



SANFORD LIMITED
SUSTAINABLE SEAFOOD

30 January 2013

Managing Director Eric Barratt's Speech
Sanford Annual Meeting
30 January 2013

Despite the challenges we have faced over the last 12 months we can have some optimism going forward and I want to talk in detail about some of those matters shortly.

Firstly I want to recap briefly on some of the issues that have significantly impacted on the company over the past 12 months.

SAN NIKUNAU

The verdicts and sentence in the US court case on the San Nikunau indicated that there had been a pattern and practices aboard this vessel of not following required protocols regarding management of bilges and bilge waste in accordance with at least US requirements if not NZ requirements. These practices were acknowledged by a Filipino relief engineer who admitted to having never followed required practices on this or any other US or foreign flag tuna vessel that he ever worked on. The regular Chief Engineer claimed he did follow required practices but the court found otherwise.

Sanford has been held vicariously liable for the actions of the Engineers and other crew and we must accept responsibility for not detecting that these practices were occurring. One aspect of our defence was that the vessel and its records had been regularly inspected by NZ and US government officials many times during the period of the offences and these issues were not detected at the time. I could spend some time detailing the many arguments and counter arguments raised in this case but it is time to move on and to ensure that with our actions and responses we are never faced with this situation again.

Sanford Limited moved aggressively to strengthen its environmental compliance program across its fleet immediately the trial concluded.

We have created, implemented and are currently in the process of having audited an enhanced Environmental Management System Manual for our Pacific tuna fleet to achieve ISO 14001 certification for those vessels and fill gaps identified in testimony at trial. Once the system has been implemented and maintained we will be submitting this to the US courts to lift the prohibition on entry to US ports. Regardless of the ban since the 1 October 2012 we have not been calling at Pago Pago ports because our Protection and Indemnity Insurance Coverage no longer covers US port calls.

Amongst other things the upgraded EMS system substantially increases the accountability and responsibility of crew and officers on board the vessels as well as shore based managers to ensure that the systems are fully implemented, regularly maintained and updated and audited both internally and externally.

A new management position of Corporate Compliance Manager Marine and Fisheries has been established and we are currently interviewing applicants to fill that position. That position and person will create an extra layer of accountability for compliance with regulatory, including MARPOL, requirements.

We have engaged with Maritime New Zealand directly in an on-going dialogue to clarify the issue of what constitutes a "machinery space" aboard fishing vessels. This was a contentious

issue in this case and the Judge's definition given to the jury just prior to their retirement to consider the verdict poses significant challenges to all large fishing vessels. At times in high seas these vessels can take significant volumes of seawater onto trawl, hauling or fishing decks and into processing areas where machinery operates.

The San Nikunau has recently completed a very substantial upgrade which will not only extend its working life but which will increase its operational reliability and has enabled new MARPOL surveys and International Oil Pollution Prevention Certificates to be completed.

In addition we undertook and completed a company-wide review of the capacities and capabilities of Oily Water Separators (OWS), the detail and accuracy of Oil Record Book (ORB) keeping, and the MARPOL compliance programs for our 12 vessels over 400 gross tons.

OCEAN BREEZE

The Ocean Breeze suffered substantial fire damage in the Lyttleton Dry Dock as the vessel was having a shaft replaced under a previous insurance claim. The fire was caused by welding activity and the contractor engaged has accepted responsibility and is meeting the costs of the repairs and the vessel is back fishing with its new International Oil Pollution Prevention Certificate (IOPP).

As detailed in the annual report the real cost of these issues is in lost fishing time and reduced profit opportunity. With both vessels now back in operation and fishing we are expecting improved results from their activity for the remainder of this year. Having completed upgrades on these vessels, the San Nanumea is now undergoing a substantial upgrade which you can see on the wharf to the west of this venue.

FOREIGN CHARTER VESSELS

Sanford has been instrumental in leading the implementation of new Government requirements for foreign charter vessel crews and all crews are now paid in New Zealand and into New Zealand bank accounts. There are challenging requirements to which our staff have committed substantial effort. The requirement for vessels to be reflagged to New Zealand within 4 years is a project that we and our charter partners are working through carefully. Our intention is to move at least one vessel through the process well in advance of the requirements coming into effect to iron out any difficulties.

SUSTAINABLE DEVELOPMENT REPORTING

Before turning to look at the future prospects I want to reinforce to shareholders the excellent Sustainable Development Report that you will have received with your annual report or downloaded or read on the internet if you did not choose to receive a printed copy. Further copies are available here if you would like a printed copy. Sanford Sustainable Development Reports have been awarded as some of the best and most comprehensive reports of any company in New Zealand. They are not produced for the awards though. Our Sustainability Manager Alice Penfold assembles these reports from a huge database of information assembled by staff throughout Sanford's organisation. Our honest and open reporting of our activities in the SDR annually is a clear demonstration that the San Nikunau court case is not reflective of Sanford's philosophy and commitment to operating legally, safely and sustainably. The efforts of Alice and all those that support her deserve support and recognition. Sanford Limited is fortunate to have earned the right to have access to significant seafood resources and aquaculture space throughout New Zealand. It is therefore our responsibility to ensure we report accurately, transparently and honestly on our operations as we seek to utilise these resources both sustainably and responsibly. Increasingly our customers are demanding this level of accountability.

HEALTH BENEFITS WILL DRIVE SEAFOOD CONSUMPTION

Seafood consumption around the world continues to increase and that trend is likely to continue as scientific literature continues to highlight the health benefits of seafood.

