantities are currently small, making up less than 5% of total supply volume. Efforts in ensuring consistency in quality and supply will increase this share markedly over years to come.

(Slide 12 – Branding wildcatch)

Branding in wildcatch is aimed at introducing a premium segment into our otherwise still largely commoditised deepwater operations. Species like high-end orange roughy, scampi and toothfish are the first off the rank under the Sanford Black brand.

(Slide 13 – Strategy in action - Innovation)

Innovation supported our drive to create more value with every kilogram of fish we catch or harvest from our farms. The acquisition of Enzaq, the mussel powder manufacturer in Blenheim, a year ago was very successful and delivered profit as per our expectations. We doubled the number of dryers from one to two during the course of the year and are planning to add another two dryers over the next 10 months. Demand for our Greenshell mussel powder is strong and with the recent launch of our nutraceutical brand ‘Sea to Me’ we introduced further product diversification into our mussel portfolio. The products are available online, directly to consumers.

Our relationship with Plant & Food Research and Revolution Fibres, which culminated in the utilisation of hoki skin collagen for the manufacture of face masks that completely dissolve into the human skin, has enabled us to find advanced opportunity for value addition to our wild caught marine resources.

The two primary growth partnership projects we are involved with, Spatnz and Precision Seafood Harvesting, continue to deliver innovative advantage to our business. The ability to selectively breed mussels for improved performance in terms of quality and processing ability turns out to also be an effective ocean acidification risk mitigation. Ocean acidification limits the potential of shellfish to develop and harden their shell, leading to their inability to survive. Having the mussels’ first stage in life happen on land, ensures proper shell development – and thus future survival – before they enter the ocean.

With respect to Precision Seafood Harvesting, PSH, the development of an innovative fishing method, we are well into the last year of this project between the Ministry of Primary Industries and 3 fishing companies, incl. Sanford, and the net is increasingly being used on our vessels. We are very satisfied with the quality of fish captured through this fishing method and are hoping that outstanding issues around the deployment of PSH in the inshore fishery will be sorted out between the involved parties within the next few months.

(Slide 14 – Strategy in action - Branding)

The focus on branding and the development of our sales channel strategy towards consumers and the high end foodservice sector have the objective of commanding a higher sales price by highlighting the goodness of our seafood and its origin and reducing the supply chain as much as feasible. Our innovation strategy takes us beyond food to enable further value extraction. These strategic thrusts complement each other, especially where innovation works with traditional waste products. Both branding and innovation also tend to

reduce our dependency on volume, thereby acting as mitigating factors in this relatively unpredictable environment we work in.

(Slide 15 – Operational Excellence)

Operationally, our focus throughout the year ranged from rejuvenating and repairing assets, especially on our salmon farm and in our Havelock mussel processing plant, to improving product cascades, which create more value, and increasing operational efficiencies on vessels and in plants.

The very recent announcement of the sale of our three purse seine vessels, with pelagic quota and processing equipment in Tauranga, aligns with our strategic direction to prioritise opportunities that lead to increased value. In Tauranga's case, this means providing more room for fresh fish production while concentrating pelagic operations with an experienced processor, Pelco, who specialise on these species, to create much needed economies of scale. The decision to sell some of our pelagic fishing quota was made on the basis of most of these species, like jack mackerel, being ubiquitous, making the development of a unique selling point for our mackerel very difficult, especially in the low value markets that these fish are generally consumed in. Innovation may provide greater opportunity for pelagic species over time, in which case the remaining 15,000 t in our portfolio and purchases of raw material would be good options for further utilisation.

(Slide 16 – \$120 investment over 2 years)

Product branding, the further development of our sales channel strategy and innovation will remain areas of strategic focus. We will continue to grow our fresh fish business and shorten the supply chain to consumers. We are investigating the opportunity for other marine extracts and are planning a further doubling of our dryer capacity for Greenshell mussel powder production. Approximately half of our investments over the next two years will be dedicated to ensuring operational efficiency through asset rejuvenation. This includes replacements of vessels in the scampi and inshore fleet, spending \$20m on vessel surveys, improving the assets in our salmon and mussel farming divisions and updating processing plants. SanCore is a business transformation project that encompasses investments into a new core information system and business intelligence upgrade to improve visibility across all operations and enhance the way we operate.

The board has, in principle, approved up to \$120m for an investment plan that covers these actions over the next two years.

(Slide 17 – Strategy in action – organisational capability)

We continued building our organisational capability throughout 2018. On the one hand we invested further into skills needed to develop, for example, our sales, marketing and innovation activity, on the other we supported personal training and development across the company through a variety of programmes including communication and leadership. These were received really well and turned many from a reserved bystander into a proud

contributor and presenter of novel ideas and improvements for our company and their own lives.

