



14 December 2016

Sanford Limited 2016 Annual Meeting
Mr Paul Norling
Chairman's Address

The Directors of Sanford are pleased to present to shareholders our report for the year ended 30 September, 2016. A full account of the company's progress and the Board's work over this past year is provided in the Annual Report, but it is appropriate that I highlight and summarize the Board's main areas of focus over this past financial year.

Following that I would like to elaborate a little more about the strategic journey the company is now on and touch on some other matters that are relevant.

My address to you will be followed by a more in-depth review of operational and other important matters from our Chief Executive Officer, Volker Kuntzsch.

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REVIEW OF THE 2016 FINANCIAL YEAR

The year was again – undoubtedly – a very busy one, for both our management team as well as the Board.

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I will start with a summary of our financial results.

Net profit after tax increased substantially this year to \$34.7m – an increase of 152% over the 2015 year. 2015, admittedly, was a poor bottom line year as we absorbed restructuring and impairment charges totalling \$16.3m. Our 2016 year result, however, was also after further impairment and restructuring costs totalling \$5.6m. These additional costs, in the main, being a consequence of a further vessel write-down that we had to take to complete our exit from the pacific tuna fishery. As we have said previously, this fishery was both unprofitable and, in our view, very problematic in respect to its sustainability. We are therefore pleased to say we are now completely out of that fishery!

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To provide a broader and perhaps better balanced perspective on this profit of \$34.7m, I am also going to compare it with the average of our bottom line results over the previous five year period. This shows that our average net profit after tax commencing with the 2011 year, was \$19.7m. On this comparative basis our 2016 result was an increase of 76% over

the average of those past 5 years and resulted in earnings per share of 37.1 cents, which is the best earnings per share result for the company since 2009.

We are therefore – on your behalf – obviously pleased with the result. This, however, is a ‘journey’ that management and your Board are on to fulfil the profitability potential of your company and this will take time – it certainly isn’t able to be achieved overnight. While we are not complacent regarding the challenges we have ahead of us, the Board is also confident that the management team along with the strategy that your Board has approved, will deliver further worthwhile increases in our future profitability albeit not of the same annual percentage that we have managed for this year.

The other feature of the company’s 2016 result that I wish to comment on is that mainly as a consequence of our exiting the Pacific tuna fishery, and also electing to limit catching of pelagic species in our New Zealand waters to match the reduced market demand for these commodity species, management was able to deliver this profit result from a total sales volume that was 10,000 tonnes (some 11%) less than last year, which added to the quality of the result.

Having covered that somewhat briefly I will now leave a good deal of the detail regarding our past year’s activities to our Chief Executive Officer so that I can canvas other matters of interest for you.

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DIVIDEND

Firstly, let me speak briefly about the dividend. You will have noted from the Annual Report that in spite of what was a pleasing result, the Directors decided not to increase your dividend. We are certainly conscious of your patience in this regard and I will endeavour to explain to you the Board’s reasoning.

Firstly, the seafood business is a capital intensive one both in respect to our fishing fleet as well as our shore-based processing operations. Our fleet does require on-going capital expenditure for both refurbishment and renewal reasons. This, coupled with what can be the unpredictable nature of the business, means that it is important we operate the business conservatively from a financing viewpoint.

Overlaying this, was the acquisition of the San Granit which is the largest and most expensive fishing vessel the company has purchased – I am told in its entire and very considerable history. As a consequence we now need to focus on getting our borrowings back to a more prudent level in the short term and management has some objectives to achieve in this respect by the end of the 2017 financial year. I will return briefly to the San Granit shortly.

A further element I wish to mention is that even with the pleasing profit that has just been achieved, our dividend cover at the existing dividend rate of 23 cents per share, is only covered 1.6 times which is somewhat marginal, in our opinion, for a capital intensive business of this type. This dividend matter, in part, has also been a consequence of the Board refraining from reducing the dividend during years when our profitability was not where we may have wished it to be.

