SANFORD

ANNUAL REPORT
2017

THE POWER OF
—AND—

NOW
-AND-
BEYOND

PHOTO COURTESY OF JOHN BENNETT, SANFORD SKIPPER. CHARLIZE (CHARLI) SUSAN BENNETT-SHIELDS (JOHN'S GRANDAUGHTER), AGE 6, A PASSIONATE THIRD GENERATION RECREATIONAL FISHER

New Zealand has a strong connection with the ocean. The seas around our islands provide us with riches, as recreational fisher, tourist or commercial fisherman. We often take these for granted, not realising that this immense buffer between us and the rest of the world contains a truly unique diversity of marine life and so many more opportunities yet to be discovered.

We, as New Zealanders, want our grandchildren to enjoy the same affinity and value for the sea. It is our obligation to ensure that. At Sanford we believe that we can make a difference now AND into the future. We have embarked on this journey with care, passion and integrity.

We need to move beyond blaming the past for where we are and take responsibility to do the right thing now.

We continue creating sustainable wealth by being even more innovative with our natural resources, in how we work with our customers and in the way we work together.

We are ready to shape the future of this beautiful environment with all the support we can get.
The path ahead is challenging, but ultimately rewarding.
Become part of our exciting ambition!

Volker Kuntzsch
CEO, SANFORD LIMITED

ABOUT THIS REPORT

Welcome to Sanford's 2017 Annual Report – **THE POWER OF AND.**

Here we report on progress towards delivering on our vision – to be the Best Seafood Company in the World, our journey AND our 2025 aspirations to deliver on that vision.

Sanford is committed to profit AND sustainability, returns AND reductions, shareholders AND representatives of future generations. We are constantly looking for ways of working with our stakeholders to create enduring value, while continuing our journey to deliver on our vision.

THE POWER OF AND is the notion that with careful planning, commercial growth and sustainable decision-making are not mutually exclusive. This year, you will see within the Report a deepened commitment to our relationship with stakeholders, our understanding and reporting of material issues, and a clear focus on how we have performed, and our plans for the future.

Full and transparent reporting lifts our performance and with the best available international frameworks, we strive to set a high standard both across and beyond Sanford.

This Report is our authentic report to you, our stakeholders, on how we are delivering on our vision, what we have achieved this year, AND our plans for the future. We always strive to do what's right, but sometimes we need to do better still.

Our intention is that this Report shows THE POWER OF AND; how this drives our decision-making in a balanced and considered way, to deliver outcomes that ensure we will continue to add value now AND into the future.

Sanford & Our Operations	04	Corporate Governance	104
Reporting What Matters	16	Financial Statements	113
Reporting Outcomes & Material Issues	26	Appendices	157

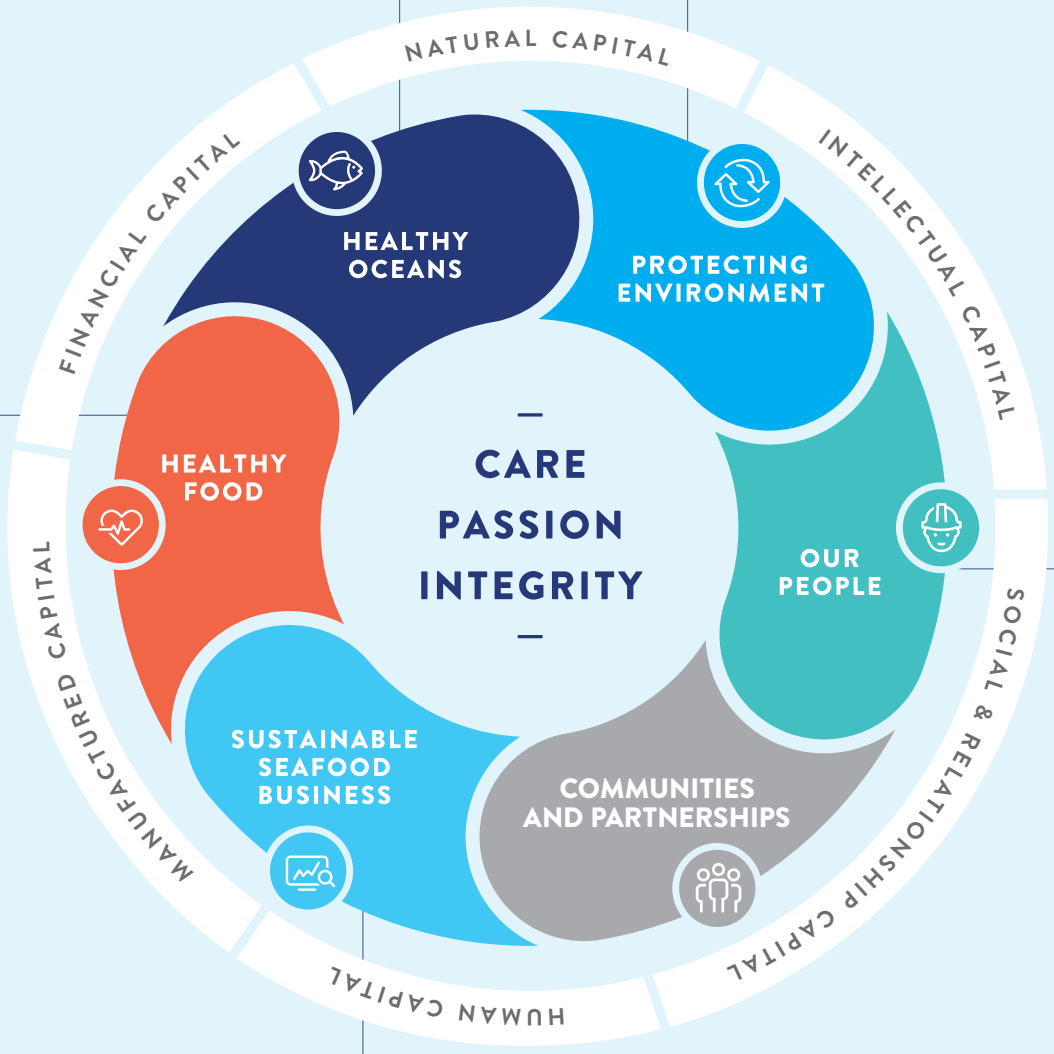
Achieving Sustainability: Our Performance Outcomes

LEADING THE WAY TO HEALTHY FOOD

P. 60
Food safety and quality

P. 62
Drive value through brand creation

P. 65
Supply chain



ENSURING HEALTHY OCEANS

P. 74 Sustainable fish stocks and marine farms

P. 77 Marine conservation

P. 79 Endangered, threatened and protected species

PROTECTING AND ENHANCING THE ENVIRONMENT

P. 99 Environmental effects

P. 100 Resource utilisation and efficiency

P. 101 Carbon reduction and offsetting

ENABLING ZERO HARM AND GREAT PROSPECTS FOR OUR PEOPLE

P. 46 Health, safety and wellbeing

P. 49 Developing our people

P. 53 Strengthening our workplace culture

BUILDING A SUSTAINABLE SEAFOOD BUSINESS

P. 30 Shareholder value and risk

P. 35 Governance and communication

P. 37 Innovation and technology

SUPPORTING ENDURING COMMUNITIES AND PARTNERSHIPS

P. 87 Engagement and employment

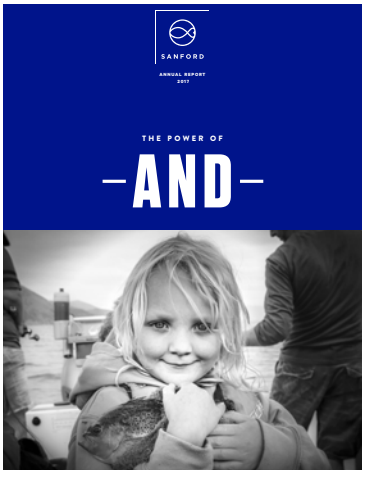
P. 90 Strategic partnerships and collaboration

REPORT STRUCTURE

This Report is our value creation story. It presents our strategy and business model for the year ended 30 September 2017, how we performed, the value we created and our plans for the future. The Report focuses on what matters most to our stakeholders and our business, namely the material issues, in the short, medium and long term.

To provide a business context, we start by outlining our global presence – the many places where we operate. We then set out our business model, illustrating the processes by which we create value.

The Chairman and CEO Review, '***Delivering on our vision***' highlights our performance in 2017, our challenges and our future focus, on pages 10-13. In ***Reporting what matters***, on pages 16-21, we set the scene for the diverse range of stakeholders we touch and how we engage on what matters most to them, as identified through our enhanced materiality and enterprise risk processes.



Our strategy to deliver value to our stakeholders is based on four business focus areas: Value, Brand, Quality and Innovation. This year, we have continued to use these focus areas to inform our Business Excellence Framework, which is made up of six outcomes. These are the basis of our Sustainability Policy (www.sanford.co.nz/sustainability), and the six performance chapters presented in this Report:

- Sustainable seafood business
- Our people
- Healthy food
- Healthy oceans
- Communities and partnerships
- Protecting the environment

Each of these chapters starts with the global context, showing how we contribute towards achieving the United Nations Sustainable Development Goals (SDGs). The related material issues AND value creation are then presented, focusing on what matters most to our stakeholders and the business over the short, medium and long term, alongside progress against our 2017 targets. Case studies and achievements bring our reported data to life, describing our challenges and achievements. Each chapter concludes with a 'Future Focus' setting out our targets for 2018 and beyond, moving us towards our 2025 aspirations and ultimately our vision.

Our key performance indicators are documented from page 158, and our financial statements from page 113.

OUR BUSINESS EXCELLENCE FRAMEWORK

Our Business Excellence Framework enables us to take a holistic and longer term view that will position us to deliver on our vision to become the Best Seafood Company in the World. It provides a structured and considered approach to enable integrated value creation across our business.

The strength of this approach lies in its ability to align our operational processes with our long term vision. The framework enables each part of our business to roadmap the process and outcomes to achieve our vision, by setting measurable targets towards achieving each goal in each performance outcome area, as this Report demonstrates.

Building a sustainable seafood business

We will deliver sustainable, profitable and socially beneficial outcomes through our sector leadership and role in creating a more innovative and sustainable business and effective risk management strategies.

Enabling zero harm and great prospects for our people

We will maximise the prospects of our people by making 'Zero Harm' a key priority, offering meaningful opportunities for continual learning and development, and living our values to ensure we become an employer of choice.

Leading the way to healthy food

We will lead the way in driving sustainable performance across our value chain, and positioning our brand as the industry partner and supplier of choice.

Ensuring healthy oceans

We will lead by example in healthy ocean management, so that future generations can enjoy and benefit from our biologically diverse, safe, healthy and dynamic oceans.

Supporting enduring communities and partnerships

Our leadership in creating employment and skills opportunities, coupled with our understanding of the needs of our communities and partners, ensure we deliver a significant and positive contribution everywhere we work.

Protecting and enhancing the environment

We will work with our people, customers and suppliers to lead the way in maximising resource utilisation, minimising our footprint and protecting the environment wherever we operate.

UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS (SDGS)

Last year we identified the eight SDGs to which we can contribute the most, and on which we have the most impact, and aligned these with the six performance outcomes of our Business Excellence Framework.

In 2017, Sanford has taken a step forward in deepening our understanding of opportunities the SDG framework provides to create value for Sanford and our stakeholders, whilst contributing towards achieving these global goals. We completed an impact review of our value chain and used this to assess the completeness of our material issues and strategies identified. In reviewing the SDGs with reference to international guidance[1], we have identified some areas of stretch that we have incorporated into the 'Future Focus' for each performance outcome, as reported here. This provides a sense of our future direction, including how we will deliver on outcomes that will bring us closer to our vision to become the Best Seafood Company in the World.

1. GRI and UN Global Compact 2017, *Business Reporting on the SDGs – An Analysis of the Goals and Targets*.

VALUE CREATION: THE SIX CAPITALS

This year we continued to explore in more detail the value we derive from the six capitals, as set out in our Business Model '***How we create value***'. Value creation in any one performance outcome, as set out in our Business Excellence Framework, will typically create value across more than one of the six capitals. As this Report goes on to show, Sanford has increased its financial, manufactured and intellectual capital over the last year, with increased revenue, the acquisition of a new business, upgraded vessels, investment in aquaculture and land-based technologies and considerable innovation. In the process, we have built our social and relationship capital as we build our communications and work more closely with our stakeholders and the communities where we operate. We have also seen a significant gain on our invaluable human capital – the individual people who make Sanford what it is, both through the introduction of new talent and ongoing development of our people. Finally, we aim to make sure that everything we achieve will make a contribution to growing the natural capital that supports our business, as well as many others, for the long haul.

REPORTING FRAMEWORKS

This Report has been developed in accordance with the International Integrated Reporting Council (IIRC) Integrated Reporting <IR> Framework. The new Global Reporting Initiative (GRI) Standard 2016 was applied to a core level of compliance, providing a picture of how we have created value. The GRI index is provided in ***Appendix E***. For the first time we have been informed by the AA1000 Stakeholder Engagement Standard (AA1000SES) 2015, which has supported us in our commitment to deepen relationships with stakeholders.

Unless otherwise indicated, the Report covers performance from all operations, including North Island Mussels Ltd and Weihai Dong Won Food Company, operations in which Sanford has a 50% interest.

Any changes or restatements of previously reported figures are identified throughout the Report. Unless otherwise stated, financial data is presented in New Zealand dollars.

At the request of the Chief Executive Officer and the Board, we engaged KPMG to provide independent assurance of this Report. For details of the combined independent auditor's and assurance report, covering statutory financial and selected non-financial information, refer to page 151. Our Report is also available online at www.sanford.co.nz/investors.

We encourage you to provide us with feedback about how we can improve this Report to further meet your needs; and you can contact our GM Sustainability at: sustainability@sanford.co.nz.

This Report was authored and produced by Sanford's management team and has been reviewed by our executive team. The final Report has been signed off by Volker Kuntzsch, our Chief Executive Officer and the Board, as a true and accurate picture of our value creation during the year.

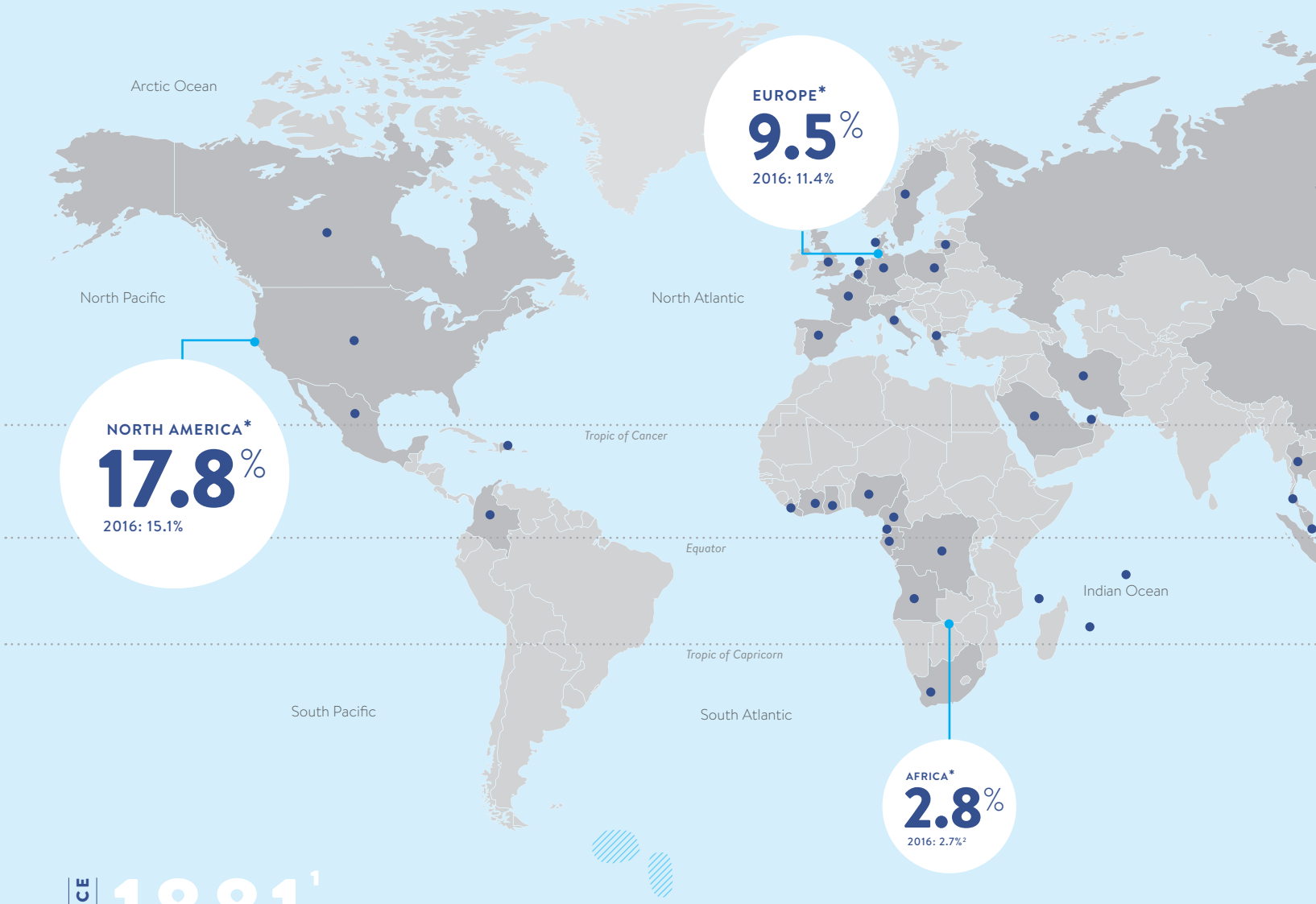
The Directors are pleased to present the integrated Annual Report of Sanford Limited for the year ended 30 September 2017.

For and on behalf of the Board of Directors:

P G Norling CHAIRMAN
15 November 2017

E M Coutts DIRECTOR
15 November 2017

– A GLOBAL PRESENCE –



SINCE 1881[1]

Steeped in history dating back to 1881, Sanford is proud of its roots and the growth achieved in its more than 130 years as a seafood company delivering a diverse range of quality products to our discerning customers nationally and globally. Sanford's vision is to be the "Best Seafood Company in the World"; a vision supported by its dedicated team of 1,717 staff, all of whom share the company's core values of Care, Passion and Integrity.

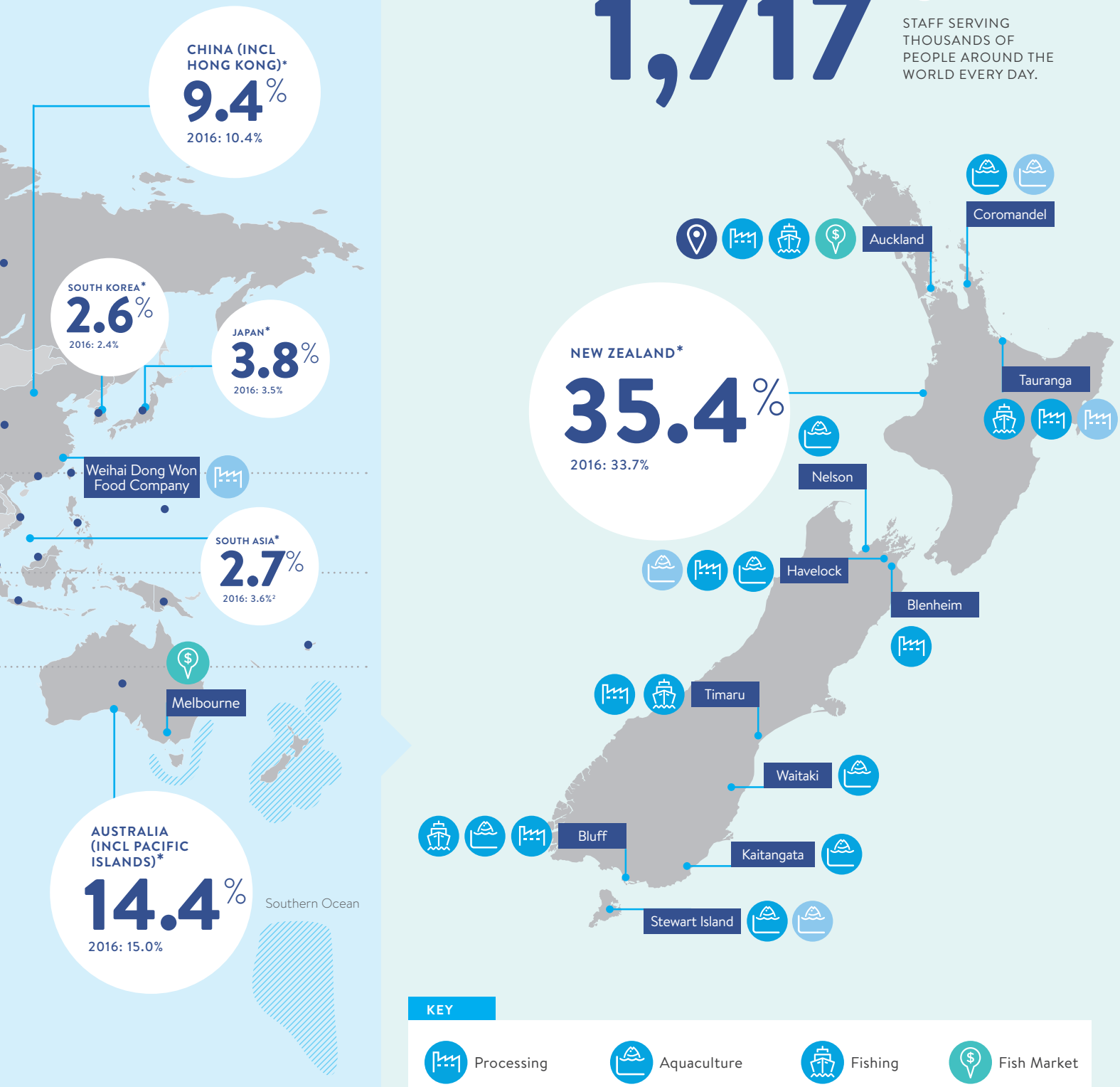
Sanford's 23% ownership of New Zealand's quota, 211 aquaculture farms and 49 vessels positions the company as New Zealand's largest integrated fishing and aquaculture business.

The company's geographical operational spread spans New Zealand from Stewart Island to Auckland, with our international operations including Melbourne, Australia and Weihai, China.

In 2017, Sanford shipped 3,498 containers of its products globally, reaching every continent in the world.

1,717

STAFF SERVING THOUSANDS OF PEOPLE AROUND THE WORLD EVERY DAY.



KEY

- Processing
- Aquaculture
- Fishing
- Fish Market
- Processing Joint Arrangements
- Aquaculture Joint Arrangements
- Head Office
- Fishing area
- Top 50 Export Countries

* Percentage of continuing operations revenue from top nine geographical locations at point of sale

1 Date of acquisition of first Sanford business premises on Federal Street; Sanford was formed into a limited liability company in 1904.

