



13 December 2017

Sanford Limited 2017 Annual Meeting  
Mr Paul Norling  
Chairman's Address

(Slide 1 – Title)

I and my fellow Directors are pleased to present to shareholders our report for the year ended 30 September, 2017. I trust you have all had the opportunity of reading our not inconsiderable and well acclaimed format of our Annual Report document which provides a relatively extensive report and account of management's work and the company's progress over this past 12 months. It is appropriate however that I summarize and highlight the Company's main areas of focus and I will again talk about our strategic transformational journey and some other relevant matters. The major area of focus, however, will be on our strategic journey from being a fishing business for some 150 years since Albert Sanford first arrived on these shores, to now having a vision of becoming 'the best seafood company in the world'.

(Slide 2 – NPAT)

**2017 Results**

It was a challenging year in a number of different ways and given the challenges management faced, we are satisfied with the ultimate profit outcome which saw our net profit after tax increase by 8% over the previous year. While we would have wished for an even better bottom line, it was a solid result which saw us cement and improve further on our 2016 result.

(Slide 3 – 5 year trend)

You may recall that in 2016 we had produced a profit improvement of 152% on the prior year – and while the 2016 increase was over a relatively poor prior 2015 year it none-the-less represented an increase of 76% over the average profit outcome of the prior 5 years which was the particularly pleasing aspect. That we have now cemented the move to this higher level is certainly satisfying and we obviously seek to improve further and move on from here.

Just a couple of operational aspects that should be touched on. Last year saw an unusually high number of our vessels undergoing out of water surveys. This coupled with some less than optimal weather patterns, had impacted our 'fresh' fish value adding focus as supply was not always able to keep up with demand. On the catching side again, the commissioning of the San Granit was certainly more problematic than what we had anticipated in spite of prior intensive planning. This was certainly a 'drag' on anticipated returns both from an increased cost perspective as well as the catching and therefore review viewpoint. As mentioned in our Annual Report document, it was pleasing to note that operational matters

improved considerably towards the back end of our year with much better catches from the San Granit.

It is not unusual for 'headwinds' of varying types to be 'just around the corner' in the fishing and aquaculture supply sides of our business and our management do their very best to navigate their way through these as and where they arise. There is also a constant drive for improvement.

Providing some counter balance in our fishing activities were good catches and value in toothfish, scampi and squid particularly, but difficulties with pelagics.

(Slide 4 – Innovation and Branding)

### **Innovation and Branding**

As outlined in my remarks last year, I again wish to visit the very important topics of Innovation and Branding as these are the major value enhancers for our future. This relates to all our products from wildcatch and farmed fish (the latter being currently only salmon but amongst the world's best being King Salmon) as well as Greenshell mussels which, as you know, are a world unique species.

Let me first talk about Innovation. As most of you are aware, we have already started down the innovation road with major investments in fish catching technology (Precision Seafood Harvesting) and SPATnz (selective mussel spat breeding). These are big budget initiatives being collectively in the order of \$75-\$80m with Sanford's contribution being approximately \$20-22m.

These are also longer stage development projects (both have 6-7 year development timeframes) and to date have incurred only cost for us with very limited revenue benefits. They have both been described as game-changing technologies and are planned to provide us and our industry partners with unique advantages and benefits for the future. We need to make these types of investment - which certainly have a reasonably high degree of risk associated with them particularly in their earlier stages of development – if we are going to aspire to be the sort of company we wish to be in the future with commensurate high value returns for our shareholders. Currently both projects are certainly looking promising.

Both of these two major projects are being undertaken with 3<sup>rd</sup> party entities with a heavy emphasis on the science but also the practical issues and experience involved with catching fish and growing Greenshell mussels. Sanford provides the practical expertise in a very valuable way with both of these major projects.

What we also need to do – and are doing – is to develop our own in-house innovation capability to ensure we have an appropriate range of value enhancing initiatives on the go at any one time with the very strong focus on commercial outcomes. This is progressing and Volker will talk more about this in his presentation as well as the progress and current state of the two major projects.