Perhaps one final observation on this subject might also be that even with our strengthening share price, the dividend yield may not look that unattractive given the current low interest rate environment.

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SAN GRANIT

Now to briefly return to the San Granit - this was a substantial investment for the company which the Board, only after detailed scrutiny and full consideration, agreed to approve (in September of last year) management's strong recommendation to purchase.

Moving to mid-November of this year, the San Granit – as planned - completed her delivery voyage from the furthest reaches of the northern hemisphere to her new home port of Timaru. Since then she has been undergoing preparations to commence her fishing career at Sanford and it is planned that she will depart Timaru tomorrow for a 'shake-down' voyage of approximately 10 days. Immediately following her return she will depart on her inaugural full fishing voyage for Sanford returning to Timaru around the end of January. Her approximate length of voyage will generally be in the region of 5-6 weeks (with full rotational crews which each number approximately 38 people but she can accommodate up to 48) and her fishing grounds will predominantly be the Southern oceans.

On this subject I would like to finally mention that on 25 November, I had the privilege, on behalf of the Board, to attend the blessing ceremony for the vessel in Timaru. I therefore had the opportunity of having a detailed look over the entire ship and its capabilities and it was readily apparent that she is a fine vessel which will serve us well over many years to come. In the short (and longer) term she can materially assist our objective of adding value through the superior sales returns we will be able to gain from her catch. This will be achieved by utilising her substantial and efficient factory capacity to produce the likes of frozen at sea fillet products. A further benefit will be the reduction in costs per kg of greenweight catch she will also achieve for us.

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STRATEGY

I now wish to add some comments regarding strategy which we spoke of at last year's meeting and have done so quite extensively in our Annual Report.

There are a couple of matters I wish to underline for you again.

Firstly, that our main focus is on product quality and adding value. Our intent is that we add as much real value as we possibly and profitably can to our resource here in New Zealand before presenting it to our customers both in New Zealand and overseas. Often this will mean we do less with it rather than more i.e. sell as much of it as we can in a pristine fresh form as that is what our customers want. There are obviously limitations to the extent to which we can sell our beautiful seafood resource in a pristine fresh form and while we have already made some pleasing progress in this direction, management is confident that there is still significant scope to achieve increasing levels. As already mentioned, frozen at sea fillets is also another avenue which adds to product quality and the value we obtain.

The second issue is regarding innovation, which is also a **key growth strategy** for us.

Over the past 4 - 5 years we have been investing in targeted major innovation projects and at the same time developing our own 'in-house' innovation and research and development capabilities.

The 'flagship' R & D projects, with which we are both practically and very financially involved, are the SPATnz project in Nelson - this has a development budget of \$26m funded equally by the Ministry for Primary Industries (under the primary growth partnership scheme) and ourselves. The second 'flagship' is the Precision Seafood Harvesting project (this is developing the new and revolutionary fish netting system which we have spoken of previously) and this has a \$52m development budget. This again is half funded by the government via the PGP scheme, with the other 50% being shared by three private sector major fishing companies of which Sanford is one.

These two projects have a collective cost to Sanford of approximately \$20m but they both hold considerable promise for your company for the future as we seek to take both our fishing activities and aquaculture mussel business to another significant level in value creation. These projects while still in their development stage, have made considerable advancements with fish caught using the new net prototype being potentially available for sale under the 'Tiaki' brand during the first half of 2017. Spat from the SPATnz hatchery has also now been successfully settled on our ropes in the Marlborough Sounds with harvesting of the first hatchery based crop, due in late 2017.

More extensive detail on these two major projects can be found in our Annual Report and we will also continue to keep you informed of their progress.

Regarding our own 'in-house' R & D capability we are now at a point where we are beginning to bring selected projects and products forward for commercialisation. As we grow our experience and capability in this key forward looking area, we are expecting an increasing flow of new opportunities leading to financial enhancement of our business. The Board is keenly interested in these developments and keeps a regular oversight of this potentially very rewarding - but currently developing - area of our company's capability.

