



**SANFORD LIMITED**  
**SUSTAINABLE SEAFOOD**

26 January 2011

**Managing Director's Address**

Thank you Mr Cole.

There is room for some optimism in the current environment with seafood prices generally having continued their firming trend over the last nine months. We have seen prices for most of our major whitefish species such as hoki, hake, ling, southern blue whiting, snapper, trevally and toothfish finding some stability at higher price levels than previously.

We are seeing stronger markets for our pelagic species. Skipjack tuna prices have recently recovered to more acceptable levels. Squid prices continue to move towards new record levels. Jack and blue mackerel prices are strong and barracouta demand has been stronger.

On the aquaculture front we are seeing mussel prices consolidating at a far more acceptable level than a year ago and salmon prices have continued a firmer trend over the last six months. However there is more to do and you have heard Greg and Vaughan give some brief outlooks on where they see the business moving in the future.

For my own part I will be spending more of my time focusing on the important dozen or so strategic relationships that Sanford has with various customers and companies around the world who we partner with in various ways. We have to explore how we can work together with these partners to develop and expand these relationships for mutual benefit.

It is appropriate that I update shareholders on the recent acquisition of the Pacifica mussel business. To recap Pacifica Seafoods was the second largest producer after Sanford with around a 20% market share. 2010 production totalled around 16,000mt, from 77 marine farms on 392 hectares along with an additional 140 hectares share farmed or leased from other farmers in the Marlborough Sounds.

We also acquired a 40% interest in the 2,700 hectare Pegasus Bay marine farm consent which is a large open ocean site just north of the Banks Peninsula. We acquired a modern processing facility in Christchurch along with various service vessels and associated properties. The affect of the acquisition is to combine two of New Zealand's largest Greenshell mussel producers which is already leading to better co-ordination of export marketing and higher prices. The potential for introduction of automated mussel opening and advanced mussel rope technology enhances the prospects of developing the Pegasus Bay marine farm site. This is an exciting opportunity and one in which we are already exploiting the synergy benefits.

For the first three months of this financial year our Havelock plant was closed while we installed the automatic opening machine technology. That upgrade was completed in early January, commissioning trials are currently underway and we expect to reach full production levels in the next few weeks.

With our own mussel processing plants in Havelock and Christchurch and our third share of the North Island Mussel Processing plant in Tauranga we expect to be processing up to 200mt of raw mussels per day through those combined facilities.

There are two exciting development opportunities for which we are expecting to receive Government approval in the very near future.

The first of these is to domesticate and selectively breed New Zealand shellfish particularly Greenshell mussels so that we can reap similar benefits that the other primary industries in New Zealand have seen over many years. Selective breeding has been by far the most significant development in industries such as dairy, beef, sheep, fruit, vegetable and wine.

The New Zealand mussel industry has grown to be the largest single seafood item exported from New Zealand but so far only on the basis of wild caught spat harvested from beaches north of Auckland and through spat harvested in the Golden Bay and Marlborough Sounds areas. This seven year programme will co-develop hatchery and life-cycle breeding families to supply spat on a commercial basis to the industry in future years. It is intended that Sanford would partner with Sealord, Wakatu Incorporation and the Government through the Primary Growth Partnership. We are very confident that this programme will have significant economic value to the partners with the selectively bred mussels being able to achieve improved prices through better quality, greater yield and faster growth.

If approved, Sanford will be required to invest approximately \$13m in the programme over the coming 7 years.

The second and equally exciting Primary Growth Partnership proposal has been developed jointly with Sealord and Aotearoa Fisheries based on successful trials and studies over the past four years that will enable us to more selectively harvest the desired species and sizes and in a manner which will improve the quality of the product caught. The programme will require an investment by Sanford of approximately \$9m over six years.

The successful outcome of these two projects will result in a significant enhancement to the value of our products and provide a very significant return on investment over a long period of time.

Sanford continues its focus on developing and adopting best practice sustainability practices. The emissions trading units that we received in September last year that resulted in a one-off gain to profits last have now been sold at slightly above our book value. The sale was co-ordinated by Sanford along with a range of other industry recipients of the emission trading units and resulted in a satisfying outcome and all participants have now received full payment for the units.

We are continuing to work on a number of initiatives to further enhance the overall sustainability of our operations and the reputation of our products in the market place. These initiatives are of a long term nature and we will continue our current push to seek certifications of as many New Zealand fisheries as we can under the Marine Stewardship Council certification programme which enhances our continuing access to the lucrative European and increasingly sustainable conscious American markets. Traceability is becoming more of a regulated requirement in many countries to ensure that seafood suppliers can demonstrate traceability back to the original source of the catch.

With our current electronic data systems already recording product as soon as it is caught on board our vessels, we are well placed to meet the future demands for traceability, but it will require additional investment to meet these new requirements.

## **OUTLOOK**

We have certainly started this year better than we started last year. The Chairman has already given some indicators of improved sales and catch data. Based on current conditions it is likely that we will again see a stronger performance in the second half of the year than the first half of the year taking into account the closure of our Havelock plant for the first three months of the year and only four months of the Pacifica acquisition through to the end of

March. Issues that will determine the final outcome of the year if markets continue to be strong will be the catches of pelagic species such as skipjack tuna and squid.

A major focus for the remainder of the year is to ensure we keep our working capital within manageable levels, dispose of uneconomic assets and reduce debt with a targeted reduction of \$20m in the current financial year.

Demand in Asia in the growing middle class consumers looking for higher quality seafood is likely to outstrip our ability to supply. Capitalising on this opportunity requires long term planning while returns to shareholders and share price growth have been below acceptable levels.

Long term outlook for the seafood industry is bright.

A handwritten signature in black ink, appearing to be 'E F Barratt', written in a cursive style.

E F Barratt  
Managing Director