While the investment we are making into people is helping in developing skills, it has not yet translated into improved engagement scores, which have remained relatively static over the last two years. We believe this to be a function of the amount of change our company is undergoing, a generally tough environment from a labour supply market perspective and strong expectations raised through discussions around minimum wage levels in New Zealand.

(Slide 18 – Health & Safety)

The awareness of health and safety amongst our employees rated highest across all criteria in our engagement survey. We have seen a continuous reduction in total injuries over the last few years and a halving in the number of serious harm incidents from 10 to 5 between 2017 and 2018, but incidents over the last couple of months indicate that our efforts need to continue in full rigour across all our operations. With the recent appointment of Susan D’Ath-Weston as our General Manager overseeing Health, Safety and Wellbeing, we are increasing the level of expertise in this area further - with the goal of developing into the safest seafood company in the world.

Our initiatives around this important topic of health and safety have also included one of our strategic partners, whom we have been engaged with for the last three years. The collaboration with Paralympics NZ culminated in a remarkable video, which I am excited to share with you, as it puts a very special angle on the subject.

(Video, Slide 19)

To close off, I would like to spend a few minutes on subjects that are of increasing importance to our business.

(Slide 20 – Climate Change)

Climate change has been referred to on numerous occasions during the chairman’s and my presentation as having had an impact on this year’s result. As we are dependent on natural marine resources any changes in the oceans will naturally impact on their abundance and wellbeing.

(Slide 21 – Value strategy drive adjusted EBIT improvement)

The headwinds we experienced in 2018 proved the point that our strategy serves as effective risk mitigation. As a purely commodity driven business the year would have been difficult for us, as we would not have been able to compensate for the \$11m negative impact we have experienced as a result of climate related challenges. Although a large share – approximately 80% - of our volume can still be categorised as commodity, the other 20% make it possible already now to generate greater value, even under tough conditions. We expect greater volatility in nature in years to come, but we feel that our strategy gives us the

necessary resilience to combat those headwinds. The increasing independence from large catch volumes will make it possible to deliver great results, especially as our product portfolio evolves further beyond food, with our nutraceuticals and other products that are currently under development.

We will incur further limited increases in overhead cost as we continue building expertise in innovation, operational excellence and the customer facing end of our supply chain, but these will be aimed at generating greater value that will outweigh these investments.

(Slide 22 – Plastic waste)

Another subject of increasing importance to our business is plastic pollution and its impact on the oceans. A rather sombre study forecasts that the oceans will contain more plastic than fish by 2050 and it is a well-known fact that most seabirds accidentally prey on pieces of plastic, often leading to their death.

(Slide 23 – Sanford mobilising positive action)

While we await the outcome of studies concerning the effect of plastic on fish and human health, we have initiated a number of activities that are targeted at significantly reducing the use of plastics at Sanford. Our teams around the country are often seen cleaning beaches, usually in partnership with organisations like Sustainable Coastlines. This topic will require greater attention on a political level to address the fact that 90% of all plastic in the oceans stems from 10 rivers around the globe and action should naturally be targeted at those areas with priority.

(Slide 24 – What's coming for Sanford in 2019)

This past year has been another busy one for all of us. It took a lot of hard work to take us where we are now, but we now have a lot to look forward to. The amount of change we've gone through is considerable. However, the journey from a predominantly extraction focused business to one that appreciates our marine resources for the value that they can deliver as New Zealand's beautiful seafood and now a further evolution towards capturing the health benefits these resources hold, is incredibly exciting. We continue to be surprised by the sheer volume of opportunity our business has to offer as we delve deeper into the detail.

Progress is a never-ending journey and we know the nature of today's challenges, environmentally, ethically and politically, cannot be solved by yester-year's approach. We have been working to build relationships and collaborations across our industry, across sectors and across Government to ensure the necessary focus, agility and collaboration are in place to embrace these ever-changing demands on our business.

We are hopeful that 2019 will bring to life the actions necessary to support New Zealand in taking a leadership role in managing our huge marine environment in a way that provides appropriate financial and economic returns, while at the same time paying the correct

amount of attention to social and environmental prerogatives. We will do our bit, and lead where necessary, to demonstrate industry accountability through the likes of the Hauraki Gulf spatial plan and cameras on board fishing vessels.

The holidays ahead will hopefully offer many of us the chance to take a well-deserved break and prepare for another good challenge ahead. There is a lot to do, but for now I would like to thank my Sanford team for all their untiring input over the last 12 months. I appreciate your passion, care and integrity when it comes to turning our business into one that can be the best seafood company in the world. Thank you all!

I also thank the Board for their support and their contribution to this powerful strategy we have developed together. A special Thank You to Bruce Goodfellow, who has been a thoughtful contributor to many discussions around the board table.

(Slide 25 – Sanford video)

Finally, I would like to share our people’s passion for Sanford through a short video.

(Slide 26 – end slide)