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The point I am endeavouring to emphasize here is to underline the investment cost that the company is incurring on an annual basis as an investment for the future - to enable additional pathways to progressively increase our profitability in the years ahead. As we have stated in the past, the world's wildcatch resource is finite (i.e. it is not going to increase) so we must ensure that for you (our shareholders) as well as for New Zealand as a whole, the imperative for us is to maximise the return we make for every kg of greenweight catch we land.

Our forward thinking generally, also includes aquaculture which now accounts for approximately 50% of total global seafood consumed annually by the world's population.

We have an important footprint with greenshell mussels which our SPATnz investment should further enhance. We have, however, a substantial number of our mussel farm marine leases coming up for renewal around 2024 (as does most of the industry) and it would be desirable for the government to take all steps possible to expedite and conclude that process just as soon as possible. Government is aware of this and are sympathetic and supportive of the industry's objectives.

In respect to our Big Glory Bay salmon, this is an absolutely standout product in all respects and we cannot satisfy the market demand we have for it. While this might sound like a nice problem to have we would greatly benefit from additional water space close to our existing Stewart Island farming facility to meet the present market demand. This is a great opportunity for regional development (and jobs growth that would go with it) and the Southland community is very supportive of this initiative. Unfortunately, the wheels for this type of development do seem to turn slowly but the company's management is doing everything they can to move this along as promptly and effectively as possible.

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SUSTAINABILITY AND TRANSPARENCY - THE FISHING INDUSTRY'S PROFILE.

You will be aware of the media attention that has been focussed on the fishing industry since the release of a report in May of this year which was funded by overseas interests. The report sought to cast a shadow over the industry by claiming that during a period of 60 years from 1950, New Zealand commercial fishing had substantially under-reported the actual catch of fish. The report was based largely on selective and anecdotal claims which cannot and were not substantiated.

The report also sought to question the methodology and veracity of the New Zealand quota management system (established in 1986,) and the Ministry for Primary Industries in respect to its oversight responsibilities. As we have stated in our Annual Report, there are certain matters that could and should be tidied up and we are keen for that to happen – but by and large the QMS approach has served the sustainability of our fish stocks extremely well and New Zealand is regarded as a global leader in this field. Associated with this report, certain environmental related issues were also raised.

Because we view this as an extremely important matter, the Board and management have discussed it at considerable length and depth and our views on the subject are fully aligned. Sustainability of the health of our oceans and our fish stocks is at the core of the industry's own future prospects and that is why the industry takes the matter so seriously and will play its part in preserving the integrity and sustainability of our oceans for all the future generations to come.

From solely a Sanford perspective, our ethical standards and reputation are extremely important to us – both in respect to our long history as well as the provenance of our products today and going forward. We have very high standards required of all our catching, farming and processing operations and these are subject to diligent and close continuing oversight by our senior management team.

I would remind you that two of our three absolute core values are: care and integrity! We know this and I assure you that we will continue to walk the talk.

Reflecting the importance of sustainability, Sanford has therefore also taken an industry – and probably Australasian - leadership position in respect to transparency with our annual reporting. This has led to the international acclaim that has been accorded the company for its Annual Report which incorporates extensive transparency on practically all sustainability issues. This report takes a vast amount of work to produce, and while it no doubt can be progressively improved even further, we are proud of this transparent view of the company and all our activities, and we trust our shareholders find it of value and interest as well. Might I add that our current Annual Report just released in printed form within the last 2

weeks is also already drawing highly favourable comment from informed parties on the quality and extent of the information we provide.

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OTHER MATTERS

- **Kaikoura Earthquake**

I thought you may be interested to have a brief comment regarding the Kaikoura earthquake and any consequences the company may have suffered.

