



13 December 2017

Sanford Limited 2017 Annual Meeting
Mr Volker Kuntzsch
Chief Executive Officer's Address

(Slide 1)

Good afternoon ladies and gentlemen,

Thank you for the opportunity to present to you the annual report for 2017.

(Slide 2 Sanford Group Overview)

Please let me first set the scene with this introductory slide about Sanford. Most of the information on this slide is well known to you. I did, however, want to point out that aquaculture, which is king salmon and Greenshell mussel farming, now makes up almost a third of Sanford's revenue. Although we are New Zealand's largest fishing quota holder and a significant player in aquaculture in New Zealand it is important to remember that we are only a tiny player on a global scale. We do play an attractive role with our quota ownership and vertical integration and the diversity in species and the geographic spread of our customer base create complex business dynamics. While we cannot count on economies of scale we do offer a great and healthy product from a highly regarded and sustainable resource and our diversity has proven a counterbalance to fluctuations across species. We also feel that our diversity and spread will help mitigate risks associated with climate change. It is worthwhile noting that our fishing quota is capped and dependent on the health of fish stocks in New Zealand waters, whereas volume growth in aquaculture is certainly possible, especially with new technologies allowing offshore farming. However, our focus is primarily on creating more value out of current volume, while volume growth in aquaculture is a secondary consideration for now.

The Chairman has highlighted the fact that we achieved a satisfactory result, notwithstanding the headwinds we encountered during the course of the financial year. I would like to provide a little more detail on the year gone by and highlight a number of developments that are in progress to support our aim of adding more value to our marine resources to achieve our ambitious vision of becoming the best seafood company in the world.

(Slide 3 EBITDA last 5 years)

Following a very successful year in 2016 I am happy to report that we were able to continue the positive earnings trend. The slide highlights the changes that were implemented over time to support our value creation process and it is encouraging to see that our strategy is bedding down. Net Profit after Tax improved almost 8% from last year.

(Slide 4 – Value per kg)

We should also note that, on an earnings before interest and tax (EBIT) basis, value per kg has remained stable at the much improved level post 2015. This performance indicator eliminates the impact of fluctuations in volume and provides insight into the real value we create as a result of our activities throughout the business. We are certainly happy to have been able to solidify the level of value per kg and look forward to building on this base going forward. It is our intention to derive at least \$1 per kg in earnings from our wild catch and farmed species within the foreseeable future. We will look at some of the initiatives that will help us achieve that, but first I would like to reflect on some of the main drivers that impacted on our financial result.

(Slide 5 list of positives and negatives for FY17)

Although we faced a number of uncontrollable operational issues, for example the Kaikoura earthquake and the *Bonamia ostreae* virus that affected our oysters in Stewart Island, and a large number of vessel surveys coinciding, we did have a number of internal operational issues that proved testing. The commissioning period for the latest addition to our freezer trawler fleet, *San Granit*, extended well beyond expectations as we were facing challenges in aligning to New Zealand conditions and regulations, for example in terms of health and safety requirements. The hoki spawning season ended earlier than expected and pricing of some species and products was unsatisfactory following typical supply – demand dynamics. However, on the positive side, our farming and processing teams in the Marlborough Sounds did a splendid job and managed to deliver a record production year in Havelock, despite the plant being closed for two weeks following the earthquake. The toothfish season in the Ross Sea delivered on expectations and prices for some of our premium species, like salmon, toothfish and scampi, were higher than planned.

With respect to our goal of elevating the current earnings before interest and tax of roughly \$0.50/kg to \$1/kg, Paul Norling had mentioned that innovation and branding are significant strategic objectives in that regard. Other areas of importance are operational efficiency improvements and our customer channel strategy, but let me now share some progress on the topic of innovation with you:

(Slide 6 – SPAT_{NZ})

Our two Primary Growth Partnership (PGP) projects, SPAT_{NZ} and Precision Seafood Harvesting, have progressed further and delivered exciting results. SPAT_{NZ}, a PGP project we undertake with Cawthron, continued to develop mussel families with traits that enable greater and more consistent product quality at faster growth rates. The first batch that had been seeded in the Marlborough Sounds from hatchery spat was harvested in May this year and the outcome was excellent. We are very satisfied with the improved quality at faster growth rates. With these results and the greater predictability in spat supply, this project deserved to be this year's winner at the New Zealand Innovation Awards in the category 'Innovation in Agribusiness and Environment'. Well done to Dr Rodney Roberts and his team at SPAT_{NZ}!

(Slide 7 – PSH)

The Precision Seafood Harvesting PGP is a project between 3 commercial fishing companies, including Sanford, and Plant & Food Research, focused on developing improved fishing methods. The aim is to bring lively and intact fish on deck, which results in superior product quality and the ability to return live fish to the sea, if regulations require us to do so. This has been achieved. In deepwater fisheries we are now able to produce higher value product cascades resulting from better raw material quality, and the huge benefit in New Zealand's mixed species' inshore fisheries is the opportunity to sort fish on deck and return undersized animals to the sea alive, avoiding waste and negative impacts on the biomass. Under conventional fishing methods fish is usually too fatigued to ensure a high certainty of survival upon release. The remaining 1.5 years of the project will be spent on further fine-tuning of gear and on-board handling.