2 The 2016 figures are restated due to recalculating the geographic split.

— HOW WE CREATE VALUE —

INPUTS

FINANCIAL CAPITAL

Pool of necessary funds (equity, debt and grants) provided by banks, shareholders and bond holders, or generated through operations or investments

HUMAN CAPITAL

Competencies, capabilities and experience of our employees, our key asset, and the capacity to add value through human capital development

MANUFACTURED CAPITAL

Tangible, production-orientated goods and infrastructure owned, leased or controlled by Sanford that contributes to the delivery of our products and services

INTELLECTUAL CAPITAL

Intellectual property, brand and reputation, a key element of our future earning potential and competitive advantage

NATURAL CAPITAL

Stock of natural resources or environmental assets (water, atmosphere, land, materials, biodiversity and ecosystem health) that are fundamental to our future prosperity

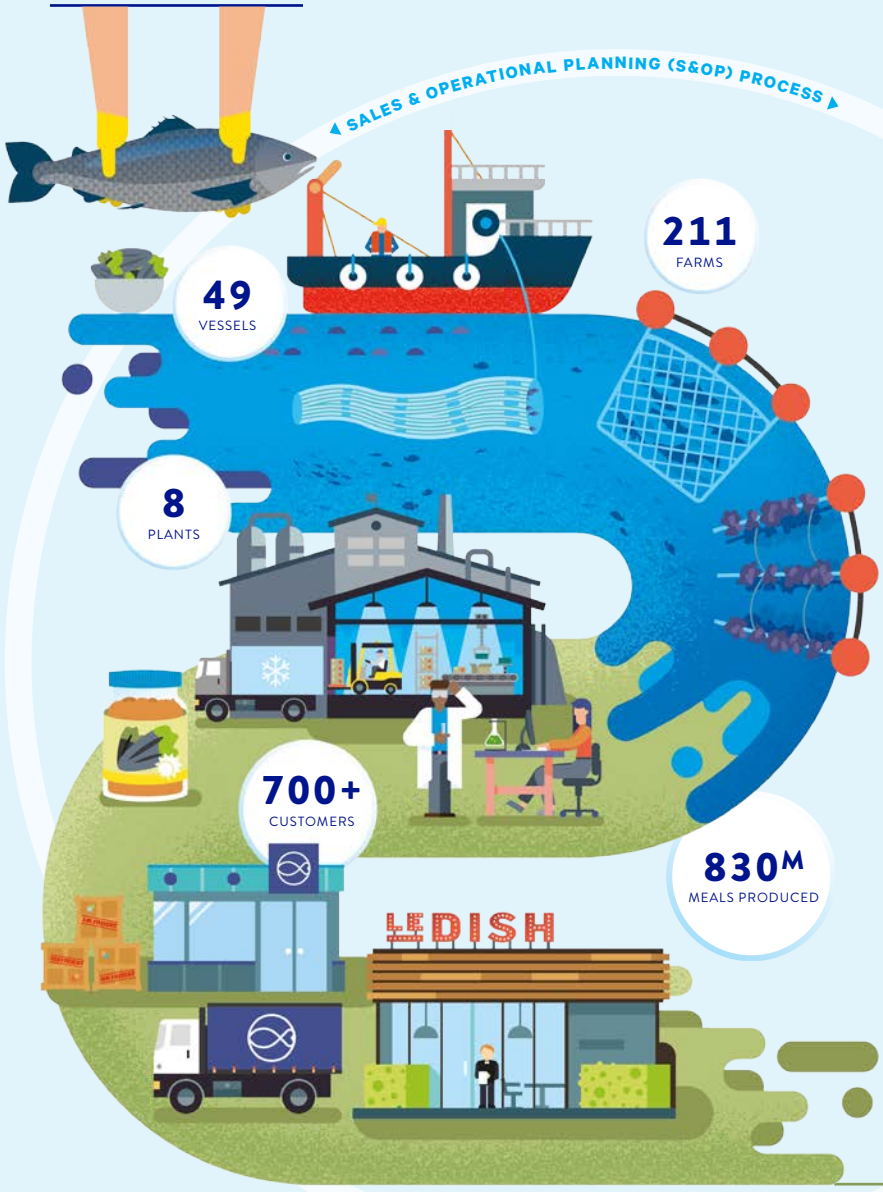
SOCIAL & RELATIONSHIP CAPITAL

Relationships within Sanford, and between Sanford and its external stakeholders, which are essential to retaining our social licence to operate including relationships to maintain quotas and licences

OUR BUSINESS

VALUE CREATION PROCESS OVER TIME

Our value creation process is impacted by the external environment in which we operate, which includes economic conditions, technological change, societal change and environmental conditions



OUR FOCUS AREAS

OPTIMISE **VALUE** FROM EVERY RAW MATERIAL

ENHANCED **BRAND** THROUGH LIVING OUR VALUES

CONSISTENT **QUALITY** SEAFOOD

CULTURE OF **INNOVATION** AND CUSTOMER SERVICE

OUR VALUES

CARE PASSION INTEGRITY

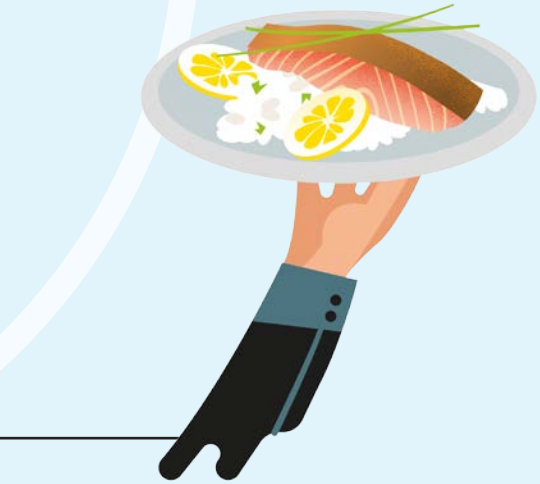
OUTPUT

SANFORD

BEAUTIFUL NEW ZEALAND SEAFOOD

$477.9M

REVENUE IN 2017



OUTCOMES

BUILDING A SUSTAINABLE SEAFOOD BUSINESS

We will deliver sustainable, profitable and socially beneficial outcomes through our sector leadership and role in creating a more innovative and sustainable business and effective risk management strategies

UN SDG

AND

ENABLING ZERO HARM AND GREAT PROSPECTS FOR OUR PEOPLE

We will maximise the prospects of our people by making 'Zero Harm' a key priority, offering meaningful opportunities for continual learning and development, and living our values to ensure we become an employer of choice

AND

LEADING THE WAY TO HEALTHY FOOD

We will lead the way in driving sustainable performance across our value chain, and positioning our brand as the industry partner and supplier of choice

AND

ENSURING HEALTHY OCEANS

We will lead by example in healthy ocean management, so that future generations can enjoy and benefit from our biologically diverse, safe, healthy and dynamic oceans

AND

SUPPORTING ENDURING COMMUNITIES AND PARTNERSHIPS

Our leadership in creating employment and skills opportunities, coupled with our understanding of the needs of our communities and partners, ensure we deliver a significant and positive contribution everywhere we work

AND

PROTECTING AND ENHANCING THE ENVIRONMENT

We will work with our people, customers and suppliers to lead the way in maximising resource utilisation, minimising our footprint and protecting the environment wherever we operate

OUR VISION

THE BEST SEAFOOD COMPANY IN THE WORLD

DELIVERING ON OUR VISION

Paul Norling
CHAIRMAN

Volker Kuntzsch
CHIEF EXECUTIVE OFFICER

We are very satisfied with the progress we are making at Sanford in implementing our strategy of enhancing the value of New Zealand's beautiful seafood. In the context of our great ambition to be the world's best seafood company we are building a strong platform for future growth and are taking the company through some significant changes. These changes are substantial and require great organisational preparation and capability.

We are therefore pleased to report that we were able to continue solidifying our financial result. After a gratifying result in 2016 we have increased the level of Profit After Tax by 8% to $37.5m for 2017 (2016: $34.7m) at constant volume. Adjusted earnings before interest and tax (EBIT) is $63.7m for the 2017 year (2016: $63.4m), this is before impairments, and one-off cost of $3.0m, which, pleasingly, is well below last year's $5.6m. This EBIT performance was maintained relative to sales growth of 3%, the result being partly impacted by a bedding in process for our new deepwater vessel *San Granit*.

Cash flows from operations grew 46.3% over the prior year due to higher revenues and improved collection timeframes.

VOLUME AND VALUE

The increase in sales revenue is primarily due to improved pricing in our king salmon farming business and higher catch volumes in our fishing business. The commissioning of our latest vessel, *San Granit*, and the contribution from charter vessels supported most of the volume increase over the prior year.

San Granit presented us with a number of challenges during her initial voyages for Sanford and her performance was unsatisfactory for several months. Management and her crew have worked hard to overcome these commissioning issues and we are pleased that her latest trips have finally given us good insight into her true capabilities in the Southern Ocean. The next year should bring more predictable production and value creation from this significant investment.

Our scampi trawlers and longliners did an excellent job in delivering high value product, while our deepwater factory vessels performed well until they were challenged with an unexpectedly short hoki season toward the end of the reporting period. Hoki is the largest single species in our quota holding and shortfalls in catches of this species have a significant impact on both frozen and fresh fish production. While New Zealand has an excellent track record in managing its fisheries in a sustainable manner and successful reproduction across year classes naturally varies, we believe that a prudent approach in circumstances like these is appropriate

when setting total allowable catches (TAC) for the next season. Stability in setting the TAC may therefore be the most appropriate approach at this time.

As we are aiming to increase the value for every kilogram of fish we catch, we are moving towards fresh fish of the highest quality wherever this is practicable. Our inshore fleet faced a number of challenges this year, ranging from a series of poor weather events earlier in the year to extended vessel survey and maintenance work. Nevertheless, inshore catch volumes supplied by our own and the private vessels we work with exceeded last year's volumes. Pelagic catches however, such as mackerels and tuna, fell well short of expectations. This was because of a poor showing of skipjack tuna in New Zealand waters last summer and decisions taken not to harvest jack mackerel when it was available due to uneconomic market prices and demand. As a result of supply challenges the share of our wildcatch volume sold as fresh fish reduced slightly this year.

The focus on increasing the share of fresh fish in our wild-caught supply will continue, but the majority of our product will naturally stay within the frozen portfolio. These species are often caught far offshore or in such amounts that a market would be oversupplied if we were to sell all catches as they were landed. Ongoing feedback from customers allowed us to optimise our frozen product portfolio for them, thereby reducing the dependency on undifferentiated commodity items like fish fillet blocks, which are easily replaceable from competitive whitefish species originating in other fishing regions. It is also noteworthy that product that has been frozen at sea has an inherently premium quality, permitting immediate utilisation without further processing elsewhere and thus avoiding the manufacture of twice frozen product, i.e. thawing a raw material for further processing into frozen fillets or portions.

Our aquaculture business provided good reason to be satisfied: although our Greenshell™ mussel operation was impacted by the Kaikoura earthquake in November 2016 and had to shut down for repairs for two weeks. The team in Havelock delivered an outstanding performance and more than made up for the interruption over the course of the year. Supply disruptions were avoided through our supply chain management team, which demonstrated their growing capability by implementing appropriate measures in a timely manner.

The exact extent of the damage to the Havelock site and the impact of remedial work on production in FY18 is yet to be quantified, but it is expected that the Group has sufficient insurance to cover any remediation expenditure.

Our teams on Sanford's King salmon farm in Stewart Island and the processing plant in Bluff provided excellent quality fish as well as improved productivity and yield. As the total output is restricted to the water space we currently farm, all focus is on operational excellence on the farm, reducing fish mortalities to a minimum and improving the feed conversion ratio through targeted feeding. In contrast to other salmon growing countries, our farm does not use antibiotics. It delivers the best fish and highest value product, fresh or frozen, thus creating the basis for improved returns through branding. This enabled improved returns, while volumes were down almost 5% year-on-year, following increased harvesting to satisfy demand towards the end of the last financial year.

Our share of frozen salmon production increased this year as the ongoing emphasis on value by our sales team identified demand in Asia for this product, making frozen King salmon a better returning option for a share of our volume. The frozen product does allow us improved market diversification.

Following a strategic review and the development of a more focused channel and customer strategy for our key markets by our sales team, Sanford's strong performance in the China market continued with revenue lifting. This was driven by the growth of fresh King salmon and strong pricing on high end species like toothfish and scampi.

QUALITY AND PROVENANCE

The additions we are making to our fleet and the changes to our product portfolio to add greater value through better utilisation are an example of "the power of AND" that lies behind the theme of this year's Annual Report.

This approach is also visible in our salmon business, which delivered outstanding results through greater diversification in our product portfolio and associated customer base, leading to improved pricing cascades. However, the most significant step undertaken this year was the launch of a new brand, *Big Glory Bay*, which highlights the beautiful Stewart Island provenance of our King salmon and a limited volume of our Greenshell™ mussels.

We are very excited to see *Big Glory Bay* on the menu of some high end New Zealand restaurants already and are currently working on international opportunities in this regard as well. The launch of this brand is strongly aligned with our strategy of value creation through branding and innovation.

INNOVATION AND GROWTH

Our recent acquisition of Blenheim based company Enzaq is an example of how we seek to add value through innovation in our Greenshell™ mussel business. As we own water space that has considerable potential for volume growth, we seek to widen the value opportunities in our substantial mussel business. Enzaq turns mussels into powder, which has highly beneficial anti-inflammatory properties with respect to joint health in humans and animals. While the current output of this strategic investment is rather small, plans are already underway to increase production in the near future in line with customer demand.

Another important innovation milestone for Sanford has been the excellent results delivered by SPAT$_{NZ}$, the Nelson based Greenshell™ mussel hatchery, where the team are investigating improving reliability of supply and the quality of the spat from which we grow our Greenshell™ mussels. The significant milestone for the SPAT$_{NZ}$ team this year has been the first harvest of hatchery reared mussels subsequently seeded onto farms in the Marlborough Sounds. These mussels are growing faster and more evenly than those from wild caught spat. Full results of the growth rate studies will be released in 2018. The work of the hatchery is the result of a seven year Primary Growth Partnership between the New Zealand Government via the Ministry for Primary Industries (MPI) and Sanford and our mussel growers. We are delighted with progress so far and congratulate the entire team on their

success at the New Zealand Innovation Awards, where they took home the award for Innovation in Agribusiness and Environment 2017.

Trials with Precision Seafood Harvesting (PSH) technology continue as part of another Primary Growth Partnership Sanford is involved with. This fishing gear enables greater quality fish while benefitting the sustainability of the fish through improved selectivity and survival of fish returned to the sea. The trials are ongoing to verify the benefit in shallow and deep water, on different species and with a variety of vessels. We strongly believe that the implementation of PSH can be a game changer for fishing around the world and are proud to be at the forefront of this development.

Increasing emphasis is being placed on utilising our natural resources for more than just raw material in the traditional sense. Our innovation department aims to identify better opportunities for parts of the fish that are regarded as by-products and generally end up as fishmeal and fish oil. While these are valuable products, the benefits of particular parts of our fish are often yet to be discovered. We are currently working with a company producing collagen for cosmetic purposes from hoki skins and look forward to further innovation in this regard.

Concurrently with the necessary earthquake strengthening to Sanford's Jellicoe Street head office building in Auckland, we took the opportunity to renovate the office space during the course of the year. Following this, an upgrade to our Auckland Fish Market is now underway, and is expected to deliver an attractive destination for customers to experience Sanford's beautiful seafood in a transparent and highly complementary manner by the end of FY18.

CARING FOR OUR PEOPLE

We are not satisfied with key performance indicators around the safety of our people this year. We had 55 Lost Time Injuries (LTIs) during this financial year (compared to 53 in 2016), 10 of which were notifiable (serious harm) injuries, against 6 notifiable injuries in the prior year. We have placed a lot of emphasis on improving our performance in this area through the implementation of systems and processes, risk identification, raising awareness and addressing health and safety in all relevant meetings and team talks. However, it has become apparent that we need to move beyond systems and processes to a stronger people focus in order to change attitudes towards this important part of all of our lives. As a result, the health and safety function now reports to our Chief People Officer to address this challenge.

Karen Duffy joined as our new Chief People Officer in February this year and introduced a strong focus on culture and capability, transforming the business through leadership training, front line staff training and dedicated implementation by all staff of the company's values of care, passion and integrity. Our intention is that we become an employer of choice and this transformation is an essential part of bringing us closer to achieving our vision of becoming the best seafood company in the world. A continuing focus on operational efficiency improvements will provide meaningful productivity gains to balance a more advanced approach to fair remuneration, particularly with our employees on lower pay rates.

INDUSTRY AND SUSTAINABILITY

We have continued investing into organisational capability and functions aligned with our strategic objectives. Enhancing value through branding includes a focus on the Sanford corporate brand through pro-active reputation management, and we have therefore decided to appoint a GM Corporate Communications. This role has focused on further developing our relationships with key stakeholders in the many communities Sanford is part of, and on sharing the positive stories that have long been part of our daily lives here at Sanford, some of which you can find in the pages of this Report.

We have also enlarged our capabilities in environmental management, business development, IT and innovation. We expect all of these areas to deliver significant benefit to the company in the coming years.

In all our communications, both internal and external, we are committed to great transparency, just as we are in this Annual Report. We were delighted to be the recipient of the Australasian Reporting Award (ARA), Gold Award and Integrated Reporting Category Award; and also proud to have received the Silver Award at the Mercomm Annual Report Competition (ARC), New York, in the 'Integrated AR and CSR' category.

Finally of note in our focus on sustainability is the work we have done with others in the seafood industry and WWF to help preserve New Zealand's highly endangered Māui dolphin. Working with fishing company Moana on the west coast of the North Island, we have agreed on a pro-active stance and put in place a comprehensive plan to transition from current fishing methods, which present a risk to these extremely rare mammals, to enhanced dolphin safe fishing methods. We have had numerous interactions with fishermen since the launch of our protection plan in November 2016, introduced an app to track fishing trips for the smallest vessels supplying our auction and have presented ideas to MPI to support the transitioning of fishermen from set netting to other methods.

We welcome the recent announcement of our newly established Minister of Fisheries that the implementation of Integrated Electronic Monitoring and Reporting Systems (IEMRS) on fishing vessels will be delayed. While we support improved tracking, data collection and transparency around our operations at sea and have installed cameras on many of our vessels, we believe that a more considered approach as to technical capabilities, the appropriateness of systems on differently sized vessels and acknowledging already established technology will favour more effective implementation of IEMRS in the long run.

CHALLENGES AND OPPORTUNITIES

Our farmed Bluff oysters business was unsuccessful as the oysters had to be removed when MPI acted to extract all farmed oysters in the area, following the infection by *Bonamia ostreae*. *Bonamia ostreae* is a parasite which is not harmful in any way to humans, but can be devastating to infected oysters and the removal measures were quickly complied with by Sanford and our farming partners in order to protect the natural Bluff oyster beds in the region. Compensation for the removal by MPI is yet to be decided.

Progress towards our goal of an EBIT of $1/kg of seafood we catch or harvest is a function of differentiating our product portfolio through branding and innovation and the degree of commodity product remaining in our portfolio. The quest to change that balance towards differentiation is an exciting one. The variety of species in our marine environment, the efforts undertaken to ensure their sustainability and the benefits our resources have to offer beyond their current utilisation readily enables this shift. In addition, New Zealand seafood will benefit from the great attributes the New Zealand brand has to offer. As growing middle classes in countries on our doorstep and ageing populations in developed countries point to more seafood consumption per capita we are poised to build a targeted offering for their future needs.

We are acutely aware of the risks the future may hold including the possibility of geopolitical shifts that can impact key markets for us and the risks presented by climate change. We never take these for granted but our diverse product portfolio and our geographically diverse business imbue us with a resilience others lack. That diversity has been a great strength in the past and we believe it will continue to be so. In addition to constructively reducing our environmental footprint and utilising our mussel hatchery to ensure future resilience of Greenshell™ mussels to ocean acidification from climate change, we are also engaged in national and international fora to create greater awareness and determined action to the challenges presented by climate change and plastic pollution of the oceans. While New Zealand appears to be remote and pristine, more needs to be done to ensure a prosperous future of the New Zealand brand. The need to ensure resilience through improved environmental management 'from the mountain to the sea' to protect the sustainability of our marine ecosystem through a coherent approach has to support an improved understanding of all stakeholders of their pro-active responsibility in this regard.

DIVIDENDS

While we are mindful of the dividend history over recent years, acknowledging that also at our 2016 AGM, the company has heavy investment needs as we continue the transition journey from a commodity fishing company to a value focused domestic and global seafood supplier. These investment needs have slightly delayed the achievement of our DEBT/EBITDA ratio target. Accordingly your Board has determined that the dividend should remain unchanged at 23 cents per share for this year. The final dividend of 14 cents per share will be payable on 8th December 2017.

ACKNOWLEDGEMENTS

Much has been asked of Sanford's people in the 2016/17 year. They have been called on to continue to make organisational and cultural change, all while working hard to deliver great seafood to our customers every day. There have been significant challenges such as the *Bonamia ostreae* outbreak and the bedding-in process for *San Granit* mentioned above, and every day we see people across our business rising to those challenges - embracing the idea of doing more with what we have and adding more capability and depth, appreciating "the power of AND".

We will continue to evolve our culture at Sanford to make us an attractive employer, a reliable partner in achieving compelling visions and a great investment for our shareholders. We thank all our staff, sharefishers, contractors, customers, suppliers and stakeholders for their continued support as we transition our company into one focused firmly on sustainable wealth creation and doing the best for our people in the years to come.

THE BOARD AND CHAIRMAN'S ACKNOWLEDGEMENTS

The 2017 year has been a busy one for your Board as the company continues its transformational journey. In this regard the expanded Board Committee structure has served the Board and the company very well and has resulted in a higher level of efficiency and effectiveness with this increased level of activity.

I would like to thank my Board colleagues for their dedication and oversight of the many matters requiring their attention throughout the financial year.

It is with regret, however, that we have just recently (and subsequent to the end of the financial year) received from Elizabeth (Liz) Coutts, advice of her wish to retire as a Director of the company immediately following the 2017 Annual Meeting, because of overall work demands.

Liz joined the Board in June 2011 and during her tenure has provided valuable service and advice to the company and her board colleagues both as a Director and as Chair of the Audit and Finance Committee. We thank her for her considerable contribution and wish her well for the future.

I also wish to record my particular appreciation in respect to the efforts, skills and passionate enthusiasm that Volker Kuntzsch, as CEO, and his executive management team, bring to their leadership roles every day throughout the year. Their dedication and the change that they are driving will see a materially different company over time delivering considerably improved returns for our shareholders.

One final, but very special, item that I wish to comment on relates to our Chief Executive. In April of this year, Volker was accorded the very high honour of being named the recipient of the IntraFish 2017 Seafood Person of the Year Award. This is viewed as the most prestigious award in the global seafood industry and it reflects outstandingly well on Volker personally, as well as on our company and, in fact, the entire New Zealand seafood industry. Congratulations Volker.

Paul Norling
CHAIRMAN
15 November 2017

Volker Kuntzsch
CEO
15 November 2017

OUR YEAR IN NUMBERS

VALUE CREATION OUTCOMES	HIGHS	LOWS
Building a sustainable seafood business	**$63.7M** ADJUSTED EBIT $M ▲ 0.6% 2016 $63.4M **$51.7M** NET PROFIT BEFORE TAX $M ▲ 4.5% 2016 $49.4M **$37.5M** NET PROFIT AFTER TAX $M ▲ 7.9% 2016 $34.7M **$477.9M** REVENUE $M ▲ 3.1% 2016 463.5M **$21.0M** DOMESTIC FRESH WILD CAUGHT SEAFOOD SALES ▲ 6% 2016 $19.8M **$50.3M** OPERATING CASHFLOW $M ▲ 46.3% 2016 $34.4M **First** SPATNZ HATCHERY ACHIEVED FIRST FULL SCALE HARVEST, PRODUCED 3,732 MILLION READY TO SETTLE LARVAE **Innovation** PURCHASE OF ENZAQ, ADDED 1,059MT OF RAW MATERIAL PROCESSING CAPACITY; PLATFORM TO LAUNCH OUR NUTRACEUTICAL BUSINESS	**$3.0M** IMPAIRMENTS, ONE-OFF VESSEL DISPOSAL COSTS AND ONE-OFF RESTRUCTURING COST 2016 $5.6M **$4.0M** COST TO BUSINESS DUE TO FACTORY VESSEL COMMISSIONING OF *SAN GRANIT* **Softer** FROZEN MUSSEL PRICES EARLY IN THE YEAR DRIVEN BY COMPETITIVE PRESSURES AND A REDUCTION IN DEMAND FOR FROZEN MEAT **$2.1M** IMPACT TO BUSINESS DUE TO SHORTER THAN EXPECTED CATCH SEASON FOR HOKI **10 Vessels** WERE IN DRY DOCK FOR MAJOR SURVEY, IMPACTING ON CATCH CAPACITY (4 DEEPWATER AND 6 INSHORE). THIS WAS MITIGATED BY INCREASING 3RD PARTY CONTRACT CATCH AND INCREASING CATCH ON OTHER SANFORD VESSELS DURING SURVEY PERIODS
Enabling zero harm and great prospects for our people	**134** ACC CLAIMS ▼ 4.5% 2016 141 **1,032** TOTAL INJURIES ▼ 21% 2016 1,300 **324** NEAR MISS REPORTING ▲ 12% 2016 289 **693** HEALTH AND SAFETY FOCUSED TRAINING DAYS DELIVERED **1,717** TOTAL WORKFORCE ▲ 11% 2016 1,548 **▲7,484** TOTAL INDUSTRY TRAINING CREDITS ▲ 18% 2016 6,354	**14.67** LTIFR STATIC (BASED ON HOURS WORKED) 2016 14.69 **55** LOST TIME INJURIES ▲ 2% 2016 53 **10** SERIOUS HARM (NOTIFIABLE) INJURIES 2016 6
Leading the way to healthy food	**86%** 'VERY HIGH/HIGH' IMPROVED CUSTOMER PRODUCT QUALITY RATING (18 OUT OF 22 CUSTOMERS) 2016 71% **80%** LAND-BASED SITES CERTIFIED TO FSSC 22000 2016 29% **21,910** POLYSTYRENE BINS REPLACED WITH RECYCLABLE CARDBOARD BOXES **830M** MEALS PRODUCED IN 2017 (BASED ON 100G OF SEAFOOD) 2016 819M **C.20K** PEOPLE ON SOCIAL MEDIA PLATFORMS **Launch** OF BIG GLORY BAY BRAND AND TRACEABILITY SYSTEM	**68%** TARGET FOR NUMBER OF DAYS TO RESOLVE CUSTOMER COMPLAINTS NOT MET (TARGET 80% WITHIN 10 DAYS) 2016 61.2% **Supply** CONTINUITY OF SUPPLY FOR TIAKI IMPACTED UPON FURTHER EXPANSION
Ensuring healthy oceans	**Māui** DOLPHIN PROTECTION PLAN SIGNED BY SANFORD IN DECEMBER 2016 **2** INSHORE VESSELS USING PRECISION SEAFOOD HARVESTING (PSH); TRIALLED IN 2 DEEPWATER VESSELS **46%** SANFORD'S TOTAL 2017 WILDCATCH BY GREENWEIGHT WAS MSC CERTIFIED 2016 37% **Reduce** TARGETED INITIATIVES TO REDUCE PLASTICS UNDERWAY, FROM INNOVATIONS IN AQUACULTURE TO PACKAGING **Protect** PUBLIC PROMISE BY THE NEW ZEALAND SEAFOOD INDUSTRY TO PROTECT THE ENVIRONMENT AND SECURE LONGTERM SUSTAINABLE FISHERIES **Engage** ONGOING ENGAGEMENT THROUGH MULTI-STAKEHOLDER FORUMS	**286** SEABIRDS CAUGHT DEAD (9 MONTHS DATA AVAILABLE AT TIME OF REPORTING) 2016 372 (12 MONTHS) **101** SEABIRDS CAUGHT DEAD IN A SINGLE INCIDENT, INVOLVING CHARTER VESSEL **47** MARINE MAMMALS CAUGHT DEAD (9 MONTHS AVAILABLE AT TIME OF REPORTING) 2016 73 (12 MONTHS)

VALUE CREATION OUTCOMES

Supporting enduring communities and partnerships

HIGHS

$218K+
CONTRIBUTED TO COMMUNITY AND CHARITY PROGRAMMES

9,503
STUDENTS SUPPORTED THROUGH GRAEME DINGLE FOUNDATION PARTNERSHIP
2016 **6,180**

55
SCHOOLS SUPPORTED THROUGH GRAEME DINGLE FOUNDATION
2016 **39**

NCEA
2016 SANFORD ANNUAL REPORT ON THE NCEA NATIONAL CURRICULUM

Support
CONTINUED FORMAL PARTNERSHIPS WITH GRAEME DINGLE FOUNDATION AND PARALYMPICS NZ

LOWS

▼29%
COMMUNITY INVESTMENT LEVELS DOWN BY $89,154 (ALTHOUGH MOSTLY DUE TO TIMING OF PARTNERSHIP PAYMENT SCHEDULES)

Loss
DESTRUCTION OF BIG GLORY BAY FARMED OYSTERS DUE TO THE *BONAMIA OSTREAE* PARASITE

Protecting and enhancing the environment

0.77
T CO_2-E/GWT CARBON INTENSITY
▼ **4.5%**
2016 **0.81**

9.46
MJ/GWKG CORE ENERGY INTENSITY
▼ **12%**
2016 **10.8**

0.344
L/GWKG FUEL INTENSITY
▼ **3%**
2016 **0.344**

$279K+
SAVINGS FROM ENERGY TARIFF IMPROVEMENTS IDENTIFIED THROUGH IMPROVED MONITORING

12,508L
BIODEGRADABLE OIL CONSUMED IN VESSEL OPERATIONS, REPLACING TRADITIONAL OIL VESSEL OPERATIONS (6% TOTAL OIL CONSUMED)
2016 **0L**

25
ENERGY PROJECTS IDENTIFIED THROUGH CONTINUOUS IMPROVEMENT PROCESS

24%
RATE OF WASTE DIVERSION ACHIEVED (AGAINST TARGET OF 30%)

10%
INCREASE IN WATER INTENSITY (TARGET ▼ 2%)

2
NOTIFIABLE SPILLS (THOUGH NO NEGATIVE ENVIRONMENTAL IMPACT)

ACCREDITATIONS

ACHIEVED
SanWell Silver Accreditation at Timaru site and Bronze at Tauranga site for workplace wellbeing

CERTIFIED
46% of Sanford's total wildcatch by greenweight was Marine Stewardship Council Certified

MAINTAINED
Secondary status in ACC Partnership Programme

ACHIEVED AND MAINTAINED
FSSC 22000: Food Safety Management System certification 80% sites

MAINTAINED
ISO14001:2004 Environmental Management System certification

MAINTAINED
Best Aquaculture Practices (BAP) certification of Big Glory Bay King salmon & Greenshell™ mussels (21 farms)

CERTIFIED
Certified Organic, Big Glory Bay Greenshell™ mussel farms

CERTIFIED
Marine Farm Association (MFA) Environmental Certification Marlborough mussel farms

AWARDS

CAWTHRON MARLBOROUGH ENVIRONMENTAL AWARD
Marine Category, March 2017, awarded to Sanford's Havelock mussel farming team

INTRAFISH MEDIA PERSON OF THE YEAR
April 2017, awarded to Sanford CEO Volker Kuntzsch

NEW ZEALAND INNOVATION AWARDS
Innovation in Agribusiness & Environment Award, October 2017, awarded to SPATNZ

IN THE AUSTRALASIAN REPORTING AWARDS (ARA)
Sanford achieved the following for our 2016 Report: Gold Award; Winner Integrated Report Award; Finalist Sustainability Reporting Award; Finalist Report of the Year Award

IN THE MERCOMM ANNUAL REPORT COMPETITION (ARC) AWARDS
the 2016 Sanford Annual Report was awarded Silver in the Integrated Report category

NEW ZEALAND SPORT AND RECREATION AWARDS
2017 Commercial Partnerships category winner (supported our Partner Paralympics New Zealand to achieve this win, alongside ACC and Cadbury NZ)

Our material issues

OUR APPROACH

Reporting what matters most to our stakeholders and our business is the basis of this, our fourth Integrated Annual Report. We strive to produce a balanced, accurate and transparent assessment of our strategy, performance and prospects in relation to the financial, environment, social, governance issues and risks that have a material impact on the long term success of Sanford, and are important to our key stakeholders. Our material issues relate to how Sanford creates value for stakeholders, our business and our wider operating environment in the short, medium and long term. These material issues are our priorities and are reflected in the Business Excellence Framework, which provides the basis for this Report, and a foundation for Sanford's strategy.