As you are aware we have a substantial portion of our greenshell mussel business located in the Marlborough Sounds. The farms all appear to have come through unscathed but our processing facility located at Havelock needed to be closed for 2 weeks following the quake to enable a preliminary assessment of damage to be made by engineers and our insurance assessors. We re-opened the plant on Monday, 28 November and it immediately swung into full production even though there was some damage to the facility which is located on reclaimed land. We are yet to have the final assessment from our engineers and insurance people but we have been assured of its structural safety and integrity as far as our people working there are concerned.

- **Health and Safety**

I would like to up-date you in an overall sense regarding the subject of health and safety throughout the company. At our Annual Meeting last year I commented on the steps that management and the Board continue to take to endeavour to ensure, we, as an entity and as individuals, are as good as we can possibly be in respect to the very important responsibility of the safety and well-being of our people. To give effect to this, the company commits substantial expenditure every year, as well as extensive people resources and time, from the Board down.

Going back to 2015, we had – for reasons we found difficult to pinpoint – a disappointing year in respect to the incidence of serious harm injuries across our entire staff which totals approximately 1,500 people. In 2014 we had just 6 serious harm injuries but this number doubled to 12 in 2015. This caused us to redouble and refocus our efforts with the objective of substantially reducing this number over this past year. I am therefore very pleased to report to you that the company was able to achieve this goal by halving the number back to 6, which was a particularly satisfying result. The challenge now is to endeavour to ensure that we are able to maintain this standard and then progressively improve it until we achieve our objective of having zero serious harm injuries.

We also managed to achieve a 30% reduction in the number of lost days resulting from lost time injuries which indicates a meaningful lessening in the severity of such injuries to our people.

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- Board Committee Structure

Last year I informed you of our intention to expand the number and involvement of Board working committees from the beginning of this year, with the objective being to improve the analysis and consideration of proposals coming forward from management. An added objective was to also free up Board meeting time to assess and discuss substantial strategic and commercial matters relating to important areas of the company.

This has resulted in the number of committee meetings increasing by around 50% from that previously, and a much wider range of matters being addressed or assessed in greater depth than what otherwise might have been the case.

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- Overseas Ownership

You will have seen from your Notice of Meeting that the Board wishes to tighten our ability to be able to more effectively manage the possibility that overseas ownership of our company could well exceed 25% at some stage. If this was to occur and we did not have an effective means to deal with it, we would be at risk of losing our entire wildcatch fishing quota, which is the major asset of the company. Such a prospect is obviously untenable.

With our overseas ownership now at 17.5% and increasing, we have taken advice on the matter and formulated a protective process to follow should that situation arise. It is apparent that the improving performance of your company and the strategy it is now following, is of increasing interest to international entities either allied to the seafood industry or investment vehicles looking more actively for strategic positions in key food areas such as seafood. It is therefore imperative that we address this matter now and take the steps that need to be taken to protect your investment in Sanford from this catastrophic type of risk.

I will not go further on this topic at this point as it will be dealt with again in considering Resolution 4.

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CONCLUSION

We are already nearing the end of the first quarter of the 2017 financial year – and there is no respite!

We do have, however, a very motivated and hardworking senior executive team which lead the company and are supported by a capable and focussed head office management group that has been further expanded over the past year to better resource the company's new direction and purpose.

Right across the company we then have our operational management structure and extensive staff located at sea (throughout New Zealand's 4.4 million square kilometre Exclusive Economic Zone as well as the deep Southern Oceans) and on land at our processing and farming locations in Stewart Island, Bluff, Timaru, Havelock, Tauranga, Coromandel and Auckland as well as in Australia. This team are all working very hard and doing their very best to play their role in helping Sanford become "the best seafood company in the world". The organisation in its totality and with its ambitious vision, is all under the very able and inspirational leadership of our CEO, Volker Kuntzsch.

The Board's thanks go to Volker and his entire team for a job well done over this past year and with it also goes our encouragement and support for an even better year in 2017.

Thank you ladies and gentlemen – I will now pass the microphone to Volker to present his Chief Executive Officer's report to shareholders.