Both PGP's enable large scale innovation that we would not have embarked on alone. In both cases we have created a world's first.

(Slide 8 – Enzaq)

In-house innovation at Sanford has certainly come a long way too and I am proud to share that we have not only been able to reduce the share of commodity to some degree, but that we are now embarking on the nutraceutical field. Our recent acquisition of Enzaq, a mussel powder manufacturer in Blenheim is the culmination of years of research into the anti-inflammatory benefits of Greenshell mussels and the effect on bioactivity resulting from applying different processes in the manufacture of the powder. Enzaq's process delivers a mussel powder of outstanding quality. The need to diversify our product portfolio in our sizeable mussel business paired with the extraordinary health benefits of Greenshell mussels absolutely aligned the acquisition of Enzaq with our strategy. The existing customer base for Enzaq's mussel powder welcomed the move and is dedicated to substantial growth of this category, both in pet and human applications.

(Slide 9 – Collagen)

Another great example of the potential our marine species hold is the potential utilisation of collagen derived from hoki skin for cosmetic purposes. Interestingly, hoki skin appears to contain more beneficial collagen for these purposes than other species, providing tremendous opportunity for a species that has recently been used primarily as a mere whitefish alternative for fish fingers. We are looking forward to sharing more news on this innovative front in due course.

(Slide 10 – BGB)

Now to our second strategic thrust: branding. We were very excited with the launch of our Big Glory Bay brand for the species we farm in Stewart Island. Eight top chefs from Auckland accompanied us for a day to experience first-hand how our king salmon and Greenshell mussels grow in one of the most pristine areas in the world. The opportunity to share our passion for seafood and New Zealand culminated in this visit which then provided the basis for our product being included on the menus of some high end restaurants in Auckland. New

Zealand lends itself to branding product on the basis of its provenance and we will certainly make more use of this opportunity to create value.

The following video will give you a taste as to what the combination of product and provenance can do for branding.

(Slide 11 – BGB video)

(Slide 12 – Auckland Fish Market)

A successful refurbishment of our almost 100 years old head office building in Auckland, which was triggered by the need for earthquake strengthening and asbestos removal, has delivered a modern and friendly open plan office space with a maritime atmosphere. We are now developing the area downstairs into a very attractive fish market which is expected to open during the third quarter of 2018. With the growing foot traffic through increasing office space and larger numbers of apartments in the Wynyard Quarter we are keen on bringing seafood closer to consumers. The impact of ever growing tourist numbers should also provide good reason for sharing more about the splendour of New Zealand seafood and the role the commercial fishing industry plays in this context. The fish market should not only serve as a place to buy and eat seafood, but also as an educational experience to further our reputation.

These two slides provide artist's impressions on how we imagine selling fish fillets (Slide 13) and whole fish (Slide 14) in future.

(Slide 15 – Sanford Stamp)

It is our intention not to lose the existing recognition of the Auckland Fish Market and we will therefore retain that name. We will, however, add the 'Sanford Stamp' to the brand in order to highlight the care and quality associated with the seafood available at the market.

(Slide 16 – Annual Report)

Building trust with stakeholders through transparency in our practices is the foundation of the journey we have embarked on to achieve our ambitious vision. The commercial fishing industry suffered – and to some degree still does - from reputational issues that were the result of past malpractices by operators and the fact that all our activities are out of sight for the general public. You may have seen Seafood New Zealand's 'Promise Campaign' on TV and in social media this year. This campaign was targeted at building confidence in the industry's fundamental objective of ensuring sustainable marine resources as there is no 'Plan B' for our businesses. We depend on the oceans and their resources and industry's commitment to doing the right thing out there has not been shared well in the past. Industry's campaign had a positive impact on the public's perception and we will run the campaign again in 2018.

At Sanford, we have focused on sustainability for over twenty years, but it is only within the last 4 that we have provided increasing transparency through our integrated reporting. We now report in greater detail on the impact we make from a social, environmental and

financial perspective. We are very proud of our annual reports winning international awards for integrated reporting and being used as an educational tool in business studies. Our report is available online at Sanford.co.nz and in print. Due to comments received from shareholders and the intent to lower our impact on the environment, we decided not to send the report as a hard copy unless it was requested.

(Slide 17 – Business Excellence Framework)

This slide highlights our business excellence framework, which is described in more detail in our annual report. It represents the six outcomes that we focus on in all our business processes, covering our social, financial and environmental responsibilities. All outcomes have mid and long term targets, which are aligned with the United Nation's Sustainable Development Goals, wherever possible. Details as to how we go about reaching the targets in these six performance areas are also provided. We encourage your reflection on these and welcome any comments you may have.

(Slide 18 – Climate Change)

Probably one of the most significant risks to our business is climate change. As we are situated within coastal communities around the country and are dependent on marine resources, any potential impact cannot be ignored. We are focused on understanding trends in water temperatures, ocean acidification and sea level changes to take appropriate steps in risk mitigation. While we believe that our own impact is relatively minimal on a global scale, we are very much focused on ensuring that we understand the consequences of our operations.

