



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

30 January 2008

**MANAGING DIRECTOR'S ADDRESS**

Thank you Mr Cole.

I want to briefly build on some of the corporate commitments outlined by Mr Cole and expand on those in a more practical sense but I want to encapsulate all of these issues under the category of enhancing and restoring shareholder value.

The results for the past year and the likely results from operations this year do not deliver adequate returns for shareholders. However it is too easy to blame lack of financial performance on a high New Zealand exchange rate and take no action. As reported to shareholders the year ended 30 September 2007 in an operational sense was one of our most successful in our history. Catch rates, particularly in our deepwater and our international tuna operations were the best ever achieved and we farmed, harvested and processed record volumes of greenshell mussels. Had these operations not been as successful as they were our financial results would have been even more disappointing.

Faced with a similar exchange rate environment this year we will again be focusing on improving operational performance and enhancing the market value of our products.

**Improving Operational Performance - Inshore**

Over the past year we have invested in the first stage of new processing technologies imported from Iceland in our Auckland, Tauranga and Timaru plants. These technologies are focused on increasing the efficiency of our production processes through improved yields, quality and cost efficiencies. In the coming year we will be implementing the second and final stage of the introduction of these new technologies which will further increase efficiencies, reduce costs and produce better products for our customers.

We are also conscious of the need to look at our inshore catching operations and find ways of improving the attractiveness of inshore fishing as a worthwhile career for our fishermen. This will be achieved through upgrading and enhancing our own inshore fleet as well as providing opportunities for independent fishermen to deliver regular and consistent quality products for the local and export fresh fish markets.

**Improving Operational Performance – Deepwater**

The focus on increased catching and processing efficiency and maximisation of value of all species caught continues in the deepwater operations. The investment made in meal and oil recovery on the San Waitaki is having an immediate payback effect. Fuel efficiency is a major focus and while this is continuing on an individual vessel basis a potential major gain in the current year is the cooperative arrangements made to catch orange roughy and oreo dories on the chatham rise and in the southern ocean area. The three major operators have agreed that their vessels targeting these species will each work in separate parts of the area catching the quota for all three operators in each area. This means that the fleets will spend substantially less on fuel than previously when each vessel was required to steam to and fish in each area. Because of the sensitive and competitive commercial nature of the industry these arrangements are not easy to achieve however if this arrangement is successful there is potential in other fishing areas and fisheries for similar gains. The increased demand for sustainably certified seafood continues and the certification of the Ross Sea toothfish fishery



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should be completed this year. This certification is being carried cooperatively by New Zealand and British fishing companies with interests in the Ross Sea.

**Improving Operational Performance – Aquaculture**

We continue to believe there is a bright future for aquaculture in New Zealand. We are constantly investing in that future and over past months have acquired additional water space in both Coromandel and Marlborough for growing mussels and we are expanding our salmon operations in Stewart Island by increasing the amount of space dedicated to salmon farming. Coupled with this increase in production is the introduction of new cage and feeding technology which will increase the volume of salmon we produce while at the same time lower our unit production costs.

It is appropriate at this time to refer to the fact that in late November Sanford advised that a low level a listeria contamination was identified in some mussel meat that had been shipped to a number of markets from the Havelock plant. Since that time we have worked closely with both our customers and the relevant authorities in the various markets to appropriately deal with any potential food safety concerns. The level of listeria contamination was so low and intermittent that the potentially affected product satisfied the regulatory requirements in some markets. Our packaging advises customers that the product should be cooked before use; however in the interests of food safety our advice to the markets at that time was deliberately precautionary as we were aware that in some cases some customers may not have been cooking the product before use.

We are pleased to report that there has been good co-operation from all parties involved and that we are confident that the issues in each market have been successfully managed.

As a consequence of this issue and as part of our commitment to the highest level of food safety in our business we are undertaking a rigorous review of our general food processing operations at all levels of the business to ensure that they meet the highest possible standards of food safety. If this requires changes to our existing methods of operations and quality management processes then the company is committed to make any necessary improvements.

We have already implemented a number of changes to our processing, food safety and quality assurance systems and we expect to set in place a framework that will see further improvements being made in our business.