Our materiality assessment and stakeholder engagement process (the process) was carried out in accordance with the International Integrated Reporting Council (IIRC) <IR> Framework, the Global Reporting Initiative (GRI) Standards and with reference to the AA1000 Stakeholder Engagement Standard (AA1000SES) 2015.

5 STEP PROCESS

This year, we engaged *thinkstep* to deliver an extended and enhanced process, positioning Sanford to more effectively identify, prioritise and respond to material issues, while building deeper, shared understanding between Sanford and its stakeholders over time. Our priorities were to:

- Identify what it means to be the Best Seafood Company in the World from the perspective of our shareholders
- Bring Sanford people on the journey
- Balance the need between deepening stakeholder relationships and impartiality
- Give significant weight to stakeholder views, while also integrating other important sources of information (such as outcomes from our Board Committees).

01 IDENTIFY STAKEHOLDERS

Our stakeholders include a wide range of groups and individuals that are impacted by our activities and contribute to our ability to achieve our strategy over time as set out in ***'Engaging with our stakeholders'***. This year, 37 stakeholders (22 external and 15 internal) were selected and invited to participate in our process. These stakeholders were selected and ranked using best practice criteria from the AA1000 Stakeholder Engagement Standard 2015, including dependency, responsibility, tension, influence and diversity. Several stakeholders were included within the 2016 process, but many are new for 2017. This provided an appropriate balance between consistency and the injection of new perspectives into the process.

02 INTERVIEW STAKEHOLDERS

All 37 stakeholders were interviewed using a semi-structured format based around a set of open-ended questions. The questions were designed to allow the stakeholders' views to be determined on the issues most crucial for Sanford in the short, medium and long term. By not pre-selecting the list of important issues, the 2017 process provided a much richer understanding of the stakeholders' views than previous years. External stakeholders were offered the opportunity to have a Sanford representative present in the interview to help deepen the level of engagement.

03 ASK STAKEHOLDERS TO SCORE EACH ISSUE

A shortlist of 30 issues were prepared from the interview outcomes, and a web-based questionnaire was sent to all stakeholders, allowing them to rank each issue across all that had been raised by all stakeholders. These questionnaire results were used to populate the materiality matrix and radar. The business then reviewed the matrix to validate and ensure the internal business results gave a true and fair view of material issues, and at this time, moderation of several issues occurred.

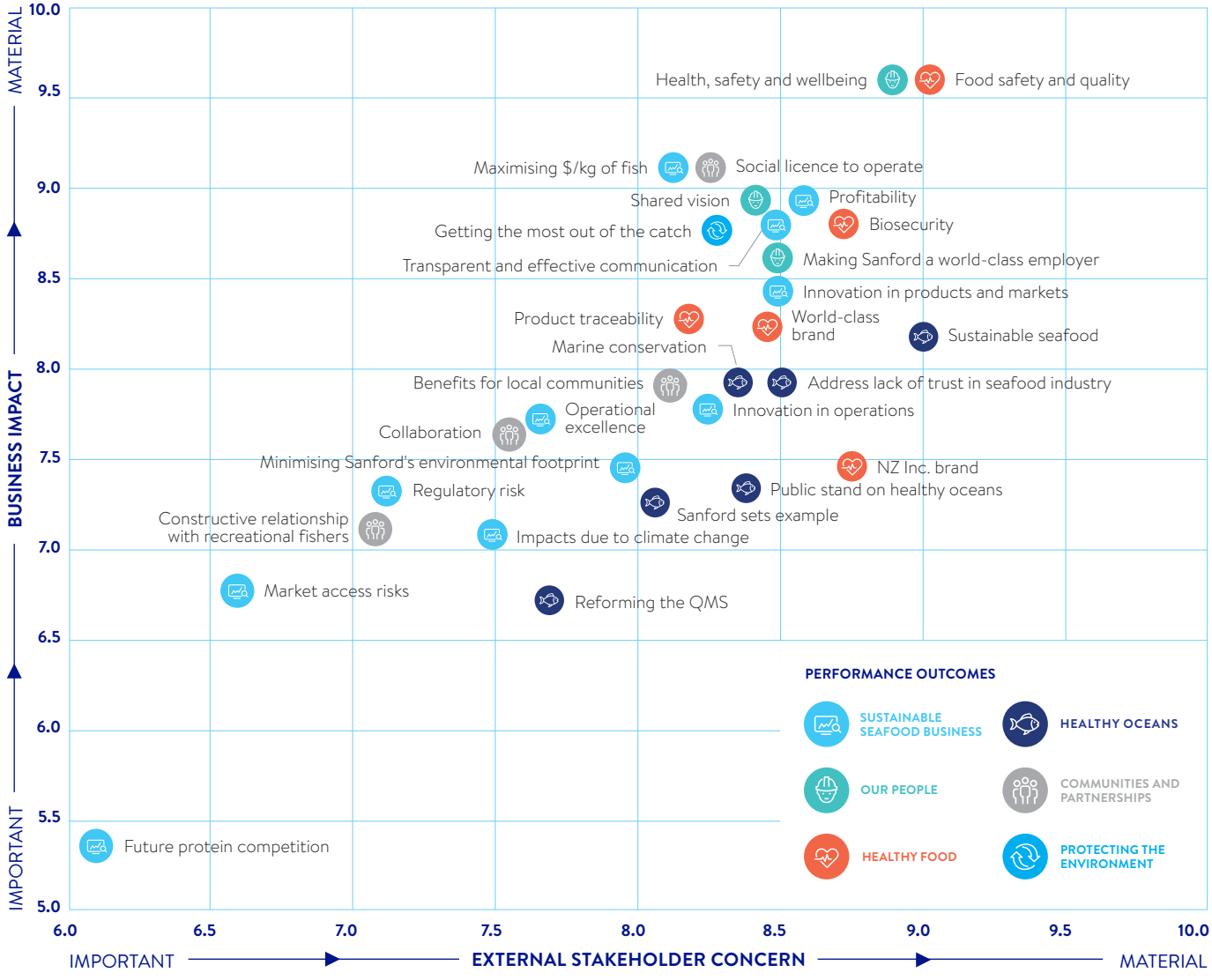
04 PRODUCE A MATERIALITY MATRIX AND RADAR

The results of the questionnaires were then conveyed in a materiality matrix and radar (refer to pages 17 and 18).

05 THROUGHOUT THE PROCESS CONTINUE TO SENSE-CHECK

The issues were reviewed during and at the end of the process. Sources of information to check for completeness included the UN Sustainable Development Goals (SDGs), outputs from the Audit and Risk Committee and global best practice in sustainable seafood and reporting.

Materiality matrix



THE TOP ISSUES

Out of the 30 issues raised by stakeholders, two ranked the highest by both internal and external stakeholders:

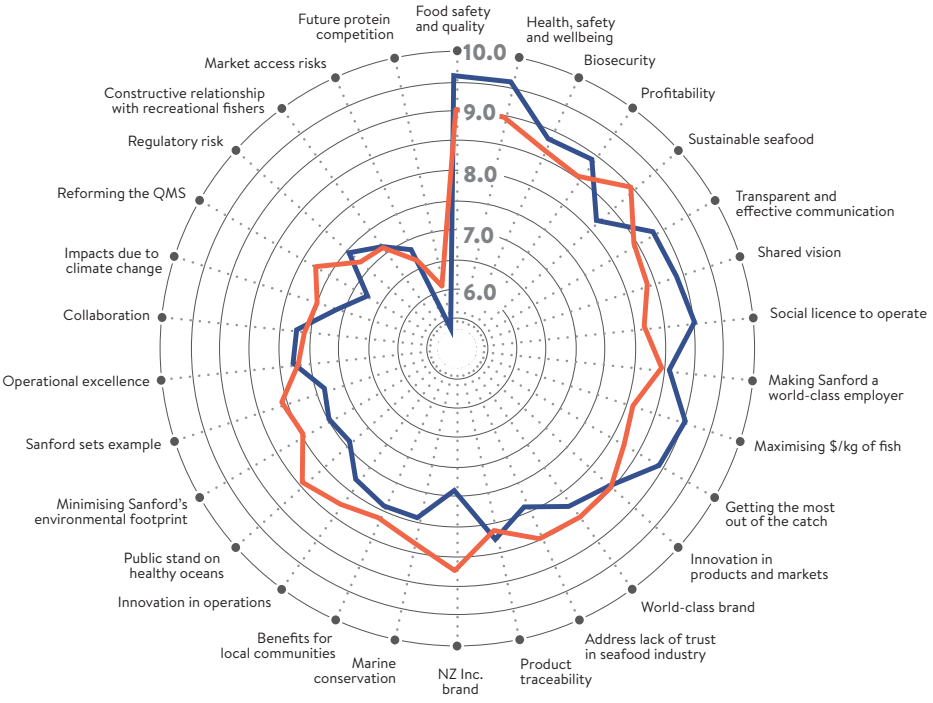
- **HEALTH, SAFETY AND WELLBEING**
- **FOOD SAFETY AND QUALITY**

The next most highly ranked issues across the stakeholder groupings were:

- BIOSECURITY
- PROFITABILITY
- SUSTAINABLE SEAFOOD
- TRANSPARENT AND EFFECTIVE COMMUNICATION
- SHARED VISION
- SOCIAL LICENCE TO OPERATE
- WORLD CLASS EMPLOYER

The focus on these issues in the Report reflects the importance both the business and external stakeholders placed on these issues.

Materiality radar



All issues in the matrix are important to us and our stakeholders. The issues placed in the top right of the matrix are most material and accordingly receive more focus in this Report. Each materiality issue is linked to its corresponding performance outcome in the Business Excellence Framework.

There are a few changes to the material issues identified by stakeholders compared to last year. Future protein competition has been raised for the first time (albeit as the lowest ranked issue), which highlights a new competition to seafood predominantly in the plant based area. Some issues have fallen off stakeholders radars, such as pirate fishing and management of foreign charter vessels. This makes sense as actions have been taken by Sanford (and the wider seafood industry in relation to the Ross Sea) to address these issues. While a number of issues were ranked comparatively low, stakeholders commented that these rankings were ascribed not because the issues were considered unimportant, but rather because they were considered not urgent, a long term priority (future protein competition and climate change impacts), or already perceived as well managed by Sanford through diversification and good corporate citizenship (market access and regulatory risks).

Changes in terminology from previous years come as a direct result of the issues being identified by the stakeholders themselves.

The materiality radar presents the results of the process in a different way. The red and blue lines show the business and external stakeholders' views, and illustrates the synergy for most of our issues. However, some issues show a divergence between the business and external stakeholders' views that requires more attention, particularly where they are more important to external stakeholders than they are to the business. In 2017, these diverging issues included *Contributing to NZ Inc Brand, Reforming the Quota Management System (QMS)* and *Public Stand on Healthy Oceans*.

We regularly review our material issues in the context of the rapidly changing business and societal context, as well as stakeholder feedback and emerging trends. We seek to collaborate, both to address challenges and capture opportunities within our industry. We also seek to ensure that our reporting continues to reflect our response to the material issues raised by our stakeholders.

NEXT STEPS

For the first time, Sanford are planning an external stakeholder workshop to feedback to stakeholders on the process and action plan for the issues raised. It is also an opportunity for the Executive to hear stakeholder views on the process, and understand their needs more. By bringing different stakeholder groups together, we can gain a better insight into each other's views, how they are different, and the opportunities for partnership and collaboration. We refine our materiality process each year as it becomes more mature and welcome feedback from our stakeholders.

Engaging with our stakeholders

Implicit within Sanford's vision of being the Best Seafood Company in the World is our commitment to a sustainable New Zealand brand, and a sustainable future for the seafood industry globally. Such a bold vision requires us to work collaboratively and have deep relationships with our key stakeholders; generating the social capital and licence to operate needed.

This is why we take stakeholder engagement so seriously and invest heavily in continuing to improve engagement processes, supporting positive relationships founded on shared understanding. We recognise that the individual stakeholders within the groups are diverse, often with different interests and concerns and so we work hard to address this challenge within our engagement. Further details of the roles of our respective stakeholder groups, including principal memberships and the key roles that Sanford representatives contribute are set out in ***Appendix C***.

The table below outlines the main groups of stakeholders we engaged with through our stakeholder engagement and materiality process in 2017, together with the issues they ranked as most material.

STAKEHOLDER	TOP MATERIAL ISSUES
Our People	• Health, safety and wellbeing • Food safety and quality • Social licence to operate • Maximising $/kg of fish
Shareholders and Investor	• Food safety and quality • Innovation in products and markets • World class brand • Profitability
Government and Regulators	• Benefits for local communities • Transparent and effective communication • Biosecurity • Social licence to operate
Industry and business associations	• Health, safety and wellbeing • New Zealand Inc brand • Sustainable seafood
Suppliers	• World class brand • Transparent and effective communication • Making Sanford a world class employer • Address lack of trust in the seafood industry

STAKEHOLDER	TOP MATERIAL ISSUES
Customers	• Health, safety and wellbeing • Food safety and quality • Transparent and effective communication • Shared vision
Communities, Scientific partners, NGOs	• Sustainable seafood • Sanford sets an example • Health, safety and wellbeing • Transparent and effective communication • Social licence to operate
Civil Society including recreational fishers	• Sustainable Seafood • Reforming Quota Management System - QMS • Transparent and effective communication • New Zealand Inc Brand
Iwi	• Iwi, as included in this process, considered almost all the issues as highly important

Addressing material issues through our Business Excellence Framework

Addressing our most material issues is our priority. This is achieved with the six performance outcomes in the Business Excellence Framework. This Report contains six performance chapters, one for each of the performance outcomes, where each relevant material issue is discussed.

VISION: TO BE THE BEST SEAFOOD COMPANY IN THE WORLD

PERFORMANCE OUTCOME AREA	Building a sustainable seafood business	Enabling zero harm and great prospects for our people	Leading the way to healthy food	Ensuring healthy oceans	Supporting enduring communities and partnerships	Protecting and enhancing the environment
OPPORTUNITIES FOR SHARED VALUE	• Governance and communication • Innovation and technology • Shareholder value and risk	• Health, safety and wellbeing of our people • Developing our people • Strengthening our workplace culture	• Food safety and quality • Drive value through brand creation • Supply chain	• Sustainable fish stocks and marine farms • Marine conservation • Endangered, threatened and protected species	• Engagement and employment • Strategic partnerships and collaboration	• Environmental effects • Resource utilisation and efficiency • Carbon reduction and offsetting
SDG ALIGNMENT	9, 8	3, 4, 8	14, 12	14	8, 17	12, 13
KEY ENABLING RELATIONSHIPS	• Business subsidiaries and joint ventures • Crown Research Institutes • Government departments • New Zealand stock exchange (NZX) • Shareholders/ investors • Sustainable Business Council	• Accident Compensation Corporation (ACC) • Education providers • Employees • Maritime New Zealand • Sharefishers • Unions • WorkSafe New Zealand	• Cawthron Institute • Crown Research Institutes • Customers and consumers • Government departments • Suppliers	• Government departments • Industry groups • Non-governmental organisations • Regulators • Iwi	• Graeme Dingle Foundation • Iwi • Media • Paralympics New Zealand • Recreational Fishers • Industry groups • Sustainable Coastlines	• Local and central government departments • Maritime New Zealand • Non-Governmental Organisations • EECA

UN SUSTAINABLE DEVELOPMENT GOALS

In 2017, Sanford has taken a step forward to more clearly understand the opportunities the United Nations Sustainable Development Goal (SDG) framework provides to create value for our stakeholders, whilst contributing towards achieving the goals.

We have undertaken an internal impact review based on our value chain, and this has assisted us to identify the SDGs that are most relevant to our business and inform our review of the completeness of the material issues and strategies identified.

In reviewing the SDGs with reference to the international guidance[1], we have identified some areas of stretch that we incorporated into the 'Future Focus' for each performance outcome, as defined in our Business Excellence Framework. We reviewed the priority SDGs identified in 2016, and confirmed that those eight continue to be the areas that Sanford can most positively impact, and provide the greatest opportunity to contribute toward a sustainable global future. ***Appendix D***, page 163, highlights some of the initiatives we have undertaken this year to contribute toward the achievement of these SDGs.

Currently there is a gap in central government leadership regarding the implementation of the SDGs for New Zealand. We have therefore relied on international guidance and our own organisational commitment to work towards achieving the SDGs. We will continue to look for opportunities to work with others to improve not only our own performance in relation to the SDGs but that of New Zealand Inc., and on an international scale, the wider oceans community.

1. GRI and UN Global Compact 2017, Business Reporting on the SDGs – An Analysis of the Goals and Targets

Progress on our 2017 sustainable business targets

This provides a snapshot summary of performance against our 2017 sustainable business targets. For further detail refer to the ***Material issues AND value creation*** table at the start of each Outcome section.

MATERIAL ISSUES	STRATEGIC GOALS	TERM[1]	2017 TARGETS	PROGRESS[2]
OUTCOME 1 – BUILDING A SUSTAINABLE SEAFOOD BUSINESS				
Shareholder value and risk	Improve our business margins and create shareholder value in a sustainable way. Demonstrate sector leadership by creating a more innovative and sustainable business. Lead the way in understanding and managing our risk profile.	S	Continue to implement and support a comprehensive enterprise risk management approach across our business.	✓
		L	Continue to achieve improvement in our $/kg return.	✓
		M	Drive continuous improvement at all sites through our 2020 Culture of Continuous Improvement programme.	✓
		L	Utilise innovative asset management tools and processes to facilitate the effective upkeep of Sanford's physical assets.	→
Governance and communication	Be recognised as a company which lives its values in all our activities, demonstrates an ethical approach across all areas of corporate responsibility, proactively engages with key stakeholders and communicate with clarity and as much transparency as possible.	S	Review Corporate Governance practices to ensure that we continue to apply best practice, and comply with the requirements of the 2017 NZX Corporate Governance Code (NZX Code).	✓
		S	Develop communications strategy and structure that enables the sharing of how we live our values with our stakeholders, and supports the active management of our reputation.	✓
		S	Produce a high-standard, world-class, transparent integrated Annual Report that supports integrated thinking across the business and the creation of value over the short, medium and long term.	✓
Innovation and technology	Remain competitive on a global scale, and lead the industry in the creation of value through innovation and technology in collaboration with leading research partners.	S	Continue the development and implementation of the product development process, from concept to commercialisation.	✓
		M	Foster and promote new ideas for value creation that lead to innovative and viable business proposals.	→
		L	Research and identify innovation partnership and equity opportunities in alignment with our value-add strategy.	→
		M	Continue with the 7 year Primary Growth Partnership between Government and Sanford Limited introducing a selective breeding programme to produce a wide range of high performing mussel strains.	→
		M	Continue with the 7 year Primary Growth Partnership between the Government, Moana and Sealord Group Limited, trialling new harvest technology resulting in more precise catch, less incidental catch, lower mortality rates, more selectivity and higher quality landed fish.	→
		M	Continue to build IT capacity with incremental improvements and new tactical solutions whilst continuing to build our foundational technology.	→

MATERIAL ISSUES	STRATEGIC GOALS	TERM[1]	2017 TARGETS	PROGRESS[2]
OUTCOME 2 – ENABLING ZERO HARM AND GREAT PROSPECTS FOR OUR PEOPLE				
Health, safety and wellbeing	Through the way we work and behave, and the initiatives we implement to continually enhance our work environments, we will strive to protect our people from the risks of occupational injury or ill health.	M	From 1 October 2014, achieve a 50% reduction in Lost Time and Notifiable (Serious Harm) Injuries by 30 September 2017.	✗
		S	Continue to increase and monitor near miss reporting, utilising learnings to inform and reduce risk profiles.	✓
		S	Implement health and safety focused training across all levels of Sanford operations.	→
		S	Implement a SanWell wellness programme at all Sanford sites by end of 2017 financial year.	✓
		M	Build a leadership driven culture across health, safety and wellbeing to continuously improve the levels of engagement and performance.	→
		M	Implement programmes to identify, effectively manage and mitigate the most critical risk work activities.	→
		S	Maintain a secondary status in the Accident Compensation Corporation (ACC) Partnership programme.	✓
Developing our people	Maximise the prospects of our people, offering meaningful opportunities for continual learning and development to ensure that each and every one of our employees can reach their full potential.	S	Leverage literacy and numeracy programme to build and improve skills, confidence and engagement in the workplace.	✓
		S	Introduce the front line leadership programme to develop leadership capabilities across front line and middle management.	→
		S	Progress the Senior Leadership Programme to improve our senior leader's understanding of their own style and impact to improve their effectiveness.	→
		M	Continue to invest in Primary Industry Training to build core capabilities in occupational health and safety, seafood processing, risk management, and seafood vessel operations.	✓
		M	Deliver targeted learning and support to build capability in strategic priorities.	→
Strengthening our workplace culture	Build a culture of high engagement and performance across our workforce to optimise people and business outcomes.	S	Increase the visibility of the senior leadership group and communication with employees to improve the opportunities for engagement.	→
		S	Develop and deliver a values connection programme to deepen the understanding and demonstration of our values.	→
		S	Design a recognition programme that engages employees in key business outcomes and recognises great achievements against the framework.	✓
		M	Increase employee engagement in improvement activities to achieve a step change in people and business results.	✓
OUTCOME 3 – LEADING THE WAY TO HEALTHY FOOD				
Food safety and quality	Be recognised as a global leader in providing safe, high quality seafood that delights our customers and represents our love for the sea.	S	Engage with customers through a quality satisfaction survey annually.	✓
		M	All sites and vessels with less than 1 complaint frequency per million kilogram processed.	✓
		S	Action and close out 80% of quality complaints within 10 working days.	✗
		S	Implement and maintain FSSC 22000 in all land based processing sites by February 2018.	→
		S	Complete full review of customer specifications.	→
		S	Ensure all new vessels are registered and approved by the Ministry for Primary Industries (MPI).	✓

PROGRESS ON OUR 2017 SUSTAINABLE BUSINESS TARGETS

MATERIAL ISSUES	STRATEGIC GOALS	TERM[1]	2017 TARGETS	PROGRESS[2]
Drive value through brand creation	Be the brand of choice worldwide for our prized New Zealand seafood, by building a portfolio of brands that engage with consumers.	M	Build consumer engagement and understanding of our brand.	→
			Develop the portfolio of brands that grow our dollar per greenweight kilogram:	
		S	– Launch Big Glory Bay Brand.	✓
		M	– Launch Tiaki Brand.	→
		S	Develop the content plans for our social media platform.	✓
		M	Packaging review and update.	→
		S	Develop a method for customers to trace products that are from Big Glory Bay.	✓
Supply chain	Work with our supply chain to deliver mutually sustainable solutions that deliver value for money, and support our focus on health and safety, product quality, sustainability, continuous improvement and innovation.	M	Continue to embed the sales and operational planning process (S&OP) and distribution strategy to increase the variety and value of fresh products into the market.	→
		S	Achieve at least $2 million of savings through delivering key procurement projects.	✓
		M	Create a cultural change within the business to better align supply and demand to meet customer expectations.	→
OUTCOME 4 – ENSURING HEALTHY OCEANS				
Sustainable fish stocks and marine farms	Ensure clear commitment to comply with all applicable laws and regulations governing our operations, including relevant international conventions, recognising the importance of healthy ocean management including zero tolerance for overfishing, underreporting and discarding catch.	S	Maintain third party certifications across Sanford aquaculture farms, validating our commitment to farm efficiently and deliver sustainable seafood.	✓
		L	All fishers to record and report their catch to ensure maximum transparency of the fish stock status.	✓
		L	Continue engaging with New Zealand's Deepwater Group to maintain and support MSC sustainability certification for deepwater species in New Zealand's Exclusive Economic Zone.	→
Marine conservation	Embrace our role as a change leader in the seafood industry, applying influence on the sustainability of our oceans, leading to better practice and more sustainable outcomes, while making a positive impact on the communities and coastal ecosystems where we operate.	L	Take a strategic long term view of the vision, risks and opportunities relating to sustainability aspects of fisheries and work with others to operationalise best practice adaptive planning, management and response.	→
		M	Identify, define and deliver targeted initiatives to achieve a measurable reduction in the use of plastics across Sanford operations.	→
Endangered, threatened and protected species	Ensure protection of marine species, including seabirds, sea lions, dolphins and sharks through delivering best practice farming and fishing practices, implementing protection measures and participating in ongoing robust research programmes.	M	Implement ongoing initiatives to minimise seabird and marine mammal interactions through research, technology and best practice mitigation.	→
		M	Develop and implement a plan to progressively remove fishing-related threats and enable the Māui population to recover and expand.	→

MATERIAL ISSUES	STRATEGIC GOALS	TERM[1]	2017 TARGETS	PROGRESS[2]
OUTCOME 5 – SUPPORTING ENDURING COMMUNITIES AND PARTNERSHIPS				
Engagement and employment	Respect and support our local communities in line with our social licence to operate. Where possible, we will create local business, employment and skills development opportunities.	M	Implement targeted strategies and plans to support local business, employment, and skills development.	→
		M	Continue to grow the engagement across the communities that we operate in through a range of initiatives, from open days to communication through multiple forums.	→
Strategic partnerships and collaboration	Establish strategic partnerships that create value for the community, our partners and Sanford in the short, medium and long term.	L	Continue to foster existing strategic partnerships and establish new ones where appropriate in line with our overall business strategy and priorities.	✓
		L	Contribute towards the New Zealand Inc brand and key sustainability initiatives through collaborating with others to deliver outcomes that make a difference.	→
OUTCOME 6 – PROTECTING AND ENHANCING THE ENVIRONMENT				
Environmental effects	Minimise our impact on the environment when carrying out our business operations, avoid pollution or contamination of land, air and water and enhance the environment in which we operate through sound management and mitigation.	S	Maintain ISO 14001:2004 across Sanford's operations.	✓
		S	Maintain legal compliance through 100% compliance monitoring, thereby receiving no punitive regulatory action.	✓
		S	Develop and implement environmental risk mitigation plans across identified critical risk areas and have up-to-date aspects and impacts registers.	→
Resource utilisation and efficiency	Do more with less by maximising efficient use of resources, including optimising the utilisation of all fish and mussels harvested, and ensuring waste minimisation, re-use and recycling.	S	Improve water intensity by 2% at all land-based processing sites and report all available water consumption data.	✗
		S	Reduce the core energy intensity at our land-based processing sites by 3%.	✓
		M	Achieve 30% waste diversion rate across all of our operations.	→
Carbon reduction and offsetting	Demonstrate our commitment to climate change response by actively reducing our energy consumption and emission of greenhouse gases and seeking to introduce low carbon solutions into our value chain, where practicable.	S	Reduce our carbon emission intensity by 2.5% across all of our operations.	✓
		M	Save 5GWh of energy or renewable energy conversion potential by the end of FY18 across all operations in line with the Energy Efficiency and Conservation Authority (EECA) agreement.	→
		L	Actively engage in collaborative, multi-stakeholder initiatives to support climate change agendas and actions.	→

1 **S** = Short term (1 year or less); **M** = Medium term (2-5 years); **L** = Long term (5-10 years, or more)

2 Where 2017 targets are ongoing, work will continue with the targets carried forward into 2018

✓ Achieved → Ongoing ✗ Not Achieved

AND

BUILDING A SUSTAINABLE SEAFOOD BUSINESS

We will deliver sustainable, profitable and socially beneficial outcomes through our sector leadership and role in creating a more innovative and sustainable business and effective risk management strategies.