Eating seafood boasts many health benefits including lowering the risk of coronary heart disease, lowering blood pressure, and improving arthritis and asthma symptoms. So what's in seafood that makes it so good?

New Zealand seafood is:

- High in Omega-3 and fatty acids.
- High in protein.
- Low in carbohydrates and saturated fats.
- Low in saturated fats.
- A good source of essential minerals and vitamins.
- Completely natural and easy to digest.

We have seen over the past year a real shift in the price levels of Pelagic species – we cannot make the direct linkage to the fact these are species high in Omega 3 and fatty acids but the indications are that those price levels are likely to continue. Pelagic species that used to sell in the US\$600 to US\$800 per tonne price level are now close to double that and demand continues to be strong at these new levels. Skipjack tuna prices that used to fluctuate in the US\$500 to US\$1,000 level now fluctuate in the US\$1,800 to US\$2,300 level. Sanford is one of the strongest New Zealand fishing companies in these species.

Other species that are seeing steady or improved pricing levels include hoki, ling, silver warehou and barracouta while hake and squid have been softer reflecting that the southern European countries of Spain, Portugal, Italy and Greece are the main markets for these species.

GREENSHELL MUSSELS

As shareholders will be aware we are now focussed on only two aquaculture species, Greenshell mussels and salmon, as we have exited our interests in Pacific oysters. Our Greenshell mussel business in the South Island last year performed extremely well while growth rates in Coromandel and financing difficulties resulted in a restructuring of our ownership of the mussel plant in Tauranga, now called North Island Mussels Limited. Since we achieved ownership of the former Pacifica mussel business we have seen a significant improvement in the stability of the mussel market. Previous wild fluctuations in the export prices of mussels have stopped and the price has been steadily improving. This has provided much needed stability to the industry and greater confidence to independent growers of mussels in both regions.

While growing conditions in the Coromandel this year are much improved, current growth in the Marlborough Sounds is below expectation and proving a challenge to keep our processing plants in Havelock and Christchurch in full production. We would not expect any increase in mussel volumes this year.

SPATnz

Our Primary Growth Partnership project with the Ministry of Primary Industries for the breeding and production of mussel spat in a new hatchery complex adjacent to the Cawthron facility in Nelson is now proceeding apace. Consents for the construction of the hatchery complex are well advanced and approval is expected in the near future. Preliminary earthworks on the site started last week. This project will produce mussel spat that has been bred for particular characteristics around growth rates, meat to shell ratios, colour and flavour which will enable us to improve reliability of mussel supply and reduce our risk where at present all of sourcing or catching spat takes place in the wild and subject to weather and environmental variables.

PURE NZ GREENSHELL MUSSELS LIMITED SHANGHAI

While the proportion of our mussels going to this New Zealand cooperative venture in China remains relatively low compared to our major markets in USA, Korea and Australia this business continues to grow at a very satisfactory rate from one year to the next. We are

working with New Zealand Trade and Enterprise on plans for a visit by the major Chinese customers of this business to the New Zealand mussel farms and processing plants to further educate them on the benefits of Pure New Zealand Greenshell Mussels.

SALMON FARMED ON STEWART ISLAND

We have successfully increased our focus on moving more of our salmon production into fresh markets both in New Zealand and offshore. This has been to offset the oversupply of frozen salmon mainly into Japan where prices have weakened considerably over the past year. With adjustments to the breeding cycle of some salmon we are now able to supply market acceptable sized fish all year round which will assist servicing and retaining existing customers and potentially attracting new ones. Since balance date we have reduced our inventory of frozen salmon and recent customer visits should see our stocks reduced to more than acceptable levels. We remain committed to the farming of salmon in the long term and expect to be able to increase our farming volumes on Stewart Island within existing consents once sustainability reviews are completed.

PRECISION SEAFOOD HARVESTING

This innovative Primary Growth Partnership project with the Ministry of Primary Industries and co investors Aotearoa Fisheries Limited and Sealord Group Limited has started to gain some momentum. In the last three months operational trials of the technology have been carried out on the Sanford vessel San Hikurangi targeting snapper and trevally and on the Sealord vessel Otakou targeting hoki. The San Hikurangi trial received enthusiastic support from both shore management and the vessel skippers and crews. The effectiveness of the fishing gear and the quality of the fish coming on board the vessels was outstanding. When vessel crews comment that they have never seen such colours on fish brought aboard then you know you have something special. This is a seven year project but at this early stage it promises to be an exciting development. Sanford and the other co-investors are pushing for an earlier than planned chance to begin commercial trials of this technology. Unfortunately as this technology is highly protected through confidentiality clauses and we are not able to talk in any detail about the way in which the technology works. We can say that the outcome of this technology is likely to substantially change the way we catch, process and market fish which will add significant value to both our inshore and deepwater operations hence our desire to move quickly to commercial trials.

I have managed to get through this address without mentioning the exchange rate but with a rate running around historical highs ranging from 83 to 85 cents there does not seem to be any prospect of a lower dollar assisting us in lifting returns so we remain focussed on maximising selling prices, increasing efficiencies and reducing costs and, as far as we can, reducing the level of capital in the business.

The year ahead will continue to be challenging but we have made a positive start. Revenue for the first three months of the year is up 10% over the previous year assisted by increased sales of salmon on the New Zealand market while catch and production levels are running 1% ahead of last year.