



## MANAGING DIRECTOR'S ADDRESS

### Annual Meeting

### 2 February 2005

The second century for Sanford Limited has got off to a challenging but exciting start. I want to update you today on some of those challenges.

The Company has celebrated its 100 year birthday throughout New Zealand in 2004. The display for last year's Annual Meeting was repeated at functions in Auckland, Kaeo, Coromandel, Tauranga, Havelock, Timaru and Bluff. At each location the functions were well supported by local community leaders, politicians, and other stakeholders that are part of our business network. This proved an effective way of acknowledging the support we have received over the years. After many of the functions local school children were invited to view the many different and less common species that were on display. Albert Sanford became a folk hero on his special bicycle distributing chocolate fish.

#### **Markets**

Market prices for many of our species are higher than they have been for some years. In the United States orange roughy is now over US\$6 per lb and toothfish is over US\$6.50lb.

With the reduction in the hoki catch markets for that species in Europe have remained strong. Greenshell mussel markets are as strong as they have been over the last two years throughout Asia, Americas and Europe.

We have a much more significant interest in the scampi market and prices for that species is slowly improving as the benefits of a more orderly catching regime benefit both catchers and consumers with a higher quality product.

Stronger markets for pelagic species such as blue mackerel, kahawai and jack mackerel are developing in Eastern Europe and Africa.

Squid markets have improved dramatically over the past 12 months as poor catches in the South Atlantic have left world markets short of product and prices have risen accordingly.

Another good squid season in New Zealand will boost profitability this year.

Species that have not fared so well in export markets are snapper which is slowly losing its appeal as celebration fish in Asia and trevally which mainly goes to the middle east and has not moved in price for over 8 years. Perhaps we have not done the marketing job we should have with this species when we look at the movement in oil prices over those years.

#### **Auckland Fish Market**

The new Auckland Fish Market is fast becoming a must-see attraction in Auckland. The early morning wholesale auction is going from strength to strength as more suppliers and more buyers see the benefits of this facility. The transparency between supply and demand and local and export prices is ensuring a more regular supply and variety of higher quality



seafood. Restaurants can now plan their menus with more certainty. Sanford Limited benefits from being the major supplier to the auction at prices that generate a better return than alternative markets.

The seafood school, with its variety of classes, is becoming increasingly popular as well as becoming an attractive venue for corporate and sports team-building events.

The wholesale and retail outlets are working together to build regular patronage to a sustainable level with promotional events and awareness advertising. A regular and free bus service is expected to commence soon to offer shoppers and visitors better access to the site, even though the availability of parking is already proving attractive to shoppers.

### **Deepwater Operations**

Our deepwater operations are well into the new fishing year with catches in line with expectations in New Zealand waters, and a promising start to toothfish catching in the Ross Sea.

Scampi catches from our fleet of six vessels are in line with expectations and we have been successful in leasing in additional catching entitlements from other quota owners to further improve the efficiency of these operations.

The cut in the hoki quota enabled us to sell one of our 64 metre Sterkoder vessels, focus the two remaining vessels more on squid and other valuable bycatch species such as hake, ling and silver warehou and reduce our reliance on charter vessels. A good squid season could well offset the effect of the hoki reduction.

Fuel prices can have a significant effect on our deepwater and international fishing operations. Between October 2003 and October 2004 prices rose from under US\$300 per tonne to over US\$500 per tonne and now are around the US\$480 per tonne level.

### **Aquaculture**

The new Aquaculture laws were enacted just prior to Christmas and thankfully at the last minute sufficient changes to the proposed legislation were made to give us some confidence for the future. While the high New Zealand dollar has severely limited profitability in the aquaculture parts of our business over the past 18 months we have continued to steadily grow our farming and production base.

We were able to achieve good results from our salmon operations as we continue the improvement program in our broodstock, hatchery, feeding and harvesting activities. Production levels at our oyster plant at Kaeo continue to increase and at times extra efforts are needed to expand profitable markets. Greenshell mussels continue to be our most widely marketed product and we are benefiting from our Havelock plant expansion last year. Coromandel is the next mussel facility that needs to expand to be able to process our increased farm output in the Coromandel region.

### **International**

In both Argentina and in the Pacific we suffer from inconsistent catch rates. When catches are good, results are good, but periods of poor catches quickly erode profits. In Argentina we are reviewing our operations and considering other operating methods to improve returns.

In the Pacific the recent implementation of the Western and Central Pacific Tuna Commission will be good for the fishery in the long term but the direct linking of aid and



fisheries access by the European Union is a threat to our access opportunities in the short term.

The enactment by the New Zealand parliament of provisions that allocate 20% of the catch history in international fisheries such as the Pacific skipjack fishery when it is introduced to the quota management system is also a disincentive for us to continue in this fishery.