UN SDG 8

DECENT WORK AND ECONOMIC GROWTH

The seafood industry is well placed to supply a growing population with a source of protein. Sanford is committed to providing employment opportunities across New Zealand and creating sustainable wealth on the basis of innovation and branding without increasing the reliance on our natural resources. This has progressed well and we have managed to decouple economic growth from environmental degradation.

UN SDG 9

INDUSTRY, INNOVATION AND INFRASTRUCTURE

Technological progress is the foundation to achieve sustainability objectives such as increased resource and energy efficiency and resilient infrastructure. Without technology and innovation, environmentally sound industrialisation will not happen meaning opportunities for growth and development of the seafood industry will not be optimised. Sanford's investment in scientific research and technology is key to its ability to contribute to sustainable development. Value is added to our products through taking this more innovative approach resulting in an increased return per kilogram of product.

PHOTO: DAWN AT AUCKLAND FISH MARKET

Material issues AND value creation

This table summarises Sanford's material issues relating to ***building a sustainable seafood business***, the strategic goals defined through our Business Excellence Framework, our targets for 2017, and our progress against these targets in contributing to value creation. At the end of this section, we also define our future targets and vision to 2025.

MATERIAL ISSUES	STRATEGIC GOALS	2017 TARGETS*	PROGRESS AGAINST TARGETS**
Shareholder value and risk	Improve our business margins and create shareholder value in a sustainable way. Demonstrate sector leadership by creating a more innovative and sustainable business. Lead the way in understanding and managing our risk profile.	Continue to implement and support a comprehensive enterprise risk management approach across our business. **(S)**	**Achieved.** Enterprise risk process plans in place with ongoing review and reporting (refer ***Appendix B***).
		Continue to achieve improvements in our $/kg return. **(L)**	**Achieved.** EBIT $0.521 per GWKg, a marginal increase on 2016 ($0.520 per GWKg).
		Drive continuous improvement at all sites through our 2020 Culture of Continuous Improvement programme. **(M)**	**Achieved.** Senior management and cross functional teams have developed initiatives. Sanford 2020 improvement programme in place, 90 projects identified and underway across six outcome areas.
		Utilise innovative asset management tools and processes to facilitate the effective upkeep of Sanford's physical assets. **(L)**	**Ongoing.** Appointed a Group Asset Manager, and selected and started the implementation of a best practice asset management system.
Governance and communication	Be recognised as a company which lives its values in all our activities, demonstrates an ethical approach across all areas of corporate responsibility, proactively engages with key stakeholders and communicates with clarity and as much transparency as possible.	Review Corporate Governance practices to ensure that we continue to apply best practice, and comply with the requirements of the 2017 NZX Corporate Governance Code (NZX Code). **(S)**	**Achieved.** Reported against the recommendations of the NZX Code earlier than required. Refer to www.sanford.co.nz/investors/governance
		Develop a communication strategy and structure that enables the sharing of how we live our values with our stakeholders, and supports the active management of our reputation. **(S)**	**Achieved.** Appointed a General Manager for Corporate Communications. Established a structure on how we manage media communication, improve internal communications and manage our reputation.
		Continue to produce a high-standard, world-class, transparent integrated Annual Report that supports integrated thinking across the business and the creation of value over the short, medium and long term. **(S)**	**Achieved.** The Sanford 2016 Annual Report, ***Uncompromising Care***, received a Gold Award, the Australasian Integrated Report of the year, was a finalist in the Australasian Sustainability Award and Annual Report of the Year, and received a Silver award at the ARC awards in New York in the 'Integrated AR and CSR' category.

MATERIAL ISSUES	STRATEGIC GOALS	2017 TARGETS*	PROGRESS AGAINST TARGETS**
Innovation and technology	Remain competitive on a global scale, and lead the industry in the creation of value through innovation and technology in collaboration with leading research partners.	Continue the development and implementation of the product development process, from concept to commercialisation. **(S)**	**Achieved.** The new process is cross functional, collaborative, with ideas and projects being scoped, investigated and completed in a timely manner.
		Foster and promote new ideas for value creation that lead to innovative and viable business proposals. **(M)**	**Ongoing.** Several proposals for diversification made to the business. Hosted an annual innovation day in April, and attended and hosted conferences and workshops to bring and share innovative ideas nationally.
		Research and identify innovation partnership and equity opportunities in alignment with our value-add strategy. **(L)**	**Ongoing.** Sanford purchased Enzaq business during the year, which manufactures and exports Greenshell™ mussel powder for use in a range of human and animal products.
		Continue with the 7 year Primary Growth Partnership between the Government and Sanford Limited introducing a selective breeding programme to produce a wide range of high performing mussel strains. **(M)**	**Ongoing.** A significant milestone this year was achieved with the first harvest of hatchery reared mussels subsequently seeded onto farms in the Marlborough Sounds, with excellent growth results realised to date.
		Continue with the 7 year Primary Growth Partnership between the Government, Moana and Sealord Group Limited, trialling new harvest technology resulting in more precise catch, less incidental catch, lower mortality rates, more selectivity and higher quality landed fish. **(M)**	**Ongoing.** Precision Seafood Harvest and Modular Harvest System (MHS) has been progressively adopted by Sanford and other partners. The new nets are in place on a number of inshore vessels, and have been scaled up to a number of deepwater vessels. The Tiaki brand continues to sell and is supported by social media platforms, a website and a traceability application.
		Continue to build IT capacity with incremental improvements and new tactical solutions whilst building our foundational technology. **(M)**	**Ongoing**. Improved communications for vessels, production integration with partners, and integrated contract manufacturing for customers.

VALUE CREATION – OUTCOME:

We will deliver sustainable, profitable and socially beneficial outcomes through our sector leadership and role in creating a more innovative and sustainable business and effective risk management strategies

* **S** = Short term (1 year or less); **M** = Medium term (2-5 years); **L** = Long term (5-10 years, or more)

** Refer to '***Progress on our 2017 sustainable business targets***' for full updates across all targets defined

Further information on data and trends is provided in the Key Performance Indicator (KPI) table, contained in ***Appendix A*** of this Report.

Shareholder value and risk

GOAL

Improve our business margins and create shareholder value in a sustainable way. Demonstrate sector leadership by creating a more innovative and sustainable business. Lead the way in understanding and managing our risk profile.

In this section, we provide overviews of our financial, operational, people and customer and commercial performance for FY17.

FINANCIAL OVERVIEW

2017 saw a continuation of our journey towards de-commoditising our product portfolio. The launch of the Big Glory Bay brand around our premium pacific King salmon has delivered significant gains in the pricing of that category overall, and it was pleasing to see the support and uptake of that brand by high end restaurants, some of which had specifically called out Big Glory Bay King salmon on their menus.

The successful acquisition of the Enzaq mussel powder business based in Blenheim was another highlight of the year. We are very excited about this acquisition, providing us the platform from which to launch our high value nutraceutical business. Enzaq is a successful and well established business with a good customer base and manufacturing platform. Sanford brings significant synergy to bear with the integration of our 211 mussel farms and SPAT$_{NZ}$ hatchery expertise, which will enable the selection of the highest quality raw material into the process. Whilst the production capacity is currently limited to 1,000T of raw material input, this business is highly scalable to supply the growing mussel powder market (refer ***Innovation and Technology*** in this section).

Prices for our high value species of the wild caught category including toothfish, scampi, snapper and orange roughy continued to strengthen during 2017. This is offset by weaker commodity prices, in particular jack and blue mackerels. Operationally, the newly acquired factory vessel, *San Granit*, took longer than expected to commission, which impacted unfavourably on the cost of catching of our deepwater species. The fishing operation was also impacted by a higher than usual number of vessels undergoing surveys during the year, which impacted on the vessel capacity utilisation and hence cost of catching. A relatively slow hoki season at the end of the financial year rounded out a year of challenges from an operations point of view.

The frozen mussel category was impacted by softer prices in the beginning of the year, driven by competitive pressures and a reduction in demand for frozen meat product during the year.

Sanford's profit after tax for FY17 of $37.5m is an improvement of 7.9% vs FY16 of $34.7m as we move away from losses from discontinued business incurred last year. Adjusted EBIT of $63.7m remained relatively flat to last year ($63.4m) with improvements in the salmon business and high value wildcatch species being offset by challenges in the pelagic species and operations.

> **The change in management and subsequent refocus toward increasing $/kg made Tribeca reconsider Sanford as an investment. Tribeca likes the journey Sanford is on as a business.**
>
> —
>
> **Simon Brown**
> PORTFOLIO MANAGER & INVESTMENT ANALYST, TRIBECA INVESTMENT PARTNERS

While the USD exchange rate remained consistently above 0.70 throughout the year with the average spot rate of 0.71 (FY16: 0.69), we benefited from our hedge position to give an effective achieved rate this year of 0.68 (FY16: 0.71). When the opportunities existed through the year, we increased hedging levels to provide ongoing certainty for the company's export earnings.

INCREASED NET PROFIT AFTER TAX

▲ 7.9%

Optimising Value Creation through Continuous Improvement

This year, 90 continuous improvement projects were identified and progressed, covering all aspects of our operations. These projects range from process optimisation to energy efficiency, and include improvement projects that support the health and safety of our people, and enhance the efficiency of our supply chain.

PERFORMANCE OUTCOME	NUMBER OF PROJECTS
Sustainable seafood business	35
Our people	15
Healthy food	16
Healthy oceans	11
Communities and partnerships	3
Protecting the environment	10
TOTAL	**90**

OPERATIONS OVERVIEW

The year has been another very busy one for the operational teams with a lot of change happening within the business and more than our normal share of challenges across the operations. Their resilience, teamwork and passion for the company is obvious in the reports below, and is to be commended.

Salmon farming

Sanford's Stewart Island salmon operation had a steady year with production in line with expectations and market demand continuing to grow strongly. The key focus is now on placing this production into the appropriate sales channel to maximise the returns from this highly sought after species.

Investments in replacing and upgrading our on-water infrastructure have continued during the year, and further investments will be made over the next two years to improve both productivity and the quality of fish from the farm. A new counting and grading barge was purchased to enable the efficient size grading of the salmon through their life cycle. Separating a single intake of salmon into like sized groups as they grow ensures fish have better access to feed, resulting in more uniform growth, and also improves our food conversion rates. A new harvest barge with the latest technology incorporated is currently under construction.

Our ongoing commitment to sustainability continues with our farms passing the annual Best Aquaculture Practices (BAP) certification audit. This is an internationally recognised standard around operational performance that is audited by a third party to the highest standard (refer ***Outcome 4 – Healthy oceans***).

We continue our efforts to grow this part of our business to meet the growing world demand for King salmon.

Mussel farming

In 2017, mussel farming capitalised on the increased volumes of spat (baby mussels) supplied from the previous year. This crop provided our processing plants with a mainly uninterrupted supply of quality raw material. Once again, the geographic spread of our farms allowed optimised growing capability through matching farm sites with appropriate seed types and size. Hatchery spat from our investment in SPAT$_{NZ}$ has continued to flow into our Marlborough operations and the first full scale harvest of this crop was conducted during the year. We are continually enhancing our understanding of hatchery spat in the wild, with the preliminary results being extremely encouraging; this crop is showing rapid growth, high yields and uniformity in size (refer ***Innovation and Technology*** in this section).

In Stewart Island, we renewed our international BAP certification for our 21 mussel farms, reflecting our desire to continue to build respect for our products around the globe. This progress was underpinned at a national level through a continued commitment to the A+ NZ Sustainable Aquaculture Programme and the continuation of the Marine Farming Associations (MFA) environmental certification initiative. During the year we continued to build on our positive relationships with council and government through a number of forums. The National Direction Working Group has engaged effectively with the Ministry for Primary Industries (MPI) to create a set of draft aquaculture provisions that will provide more consistent aquaculture plans across regional councils. Engagement with legislators will remain a key focus for the team in the lead up to the 2024 marine farm licence renewal process.

Fishing

The Tauranga **purse seine fleet** experienced a very good English mackerel season, but weak skipjack and jack mackerel seasons, which performed below expectations. The results were rather unexpected as the water temperatures were generally within the favourable range for these highly mobile species.

Our **Inshore fleet** exceeded last year's catch level but fell short of the volumes expected. The mix of species landed was sub-optimal and weather events were disruptive. The North Island East Coast inshore operations generally worked further afield from Auckland and in deeper waters to avoid the prolific small snapper present in the fishery this year. A very strong recruitment into the East Coast snapper fishery bodes well for the future of this fishery for both commercial and recreational sectors. The *San Tengawai* completed a significant refurbishment programme this year with improved propulsion systems, electronics and crew accommodation; after decades of continued use, she is ready to serve us for several more.

The **Deepwater fleet** (which includes our scampi vessels) had a good year, the only exception being the West Coast hoki fishery which got off to a good start but finished earlier than predicted, with most operators in that fishery not catching their available quota for the year. The squid season delivered excellent volumes with market prices holding up well. World demand could not be satisfied from the traditional fisheries such as the Falkland Islands, which experienced their second consecutive poor season.

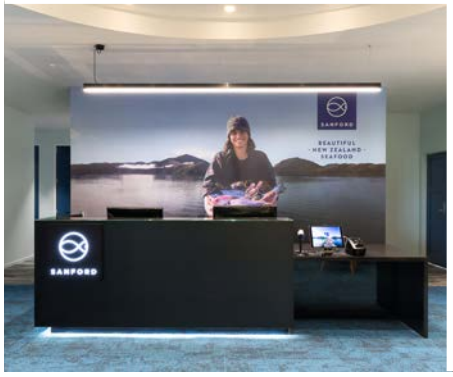
This year we commissioned the *San Aramand*, a Tauranga based scampi vessel that was purchased and refitted to replace the *Christmas Creek*. The *San Aramand* is now our top performing scampi vessel

• CASE STUDY •

Head Office Refurbishment

The century old Head Office building at 22 Jellicoe Street, Auckland was subject to a major refurbishment project from January through to October 2017. Following on from the large scope of work, including earthquake strengthening, residue asbestos removal from ceiling void spaces and a full open plan conversion of the office space meant that all staff were required to temporarily relocate to a different office. The layout changes created more meeting spaces and an excellent kitchen and staff canteen facility. The refurbishment also allowed the heating, ventilation, fire protection and air conditioning systems to be upgraded, and a new digital security system to be installed. We consciously decided to leave some of the walls and floors untreated. The exposure of the original brick work and timber floors has provided a link from the history of the building as the home of the Sanford factory to its new purpose as an office environment. Large decals of Albert Sanford and the original fish market give a sense of where the company has come from and its journey over the last 100 years.

The next stage of the project will be undertaken in the next financial year, and will see the Auckland Fish Market being transformed into a destination for fantastic seafood to take home or enjoy on the spot (refer ***Outcome 3 – Healthy food***).



exceeding our pre-purchase expectations. The *San Waitaki* (our frozen at sea vessel that typically focuses on orange roughy and oreo dory) also made positive contributions to both the hoki and squid landings for the year, whilst still meeting her planned volumes of orange roughy and dory. Our deepwater long line vessels (*San Aspiring* and *San Aotea II*), continued their excellent record of operations in the Ross Sea and South Georgia waters. The importation, conversion and commissioning of the *San Granit* was a significant project this year, although completion took longer than projected. The vessel's performance improved consistently throughout, and ended the year with a record setting voyage on southern blue whiting.

Mussel processing

The new season started with the Kaikoura earthquake, which resulted in the plant losing two weeks early in the season to carry out repairs and restore the hygiene envelope. Despite the lost time, the Havelock team capitalised on the new initiatives introduced last year and set a new processing record for the plant at 20,500 greenweight tonne (GWT), with the best ever year previously at 18,300 GWT. A superlative effort from the Havelock team. The farming team provided mussels in good condition throughout the year with the plant only taking one week off in the winter for scheduled maintenance. The focus this year has been on processing improvements, which has led to enhancements in yield, de-byssing efficiency and optimising freezing capacity.

Fish processing and salmon processing

Our wetfish teams in Auckland, Tauranga, Timaru and Bluff did a great job of optimising the volume of fish available to be sold as fresh throughout the year. Considerable work was done this year to identify opportunities to reduce manual handling; these initiatives will be rolled out in FY18. Tauranga introduced a new layout for packing whole fish, which has improved productivity. Timaru is halfway through building a multi-purpose room to provide better capacity and flexibility for processing toothfish and fresh fish.

Further improvements to the Bluff salmon processing plant were undertaken this year with the introduction of a new filleting machine which has provided improved quality, yield, and productivity (refer

Outcome 2 – Our people). The Bluff team has continued to build on optimising the daily production to meet customers' needs and maximising returns for Sanford, whilst achieving the appropriate balance between fresh and frozen requirements.

Supply chain

FY17 has been a busy year for the supply chain team with the principal focus being on supporting the sales team with their objective to grow value added seafood and further understand and optimise the cost base of our supply chain processes. The costs have been well managed in all activities including storage, transport and export freight, seeing a 12.6% reduction in overall cost per kg ($/kg) compared to FY16. This has been managed principally by reducing the number of suppliers, focusing on quick stock turns, further optimising storage and handling processes and the lowering of global freight rates. Further progress has been achieved with the Sales & Operational Planning (S&OP) process, with closer alignment between demand and supply. Where supply constraints occur, this process has ensured that the best return for the business is achieved. The launch of new products adds further complexity to our supply chain as we continue to grow new customers; a foundation of ensuring an agile and process driven supply chain is becoming key to delivering ongoing value to the business (refer *Outcome 3 – Healthy food*).

Asset management

The appointment of a Group Manager responsible for Engineering and Infrastructure Assets signifies a new focus on company-wide asset management. In addition to facilitating improvements and aligning policy, process and best practice this shift will allow the business to have greater control over repairs and maintenance and capital expenditure. Though the change is in its infancy, the sharing of engineering knowledge and experience across the diverse range of businesses that Sanford operates is already showing real benefit. We successfully delivered a mid life update of one of our vessels *San Hauraki*, the first of many projects that will be undertaken under the new model.

PHOTO: UTKIR KHUSANOV, WHOLESALE SUPERVISOR, AUCKLAND

PEOPLE OVERVIEW

Developing our people

Our investment in people has continued to strengthen and be a strong contributor to improved people and business results. In FY17 our focus has been on building capability and workplace culture to increase engagement and overall performance. This has seen more than a quarter of our employees and sharefishers participate in formal learning and development programmes to improve literacy and numeracy skills, leadership capability and role specific technical skills.

Our key training interventions have been our 'Keeping it Fresh' communication programme, our newly launched San Activate and San Ignite people leadership programmes, and the on-going core skill development provided by the Primary Industry Training Organisation (PITO) (refer *Outcome 2 – Our people*).

As our learning framework requires all trainees to utilise their new knowledge and skills to improve the way we do things across the business, there has also been great improvement made across a range of business and people processes. These include the introduction of safe behaviour observations, process improvement teams, coaching and peer to peer support.

We also had two Sanford team members attend the Sustainable Business Council (SBC) Future Leaders Programme where they researched and developed recommendations for action on five of the United Nations Sustainable Development Goals (refer *Outcome 5 – Communities and partnerships*). Through ongoing learning and development we are not only improving how we do things in our own business, but having a real impact on global concerns and opportunities.

Health and safety

The health, safety and wellbeing of our people is a priority of the Board and management and we continue to make progress against our three year 10 point Health and Safety Action Plan. The diversity and physical nature of our operations presents many significant challenges and employee engagement remains a critical element of managing health and safety across the business. We have seen positive improvements in lead indicators such as training delivered, wellbeing initiatives implemented and near miss reporting. Our ongoing investment in critical risk management has delivered substantial upgrades in the management of chemicals across the business and traffic management. Our focus on safe work processes and design has also helped to eliminate some of the repetitive tasks that have the potential to impact the wellbeing of our people.

This year we engaged external professionals to assess our opportunities to improve as we have been disappointed by relatively static lag indicators such as a Lost Time Injury Frequency Rate (LTIFR) of 14.67/million hours worked (FY16: 14.69) and a 2% increase in Lost Time Injuries. As a result of feedback received, we are investing further in safety leadership, culture and wellbeing, in addition to maintaining our strong focus on managing critical risks and hazards across our operations in FY18. We will also focus more on identifying the shared hazards and solutions we have across our operations while not losing identification and effective management of the unique hazards inherent across our diverse operations. The Board expects great improvement across all measures of performance and will monitor this through the Health and Safety & Regulatory Compliance Committee.

CUSTOMER AND COMMERCIAL OVERVIEW

International sales

Focus on fresh is still a key focus and sales of salmon and fresh white fish were steady year-on-year. This is a significant area of opportunity for Sanford to realise value growth as we continue to deepen our understanding of consumer trends and evolve our strategies accordingly. We expect value to continue to improve as we move into Sanford and Tiaki brands and as global demand and supply balances swing in our favour. This year we launched a live mussel business in key markets; focusing on live in export markets will provide a premium consumer experience, and enable us to access new segments of the market and diversify from our reliance on frozen half shell. Salmon will be a key driver of growth in export sales as we move into Big Glory Bay branded sales, increase our focus on higher value markets, and move up the value chain in line with market specific strategies (refer ***Outcome 3 – Healthy food***).

This year has seen a continuation of strong performance in the China market with revenue lifting slightly, despite some toothfish sales expected for the 2017 year being delayed to 2018 by a slower season. The China market has been driven by the growth of fresh King salmon, strong toothfish pricing and continued strength in orange roughy and scampi. Opportunity for growth remains as we identify premium niches in market.

The USA remains our biggest international market by value at 17.8% of revenue led by mussels and orange roughy, which have strong consumer demand. Other key markets of note were Japan and Europe who both grew on the back of the availability of hoki fillet as we continue to add value by moving away from lower value commodity lines.

Strategic reviews of all these key markets have been undertaken to develop a more thorough species, channel and customer strategy by market. We have re-allocated sales resources behind this direction to allow for appropriate focus on growth markets and to deliver on the goal of driving Sanford branded products to end customers and consumers. Further market intelligence is being gathered to identify potential high value end customers who can deliver the maximum return to Sanford. Increased time in market from key Sanford personnel will continue to add value to our customers, awareness of our brands and ultimately the bottom line.

Domestic sales

Sanford's domestic wholesale and foodservice customer base is continuing to grow, particularly through incorporating Big Glory Bay ocean farmed King salmon and premium whitefish species through retail and restaurant consumer markets. During FY17, we observed an increased contribution of fresh species supplied from Tauranga and the South Island to ensure continued supply through the Auckland Fish Market, domestic foodservice and domestic wholesale. Foodservice fresh fish expansion will be implemented in the South Island before Christmas 2017, servicing customers with Sanford fresh fish supply. Revenue increases have been initiated across Sanford's King salmon, as well as across a number of premium whitefish species. Also, lesser known species have been promoted through channels such as My Food Bag, which has accumulated both growth and recognition of the opportunity that these species can provide moving into FY18, where we can expect to see continued growth demand through these channels. Aligning Sanford with the shared vision of customers such as The Langham Hotel Auckland (now the Cordis), and My Food Bag are crucial in our journey to continue this growth. This includes ensuring we deliver on sustainability outcomes, aligned with our vision to become the Best Seafood Company in the World.