The foundation for all of this – be it wildcatch fishing or aquaculture - for the future is the size, quality and potential of the 4.4 million square kilometres of pristine water space which comprises New Zealand’s Exclusive Economic Zone. In this regard you are aware that your company is embracing the importance of sustainability and transparency in everything we do and this is a very important plank for our future. You will recall that I commented at some length on this at last year’s meeting and I don’t think this requires further elaboration today.

During this past year we also took our first step into the field of nutraceuticals, when we acquired the Marlborough based ENZAQ business which manufactures and exports Greenshell mussel powder with its anti-inflammatory properties for use in a range of human and animal products. This is a relatively modest beginning in this particular field but we have the ability to expand ENZAQ’s production in a material way at its existing site. This business also unites well with the selective breeding of mussel spat at SPATnz.

### **Branding**

Given the very high quality of our EEZ ocean waters and therefore seafood stocks, and also that we realistically are unable to compete against major international fishing companies on a cost basis in global commodity markets, the other extremely important plank in this company’s future and our prosperity lies with a strong branding strategy. This requires investment which we have started with the domestic market launch this past year of our Big Glory Bay brand - our premium aquaculture brand calling out the provenance we can all be proud of.

This will be followed by the progressive building of a portfolio of brands – all of which will either be associated with provenance or align with our customer channel strategy. For example, high end restaurants will receive products that will be branded on the basis of their provenance while larger volume customers focusing on buffet offerings will be targeted with the well-known Sanford Blue brand. Overall we want to tell the story, the origin and the special care we take to bring our seafood to our customers both in New Zealand and around the globe.

More detailed information on our Brand strategy, and – also in the wider context – how we intend driving superior value from our wonderful quality seafood, is contained in our Annual Report in a number of pages from page 64 onwards. Our team of highly qualified professionals in this area have joined Sanford to drive this momentum forward in this exciting part of our journey. Clearly, everything else behind this, starting with the catching or farming of the fish needs to also be in harmony.

(Slide 5 – Health & Safety)

### **Health and Safety**

As noted in our Annual Report, we are not satisfied with the progress we have made over this past year with the very important issue of Health and Safety. On the measurable issue of

'outcomes' we basically 'flat-lined' with lost time injuries, and our serious harm injuries went backwards to 10 for the year, which is where we were for the 2015 year. Changes have been made, as we have outlined, in an endeavour to rectify this performance.

The company has poured a substantial amount of effort, focus and, indeed, cost into this extremely important 'people' aspect of our operations but we have not been able to achieve the level of sustained traction that we would wish. Culture is probably an obstacle in this respect which in other ways is seen by some as a virtue with the industry's 'can do' approach to things. The issue of the health and safety of all of our people will be of continuing focus and importance to both the Board and our management team and we are looking for measurable improvement over the coming 12 months.

(Slide 6 – Other Matters of Challenge)

### **Other Matters of Challenge**

#### **Havelock Processing Plant and the Kaikoura Earthquake**

I would like to provide you with a brief up-date on this matter which, as you are aware, occurred just over 12 months ago. Pleasingly, we have been able to continue to operate that plant despite some damage to its floor which was temporarily remediated as we await our insurers' decision on a permanent repair to re-instate the building to its pre-earthquake state. This process is progressing well and whilst we have not received final confirmation, we anticipate this to be favourably resolved in the near term. The repair process is estimated to take approximately 4 months to complete. During that period many of our Marlborough mussels will need to be transported from Havelock to our NIML processing plant in Tauranga. This, therefore, will result in some loss of earnings in the year ahead which we anticipate to be covered by our Business Interruption insurance.

The most important thing in relation to the Kaikoura Earthquake, is that no harm or injury resulted to any of our staff, which we are exceedingly thankful for. I should also mention that our Havelock staff responded outstandingly well to this major disruption event with the performance of the plant maintaining excellent levels.

