Ngāi Tahu Questions and Answers
Sanford ASM, 2022

The following questions were received from a Ngāi Tahu representative in our 2022 Annual Shareholder Meeting. We supply the answers here.

1. **Underperforming divisions (Mussels and Inshore) - why is turnaround preferable to divestment?**

INSHORE

What options are under consideration for inshore?

Our options available for inshore are wide ranging and we are working through those as a priority. They include:

- Consolidation and collaboration of processing
- Additional utilisation of inshore vessels (in good state relative to industry)
- Pricing opportunities
- Further utilising strong retail partnerships

MUSSELS

We consider that Sanford can achieve pre-Covid profitability, which is the best option versus divestment. Additionally, in order for Sanford to achieve Group profits greater than prior to Covid (i.e. into the 70m-$80m EBIT range), we need to expand our product offerings across a more value-added range to consumers. Mussels forms a key part of this via nutraceuticals. The Blenheim nutraceutical innovation hub will contribute to Sanford's ability to achieve this higher earnings potential.

Mussels pricing and volumes are back to pre-COVID. What initiatives are being implemented and what is the expected timing on recovery?

Mussel demand and pricing have lifted. The biggest issue remains labour availability and therefore the ability to harvest and process cost effectively and in a timely fashion. Initiatives include providing accommodation in Havelock, working with a Pacific Island community trust for NIML (North Island Mussels Limited), increasing wages and investigating further automation opportunities.

2. **Cost base – we believe a significant cost out opportunity exists**

How can additional $6.5M in 'Group Costs' in FY22 be justified?

The increase in FY22 group costs had several drivers including payroll increases, staff incentive obligations (incentives have not been paid since 2019), IT, telecommunication increases and increased consultancy costs. Maintaining staff and keeping our IT and other systems current is a necessary expense to keep us operating.

We understand that a restructure is underway. Can we assume this is more substantive than marginal? What are the targeted cost savings from this?

The changes will be substantive and aimed at managing the business more effectively, with greater focus on accountability, performance and profit with end-to-end divisional teams, supported by a strong central functional base. In identifying the appropriate structure, we have identified opportunities to streamline activities.

The IT project SANCore appears to have consumed $31M of capital to date. What controls do the board have in place to give assurance that the project will run to budget and, more importantly, deliver benefits? How do forecast costs compare to plan and what is the confidence on timing cost to complete and expected benefits?

It is correct that $31m has been spent to date (capital $8.9m and opex $22.1m). The Board appointed an independent subject matter expert throughout the project to oversee and advise on risks and challenges. Both the management team and the independent consultant report on progress to the Board monthly. There have been supplier challenges as a result of Covid, and the timing of completion has been extended to minimise implementation risk. Project costs have increased relative to plan but the Board has had close oversight and approves all material time and cost extensions. The revised go live date is 31 May 2023. The benefits will largely be derived from having real-time date that is accurate and more comprehensive.

3. **Strategy / Capital Management – there appears to be an inappropriate balance / use of capital between investment and shareholder returns.**

The board and management are fully committed to returning to shareholders an appropriate level of dividend.

Sanford is an asset intensive company, and these assets require care and attention to be operating at the levels required to enable longevity and safety of operations and to secure long-term returns.

Is a further reduction in the capital profile possible? (previous guidance of $300-395M over next five years has reduced to $280-340M)

Our capital programme is a key contributor to the committed earnings growth detailed in our strategy refresh. Change in capital spend may happen but it would also result in a compensatory change to our earnings profile. Integrity capital is unlikely to change materially. We are aware we need to "earn the right" to use additional growth capital and that we need to demonstrate effective utilisation of spending before we take further steps (for example, performance outcomes in our marine extracts plant).

What controls do the board have in place regarding requests for capital expenditure to give assurance that projects will run to budget and, more importantly, deliver benefits?

All material capital requests are presented to the Board for approval and are rigorously reviewed and debated. An outline of benefits and returns are a requirement of each request and the Board makes an assessment of the merits of the expenditure request having regard to strategic fit and hurdle rates required. A Project Management Office has been introduced to the business to oversee, report on and review the capital programme.

Given the extent of capital still proposed, what consideration has the board had to establish a board committee dedicated to overviewing this program?

The current subcommittee structure is believed to be operating effectively to ensure that key development projects are given a more critical review and assessment. The subcommittees report updates to the Board at every meeting. This more critical lens at a subcommittee level offers a rigorous process on which the Board can rely to ensure its governance and oversight duties are appropriately met, without unduly complicating the governance arrangements of the Company.

What does the business case deliver in terms of benefits, particularly with regard to earnings guidance, for the commitment to the new Scampi vessel?

Demand for scampi is strong and it is one of our highest margin species. The current fleet of vessels are ageing and near end-of-life. In order to maintain our ability to catch this prized species, it is necessary to invest in new vessels. Sanford does not provide earnings guidance but scampi derived profits are very attractive.

Why was the windfall gain on sale of quota sale cash ($49M, or c.52cps) held rather than distribute to shareholders?

Crayfish is not a core operating business for Sanford, nor is it part of our future strategy. Passing on some of this $43m gain on sale through to shareholders by way of dividend was considered, but the requirement to continue investing in line with our strategy, to ensure that our pre-Covid profits are achieved as quickly as possible, to maintain the capital integrity programme as well as creating a platform for incremental profit gains in the medium term, meant that 10 cents per share for this final dividend for FY22 was considered appropriate.

Are there any further non-core asset realisations planned?

There is no active consideration as to the sale of non-core assets in our plans.