Marketing and branding

A little over a year into our journey to get closer to our consumer, and we have a very full report card. From a brand perspective we redeveloped all of our existing packaging materials, updated every site with the new Sanford logo, had successful domestic trials for our polybin replacement programme, developed promotional plans for the Auckland Fish Market and Seafood School, and launched our first brand, Big Glory Bay Seafood, into highly acclaimed restaurants in Auckland (refer ***Outcome 3 – Healthy food***). We also reconfigured our key communications platforms and launched new ones around our branded portfolios, ensuring that we are set up to engage directly with our consumers through social and digital channels to build knowledge and understanding of what drives them when it comes to purchasing and consuming seafood.

Looking ahead, we are developing plans to extend our branded offerings via range extensions and growing our customer base, and plans to reimagine and reinvigorate the Auckland Fish Market are well underway. We aim to build a world class destination that is a true celebration of Sanford's beautiful New Zealand seafood.

Innovation

In 2017 we achieved tangible improvements in the value of the fish that we harvest through better utilisation, product diversification, sales into higher yielding markets and improved processes. We also acquired Enzaq, a significant highlight for the year (refer ***Innovation and Technology*** in this section).

> **In order to achieve our goal of being the Best Seafood Company in the World we need to deeply embed the culture of innovation, always looking for ways of adding value to the precious resource we harvest. Our purchase of Enzaq this financial year is an exciting move toward the nutraceutical market, a natural area of diversification for an innovation led company. Expect more movement from us in this area.**
>
> —
>
> **Andre Gargiulo**
> CHIEF CUSTOMER OFFICER, SANFORD

Governance and communication

GOAL

Be recognised as a company which lives its values in all our activities, demonstrates an ethical approach across all areas of corporate responsibility, proactively engages with key stakeholders and communicates with clarity and as much transparency as possible.

CORPORATE GOVERNANCE

Sound corporate governance through having the right structure, people, practices and policies in place is fundamental to ensuring Sanford's ability to create maximum value over the short, medium and long term. An overview of our Corporate Governance Framework, including an introduction to our Board, Executive Team and the key practices and policies that are in place is set out under ***Corporate governance*** (refer pages 104 – 109). Consistent with our commitment to best practice corporate governance, Sanford has chosen to adopt and report against the recommendations of the 2017 NZX Corporate Governance Code (NZX Code) in advance. Our Corporate Governance Statement 2017, which details the extent to which Sanford has followed the recommendations of the NZX Code, is available here: www.sanford.co.nz/investors/governance.

Our Combined Independent Auditor's and Assurance Report, issued by our external auditor KPMG in relation to this Report, is included on pages 151 – 156.

INVESTOR RELATIONS

We remain committed to meeting our obligations to shareholders, communicating through our Annual and Interim reports and at our Annual General Meeting; we will highlight any news likely to affect our operations, share price or financial standing. We provide these updates to the New Zealand stock exchange and on our website www.sanford.co.nz. Our Chief Executive Officer (CEO) and our Chief Financial Officer (CFO) have also made several presentations to investor groups in FY17.

PHOTO: SANFORD ANNUAL REPORT 2016

Sanford continues to show leadership in communicating value creation through their international award-winning Annual Integrated Report. I welcome their most recent report, *Uncompromising Care 2016* and recognize their efforts to evolve their approach towards balanced and transparent reporting. I encourage other businesses to follow the example set by Sanford and others, learning from their journey, to evolve their corporate reporting.

I congratulate and thank Sanford for always being willing to support, encourage and lead others on their integrated reporting journey.

—

Richard Howitt
CEO, INTERNATIONAL INTEGRATED REPORTING COUNCIL (IIRC)

MANAGING OUR COMPLIANCE: INTERNAL AND EXTERNAL AUDITS

Sanford has a comprehensive internal audit programme in place, which covers food safety, quality, health and safety, environmental, asset management and maritime compliance aspects. This includes audits carried out by specialist third party auditors on behalf of Sanford. For example, in FY17 Ernst & Young (EY) conducted comprehensive Food Safety & Quality and Health & Safety reviews to support governance and inform strategy. In addition, 91 external compliance audits were conducted on Sanford's operations, an increase of 16% from FY16, as set out below:

EXTERNAL COMPLIANCE AUDIT	NUMBER OF AUDITS COMPLETED	
	2017	2016
MPI Food Safety Performance Based Verification Audits (PBV)	57	45
MPI National Shellfish Sanitation Programme (NSSP)	8	6
Marine Stewardship Council Chain of Custody	2	1
A+ NZ Sustainable Aquaculture Programme	0	0
Best Aquaculture Practices (BAP)	1	1
Organic Certification	1	0
ISO 14001 Environmental Management Systems	1	1
FSSC 22000 Food Safety Management Systems	7	3
Accident Compensation Corporation (ACC)	6	6
Maritime Audits (MOSS)	5	11
Customer Food Safety Audits	3	2
Total Audits Conducted	**91**	**76**

OPENING UP: BUILDING OUR COMMUNICATIONS NETWORKS

Sanford has made 2017 a year of transformation in its communications approach. The industry worked hard to correct negative misconceptions, but the rapidly changing world of 24 hour news, faster news cycles and ubiquitous social media increases the pressure on companies to respond faster and ensure they have a voice. We employed a General Manager for Corporate Communications, a new role for the business. Her focus has been putting a structure around how we manage our media communications, improve our internal communications and proactively manage our reputation.

Sanford has continued to actively engage with non-governmental organisations (NGOs), regulators and industry, but it has widened the conversations in 2017 to include more active engagement with government on issues such as technology on our vessels, sustainability, using science to make the best decisions for the environment and for business, and our commitment to benefiting the communities we operate in.

We have pro-actively told some of our Sanford stories to key media outlets including the story of a dolphin rescue operation carried out by one of our purse seine skippers (refer ***Outcome 4 – Healthy oceans***), the story of our longest serving staff member (Lloyd TeNgaio who has worked for 52 years in the Auckland factory) (refer ***Outcome 2 – Our people***) and two stories which reflect our commitment to helping New Zealand birdlife (our support for black petrel monitoring and for public education about these birds and our ongoing donation of fish to feed rescued penguins in a sanctuary in Dunedin) (refer ***Outcome 4 – Healthy oceans***). Discovering these stories within our own business has also been a boost for the staff involved, who were all humbled but grateful for the recognition.

> **Sanford has some great stories to tell. The symbol of a skipper letting a $55,000 catch go to save dolphins is very significant. That's something that changes people's perception of the fishing industry."**
>
> —
>
> **Lou Sanson**
> DIRECTOR-GENERAL
> DEPARTMENT OF CONSERVATION

We remain committed to multi-stakeholder forums where the best decisions can be made by all key stakeholders working together, and further details of the initiatives Sanford is involved in are provided in ***Outcome 4 – Healthy oceans*** and ***Outcome 5 – Communities and partnerships***.

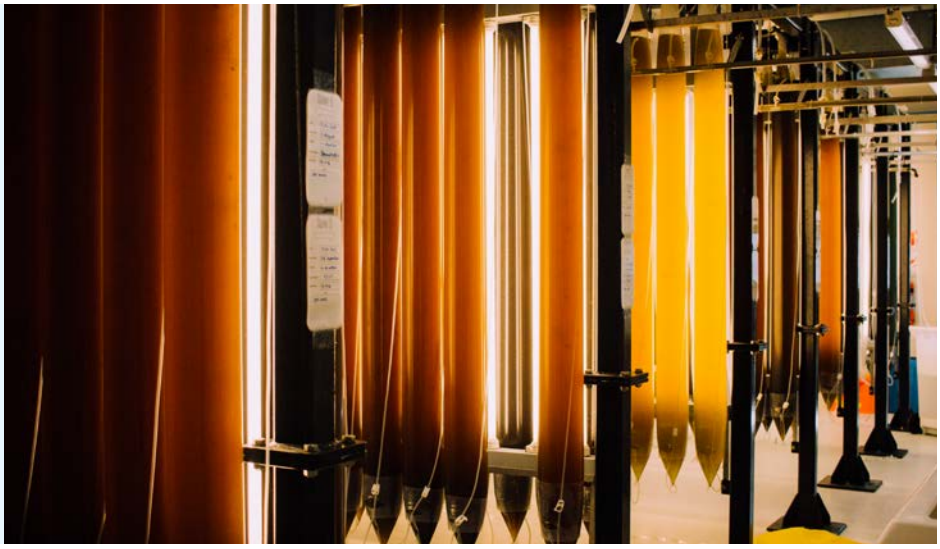
Beyond our obligations to investors, we have had a regular stream of visitors to every one of our sites from members of the public keen to learn more about Sanford. These ranged from school groups to visits by government officials from Vietnam keen to discuss our approach to aquaculture.

As much as possible, Sanford aims to operate with an open door policy. Whenever we can share news from our business, we do, within the common sense constraints of commercial sensitivity. We believe that by being as open and transparent as possible, we are in the best position to answer any criticism of commercial fishing, and we set an example about how fishing can be a sustainable, values-based business with great stories to tell.

> **Sanford's reporting is world-class and this is influencing the way other organisations report.**
>
> —
>
> **Abbie Reynolds**
> EXECUTIVE DIRECTOR
> SUSTAINABLE BUSINESS COUNCIL (SBC)

Innovation and technology

PHOTO: BAGS OF ALGAE USED AS MUSSEL FOOD AT SPATNZ



GOAL

Remain competitive on a global scale, and lead the industry in the creation of value through innovation and technology in collaboration with leading research partners.

INNOVATION – A KEY GROWTH STRATEGY

Sanford has made multiple tangible investments in innovation, and through some effective partnerships, we have focused our efforts in key areas including Precision Seafood Harvesting (PSH), SPATNZ, and the recent acquisition of Enzaq. Sanford has also made significant investments in people, culture, networks, partnerships and research to enable continued growth and value creation.

HATCHING PLANS – THE GROWTH OF SHELLFISH PRODUCTION AND TECHNOLOGY (SPATNZ)

SPATNZ is a Sanford owned company and a Primary Growth Partnership (PGP) that started in 2012; it has turned research into a commercial reality by developing methods to breed spat in a purpose built hatchery at a fully commercial scale. Finding enough baby mussels (spat) to grow on our farms has been a challenge for mussel farmers and until now, Sanford has been entirely dependent on wild spat washed up on 90 Mile Beach or caught on collectors mainly in Golden Bay. The farmers had no certainty of supply and little control over the characteristics of the mussels growing on their farms; SPATNZ is our attempt to solve that problem.

Sanford's aquaculture interests represent 29% of our business by revenue in 2017 and 21% of the total revenue is mussels, where our focus is on the New Zealand Greenshell™ mussel. Greenshell™ mussels are increasingly appreciated in both export and domestic markets for their anti-inflammatory properties as well as their taste and positive environmental profile.

The PGP grew out of the pioneering science done at the Cawthron Institute in Nelson and five years later, SPATNZ has had a milestone year. In FY17, the first spat bred in the SPATNZ Nelson hatchery were harvested with excellent results. Recognition of the great work done by the team came in October at the New Zealand Innovation Awards in Auckland where SPATNZ won the Innovation in Agribusiness and Environment Award.

The SPATNZ Programme Manager, scientist Dr Rodney Roberts said that "It has been a great year for the hatchery. It is extremely satisfying to see years of hard work and solid science pay off like this. We know our results can change the game for mussel farmers and can produce robust, faster growing and more consistent mussels, and because we have much more control over our processes, the hatchery will also smooth out fluctuations in spat supply."

SPATNZ is breeding better mussels by choosing parents that have naturally desirable characteristics; the FY17 breeding run produced 100 mussel families adding to the wide range available from earlier cohorts. SPATNZ will release the results of its growth rate comparisons to wild spat in 2018, with the results so far looking very promising.

The SPATNZ team still has significant challenges to address in the remaining two years in the PGP. With the hatchery performing very well, SPATNZ has turned its attention to increasing the spat retention following transfer to farms, which is currently highly variable, in order to maximise spat supply from the hatchery. This tricky stage in the life cycle is also a challenge for wild spat.

PHOTO: HATCHERY BRED MUSSELS READY TO HARVEST IN THE MARLBOROUGH SOUNDS

SPATNZ

KEY STATISTICS

5/7

5 YEARS INTO A 7 YEAR PROGRAMME

21

PERSONNEL (STARTED WITH 4 STAFF IN 2012)

FUNDING

50% ($8.6M) SANFORD
50% ($8.6M) MINISTRY FOR PRIMARY INDUSTRIES

3,732M

READY TO SETTLE LARVAE PRODUCED

6,540

LITRES PER DAY OF MUSSEL FOOD, CONTAINING 64 TRILLION CELLS PER DAY OF MICROALGAE

POTENTIAL REVENUE INCREASE

$100 TO $230M

EXPECTED ECONOMIC BENEFITS INCLUDE AN ADDITIONAL $100-$230M PER ANNUM IN INDUSTRY REVENUE BY 2026 IF THE ENTIRE INDUSTRY INVESTS IN THE PROGRAMME'S TECHNOLOGY

SPATNZ AND THE PGP PROGRAMME

- The PGP enables partnerships between MPI and New Zealand's primary industries.
- Investing in a PGP programme provides the opportunity for the primary industries to carry out ambitious, and often risky, innovation programmes that can deliver significant long term growth. The risks associated with these programmes are often too large for individual companies.
- Sanford is the sole private sector investor in SPATNZ and SPATNZ has the exclusive use of its products and intellectual property until November 2024.
- When the SPATNZ programme is fully operational, it will add around NZ$80 million/year to the economy and when the spat are taken up across the New Zealand industry it will add nearly NZ$200 million/year.

> **Hatchery spat opens up all sorts of opportunities around selective breeding and product development in high value areas like nutraceuticals and superfoods. New Zealand mussels are already world famous but the hatchery unlocks a new level of innovation to take our industry to another level.**
>
> —
>
> **Gary Hooper**
>
> CHIEF EXECUTIVE OFFICER, AQUACULTURE NEW ZEALAND

SUPPORTING A CULTURE OF INNOVATION

To build and foster a creative innovation culture, and inform the development of processes and strategy, we conducted our second annual Innovation Day. The innovation style that Sanford is promoting is cross functional and team oriented. Our approach involves taking the time to more accurately define the nature of the problem being solved using creative problem naming techniques, with the goal being the development of elegant solutions.

PHOTO: SPAWNING SPAT MUSSELS

RESEARCH AND DEVELOPMENT

We continue to lead a number of commercially oriented research programmes including market research, product science and process optimisation research. Government funded programmes with MPI, Callaghan Innovation, Ministry of Business, Innovation and Employment (MBIE) and High Value Nutrition provide excellent financial and scientific leverage to build and maintain a competitive advantage through an evidence based approach.

ENZAQ

Sanford recently purchased the Marlborough based Enzaq business, which manufactures and exports Greenshell™ mussel powder for use in a range of human and animal products. There are many studies that describe the unique anti-inflammatory properties of Greenshell™ mussel extracts and Enzaq's powder has been shown to have some of the highest levels of bioactivity compared with other powders. The Enzaq process utilises a fully automated flash drying technique to make the powder instead of cooking or freezing it. Enzaq can ensure its long term high quality Greenshell™ mussel supply and realign their commercial plans to that of a large New Zealand company with global markets. Sanford benefits from diversifying its product range and utilising additional harvest volumes with the best producer of mussel powder in the country.

PRODUCT DEVELOPMENT

Our dedicated product development function provides the capability and framework to enable the capture of new market opportunities using a cross-disciplinary approach and team project management practices to deliver new product formats, packages and products. Sanford continues to look for additional partners and opportunities to add further value and utilise our valuable resources.

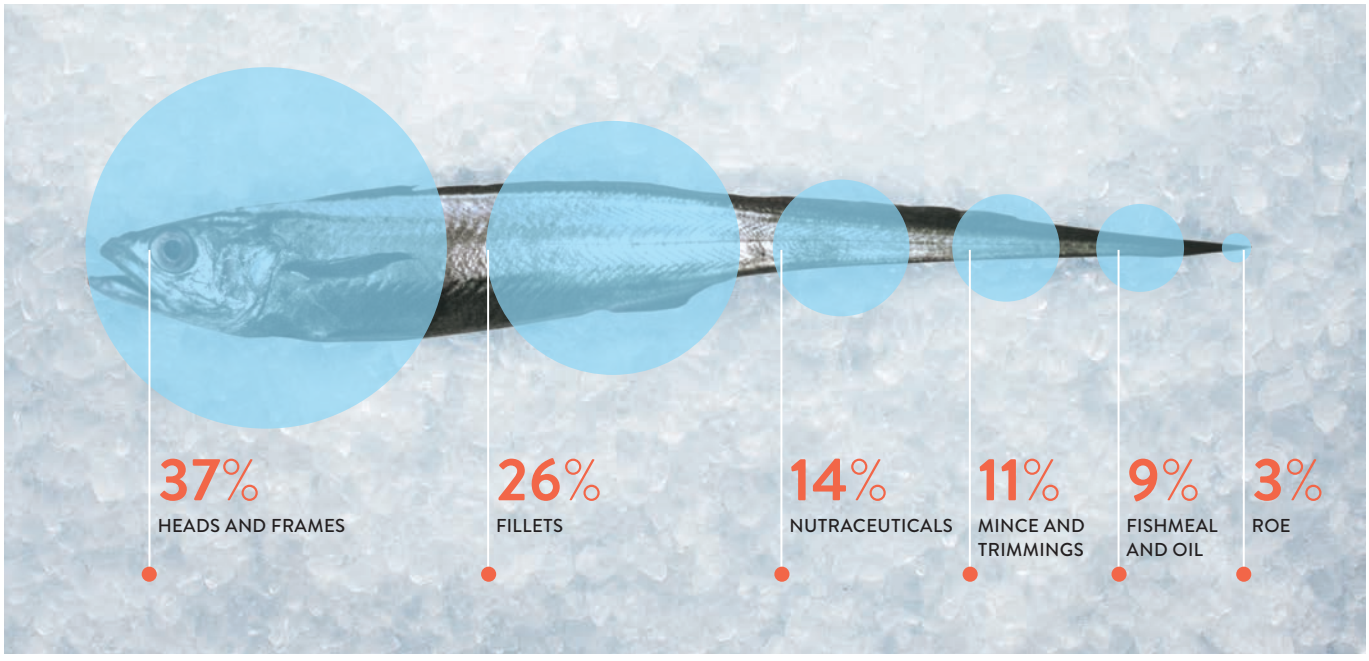
• CASE STUDY •

Live Mussels

To deliver our precious Greenshell™ mussels overseas, the innovation team had to make sure they were comfortable and at the right temperature; mussels are the Goldilocks of the bivalve world – they like the temperature to be not too hot and not too cold. Mussels also like to be nestled in protective packaging, so the team trialled and developed a set of handling and packing specifications to ensure they thrive en-route and arrive in perfect condition to our international foodservice customers. We have opened up a new market in a creative way, whilst looking after one of our most iconic New Zealand species.

PHOTO CREDIT: STEVE HUSSEY

PRODUCT UTILISATION – FUTURE STATE



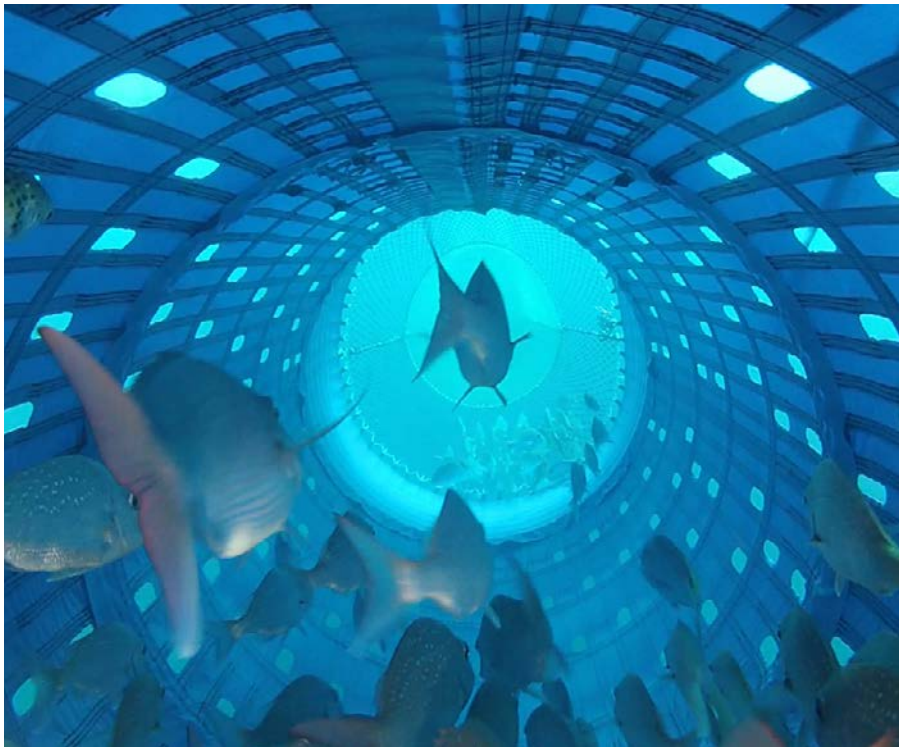


PHOTO: PRECISION SEAFOOD HARVESTING IN USE

PRECISION SEAFOOD HARVESTING IN ACTION

Precision Seafood Harvesting (PSH) is a technology that aims to deliver better quality seafood while reducing incidental catch. It's an all-kiwi innovation, and is supported by three local fishing companies, Sanford, Moana and Sealord. The PSH programme began in 2012 and has two more years to run. The supporting companies are contributing funding of $24.02m over seven years and the Government matches that amount through a Primary Growth Partnership.

In 2017, new lightweight and high-strength materials were tested and are now used at sea; they are more sturdy and easy to use than the previous PVC construction. Sanford also led the way in the installation of new onboard handling systems that keep the fish in the water for longer to improve the survivability for the fish that must legally be returned to the sea. Validation testing of a bigger Modular Harvest System (the carefully designed nets used in PSH) has been completed in line with its intended use in deepwater fishing.

Sanford is using PSH on two of our inshore vessels and we plan to introduce it to two more. Following the successful preliminary trials on the *San Discovery*, we are exploring further opportunities to deploy PSH in the deepwater fillet vessels *San Enterprise* and *San Granit*.

DELIVERING INNOVATIVE TECHNOLOGY

Sanford continues to utilise technology to support our drive to deliver an innovative approach across our operations. In addition to our continued investment in electronic monitoring with Snapper 1 (SNA1) Commercial and Trident Systems, the *Māui Dolphin Protection Plan* (refer ***Outcome 4 – Healthy oceans***) has required Sanford, along with our project partners, to think innovatively. This has included developing a vessel tracking app, scoping the development of a dolphin-safe trawl net, and building on the existing Trident System FishEye electronic monitoring system to include Māui dolphins.

INFORMATION TECHNOLOGY INITIATIVES

The Information Technology (IT) strategy is centred on flexibility, core capability, customer engagement and business values. Execution of the strategy continued in FY17 with a focus on incremental improvements and new tactical solutions whilst continuing to build our foundational technology. Key deliverables included improved communications for vessels, production integration with partners, and integrated contract manufacturing for customers. Managing risk and security remained a focus, along with operational efficiency and improved sustainability.

In FY18 we will focus on transitioning from addressing tactical needs to delivering major technology components, stronger strategic alignment across the business, and standardisation of technology in our branches and vessels. A significant change programme (SanCore) has been launched and will be phased across several years to ensure our information systems provide the business capability required to support the achievement of Sanford's vision. The initial focus is on discovering current challenges and technology gaps, and developing a future state operating model and technology requirements. Additional tactical initiatives in 2018 include electronic reporting and monitoring for vessels (IEMRS) (refer ***Outcome 4 – Healthy oceans***), providing business continuity solutions for factory vessels, and improving reporting and analytics with additional data sets.

SanCore

OUR SIGNIFICANT CHANGE PROGRAMME HAS BEEN LAUNCHED AND WILL BE PHASED ACROSS SEVERAL YEARS

AND our future focus

MATERIAL ISSUES	STRATEGIC GOALS	FUTURE TARGETS 2018 AND BEYOND	OUR 2025 VISION
Shareholder value and risk	Improve our business margins and create shareholder value in a sustainable way. Demonstrate sector leadership by creating a more innovative and sustainable business. Lead the way in understanding and managing our risk profile.	Continue to improve our $/kg return with a view to achieving the long term goal of an average return of $1/kg (greenweight equivalent). Drive value creation through the ongoing and proactive identification of continuous improvement opportunities across the business. Be recognised as an industry leader in the use of innovative asset management tools to facilitate the effective upkeep of Sanford's physical assets.	Sanford has achieved sustainable, profitable growth year-on-year and sector-leading management of our risk profile, ensuring measurable value creation as a best practice sustainable business.
Governance and communication	Be recognised as a company which lives its values in all our activities, demonstrates an ethical approach across all areas of corporate responsibility, proactively engages with key stakeholders and communicates with clarity and as much transparency as possible.	Deliver a corporate governance structure and framework that continues to support best practice, including ongoing compliance with the NZX Code. Establish and support continuous stakeholder engagement processes to ensure we continue to deepen shared understanding between Sanford and its stakeholders. Continue to operate a robust communications structure and processes to ensure that together with our stakeholders, partners and our people, we are working collaboratively to deliver on, and communicate our values and vision.	Sanford is an exemplar of a responsible, ethical, transparent well-governed organisation that leads with care, passion and integrity. Our performance is communicated on a proactive basis, and is valued by our stakeholders.
Innovation and technology	Remain competitive on a global scale, and lead the industry in the creation of value through innovation and technology in collaboration with leading research partners.	Implement innovative approaches, optimise the utilisation of all materials, and diversify product offerings. Continue to build and foster a creative innovation culture through building internal and external collaborative networks, and incorporating innovation into all aspects of Sanford's operations. Implement the SanCore business system transformation programme to provide the business capability required to support Sanford's vision.	Sanford is competitive on a global scale, leading the seafood sector in the creation of value through robust research, innovation leadership, and the use of technology.

These targets for **2018 and beyond** have been informed by Sanford's strategy, and a thorough review of international guidance[1] on business commitments to support achievement of the UN Sustainable Development Goals.

1. GRI and UN Global Compact 2017: *Business Reporting on the SDGs – An Analysis of the Goals and Targets.*

AND

ENABLING ZERO HARM AND GREAT PROSPECTS FOR OUR PEOPLE

We will maximise the prospects of our people by making 'Zero Harm' a key priority, offering meaningful opportunities for continual learning and development, and living our values to ensure we become an employer of choice.

UN SDG 3

GOOD HEALTH AND WELLBEING

Ensuring healthy lives and promoting wellbeing at all ages is essential to sustainable development. From a global perspective our workforce are relatively healthy and well, but there are always opportunities to add value to our people over and above our economic contribution. As a key material issue to our business, the health, safety and wellbeing of our people, as well as those in our supply chain, represent key focus areas that we are actively working on.