(Slide 19 – Carbon Footprint)

We have conducted an analysis of our carbon emissions and determined that we would need to plant around 475,000 trees per annum in order to achieve a net zero carbon footprint. Clearly, this would be a massive undertaking and does therefore demand a multi-pronged approach, which would have us analyse exactly how to reduce emissions across operations rather than exclusively offsetting them.

In the meantime we do contribute to healthy oceans by reducing our utilisation of non-recyclable materials. Our teams in the Marlborough district have undertaken a large number of projects focused on the elimination of plastic in our farming operations and have been awarded by the Marlborough District council for their endeavours. Further detail on projects in this respect is provided in our annual report.

(Slide 20 – Polybin replacement)

Countrywide, we are replacing what is synonymous with the fresh fish industry: polystyrene bins. We were using approximately 290,000 of these and are now in the process of introducing recyclable cardboard boxes instead. This is a challenging task as polystyrene's insulation capabilities are difficult to meet, especially in areas where the supply chain is not yet sophisticated enough to allow transport in a chilled environment. It is our target to have all polybins replaced by the end of 2018.

(Slide 21 – Maui)

At last year's AGM I shared some detail around the Maui Dolphin Protection Plan that we had just launched in collaboration with Moana New Zealand and WWF. I am very satisfied with the progress we have made one year on. While the implementation is not straightforward and much time is being spent in sometimes challenging discussions, it is exciting to see that another four fishing companies have provided funding to the project that now involves 121 fishers, eight seafood companies, three technical services providers and five scientists under the leadership of a part-time project coordinator. All of the harbour set netters that fish on our quota or supply fish to our fish market use a tracking app on their smartphones to overlay their fishing areas with potential dolphin habitat. Some of the coastal set netters have converted to different fishing methods and a number of trawler operators have committed to the plan. We had meetings on the topic with MPI and have provided workable solutions to enable smooth transitioning from set netting to other fishing methods and look forward to receiving feedback on our proposals once the future direction of MPI and fisheries under the new government is clear.

(Slide 22 – Dolphin Rescue)

Our efforts in making one of our core values, namely 'care', so much more prominent in everything we do, has culminated in a great example of true commitment earlier in the year. One of our fishermen out of Tauranga let go of a catch of 30 tons of jack mackerel once it became apparent that the half dozen dolphins he had accidentally surrounded with his purse seine net, were not able to escape, even after several attempts to separate them from their prey. He did the right thing, although – strictly speaking - the fish had been caught and his action might have been regarded as an illegal discard. The dolphins and the fish survived. A recreational fisherman coincidentally filmed this interaction and released it to the media with praise for our skipper. Reactions from around the globe were overwhelming.

(Slide 23 – People)

While our focus has been on creating value and building organisational capability to embark on an ambitious future, our people have had to cope with significant change. We have added a large number of experts across our business, often in functions that were non-existent before. At the same time it was important to nurture the passion of those that had been part of Sanford for decades. With our people strategy focused on capability, culture and transformation we are making progress in aligning this passion with the excitement of the new, but will need to put even more emphasis on this subject as it translates into people engagement and attitude across the whole business. Important elements like Health & Safety and living our values of care, passion and integrity are directly influenced through improving leadership capabilities and by moving towards an environment where all employees are paid fairly and in line with their skills and expertise.

(Slide 24 – New Zealand’s opportunity, conclusion)

Against the backdrop of this slide, which highlights the sheer size of our Exclusive Economic Zone in relation to New Zealand’s land mass and underlines the substantial opportunity we have as a country to take on a leadership role in effectively managing our oceans, I would like to summarize as follows:

- We have had a very satisfactory year in 2017, notwithstanding some significant headwinds
- We have further solidified our strategy of adding value to some of the world’s most beautiful seafood through innovation and branding
- Our strategy is centred around a strong positive impact across financial, environmental and social performance indicators
- Next steps are primarily based on rejuvenating some of our assets, creating much improved people engagement across our business and delivering on our value creation strategies across salmon farming, our mussel operation and our wild catch business
- We will work with Seafood New Zealand to improve the reputation of our industry and we will support cross-sectoral approaches to support the New Zealand brand.

(Slide 25)

With the increasing demand for protein globally, with an ageing and more health conscious population in our major markets and the shift towards more natural product from trusted sources, we are in a very attractive position with our seafood business. Bringing beautiful New Zealand seafood to discerning and health conscious New Zealanders and their families and to customers and consumers around the world will continue to be the foundation of our great company.

My sincere thanks to Paul Norling and the Board for their guidance and many constructive discussions. I am very proud to be surrounded by very capable colleagues on the Executive Team. Clement Chia, Karen Duffy, Andre Gargiulo and Greg Johansson, thank you for your enthusiasm and passion for our business. I would also like to extend my sincere appreciation to the many hard working colleagues across our business who are trying to make a difference every single day and have achieved a respectable outcome in a challenging year. I thank the Sanford team for their great contribution to our company’s success.