Despite these difficulties we maintain excellent relationships with the Pacific Island states that we have access agreements with. These include Tuvalu, Kiribati, Nauru, Marshall Islands, and just last week we were pleased to be able to execute an agreement with the Solomon Islands government during a visit by their Minister of Fisheries to Auckland. The international purse seine vessel Ocean Breeze, acquired from Simunovich lifted our involvement in the Pacific tuna fishery from two vessels to three vessels.

#### **Weihai Dong Won Foods Limited – China**

The second processing plant at the Weihai facility is expected to be ready to be operationally tested at the end of February 2005. We would hope to have some Sanford product being processed through the facility soon after it opens.

#### **Simunovich Fisheries**

The recent approval by the Commerce Commission of our acquisition of the final part of the scampi quota is welcomed but we await the final approval under the Fisheries Act 1996 by the Minister of Fisheries. Once this is obtained the final part of the scampi and trevally quota can be acquired. In the meantime we have acquired the annual catch entitlement to enable us to catch that quota for this fishing year.

The acquisition and integration of the Simunovich assets has gone extremely smoothly thanks to some dedicated effort by Sanford and Simunovich management, quota registry operator Fishserve and vessel registry operator the Maritime Safety Authority.

The Simunovich operations in New Zealand consisted of a four vessel inshore catching and processing operation in the northern area, a six vessel scampi catching and processing operation and a deepwater quota trading operation. All of these are now well integrated into our existing inshore and deepwater operations.

In Australia the Simunovich three vessel catching operations are being integrated into our existing fishing, market and distribution business and we see further potential to grow this business in the future.

It is expected that the revenue effect from the acquisition of these assets will be approximately \$40m in the first year.

#### **Project Fish**

Project Fish was a major undertaking to introduce a complete new technology platform to our business. The groundwork for the project had been laid out over the last few years with the gradual implementation of electronic weighing systems. The linking and integration of these systems with new enterprise-wide fishing, accounting, payroll, quota and export documentation system was a world first that has already attracted interest from seafood companies in Chile, South Africa and Canada.

The project was not without its challenges and its frustrations but the end result is an extremely valuable tool in improving the way we take product to market and operate our



business. Marketability, traceability, inventory management, and administration efficiency are outcomes that are now beginning to pay off. A big thanks has to go to all our staff that put in so much extra effort and time to achieve a great outcome.

### **Results to date**

Results for the first three months are encouraging but the difference between a good year and a great year will depend on skipjack tuna catches in New Zealand and internationally, the squid catch in New Zealand and to a lesser extent for this year the exchange rate.

### **Foreign currency and exchange rate**

No Sanford annual meeting is complete without a comment on the exchange rate. While we still have some excellent forward cover for the current financial year, we have nothing beyond that. While much is speculated internationally about the US dollar we tend to focus on the New Zealand dollar as a weak US dollar internationally does not necessarily translate into a strong New Zealand dollar. On an annual basis our net receipts in US dollar terms are approximately US\$80 million and JPY\$2 billion. For the 2006 financial year the exchange rate will need to be under 60 cents for us to achieve an adequate return to shareholders.

### **Reporting to Shareholders**

Sanford continues to work hard to communicate to shareholders.

Every new shareholder receives an information pack from the company including the latest annual report.

We endeavour to respond to shareholder queries as quickly as we can and within the limits of the market rules imposed by the New Zealand Stock Exchange.

Considerable effort goes into producing a very complete annual report including the sustainable development report. Opportunity is now given to shareholders on annual basis to provide feedback on the annual report and many do. The report is also distributed to other interested investor and financial institutions and we welcome their feedback.

This year there has been no negative feedback so far and indeed the comments have been very complimentary

“Very well balanced read”      “Keep up the excellent work”      “Congratulations this is wonderful”.

It has been suggested that more volume information would be useful and next year therefore we will publish a list of our quota ownership by species.

In an industry where we are the only company reporting to the level of detail that we do, we need to be conscious of protecting information that we believe gives us a competitive advantage. If that results in us receiving a “Top Secrecy Award” from a columnist in one of the business weekly newspapers because one analyst did not get the information he desired in advance of that information being made available generally, then so be it.

Some shareholders were understandably disappointed at not being able to utilize the Auckland Fish Market discount voucher because they lived out of Auckland. However the previous arrangement of giving out gifts of fish to those attending the annual meeting also discriminated against those that were unable to attend.



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SUSTAINABLE SEAFOOD

### **Staff**

Shareholders will be aware of the calibre of the Sanford staff and management team. We have a good mix of industry and business experience and constantly seek opportunities for them to improve their knowledge and skills. Next year the senior operational executives, Shane Walsh - Inshore, Greg Johansson - Deepwater, Ted Culley - Aquaculture, Tom Birdsall - Australia and Argentina and Vaughan Wilkinson (who joined us from Simunovich) - Pacific Tuna and business development, will be making presentations to you. It is their, and their teams work and effort that drive the successful operations of this Company. Of course they are well supported by marketing, technical and administrative teams that are the best in the industry.

Sanford has made an excellent start to its second century and it will continue to grow and reward patient shareholders well.