UN SDG 4

QUALITY EDUCATION

Continuous investment in our people is critical to ensure that the business is always learning. We invest in our people from the frontline, through vocational training and formal qualifications, through to our company-wide talent pool for senior management, who are deepening their understanding of leadership and personal development. Due to our active commitment towards education, we are enriching the lives of our people as well as adding value to the business.

UN SDG 8

DECENT WORK AND ECONOMIC GROWTH

Sanford can improve the economic outcomes of the local communities through the jobs it creates (particularly in the areas that would otherwise have limited employment opportunities) and the associated local employment through the supply chain. It is critical that all work is safe; our people's wellbeing is very important to us. The growth targets Sanford has for the future are aimed at contributing toward this outcome.

PHOTO: LLOYD TeNgaio, FACTORY ADMIN AT OUR AUCKLAND PROCESSING PLANT HAS WORKED 52 OF HIS 74 YEARS AT SANFORD

Material issues AND value creation

This table summarises Sanford's material issues relating to ***our people***, the strategic goals defined through our Business Excellence Framework, our targets for 2017, and our progress against these targets in contributing to value creation. At the end of this section, we also define our future targets and vision to 2025.

MATERIAL ISSUES	STRATEGIC GOALS	2017 TARGETS*	PROGRESS AGAINST TARGETS**
Health, safety and wellbeing	Through the way we work and behave, and the initiatives we implement to continually enhance our work environments, we will strive to protect our people from the risks of occupational injury or ill health.	From 1 October 2014, achieve a 50% reduction in Lost Time and Notifiable (serious harm) Injuries by 30 September 2017. **(M)**	**Not achieved.** Improved Lost Time Injury Frequency (LTIFR) at 14.67/million hours worked (FY16: 14.69, FY14: 18.09). Ten notifiable (serious harm) injuries occurred (FY16: 6, FY14: 6), which was an increase of 67%. The number of Lost Time Injuries (LTI) increased to 55 (FY16: 53), which was up 2% (FY14: 56). Lost Time Injury Severity Rate measure was established. The total injuries were 1,032 (a 21% reduction) from 1,300 in FY16.
		Continue to increase and monitor near miss reporting, utilising learnings to inform and reduce risk profiles. **(S)**	**Achieved.** 12% increase to 324 (FY16: 289). Raised 799 Health and Safety System Improvement Notices (SINs), of which 83% were closed out within the defined timeframe, as at 30 September 2017 (target 75%).
		Implement health and safety focused training across all levels of Sanford operations. **(S)**	**Ongoing.** The programme of training was rolled out across all levels of the business, delivering 693 training days in FY17, covering general health and safety management, targeted risk assessments and vessel level health and safety management.
		Implement a SanWell wellness programme at all Sanford sites by end of 2017 financial year. **(S)**	**Achieved.** Implementation on all sites, with Timaru achieving SanWell Silver accreditation and Tauranga achieving Bronze accreditation.
		Build a leadership driven culture across health, safety and wellbeing to continuously improve the levels of engagement and improve performance. **(M)**	**Ongoing.** There was an overall improvement in cultural maturity based on an internal governance review and audit. There were increased Health and Safety Committee meetings (489, up from 317 in FY16) and workplace inspections (1,708, up from 1,361 in FY16).
		Implement programmes to identify, effectively manage and mitigate the most critical risk work activities. **(M)**	**Ongoing.** Risk assessments and controls are in place for ammonia containment, traffic management, working on vessels and contractor management, and improvement programmes. During FY17, 228 risk assessments were completed.
		Maintain a secondary status in the Accident Compensation Corporation (ACC) Partnership programme. **(S)**	**Achieved.** Realised a 5% reduction in ACC accepted claims to 134 (FY16: 141). Average 0.12 claims per employee (FY16: 0.14), with a 56% reduction in the average cost per claim to $1,524 (FY16: $3,439).

MATERIAL ISSUES	STRATEGIC GOALS	2017 TARGETS*	PROGRESS AGAINST TARGETS**
Developing our people	Maximise the prospects of our people, offering meaningful opportunities for continual learning and development to ensure that each and every one of our employee can reach their full potential.	Leverage literacy and numeracy programmes to build and improve skills, confidence and engagement in the workplace. **(S)**	✓ **Achieved.** 80 staff across 4 processing sites participated in the Keeping it Fresh programme.
		Introduce the front line leadership programmes to develop leadership capabilities across front line and middle management. **(S)**	→ **Ongoing.** Launched the San Activate and San Ignite training programmes to 81 people leaders.
		Progress the Senior Leadership Programme to improve our senior leader's understanding of their own style and impact to improve their effectiveness. **(S)**	→ **Ongoing.** 46 senior leaders concluded a leadership behaviour identification programme.
		Continue to invest in Primary Industry Training to build core capabilities in occupational health and safety, seafood processing, risk management, and seafood vessel operations. **(M)**	✓ **Achieved.** 273 employees and sharefishers have completed level 2 and 3 New Zealand Qualifications Authority programmes.
		Deliver targeted learning and support to build capability in strategic priorities. **(M)**	→ **Ongoing.** 45 people participated in an innovative thinking workshop. 48 people participated in a fish to plate integrated supply chain management workshop.
Strengthening our workplace culture	Build a culture of high engagement and performance across our workforce to optimise people and business outcomes.	Increase the visibility of the senior leadership group and communication with employees to improve the opportunities for engagement. **(S)**	→ **Ongoing.** 6-14% improvement in organisational culture measures of senior leadership visibility and connectivity.
		Develop and deliver a values connection programme to deepen the understanding and demonstration of our values. **(S)**	→ **Ongoing.** Leader-led programme launched in September.
		Design a recognition programme that engages employees in key business outcomes and recognises great achievements against the framework. **(S)**	✓ **Achieved.** 6 pillar framework designed and to be launched November 2017.
		Increase employee engagement in improvement activities to achieve a step change in people and business results. **(M)**	✓ **Achieved.** Leveraged the Keeping it Fresh programme to deliver 23 improvement projects. Established a joint employee-union delegate committee in Bluff and plan to extend this model across other processing sites.

VALUE CREATION – OUTCOME:

We will maximise the prospects of our people by making 'Zero Harm' a key priority, offering meaningful opportunities for continual learning and development, and living our values to ensure that we become an employer of choice

* **S** = Short term (1 year or less); **M** = Medium term (2-5 years); **L** = Long term (5-10 years, or more)

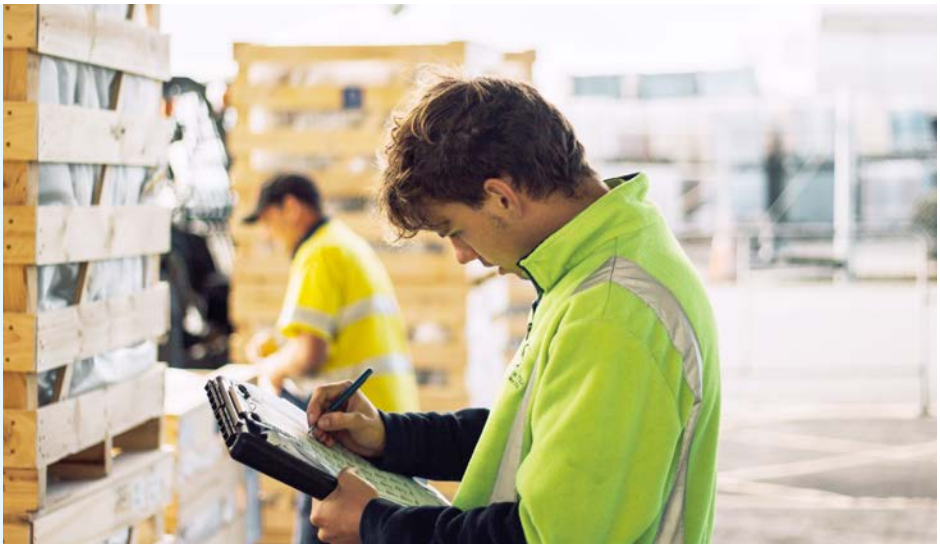
** Refer to '***Progress on our 2017 sustainable business targets***' for full updates across all targets defined

Further information on data and trends is provided in the Key Performance Indicator (KPI) table, contained in ***Appendix A*** of this Report.

Health, safety and wellbeing

GOAL

Through the way we work and behave, and the initiatives we implement to continually enhance our work environments, we will strive to protect our people from the risks of occupational injury or ill health.



Health and safety is one of Sanford's top two materiality issues, and our programme is evolving beyond compliance to a leadership driven culture; we have done a lot of work to improve our people's health, safety and wellbeing. Two internal governance reviews in 2017 noted improvements in Sanford's health and safety maturity, as we continue our journey towards a mature, leadership driven culture. We recognise that our culture is still developing, and we will continue to focus on our targeted improvement programmes in 2018.

In 2017, we continued to focus on the implementation of our 3 year 10-point Health and Safety Action Plan. We focused particularly on employee awareness, management visibility, staff skills and systems for reporting and following up on incidents and near misses. We recognise that we must maintain a strong focus on base compliance as we still have injuries and incidents that harm our people and business. Guiding our health and safety initiatives are the businesses Health and Safety Plan 2016-2018, Environment, Health and Safety management system (reviewed in 2017), Corporate Health and Safety Risk Register (reviewed in 2017), and formal avenues for worker participation.

WHAT WE'VE BEEN DOING

Staff training

- **NZQA** certified health and safety training to levels 3, 4 and 5
- **Toolbox training** delivered daily at the start of work on everyday health and safety issues
- **Targeted training**, including Permit-To-Work, Lock Out Tag Out systems, and contractor management
- **Senior management training.** Not On My Patch course

Workplace programmes

- **SanWell**, our in-house commitment to being a workplace that 'works better though wellbeing'
- **Keeping it Fresh**, a Tertiary Education Commission communication programme
- **SiteWise**, a new system for pre-qualifying our contractors to ensure their health and safety
- **ACC Partnership Programme**, enabling Sanford to actively support our employees' rehabilitation

Audits, assessments and reporting

- Sanford has undergone six external health and safety audits
- We have carried out two internal health and safety governance reviews (carried out by EY and Impac)
- We present a monthly health and safety report to the Board and a detailed performance improvement report to the Board Health, Safety and Regulatory Compliance Committee every two months.

693

TRAINING DAYS DELIVERED IN FY17

1,032

TOTAL NUMBER OF INJURIES
FY16: 1,300

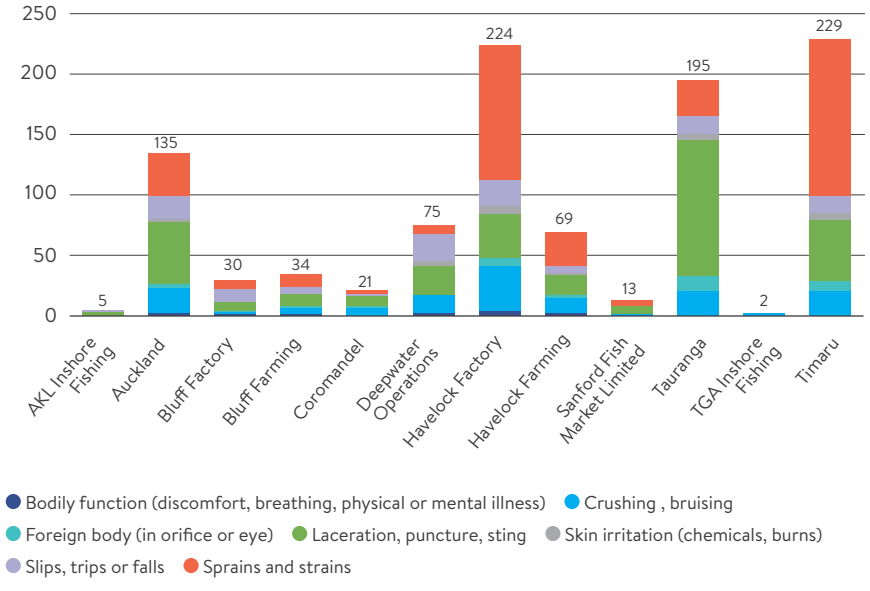
IMPROVING NOTIFIABLE (SERIOUS HARM) INJURIES

In 2017, we reduced the total number of injuries to 1,032 (FY16: 1,300), and realised a slight improvement in our LTIFR at 14.67 (FY16: 14.69). However, the number of notifiable (serious harm) injuries increased to 10 (FY16: 6), and our LTIs increased to 55 (FY16: 53). Aspects such as poor judgements, behaviours and practice issues have contributed to this increase. Such issues have and are being addressed locally and nationally as required to reduce these injuries; the ongoing implementation of our risk management programme remains a key priority.

TOTAL INJURIES BY SITE

Comparing the types of injuries that occur across our sites highlights some key opportunities to improve the type and number of injuries. The bar chart shows that our Havelock and Timaru processing sites have more injuries than our other sites; this is also reflected in Tauranga and Auckland processing sites to a lesser degree. These injuries largely reflect the higher numbers of staff at the respective sites as well as the nature of the work done. In terms of the type of injury, it is clear that sprains and strains are an issue for our Havelock and Timaru processing operations, while lacerations, stings and punctures are the main injuries for Tauranga. We are focusing on delivering targeted injury reduction programmes across these areas.

Type of injury by site

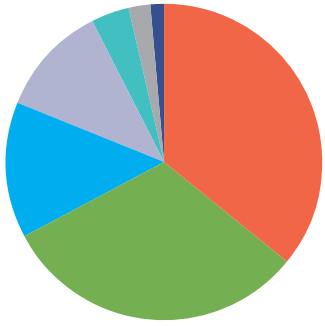


AKL = Auckland TGA = Tauranga

TOTAL INJURIES BY TYPE

Many of the injuries that occur are preventable. In 2017, we significantly improved our rate of injuries involving skin irritations (43% reduction), bodily functions (83% reduction), and we increased our focus on sprains and strains due to this being a leading LTI type; we realised an improvement of 28% (369 reported injuries, including first aid cases) compared with 511 in FY16. Process design is at the heart of good manufacturing practice and a major step in minimising injuries is designing the process steps that optimise ergonomics and decrease repetitive manual handling (particularly lifting). We will continue to focus on a consistent set of injury prevention improvements in 2018.

Total number of injuries by type



TYPE OF INJURY	TOTAL NUMBER OF INJURIES 2017	2016
Sprains and strains	369	511
Laceration, puncture, sting	326	357
Crushing, bruising	142	142
Slips, trips or falls	119	115
Foreign body (in orifice or eye)	39	61
Skin irritation (chemicals, burns)	25	44
Bodily function (discomfort, breathing, physical or mental illness)	12	70
TOTAL	**1,032**	**1,300**

• CASE STUDY •

Traffic management

To address one of our critical risk areas, we have implemented a health and safety traffic management plan with each Sanford processing site having controlled areas to ensure that people and vehicles are separated.

Controlled site access, people flows, and separate forklift operational areas have been identified, and as seen in the photo, it's clear where people need to be to remain safe.

PHOTO: THE TRAFFIC MANAGEMENT SYSTEM FOR ALL SANFORD SITES

• CASE STUDY •

PHOTO: RECONFIGURED SALMON PROCESSING LINE IN BLUFF

PHOTO: DEMONSTRATION TO REDUCE MANUAL HANDLING

Bluff improvements reduce manual handling

The layout of the salmon processing line in Bluff was reconfigured to simplify the process and reduce the risk of injuries. There were 11 manual handling steps eliminated by streamlining the process area, utilising simple conveyors, and a new Marel MS2730 filleting machine was commissioned. In addition to injury minimisation, staff were engaged to explain the improvements that could be made including increased throughput, quality, and cost effectiveness. With precise cutting and trimming ability, the new machine has minimised the production of second grade fillets during processing and reduced manual handling. The next steps will include introducing vacuum lifting systems, which will eliminate up to 1,000 heavy lifting movements by the processing teams each day.

MORE TO DO

We are working towards having user friendly IT platforms to encourage higher reporting levels, increased reporting accuracy, better aligned LTIFR indicators to allow direct benchmarking with industry peers, and an improved audit and verification programme. Making these changes will provide us with accurate and consistent information to drive health, safety and wellbeing priorities across the business.

NEAR MISSES ARE A LEARNING OPPORTUNITY

Every near miss is a prime opportunity to identify preventive and corrective action. A strong reporting culture is vital for this. We need to thoroughly explain the value of reporting near misses, making it more likely that an incident is reported further down the track. We will work with our health and safety committees to identify common near misses and have developed a set of simple, specific posters illustrating them and encouraging everyone to report them. This will make the concept of near misses more meaningful and enable us to all learn from them.

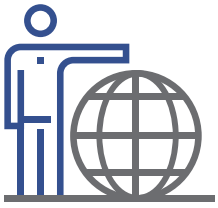
Developing our people

GOAL

Maximise the prospects of our people, offering meaningful opportunities for continual learning and development to ensure that each and every one of our employees can reach their full potential.

The people of Sanford reflect many different countries, cultures, languages, ages, years of experience, enthusiasms and potential. Harnessing the wealth of this diversity across our many different locations and vessels supports both our individual and business success. Our diversity is also a source of ongoing positive challenges and we have focused on building capability and creating a strong values-based culture that encourages and supports high levels of engagement and performance.

Stakeholders told us that Sanford being a world-class employer was amongst the top ten issues to them. We have addressed the importance of this through initiatives to develop our people and strengthen our workplace culture.



Working

TOWARDS BEING A WORLD-CLASS EMPLOYER

WHO WE ARE: SANFORD DEMOGRAPHICS

Our total workforce has grown by 169 people since last year as we have increased our investment in deepwater fishing (commissioning of *San Granit*) and extended our skill base to include new expertise and roles in fields such as communications, environment, legal, brand, information systems and commercial analysis. This new talent will drive overall business growth and add to our workforce diversity by increasing the general spread of people across most age groups and maintaining the number of women in senior management positions.

In July, we celebrated the service of our longest term employee, Lloyd TeNgaio. Lloyd has been a great mentor for many in the business, and his insights into the evolution of Sanford encourage us to keep focused on our values of care, passion and integrity as we continue to grow and develop our people.

> **Being in the business for 52 years has been relatively smooth going. Being ex-army, I'm here half an hour before everyone else. I tidy up, get everything organised and spot on for when my staff arrive. I'm very fortunate in having good staff. I also keep myself pretty fit sorting all the different species onto freezer racks every day in zero temperatures. After 50 odd years you get used to it! In fact, I'd go crazy if I had nothing to do at home!**
>
> —
>
> **Lloyd TeNgaio**
> FOREMAN, FISH PROCESSING, AUCKLAND

OUR WORKFORCE IN OVERVIEW

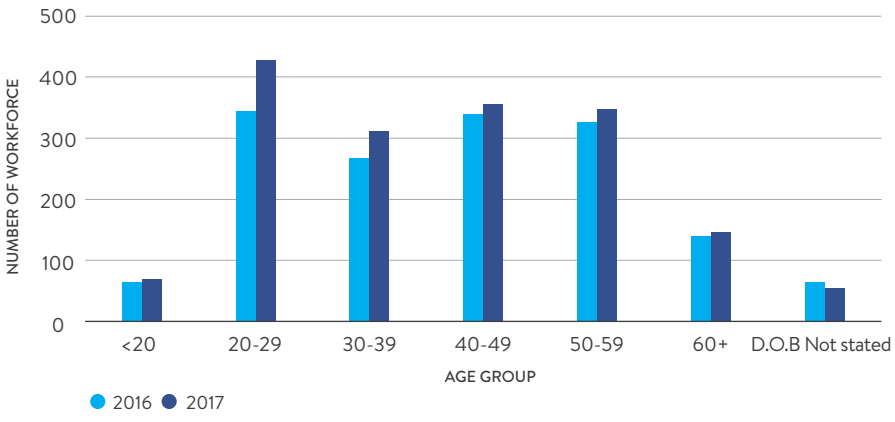
This year, our workforce increased by 11% to 1,717 (FY16: 1,548). Our gender diversity remained relatively stable, with the proportion of females across our overall workforce being 29% (FY16: 30%), and 27% across our Senior Management Team (FY16: 27%).

CONTRACT TYPE	TOTAL 2017[1] (2016)	FEMALE 2017 (2016)	MALE 2017 (2016)	GENDER UNDECLARED 2017 (2016)
Permanent Full-Time	914 (882)	38% (37%)	62% (63%)	–
Permanent Part-Time	29 (37)	52% (59%)	48% (41%)	–
Fixed Term Full-Time	95 (53)	51% (55%)	49% (45%)	–
Fixed Term Part-Time	1 (0)	100% (0%)	0% (0%)	–
Casual and Seasonal	95 (102)	39% (36%)	61% (64%)	–
Independent Sharefishers	583 (474)	9% (10%)	89% (85%)	2% (5%)
Total employees	**1,717 (1,548)**	**29% (30%)**	**70% (69%)**	**1%**

1. As at 30 September 2017

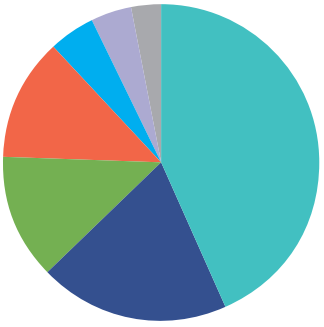
The age distribution of our workforce remains relatively well balanced across all age groups between 20 and 59 years.

Our workforce in age groups



11% INCREASE IN OUR WORKFORCE TO 1,717 (FY16: 1,548)

Our workforce in ethnic groups



New Zealand European	44%
Pacific Island Peoples	19%
Māori	13%
Not stated	12%
Other	5%
Asian	4%
European	3%

OUR NEW HIRES IN AGE GROUPS AND GENDER

This year, the spread of new hires by age group remained relatively consistent to last year. Percentage changes are included in KPI table (refer ***Appendix A***).

In absolute terms, new hires[2] consisted of 236 males and 160 females (1 not declared), with the breakdown being:

AGE GROUP[2]	TOTAL
Under 20	48
20-29	177
30-39	68
40-49	51
50-59	38
Over 60	15
Total	**397**

2. New hires by gender and age includes land-based permanent, fixed term, casuals and seasonal workers. New employee by age calculations in the KPI table (refer ***Appendix A***) are based on annual quarterly averages.

• CASE STUDY •

KEEPING IT FRESH

The Keeping it Fresh programme is a numeracy and literacy initiative provided to our frontline employees to increase their confidence in working with numbers and communicating with others. The programme is supported by Government funding and was initially rolled out in Tauranga in 2016. This year we rolled it out to our other land-based processing sites in Bluff, Timaru, Havelock and Auckland. There was an initial degree of nervousness entering the programme, however over time, our people have grown confident in contributing their ideas and sharing their talents with their teams.

The Keeping it Fresh programme has helped progress some incredible project work and ideas, including shift changeover check sheets, a water conservation project and effective ways to deliver safe behaviour conversations. The strength of our ethnic diversity has also shone through with teams translating our values into their mother tongue and creating posters to share our values in other languages across the business.

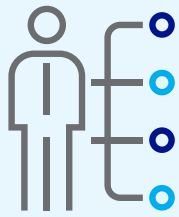
In Auckland, one of the teams introduced a short exercise routine at the start of their shift to highlight being fit for work, looking after yourself and your workmates. It was enthusiastically embraced with the music selection becoming more important by the week!

The learnings have extended well beyond the workplace, with one of the stand out changes being in people's confidence to manage their money through numeracy skills training.

The Keeping it Fresh programme has been very well received by staff. Part of our project included a dynamic stretch routine we perform every day. The movement improves posture, flexibility, blood flow and best of all, the group interact, laugh and even sing as they do it. Humans need joy, laughter and movement. "Motion is lotion" they say and I'm so happy to see that these healthy habits are really taking hold. Now that we have the health ball rolling, "WATCH THIS SPACE" for more great health and fitness initiatives.

—

Arleen De Veyra
OPERATIONS SUPPORT, AUCKLAND FACTORY



SHIFT CHANGEOVER CHECK SHEETS

—

A WATER CONSERVATION PROJECT

—

SAFETY CONVERSATIONS

—

CELEBRATING ETHNIC DIVERSITY

—

GROUP EXERCISE ROUTINES

—

NUMERACY & SKILLS TRAINING

Semisi Losaki wasn't very confident in his ability to speak English and had not taken his driving test. However, over the course of the programme, Semisi grew confident to not only sit but pass his driving test. After learning some new budgeting skills in the course, Semisi went on to save up enough money to buy his first car, which has had a big impact on his life.

—

Lynette Nikoloff
LITERACY & NUMERACY PROJECT MANAGER & TUTOR, RISK MANAGEMENT GROUP

PHOTO: SEMISI LOSAKI, CHILLER HAND

SENIOR LEADERSHIP DEVELOPMENT

In 2017, we progressed the Human Synergistics Senior Leadership programme to deepen our senior leader's understanding of their style and the impact it has on their team and its performance. Through this programme, 43 senior leaders received 360 degree feedback on their leadership style across 12 patterns of thinking that can contribute to or detract from their personal effectiveness. After a debrief session from a Human Synergistics' consultant, each leader identified opportunities to improve, sharing these with their manager, and creating a personal development plan.

Identifying areas to improve and then making significant progress against this is a real human challenge, and we have had a range of experiences and positive behavioural shifts from this programme.

As part of the senior team leadership development, I participated in the Circumplex/Life Style Inventory assessment with Human Synergistics. In the first part of the assessment you answer 240 questions about yourself, and in the second part of the process you receive feedback from 12 other work colleagues that include direct reports, peers, and the leader you report to. From these two assessments your profile is formed on how you view yourself, how your colleagues perceive you and how your leader perceives you. From this process, I developed a personal development plan.

So far, through this process, I have managed to significantly shift my behaviour into the constructive styles with very positive feedback from the people I work with, but with some more work to do on my thinking styles.

This development has been a great learning that has been very good for me personally and has helped improve the way we do things in Sanford.

—

Ted Culley
GENERAL MANAGER AQUACULTURE

MANAGEMENT, SUPERVISOR AND TEAM LEADERSHIP DEVELOPMENT

We engaged NZ Facilitators to help develop our leadership capabilities across the business. Two programmes were designed to meet the different needs of team leaders and supervisors (San Ignite) and middle managers (San Activate). The feedback has been positive with skippers, vessel managers and other operational people leaders coming together and learning how to give feedback, deal with conflict, manage variations in learning styles, coach their direct reports, and manage their time better. The training sessions have been structured to include leaders from across our many sites and vessels, and therefore encouraged everyone to share their ideas and learn from each other, which is a great strength of the programme. Both programmes rely heavily on the support of senior managers to meet with their staff in between workshops to ensure their people apply their new knowledge directly to their job. Specific resources to help support the senior managers were designed to embed this element of the training.