At the annual meeting last year we showed shareholders a video of an experimental prototype mussel opening machine that has been developed in conjunction with an industry technology organisation. We are now in the process of installing in Havelock our first fully automated half shell opening line and the commissioning of this automated line is expected to commence tomorrow. The production capacity of this line is approximately 1 tonne hour and there will be extensive acceptance testing which will take place between now and June this year. On successful acceptance testing we would expect the layout and design of this line will be used for a staged transformation of our production facilities in Bluff, Havelock and our joint venture plant in Tauranga. There is a significant payback on this technology and we would expect royalty income from other producers as they adopt this technology.



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**Improving Operational Performance – International**

Reasonable catch volumes and substantially higher market prices for skipjack tuna produced good returns last year. Prices have continued to hold up and fishing in the early part of the year has been up to expectations. The relatively new international management body for migratory species including skipjack tuna in the region – the Western and Central Pacific Fisheries Commission has a difficult job balancing the interests of each island state with the interests of the distant water fishing fleets of the United States, Japan, Korea, China, Taiwan and New Zealand where the fish migrate through each state's fishing zone and into and out of international fishing waters. Many nations directly or indirectly link sometimes substantial foreign aid with fishing access rights in a way in which New Zealand cannot or chooses not to compete. Operating our fleet in this fishery is a challenge constantly under review.

Our business in Australia is now stable and profitable and we are seeking ways in which we can profitably expand our interests and business in Australia. However as with the values of quota in New Zealand it is not easy to produce adequate returns in the short term based on current quota values.

This year the San Aspiring fished successfully in the South Georgia and South Sandwich Island area under United Kingdom management and access arrangements and we are hopeful of this continuing in the future. Sanford Limited is highly regarded for its professional and responsible management and for the excellent spirit and cooperation from the skippers and crews of its vessels.

The Chairman has already explained that our successful and profitable exit from Canada is almost complete. The Canadian company previously called Fishery Products International Limited, now renamed FP Resources Ltd is being restructured into an investment company and we will shortly receive approximately \$37m cash and shares with a value of approximately \$12m in listed Canadian listed High Liner Inc. This will result in a gain of approximately \$28m which will provide a one off boost to results this year.

Considerable effort over the past year has been put into expanding the production volumes and improving the margins at our Weihai Dong Won Food plant in China and recent results are reflecting these efforts.

**Enhancing Market Value of our Products**

There has been a considerable improvement in the market prices for many of our seafood prices. The influence of long term higher prices for fuel is being translated into higher costs and prices for many food commodities. This coupled with changes in the food and land production process changes for products used in biofuels is influencing seafood products. The main ingredient for aquaculture production is fishmeal and to a lesser extent soya meal. Prices of these commodities are increasing which then impacts the cost of aquaculture production and requires higher market prices to justify continued production. The increased recognition of the benefits of seafood to healthy living is resulting in increased per head consumption of seafood in most nations around the world. At present the world consumes about 150 million tonnes of seafood per annum. In China alone seafood consumption currently around 26kg per head and is forecast to grow by 14% per annum requiring an additional 40 million tonnes of seafood by 2030.



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Market prices for seafood have to increase and they are increasing. Since this time last year for example skipjack tuna prices are up 45%, ling prices are up 35%, smooth dory prices are up 20%, snapper prices are up 25%, hoki prices are up 20% and mussel prices are up 10%. However orange roughy, squid and toothfish prices are unchanged over the period although prices should improve when supplies tighten up some of which is occurring now. Part of our efforts to enhance the value of our seafood has involved careful analysis of the market demand and supply at various time of the year of both fresh and frozen forms of product. In products such as snapper and salmon we have increased returns by changing the balances between markets and between these products with implications on catch and harvesting operations which have been manageable.

**Outlook**

The intermediate and long term future for Sanford is bright. We have secure and long term access to a wide variety of sustainable and well managed seafood resources for which the demand in the intermediate and long term will increase in advance of costs of farming, harvesting and producing those products. In the short term we have to manage within the confines of high exchange rates and fuel prices and other required adjustments such as managing the effects of an emissions trading regime. We have an excellent executive management team well supported by managers and staff all committed to building a brighter future for all the stakeholders of Sanford.

E F Barratt  
Managing Director