#### **Farmed Bluff Oysters and *Bonamia Ostreae***

This has been a most unfortunate event for the company and our partner in this venture located at Big Glory Bay in Stewart Island. The farmed oysters were a wonderful product with great promise but unfortunately the *Bonamia Ostreae* parasite – which, in fact, is not harmful to humans but is often devastating to the oyster itself – infiltrated the pristine Stewart Island waters. The only sensible response given the proximity to the Bluff oyster wildcatch fishery (which the Ministry for Primary Industries (MPI) correctly took) was to order the complete and immediate removal of the entire farmed oyster resource in an extensive Stewart Island waterspace area. Sanford responded immediately to the challenge and we were the first to completely clear our site and remove all the relevant infrastructure - destroying several hundred thousand dozen oysters on our joint venture farm.

Compensation from MPI for the ordered removal has yet to be determined.

These two challenging and disruptive matters, unfortunately are of an uncontrollable nature and are related – either directly or indirectly – to the risks that can be associated with sea farming activities. There are others as well of course but as we have commented previously we do have some capacity to weather such adversities because of our extensive portfolio and geographic spread of activities - this is certainly of some comfort in the risk management issues relating to our overall business.

### **Change of Government**

After nine years of stable Government we now have a change - how might that affect our industry and, more particularly, our company?

It is of course very early days and too soon to say. However, we are approaching the change positively and with our strong focus on sustainability and transparency and endeavouring always to 'do the right thing', we are confident we will be able to work equally well with this new coalition Government.

One aspect that they have brought is to re-introduce a separate Minister of Fisheries – with responsibility for fisheries and aquaculture - which will bring added focus and, we believe, potential benefit to our interface with the Government and the many industry aspects that have important governmental oversight.

### **Directors' Fees**

Some shareholders will recall that we last sought an increase in Fees in 2015 which was approved at that year's Shareholder meeting – this was on the basis that we would not bring forward another increase request for 2 years from that time. This undertaking would have given rise to a proposal coming before this meeting to consider a further increase in the approved Directors Fees pool this year, however, your Directors decided we would hold off this matter for a further year until our 2018 meeting. We will, however, instigate a modest increase in Committee Fees within the existing approved Fees pool from January 1, 2018 to reflect the heavy load of work being undertaken by our Board committees.

### **Dividend**

This matter continues to be at the fore-front of your Directors' minds. However, given the expenditure requirements associated with our transformational journey together with ever present and important capital expenditure demands of the company that *have* slightly delayed the achievement of our DEBT to EBITDA ratio target, we have been unable to move our dividend this year – this will, however, be kept under continuing review.

In some compensation, shareholders, no doubt, will be reasonably happy with our share price appreciation over the past three to four years.

(Slide 7 – Thank you)

**Conclusion**

In concluding my remarks today, I would like to take the opportunity to pay tribute in two particular respects.

Firstly - Liz Coutts retires from the Board at the conclusion of this meeting today and I wish to take this opportunity, on behalf of her Board colleagues, the Company management and staff as well as you, our shareholders, to acknowledge Liz and to thank her for her contribution to the company over the past six and a half years. Liz has been an excellent Director of the company as well as a very astute Chair of our Audit and Finance Committee during her entire tenure on the Sanford Board. Her overall work load has necessitated this move but we would like to thank you sincerely Liz and wish you well for the future. Please join with me in acknowledging Liz's considerable contribution to Sanford.

Secondly and finally – I would like to also pay tribute to Volker Kuntzsch – our very able and visionary CEO - and his management team, together with our staff and share-fishers throughout the company, for their efforts, dedication and enthusiasm throughout the year. As I have already said, 2017 has been challenging in a number of different respects but we have made further progress on our transformational journey and turned in a solidly higher result in spite of the 'headwinds' encountered. For this, we thank all of our people.

And just one final comment for us all – 'Sanford is a company with a great history' – but even more importantly 'Sanford has a most exciting – albeit challenging at times - future'!

Thank you ladies and gentlemen.

I will now hand the podium to Volker to present his report to shareholders.