> **San Activate has made me aware of myself, how I operate, and how my team and others perceive me. Along with the tools provided it has enabled me to change the way I communicate to suit different situations and people making for more effective sessions.**
>
> **It was very enjoyable and enlightening to meet others from around the business, especially the guys out at sea from which the company is built on. It's good to be able to share each other's experiences and give each other a good understanding and appreciation of how we all contribute to the success of Sanford.**
>
> —
>
> **Sophar Rach**
> MANAGER, GROUP QUALITY SYSTEMS

NEW ZEALAND QUALIFICATIONS AUTHORITY (NZQA) CREDITS AND QUALIFICATIONS

Our partnership with the Primary Industry Training Organisation (PITO) has continued to strengthen. This year we have seen an increase in Sanford people gaining level 2 and 3 NZQA credits and qualifications. Gaining these credits and qualifications are a fundamental part of our core training in occupational health and safety, food safety and risk management and seafood vessel operations. The quality of training and on-the-job application of newly learnt skills adds great depth to the talents of our people and drives business improvement.

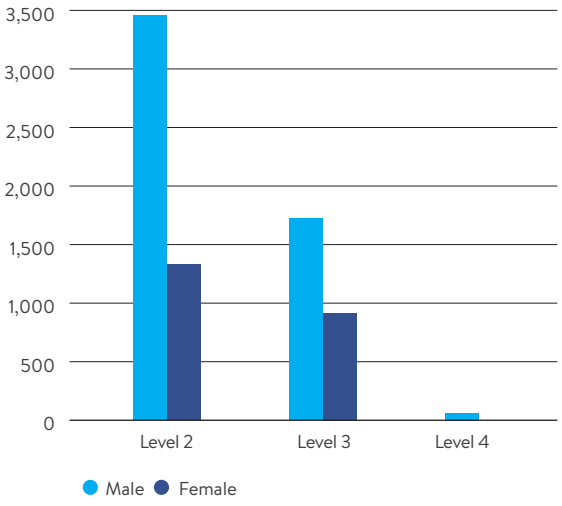
NZQA credits and qualifications awarded through PITO[3]

	2017	2016	2015
Completed PITO programmes	273	189	176
Total credits awarded	7,484[3]	6,354	5,021
Formal qualifications received (National Certificate)	214	135	53
End of year enrolments	72	138	186

3. Figures may change; new or completed enrolments may be backdated to the period when they were submitted to the PITO database.

In 2017, the number of completed PITO programmes increased by 44.5%. The most significant increase in completed qualifications was for Seafood Vessel Operations, which increased by 80% (79, FY16: 44). The total credits awarded to Sanford employees increased this year by 18%[4]. The formal qualifications received (National Certificates) also increased by 59%. This does not include internal training which is delivered across all levels of the business.

Credits achieved by level and gender



44.5%

INCREASE IN COMPLETED PITO PROGRAMMES

4. One credit is approximately 10 hours of training. The different levels of credit are: **Level 1**: Basic awareness by all staff (Certificates); **Level 2**: Competent operator (Certificate); **Level 3**: Supervisor (Certificate); **Level 4**: Management (Certificate); **Level 5**: Specialised business function (Diploma); **Level 6**: Specialised business function (Diploma).

Strengthening our workplace culture

PHOTO: ZANE CHARMAN AND GRANT BOYD INSPECTING MUSSEL LINES IN THE MARLBOROUGH SOUNDS

GOAL

Build a culture of high engagement and performance across our workforce to optimise people and business outcomes.

PHOTO CREDIT: STEVE HUSSEY

CULTURAL CHANGE

Sanford has introduced considerable change in its strategic direction over the past three years, resulting in strong commercial performance. However, with change comes new challenges. Insights from our culture surveys have indicated that we need to improve communication with our people, and recognise the contributions they are making. To improve in these areas, we have focused on visible leadership, communication, recognition and ensuring our values are brought to life in all of our decisions and interactions.

The culture is incredibly different since Volker's tenure began. The people we deal with are now engaged rather than just doing their job. They talk about the future of their product with excitement. Sanford has a vision for the future".

—

Tony Mildon
SALES DIRECTOR, MAERSK LINE

VISIBLE LEADERSHIP

Building a culture of high engagement and performance is an ongoing and very rewarding priority for the business. The strengthening of culture has meant an increased focus on ensuring our people understand our vision for the future, and their role in bringing this to life. This has been an important part of our improvement journey, and new opportunities for engagement have been created to make this happen. These include more regular site visits by the executive team and senior managers to engage with our people, for example, through attending training graduation ceremonies to learn about the progress being made and opportunities explored.

We got feedback that Volker's speech was one of the best many people had heard given in the industry, full stop. I'd agree. We couldn't have been prouder of our selection this year, and the audience was clearly unanimous that we'd made the right choice."

Drew Cherry
EDITORIAL DIRECTOR, INTRAFISH MEDIA

Intrafish Media Person of the Year

Sanford's CEO Volker Kuntzsch, won the prestigious international IntraFish media person of the year in April for crafting Sanford's vision as a world leader through investment in its employees, sustainability and products that add value to New Zealand's fisheries resources. IntraFish Media is the world's largest provider of news and information to the global seafood industry and the award recognises seafood executives who demonstrate exceptional leadership, innovation and inspiration.

CARE AND PASSION AND INTEGRITY

VALUES

To continue leveraging the richness and strength of our values to build pride in our business, we have developed tools to hold values discussions at any time and place with commitments to improve locked in. In Havelock, the story of Kūtai, the *Perna canaliculus* (Greenshell™ mussel) was created by a team to highlight the care, passion and integrity the team at Sanford demonstrates towards protecting the New Zealand mollusc throughout its life, until it is enjoyed by the consumer. By creating and sharing the story of Kūtai through our values, the power of employee engagement delivering positive business outcomes is clearly evident.

> **Sanford's focus on empowering its own people is the right focus. Companies must be people-orientated – our principles should be no different for governing a company as for caring and growing our families. Companies don't exist in isolation of their people. These people are or need to be seen as the caring family to Sanford".**
>
> —
>
> **Harry Haerengarangi Mikaere**
> NGATI PUKENGA, NGATI MARU, NGATI KAHUNGUNU

RECOGNITION

Recognition was an opportunity for improvement identified in our last employee survey, and most of our sites have responded with site specific forms of recognition and celebration. We are proud to have many long serving employees in our business, and this year we have taken the opportunity to celebrate milestones more formally with the executive and site leadership teams at half year and full year site updates.

We have also created a total business recognition framework to strengthen the demonstration of values and achievements across health and safety, food safety and quality, business improvement, business excellence and sustainability. When this programme is launched fully, it will not only drive the achievement of key business outcomes, but improve our ability to recognise great achievements collectively across the business.

STAFF MOVEMENTS

This year, voluntary turnover was 16% across the total workforce (FY16: 18%); involuntary turnover was 7% (FY16: 6.6%); and absenteeism averaged 5% across the group (FY16: 4%).

AGE GROUP	VOLUNTARY TURNOVER 2017 (2016)	INVOLUNTARY TURNOVER 2017 (2016)	TOTAL TURNOVER 2017 (2016)
Male	128 (112)	53 (35)	181 (147)
Female	68 (59)	28 (13)	96 (72)

AGE GROUP	VOLUNTARY TURNOVER 2017 (2016)	INVOLUNTARY TURNOVER 2017 (2016)	TOTAL TURNOVER 2017 (2016)
Under 20	14 (14)	2 (1)	16 (15)
20 to 29	69 (62)	31 (13)	100 (75)
30 to 39	34 (38)	16 (5)	50 (43)
40 to 49	44 (28)	14 (5)	58 (33)
50 to 59	26 (17)	3 (7)	29 (24)
60+	9 (12)	15 (17)	24 (29)
Total	**196 (171)**	**81 (48)**	**277 (219)**

AND our future focus

MATERIAL ISSUES	STRATEGIC GOALS	FUTURE TARGETS 2018 AND BEYOND	OUR 2025 VISION
Health, safety and wellbeing	Through the way we work and behave, and the initiatives we implement to continually enhance our work environments, we will strive to protect our people from the risks of occupational injury or ill health.	Achieve LTIFR of <5/million hours worked. Review LTIFR indicators, with reference to benchmarking our performance with industry peers. Build a leadership driven health, safety and wellbeing culture to enable high engagement and performance. Introduce the Worksafe health and safety toolkit (formerly known as SafePlus) in 2018. Progressively work to achieve and maintain ACC Tertiary status across all Sanford operations. Achieve Silver accreditation across the SanWell wellness programme, as a minimum, across all Sanford sites, and ensure that each site is progressing to the Gold standard.	Zero harm to our people. Wellbeing valued and fully supported. Zero harm performance is aligned with operational excellence, and how we do business.
Developing our people	Maximise the prospects of our people, offering meaningful opportunities for continual learning and development to ensure that each and every one of our employees can reach their full potential.	Develop and deploy a company-wide learning and development framework that meets the learning needs of our people and business. Extend and embed our leadership development programmes to lift leadership effectiveness across the business.	Sanford delivers tailored and effective learning and development activities that inspire employees to consistently reach their full potential. Performance appraisals are aligned with our values and six performance outcomes.
Strengthening our workplace culture	Build a culture of high engagement and performance across our workforce to optimise people and business outcomes.	Be recognised as an employer of choice via established awards in New Zealand.	Sanford has created an engaging workplace where people want to join, stay and contribute their best. We are widely recognised in the industry as a true leader and employer of choice.

These targets for **2018 and beyond** have been informed by Sanford's strategy, and a thorough review of international guidance[5] on business commitments to support achievement of the UN Sustainable Development Goals.

5. GRI and UN Global Compact 2017: *Business Reporting on the SDGs – An Analysis of the Goals and Targets.*

AND

LEADING THE WAY TO HEALTHY FOOD

We will lead the way in driving sustainable performance across our value chain, and positioning our brand as the industry partner and supplier of choice.

UN SDG 12

RESPONSIBLE CONSUMPTION AND PRODUCTION

Sanford supports the health of its customers and consumers in New Zealand and around the world. We work in partnership with our stakeholders to ensure that we responsibly consume and produce seafood; there are many examples in this section to highlight how Sanford is working towards responsible seafood consumption and production.

UN SDG 14

LIFE BELOW WATER

Careful management of the ocean is critical to Sanford's sustainable success in delivering value to its stakeholders. Our goal of leading the way in healthy food requires us to constantly consider our impact on the oceans and Sanford are actively looking for ways to minimise its environmental footprint, and continue toward sustainable ocean management both locally and globally.

PHOTO: BARBEQUE SMOKED MUSSELS WITH HONEY BUTTER FROM THE NEW ZEALAND SEAFOOD COOKBOOK BY AUCKLAND SEAFOOD SCHOOL, PUBLISHED BY THE PENGUIN GROUP NZ.

PHOTO CREDIT: SEAN SHADBOLT

Material issues AND value creation

This table summarises Sanford's material issues relating to ***leading the way to healthy food***, the strategic goals defined through our Business Excellence Framework, our targets for 2017, and our progress against these targets in contributing to value creation. At the end of this section, we also define our future targets and vision to 2025.

MATERIAL ISSUES	STRATEGIC GOALS	2017 TARGETS*	PROGRESS AGAINST TARGETS**
Food safety and quality	Be recognised as a global leader in providing safe, high quality seafood that delights our customers and represents our love for the sea.	Engage with customers through a quality satisfaction survey annually. **(S)**	**Achieved.** The survey was completed by 22 customers; 18 customers rated the quality of Sanford's products high, and 17 customers rated the quality of customer service positive.
		All sites and vessels with less than 1 complaint frequency per million kilogram processed overall. **(M)**	**Achieved.** Overall, the sites and vessels are below the 1 complaint frequency per million Kg target.
		Action and close out 80% of quality complaints within 10 working days. **(S)**	**Not achieved.** 68% of quality complaints closed out within 10 working days, and 88% were closed out within 15 working days. Overall, there was a 14% decrease in customer complaints.
		Implement and maintain FSSC 22000 in all land based processing sites by February 2018. **(S)**	**Ongoing.** 80% of Sanford's sites have finished the audit process and received certification. The last processing site is currently being certified. Full certification of all sites will be completed by February 2018, and we continue to standardise and consolidate quality systems across the company.
		Complete full review of customer specifications. **(S)**	**Ongoing.** Processing specifications for all product lines were completed early 2017. Work continues on creating a complete set of customer specifications for sales and marketing (target completion by end of 2018).
		Ensure all new vessels are registered and approved by the Ministry for Primary Industries (MPI). **(S)**	**Achieved.** Two replacement vessels, the *San Granit* and the *San Aramand*, were commissioned by Sanford during FY17. All country registrations and MPI requirements were completed before they could go fishing.

MATERIAL ISSUES	STRATEGIC GOALS	2017 TARGETS*	PROGRESS AGAINST TARGETS**
Drive value through brand creation	Be the brand of choice worldwide for our prized New Zealand seafood, by building a portfolio of brands that engage with consumers.	Build consumer engagement and understanding of our brand. **(M)**	**Ongoing.** Consumer engagement and demographics reviewed monthly to track the performance of brands in social media across multiple platforms (nearly 20,000 followers on social media).
		Develop the portfolio of brands that grow our dollar per greenweight kilogram: • Launch Big Glory Bay Brand **(S)**	**Achieved.** The Big Glory Bay brand was launched on the local market with a full brand immersion and experience at the source. Website and social media platforms developed. Product on menus of key Auckland restaurants
		• Launch Tiaki Brand. **(M)**	**Ongoing.** The Tiaki brand was trialled with key customers and is for sale at the Auckland Fish Market.
		Develop the content plans for our social media platform. **(S)**	**Achieved.** Content plans developed with key communications pillars for all platforms. Big Glory Bay Instagram and Facebook platforms were launched, and the Auckland Fish Market and Seafood School Facebook pages were merged. Sanford continues to gain strong year on year growth in both the number of followers and the level of engagement.
		Packaging review and update. **(M)**	**Ongoing.** All packaging has been developed for Sanford Black. The review of the Sanford packaging has been completed and rolled out for 37 of the 45 existing Sanford Black and Blue products.
		Develop a method for customers to trace that products are from Big Glory Bay. **(S)**	**Achieved.** Through a partnership with Oritain, we have developed a dedicated traceability system for Big Glory Bay products.
Supply chain	Work with our supply chain to deliver mutually sustainable solutions that deliver value for money, and support our focus on health and safety, product quality, sustainability, continuous improvement and innovation.	Continue to embed the sales and operational planning process (S&OP) and distribution strategy to increase the variety and value of fresh products into the market. **(M)**	**Ongoing.** Executing the strategic ambition to optimise value and deliver customer expectations for salmon has been **achieved**, while for other business areas it is **ongoing**. Implementing forecasting processes and introducing business management teams will govern execution against strategy.
		Achieve at least $2 million of savings through delivering key procurement projects. **(S)**	**Achieved.** Engaged competitive markets in key spend categories and investing in business intelligence tools to better understand our base costs, suppliers, products and services to meet our business needs.
		Create a cultural change within the business to better align supply and demand to meet customer expectations. **(M)**	**Ongoing.** There has been active collaboration between the supply and demand teams.

VALUE CREATION – OUTCOME:

We will lead the way in driving sustainable performance across our value chain, and positioning our brand as the industry partner and supplier of choice.

* **S** = Short term (1 year or less); **M** = Medium term (2-5 years); **L** = Long term (5-10 years, or more)

** Refer to '***Progress on our 2017 sustainable business targets***' for full updates across all targets defined

Further information on data and trends is provided in the Key Performance Indicator (KPI) table, contained in ***Appendix A*** of this Report.

Food safety and quality

PHOTO: KING SALMON PREPARED BY BIG GLORY BAY CUSTOMER, PHOTOGRAPH COURTESY OF WHITE AND WONG

GOAL

Be recognised as a global leader in providing safe, high quality seafood that delights our customers and represents our love for the sea.

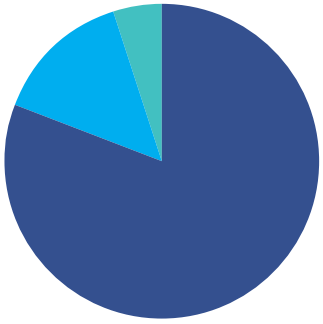
Food safety, security and quality is one of Sanford's top two materiality issues, and we have continued to invest in management systems to ensure we deliver best practice food safety and quality.

The most internationally recognised food safety standard is FSSC 22000, and being certified to this standard demonstrates that we have robust food safety management systems and are exceeding market expectations. Our customers are aware of and concerned about food quality and safety, and they have continued help us to understand our performance through surveys, feedback, and complaints.

CUSTOMER FEEDBACK ON PRODUCT QUALITY

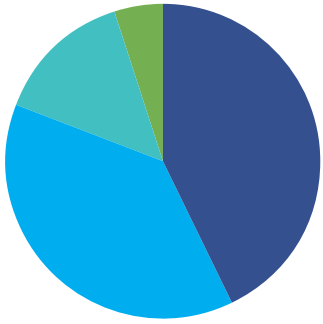
Sanford undertook another survey to gauge our performance with our customers, with 22 being answered by our largest global customers in Asia, Europe and North America. The 2017 outcomes show an improvement in engagement and results from last year.

How would you rate the quality of Sanford's products?



	2017	2016
Very high quality	4.76%	21.43%
High quality	80.95%	50.00%
Neither high nor low quality	14.29%	28.57%
Low quality	0.00%	0.00%
Very low quality	0.00%	0.00%

How would you rate the quality of your customer service experience about food safety and quality?



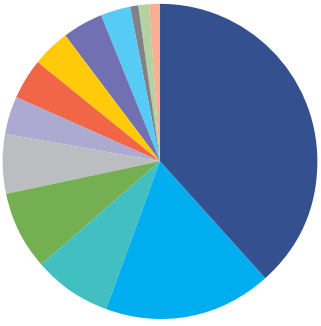
	2017	2016
Very positive	42.86%	64.29%
Somewhat positive	38.10%	28.57%
Neutral	14.29%	0.00%
Somewhat negative	4.76%	7.14%
Very negative	0.00%	0.00%

PRODUCT QUALITY AND CUSTOMER COMPLAINTS PROCESS

In 2017, Sanford complied with all regulatory and market access requirements. Sanford has continued to develop and improve the customer feedback analysis process with the circulation of monthly quality dashboards to all areas of the business. Most customer complaints are triggered by quality defects such as texture, bruising, sensory issues or poor trimming of fish fillets. In the past year we have monitored our progress on improving product service levels and achieved:

- 5% fewer product grading and missing product errors in FY17 compared with FY16.
- 3% fewer product quality defects in FY17 compared with FY16.
- 68% of quality complaints were closed out within 10 working days, and 88% were closed out within 15 working days

Quality complaints breakdown



	2017
Quality defects	38%
Foreign material	17%
Labelling error	8%
Product missing	8%
Bone	6%
Under delivered	4%
Other	4%
Wrong product	4%
Weight control	4%
Date coding error	3%
Product grading error	1%
Temperature abuse	1%
Parasites	1%

FOOD SAFETY CERTIFICATION

Sanford has committed to adopting FSSC 22000 for all of its land-based processing sites, and has made major progress towards this goal, being 80% through the process. This standard is part of the Global Food Safety Initiative (GFSI) and is widely recognised across all markets as world best practice with respect to third party food safety certification.

FSSC 22000 provides customers with increased confidence, and it increases food safety awareness across the company through having a system in place that encourages frequent meetings and reporting not only on issues but also on progress being made.

> **Having the FSSC 22000 in the Auckland factory for over a year now has really brought to light its positive impact. Not only have we got commitment from the factory floor to management, we are more systematic in our processes and we have greater communication within the factory, and between the sites.**
>
> **Ranjith Wijesinghe**
> AUCKLAND QUALITY ASSURANCE MANAGER

PRODUCT TRACEABILITY AND RECALLS

All of Sanford's products can be traced from their origin to the customer. Sanford undertakes two practice product recall and traceability exercises a year, and we had no product recalls in 2017.

• CASE STUDY •

PHOTO: BRUCE EARNSHAW CHECKING THE COOKED MUSSEL TEMPERATURES POST THE STEAM COOKER AT HAVELOCK

Havelock Sanitation Improvements

To ensure that good quality mussels continue to be delivered to our customers, the Havelock factory team embarked on a process to improve the efficiency of the cleaning and sanitation process. This initiative had two objectives: to standardise the cleandown process between the shifts, and identify how to make the cleandown between shifts more efficient. Each step of the cleaning process was evaluated by staff to establish whether there were more efficient methods to reduce the time and effort required, whilst having no negative impact on the product's quality or microbiological requirements.

The night shift production team successfully developed the new 30 minute cleandown regime, after completing multiple trials, which had to be just as effective as the 60 minute regime. The result is continued high hygiene standards that can be achieved with greater certainty, flexibility and higher productivity.

30min

CLEANDOWN REGIME
(PREVIOUSLY 60 MINS)

Drive value through brand creation

GOAL

Be the brand of choice worldwide for our prized New Zealand seafood, by building a portfolio of brands that engage with consumers.

WORLD CLASS BRANDS

Having a world class brand is important to our stakeholders and is aligned both with our commitment to building our stocks of intellectual capital AND our strategy of adding value to our seafood by developing Sanford branded offerings.

For Sanford to be the leader in the seafood industry, it needs to become more of a branded company. In this way, our stakeholders learn what we stand for – quality, sustainability and care.

—

Peter Kean
BOARD MEMBER

We have gained great momentum this year through the launch of our premium aquaculture brand, Big Glory Bay Seafood onto the domestic market. The launch started with a group of highly accomplished Auckland chefs being immersed into all that Big Glory Bay in Stewart Island has to offer. We flew them into the region for a memorable few days attending the Big Glory Bay farms and tasting all the beautiful King salmon, mussels and oysters that make up this brand.

Unfortunately shortly after the launch the region's farmed Bluff oysters were struck with the *Bonamia ostreae* parasite (refer ***Outcome 5 – Communities and partnerships***), resulting in the destruction of the oyster farms. This put a temporary halt to the further roll out of the brand. We are now focusing on building the brand through social media channels with our partner restaurants and looking at extending our customer base both domestically and internationally. Check us out at www.bigglorybayseafood.co.nz.

We have been working with Sanford for a little over a year now, and in April I was invited to attend the launch of their Big Glory Bay brand down in Stewart Island. It was a fantastic experience, the place, the people and the product were all outstanding. As a chef it's great to see firsthand where the product comes from, and have confidence in serving this to our customers.

—

Stuart Rogan
GROUP EXECUTIVE CHEF – GOOD GROUP

Our Big Glory Bay farm is Best Aquaculture Practices (BAP) certified; BAP certification is one of the world's most trusted, comprehensive and proven third party aquaculture certification programmes and gives our customers further assurance of our commitment to the environment and having healthy seafood.

FESTIVAL OF THE SEA

BANQUET
LONG LUNCH

A flute of Perrier-Jouët

FIRST COURSE
Oyster Selection, Shallots, White Balsamic & Red Wine Vinegar
Scampi Sashimi, Chili, Coriander & Olive Oil
Selection Of Big Glory Bay Salmon, Snapper & Kingfish
Sashimi, Nigiri, Pickled Ginger, Organic Soy, Wasabi

A glass of 2014 Yealands Pinot Gris

SECOND COURSE
Crayfish Cocktail, Crème Fraiche, Baby Cos, Chives
Grilled Crayfish Tails, Garlic, Parsley & Pernod butter
Miso Glazed Toothfish
Chargrilled Big Glory Bay Salmon, Green Goddess
Shoestring Fries
Green Salad, Avocado, Cucumber, lemon dressing

THIRD COURSE
Selection of Petit Fours
NZ & International Cheeses

GOOD GROUP HARBOURSIDE OCEAN BAR & GRILL BIG GLORY BAY PERRIER-JOUËT Yealands

SAMPLE MENU FROM ONE OF OUR CUSTOMERS, HARBOURSIDE OCEAN BAR AND GRILL ILLUSTRATING THE BIG GLORY BAY BRANDING IN ACTION.

ENGAGING WITH CONSUMERS FROM SEA TO PLATE

As a company that harvests and farms its own seafood, we have a breadth of species to offer and our vision is to engage consumers on everything from where, when, and how their fish was harvested, and by whom. Our goal is to enable consumers anywhere in the world to go online, order a product and get electronic updates about where their seafood is and when it will be delivered to their door. We are not quite there yet but it's something worth working towards because part of being the best seafood company in the world is ensuring that people can enjoy the finest seafood we have to offer wherever they may be.

Our brand will increasingly be associated with provenance and the story we can tell about the origin of the product and the special care taken to farm it, harvest it and process it for discerning customers.

—

Volker Kuntzsch
CHIEF EXECUTIVE OFFICER – SANFORD

Because Sanford controls so much of the supply chain, we have a competitive advantage in being able to trace fish from our vessel to when the consumer purchases it. We are investigating methods to do that and have already put in place a system for one of our brands, Big Glory Bay.

Already, for each product finished in any of the Sanford processing sites we can provide the information below. The next step is to make that information available to consumers through partnerships and technology.

1. WHERE CAUGHT – fishing area
2. WHEN CAUGHT – fishing trip
3. BY WHOM – our fishers
4. WHAT SPECIES – weight and tasting information
5. QR/PRODUCT CODE – for more in-depth information on how to cook and prepare the food

PHOTO: A BIG GLORY BAY KING SALMON WITH ORITAIN PROVENANCE INFORMATION

For Big Glory Bay we partnered with Oritain, the world leaders in scientifically verifying the origin of food. This means our products can always be traced back to Big Glory Bay, protecting our reputation and protecting our customers from food fraud. Look for the 'Origin Fingerprint' for our Big Glory Bay King salmon and Greenshell™ Mussels. To find out more visit www.oritain.com.

We know this is just one facet of how consumers interact with brands, and we're working on our communication, education and accessibility to drive value. Over the next few years, consumers will see Sanford's name on all of our consumer facing touch points (for example, the Auckland Fish Market and Seafood School will have Sanford incorporated into the logo). A roll out of new look packaging with stronger brand identifiers, and a shift to consumer facing offerings (whether that be on a menu in a restaurant or on a pack at a high end retailer) will align the brand. Our underlying principle is that the Sanford brand will appear on all brands whether it be as the primary or endorser brand.

FOCUS ON FRESH

A key strategy for the business is focussing on the sale of fresh seafood. We have invested heavily this year in defining markets and channels based around the ability of these to support our focus on fresh. This will result in a shift in who the ultimate Sanford customer is, where they are based and the channel through which they purchase our product. Sales through restaurants will grow in focus and aligning Sanford with shared-vision customers such as The Langham Hotel (now Cordis) and The Good Group is part of this strategy.

The geographic spread of our customers has remained relatively consistent and detail about that mix is included in ***'Our Global Presence'*** pages 6-7.

Focus

ON GROWING OUR FRESH SALES TO RESTAURANTS

PHOTO: AUCKLAND SEAFOOD SCHOOL

PHOTO: STEVE JONES ON BOARD THE *ANA*, FOR SEAFOOD NEW ZEALAND CAMPAIGN

AUCKLAND FISH MARKET AND SEAFOOD SCHOOL

The Auckland Fish Market and Seafood School remain our strongest consumer facing assets, and have the ability to influence consumption behaviour about what species to buy, how to prepare and cook them, and how many times consumers eat seafood. Our vision is for our Market and School to be the ultimate celebration of New Zealand seafood and be the full Sanford brand immersion that enables us to tell all of our stories from sea to plate.

Seismic strengthening work has been required this year, meaning that the hospitality function has closed but this has given us the opportunity to re-visualise the space and there are exciting plans underway to redevelop the area to become a destination for local and international consumers. The plans include multiple hospitality outlets, a revamped courtyard, a stage for events, and seating for more than 500 people. At the heart of it will be a modern and vibrant showcase for our brand (with a nod to our heritage), and the wonderful array of beautiful New Zealand seafood that we harvest and farm on a daily basis.

We have made some changes to our Seafood School class formats by offering a broader variety of classes in both style, length and cost. We've partnered with Goody to launch a loyalty programme that rewards consumers for their purchases across both the school and the market, and we've revamped the seafood school website. See us at www.aucklandseafoodschool.co.nz.

HOW WE ENGAGE WITH CONSUMERS

Social media is at the heart of our consumer communications strategy, delivering relevant and engaging content across all of our social media platforms. This year we merged the Seafood School and Auckland Fish Market Facebook pages to capture a greater audience; we used the platform to promote our offerings and educate consumers about how to prepare seafood.

With the launch of the Big Glory Bay brand, we developed a new website, Instagram and Facebook page. We captured the brand generated content and worked with our key restaurant partners to cross promote the brand on their pages too.

The Sanford Facebook page continues to go from strength to strength through building a highly engaged community. This platform enables us to showcase our company to a greater audience with the numerous stories we have from across our business including celebrating Lloyd TeNgaio who has worked at Sanford for 52 years (refer ***Outcome 2 – Our people***) to our technological advancements and partnerships such as SPAT$_{NZ}$ (refer ***Outcome 1 – Sustainable seafood business***).

INDUSTRY CAMPAIGN

We were proud to be involved in The Promise Campaign, which was led by Seafood NZ and supported by industry. The campaign consisted of five TV commercials played both on broadcast and social media, and were all underpinned by a code of conduct that we have signed up to. The TV commercials highlighted four key themes around Innovation, Guardianship, Communities and World Leading. All of these can be seen online at www.seafoodnewzealand.org.nz.

CONSOLIDATING AND GROWING OUR FACEBOOK PRESENCE

Supply chain

GOAL

Work with our supply chain to deliver mutually sustainable solutions that deliver value for money, and support our focus on health and safety, product quality, sustainability, continuous improvement and innovation.

The supply chain function has continued to mature at Sanford to achieve greater transparency in capturing our customer's requirements, and balancing that against our harvest and catch plans. By taking a more end-to-end value chain approach, we can ensure our processing plants are optimised throughout the year, while continuing to meet our customer's needs. The sales and operational planning process (S&OP) continued to build on the foundation that was established in 2016. There has been a companywide change in mind set, with cross functional people now actively coming together to share information and design collaborative solutions to align supply and demand.

Uncertainty around high impact events (for example, the *Bonamia ostreae* biosecurity response), an expanded customer base, increasing product mix complexity and a future change in our core business systems are some of the reasons that S&OP will continue to transform in 2018.

In the next financial year, S&OP will continue to focus on creating more value for every kilogram of raw material we harvest, and creating a stronger customer driven culture. Crucial to the success of this strategy is our ability to gain demand and supply insights. S&OP provides the framework for collaboration, but requires reliable up-to-date future focused information to be effective. Forecasting time phased demands, production capabilities, inventory status and available harvest enables effective decision making. In 2018, the Sanford forecasting roadmap will introduce the phased roll-out of building forecasting capabilities across harvesting, supply and demand functions. The initial focus will be on mussels and frozen at sea hoki forecasting, spanning over the longer term horizon. For fresh wild harvest, the S&OP team will firstly focus our forecasting on the shorter term operational horizon.

In 2018, S&OP will no longer aim to be purely a supply chain process. It will tie into delivery of the operating strategy through integrated business planning, and will be championed by cross-functional business management teams.

DELIVERING SUSTAINABLE VALUE

Savings from procurement initiatives totalled more than NZ$2.5million in 2017 across the wide range of supply partners we engage with. This was achieved through working with key supply chain service providers of commodities such as marine fuel and electricity, and included the wide range of packaging and consumable products required to bring our products to market. We have continued to partner with suppliers who can deliver sustainable value and expertise to Sanford, enabling us to focus on core activities and drive sustainable outcomes which support seafood harvesting and sales.

> **Because Sanford relies on a number of people to get the fish to the consumer, you need to get these other stakeholders on-board and find the right partners who are going to live those same values. It only takes one person in the value chain to drag the whole chain down.**
>
> —
>
> **Mike Smith**
> HEAD OF CUSTOMER RETENTION AND GROWTH
> NEW ZEALAND POST

• CASE STUDY •

Diving services – supplier partnership

You can't farm fish without getting wet! Divers are needed for all sorts of underwater tasks on our salmon farm: weighing and configuring nets, harvesting fish, underwater camera work, and maintenance of farm structures and assets.

The remote location and cold waters of Big Glory Bay, Stewart Island may be ideal for producing world class King salmon, but it does pose some unique operational challenges, especially engaging in highly technical and skilled services such as commercial diving. Most of all, the remoteness demands that health and safety be engrained in the working culture. Hazards must be identified and managed with detailed response plans, and operations must be performed and equipment maintained in strict compliance with the regulations.

This year, Sanford has partnered with New Zealand Dive and Salvage (NZDS) to perform diving operations in Big Glory Bay. NZDS manages and provides a dive team based full time on Stewart Island with the team being supplemented by fly in contractors and supervisors as required.

The partnership with NZDS is an important investment in the health and safety of our farming operations, and Sanford is pleased it has resulted in one of New Zealand's leading dive companies having a permanent presence and providing employment pathways on Rakiura (Stewart Island).

PHOTO: PETER BAIN MAKING SURE THE SALMON ARE SAFELY IN THEIR PENS
PHOTO CREDIT: THOMAS HINTON

ADDING VALUE FOR OUR CUSTOMERS

Sanford's supply chain, like many others, had to show resilience following November's earthquake in Kaikoura (South Island). Despite the significant disruption from road and rail closures, we were able to work with our suppliers to provide alternative routes without impacting on customer deliveries. Our mussel processing plant in Havelock used Port Nelson for container shipments (in place of rail) from Blenheim with the support of our shipping lines; during the hoki season, fresh hoki was landed into Westport and transported to Timaru (rather than through Picton).

We have also tested our responsiveness to developing a new sales channel, working alongside a customer to export live mussels from Havelock, Marlborough to Asia. There are certainly challenges to delivering live mussels, but working with supply chain partners who have the scale and networks for rapid domestic and international transport has enabled us to grow this business successfully.

LIVE

MUSSEL EXPORTS FROM HAVELOCK TO ASIA

SUSTAINABLE PACKAGING INITIATIVE: REPLACING POLYSTYRENE BINS AND PLASTIC PACKAGING

Sanford has a target to replace 100% of polystyrene bins (polybins) used for fresh seafood for both domestic and export sales; an important sustainability initiative as the business used more than 290,000 polybins last year to transport fresh seafood around New Zealand. Following extensive trials and packaging development, we replaced approximately 21,910 polybins with a purpose designed cardboard alternative. Further commercial scale trials will be completed with controlled implementation during 2018. Replacing the polybins destined for export carries significantly more complexity due to the longer supply chains involved, but we are continuing to work through potential solutions with key partners.

Sanford has also used a variety of plastic materials to package fresh seafood at our retail stores across New Zealand. Our goal is to move to packaging made from 100% renewable resources, while continuing to ensure our high standards of food safety and quality are maintained. A project team has been established to identify priorities and implement initiatives to replace these plastic items with more sustainable solutions. Another project objective is to ensure that whatever packaging is chosen complies with the New Zealand infrastructure for waste collection, recycling and/or composting standards to minimise environmental impacts.

PHOTO: NEW RECYCLABLE CARDBOARD CARTON, BIG GLORY BAY SALMON

• CASE STUDY •

Optimising our distribution fleet

Sanford operates a fleet of chilled and frozen vehicles to move wet fish between the wharf and processing plants, and packaged seafood for customer deliveries.

A significant volume of fresh chilled seafood is delivered to Auckland Airport from Tauranga and Auckland on a daily basis, connecting to flights to all corners of the globe. Meeting tight airfreight deadlines is extremely important, and dependent on having efficient and reliable transport. A review of the Auckland and Tauranga transport fleet was recently undertaken to ensure the equipment was safe, fit for purpose, and to confirm that capacity matched requirements. As an outcome, the fleet has been rationalised, but with new equipment introduced, and greater flexibility achieved through using third party logistics suppliers to support the seasonal peaks.

> **Having a transparent and traceable supply chain is key – from cradle to grave, or door to door. All the way through from where the fish is caught to the plate.**
>
> **Nic Kay**
> NATIONAL GROUP SALES MANAGER, NEW ZEALAND – MAINFREIGHT

DAILY FREIGHT
FRESH CHILLED SEAFOOD

PHOTO: NEW BRANDING ON SANFORD VEHICLES

AND our future focus

MATERIAL ISSUES	STRATEGIC GOALS	FUTURE TARGETS 2018 AND BEYOND	OUR 2025 VISION
Food safety and quality	Be recognised as a global leader in providing safe, high quality seafood that delights our customers and represents our love for the sea.	Maintain FSSC 22000 food safety across all five land-based processing sites. Trial and implement commercially available rapid microbiological testing technologies for Greenshell™ mussels at Havelock, with the view to use this technology at other sites. Improve the testing service to other Sanford sites and increase the speed of results, meeting market access and customer specific requirements. Support every worker to be a quality inspector who owns their products and processes. Work with fishing, processing and supply chain to monitor and improve the quality of fresh fish and service delivery via specific quality monitoring systems and feedback loops from sea to plate.	Sanford is recognised and respected as a global leader that is responsible, engaged and empowered with the necessary culture, tools and training to provide safe, high quality, and sustainable New Zealand seafood that meets the expectations of our increasingly sophisticated customers and consumers.
Drive value through brand creation	Be the brand of choice worldwide for our prized New Zealand seafood, by building a portfolio of brands that engage with consumers.	50% of NZ consumers are aware of Sanford and buy their products. Relaunch the Auckland Fish Market with 1 million consumers per year. Relaunch the Sanford Seafood School with world class offerings, and a 75% occupancy rate for all Seafood School classes. Drive value growth in key markets with Sanford branded products. Amplify and extend consumer engagement across social media platforms with 50,000+ consumers in our online communities. Launch consumer led innovation. Extend the branded product and market footprint of Big Glory Bay. Develop the system and technology to trace products from sea to plate across all Sanford consumer facing brands.	Sanford is the worldwide brand of choice for New Zealand seafood, built on a reputation of authenticity, trust and expertise. Our customers and consumers place significant value on the provenance of our seafood.

MATERIAL ISSUES	STRATEGIC GOALS	FUTURE TARGETS 2018 AND BEYOND	OUR 2025 VISION
Supply chain	Work with our supply chain to deliver mutually sustainable solutions that deliver value for money, and support our focus on health and safety, product quality, sustainability, continuous improvement and innovation.	Continue the emphasis on adding value to our customers through delivering ongoing supply chain improvements. Integrate the strategic ambitions of the company into supply chain activities by actively engaging in business management teams. Develop and use tools to build forecasting capability across harvesting, supply, demand and inventory functions. Continue to contribute positively to Sanford's bottom line by actively managing key suppliers. Implement best practice procurement, embedding sustainability into our selection and management of suppliers and continue to grow influence and reduce complexity across all third party expenditure.	A world class, sustainable supply chain that enables the company to achieve its vision of being the best seafood company in the world; bringing beautiful New Zealand seafood to customers all around the world.

These targets for **2018 and beyond** have been informed by Sanford's strategy, and a thorough review of international guidance[1] on business commitments to support achievement of the UN Sustainable Development Goals.

1 GRI and UN Global Compact 2017: *Business Reporting on the SDGs – An Analysis of the Goals and Targets*.

AND

ENSURING HEALTHY OCEANS

We will lead by example in healthy ocean management, so that future generations can enjoy and benefit from our biologically diverse, safe, healthy and dynamic oceans.

UN SDG 14
LIFE BELOW WATER

The oceans – their temperature, chemistry, currents and life – drive global systems that make the earth habitable for humankind. They are the natural capital that Sanford's business relies upon to provide value to our stakeholders. It is therefore imperative that we do everything in our power to ensure their health. The biggest difference we can make is by sustainably utilising fish stocks and our aquaculture operations, ensuring that we don't pollute the resource we rely on for our product. Sanford is also taking a leadership role, both within New Zealand and globally to support sustainable ocean management.

PHOTO: BIG GLORY BAY, STEWART ISLAND

Material issues AND value creation

This table summarises Sanford's material issues relating to ***ensuring healthy oceans***, the strategic goals defined through our Business Excellence Framework, our targets for 2017 and our progress against these targets in contributing to value creation. At the end of this section, we also define our future targets and vision to 2025.

MATERIAL ISSUES	STRATEGIC GOALS	2017 TARGETS*	PROGRESS AGAINST TARGETS**
Sustainable fish stocks and marine farms	Ensure clear commitment to comply with all applicable laws and regulations governing our operations, including relevant international conventions, recognising the importance of healthy ocean management including zero tolerance for overfishing, underreporting and discarding catch.	Maintain third party certifications across Sanford aquaculture farms, validating our commitment to farm efficiently and deliver sustainable seafood. **(S)**	**Achieved.** Four certifications maintained, including Best Aquaculture Practices (Big Glory Bay King salmon and Greenshell™ mussel farms); Certified Organic (BGB mussel farms); Marine Farm Association Environmental Certification (mussel farms Marlborough); A+ Sustainable Aquaculture in progress (mussel farms Marlborough, Banks Peninsula).
		All fishers to record and report their catch to ensure maximum transparency of the fish stock status. **(L)**	**Achieved.** Full and compliant catch monitoring. AIS (GPS tracking), Cedric and cameras in use by Sanford operations. Progressive roll out of IEMRS will further increase data collection and transparency in FY18.
		Continue engaging with New Zealand's Deepwater Group to maintain and support MSC sustainability certification for deepwater species in New Zealand's Exclusive Economic Zone. **(L)**	**Ongoing.** Sanford continues to actively engage with and support MSC certification for deepwater species. In 2017, 46% of our total wildcatch by greenweight tonne (GWT) was MSC certified (FY16: 37%). Two MSC chain of custody audits were carried out in relation to Sanford operations in FY17.
Marine conservation	Embrace our role as a change leader in the seafood industry, applying influence on the sustainability of our oceans, leading to better practice and more sustainable outcomes, while making a positive impact on the communities and coastal ecosystems where we operate.	Take a strategic long term view of the vision, risks and opportunities relating to sustainability aspects of fisheries and work with others to operationalise best practice adaptive planning, management and response. **(L)**	**Ongoing.** We continue to take a multi-stakeholder approach to co-creating a vision for New Zealand and the world's oceans, working to research and implement leading edge sustainable fisheries and aquaculture management.
		Identify, define and deliver targeted initiatives to achieve a measurable reduction in the use of plastics across Sanford operations. **(M)**	**Ongoing.** A range of initiatives are in progress, from packaging innovations to the development and introduction of eco-ties in our aquaculture operations. Also participated in multi-stakeholder forums focused on marine plastics reduction.

MATERIAL ISSUES	STRATEGIC GOALS	2017 TARGETS*	PROGRESS AGAINST TARGETS**
Endangered, threatened and protected species	Ensure protection of marine species, including seabirds, sea lions, dolphins and sharks through delivering best practice farming and fishing practices, implementing protection measures and participating in ongoing robust research programmes.	Implement ongoing initiatives to minimise seabird and marine mammal interactions through research, technology and best practice mitigation. **(M)**	**Ongoing.** We continue to focus on research, technology and training to reduce our interactions with endangered, threatened and protected species, through a range of industry initiatives. We recognise the importance of transparent reporting, and are focusing on targeted initiatives as we strive to improve our performance.
		Develop and implement a Plan to progressively remove fishing-related threats and enable the Māui population to recover and expand. **(M)**	**Ongoing.** Plan co-developed and signed by Sanford and Moana. A range of measures to remove threats over time have been identified, with initial budget of $500k allocated to 2019. Requirement for vessel tracking systems in place; app developed and rolled out; set netting ceased; supporting transition to long lining.

VALUE CREATION – OUTCOME:

We will lead by example in healthy ocean management, so that future generations can enjoy and benefit from our biologically diverse, safe, healthy and dynamic oceans

* **S** = Short term (1 year or less); **M** = Medium term (2-5 years); **L** = Long term (5-10 years, or more)

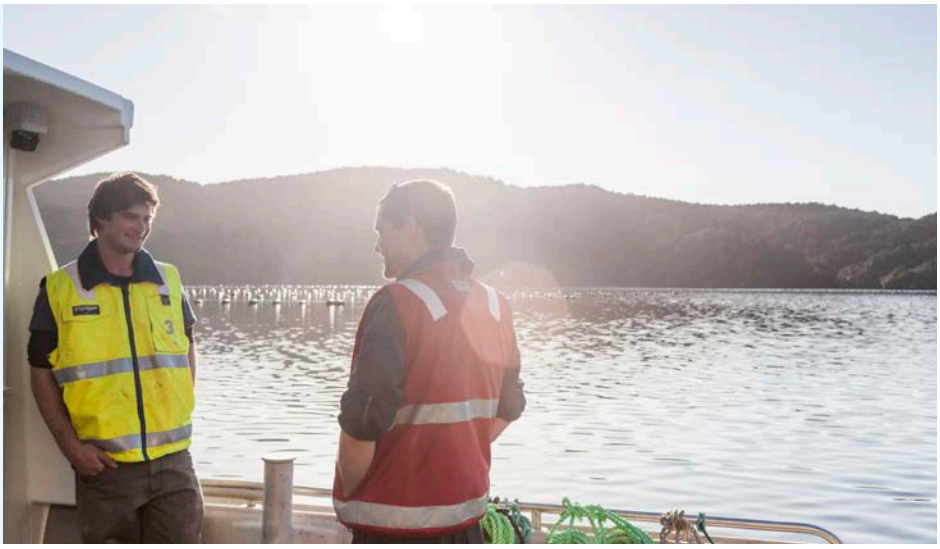
** Refer to '***Progress on our 2017 sustainable business targets***' for full updates across all targets defined

Further information on data and trends is provided in the Key Performance Indicator (KPI) table, contained in ***Appendix A*** to this Report.

Sustainable fish stocks and marine farms

GOAL

Ensure clear commitment to comply with all applicable laws and regulations governing our operations, including relevant international conventions, recognising the importance of healthy ocean management, including zero tolerance for overfishing, underreporting and discarding catch.



Sanford and our key partners actively innovate, research and develop the optimal ways to use fishery resources while supporting sustainable fish stocks and marine farms. Science and technology have a big role to play, but we remain vulnerable to external environmental conditions and events, ranging from ocean acidification to sea level rise. Innovations such as SPATNZ and Precision Seafood Harvesting (refer ***Outcome 1 – Sustainable seafood business***), reflect our ongoing commitment to adaptation, as well as delivering ongoing improvements in the way we fish and farm.

When the parasite *Bonamia ostreae* was detected in two Stewart Island oyster farms in 2017, Ministry for Primary Industries (MPI) used scientific evidence to inform the decision to remove all farmed oysters in the area. Sanford and our partners co-operated with MPI's requirements immediately and were one of the first to remove all the oysters from the area (refer ***Outcome 5 – Communities and partnerships***).

The capability and willingness of our staff, crew, contractors and suppliers has enabled Sanford to respond to new initiatives and unexpected challenges. At any one time, Sanford has hundreds of people at work on land and at sea, and they deliver great results for our sustainable business.

SUPPORTING THE EASIER COLLECTION OF DATA

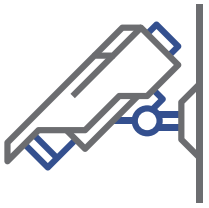
Thirty years ago, New Zealand's Quota Management System (QMS) was hailed as a global breakthrough in sustainable fisheries management. However, the increasing sophistication of our science, technology and customers' expectations make it timely to review how recreational, customary and commercial fishing can be accommodated in a QMS.

We supported, in principle, the review of New Zealand's fisheries management framework that was presented by MPI in their November 2016 consultation document, *The Future of Our Fisheries*, but thought it could be bolder. We believed the review should have occurred within a wider Oceans Policy framework. New Zealand has such rich natural capital, and there is an obligation for all ocean users to be involved in taking responsibility for managing it.

Already New Zealand's commercial fishers are legally required to report their catch; recently, MPI has introduced a mandatory Integrated Electronic Monitoring and Reporting System (IEMRS) to provide more data about commercial fishing activity, including more timely catch reporting, real-time vessel location monitoring and video collection of onboard fishing activity.

Sanford supports increasing data collection and transparency about what happens on the water, and welcomes the new Minister of Fisheries, Stuart Nash's announcement[1] that the timeframes for its rollout will be reviewed to ensure systems are robust by the due dates for implementation. We estimate that the cost of IEMRS on our business will be around $1million in additional vessel hardware in the next financial year (FY18).

Sanford is already well advanced in our integration of electronic monitoring and reporting; we have voluntarily been doing this for many years, including through the use of cameras and GPS tracking.



Integrated

ELECTRONIC MONITORING AND REPORTING CONTINUES TO DEVELOP

1. https://www.beehive.govt/release/digital-monitoring-commercial-fishing-rollout-be-slowed-down, 10 November 2017

Our Quota: How do we use it?

SANFORD IS NZ'S LARGEST – QUOTA HOLDER –

23%[1]

2016: 23%

8
PROCESSING SITES INCLUDING JOINT OPERATIONS
2016: 7

583
INDEPENDENT SHAREFISHERS
2016: 474

23
DEEPWATER & INSHORE VESSELS
2016: 24[5]

313[2]
FISHSTOCKS
2016: 313

87[2]
SPECIES
2016: 87

How have we performed?

TONNES OF FISHMEAL AND OIL PRODUCED
11,644
2016: 9,927

WILDCATCH GREENWEIGHT TONNES
91,936[3]
2016: 83,495[4]

1. Quota ownership based on New Zealand annual catch entitlement (ACE) equivalent
2. Figures relate to Sanford's New Zealand quota only
3. Total wildcatch GWT comprises Sanford fleet, including contracted ACE fisher's landings
4. 2016 figure reported as 81,245; restated as 83,465 to exclude spat. 2017 figure excludes spat
5. 2016 figure restated as 24 vessels, following reclassification of vessel type

• CASE STUDY •

OpenSeas – An Open Information Source

In August 2017 the New Zealand seafood industry launched OpenSeas, an innovative portal to inform about the environmental, social and production credentials of the New Zealand seafood industry.

The portal brought together over 20 industry experts and five regulatory agencies to collate information about New Zealand's approach to the sustainable use of its extensive marine environment. It describes the systems and processes used to ensure supply chain integrity and the legal protection of the welfare of workers and indigenous communities involved in seafood production. It features individual species profiles, which include the most up-to-date harvest details and independent environmental certification or risk assessment scores and will be continually extended and updated.

Sanford supports making transparent and traceable supply chain and sustainability information available to meet the needs of all stakeholders through the portal at http://www.openseas.org.nz/.

SUSTAINABILITY CERTIFICATIONS

Joining with independent audit and certification programmes is a way that Sanford can receive external feedback on, and validation of, our commitment to delivering sustainable seafood. Sanford uses five certification programmes to support and validate our commitment to sustainable seafood; one for our wildcatch and four for our marine farms.

Sanford are longstanding and active members of the Deepwater Group (DWG) Fisheries Certification Programme which has seen all of New Zealand's key deepwater fisheries receive third party certification. The DWG has adopted the Marine Stewardship Council (MSC) certification as the highest independent standard for sustainable fishing. Currently, 99% of New Zealand's key deepwater fisheries are in the DWG Fisheries Certification Programme, and 75% are either MSC certified or undergoing a formal MSC assessment.

There are now six MSC certified species (which equates to 15 fisheries) in the New Zealand Exclusive Economic Zone (EEZ), as well as the toothfish fisheries in the Ross Sea and South Georgia region. In 2017, 46% of Sanford's total wildcatch by GWT was MSC certified. MSC supports our strategic goal of marine conservation through embracing our role as a leader in our industry, influencing the sustainability of our oceans.

Sanford's King salmon and Greenshell™ mussel business in Stewart Island's Big Glory Bay demonstrate our commitment to sustainability through certification to the international Global Aquaculture Alliance's Best Aquaculture Practices (BAP) programme. We are in our second year of BAP certification, which verifies our commitment to the environment, social integrity, and the health of the animal and consumer through third party verification.

Our Big Glory Bay Greenshell™ mussel farms are also certified organic by Asure Quality, providing further evidence that these products meet high standards of safety, ethics and sustainability.

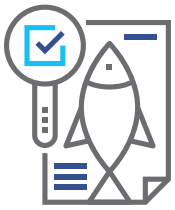
Over the last two years we signed up many of our farms, including all of those in Canterbury to Aquaculture New Zealand's A+ New Zealand Sustainable Aquaculture programme. During 2017, Grant Boyd, Floating and Farm Development Manager at Sanford Havelock has been involved in supporting the updating of the data entry model and ground testing the new software.

In Marlborough, our mussel farms have also continued certification to the Marine Farming Association's (MFA) environmental programme, which focuses on farm management, vessel operations and crew behaviour on the water.

BAP, MFA, A+ & CERTIFIED ORGANIC CERTIFICATION LOGOS

Wild caught MSC certified catch*

* BASED ON SANFORD'S TOTAL WILDCATCH (BY GWT) FOR 2017. DEVIATIONS REFLECT FLUCTUATIONS WITH SEASONALITY, ANNUAL CATCH ENTITLEMENTS, SPECIES COMPOSITION AND CLIMATE EVENTS SUCH AS EL NIÑO/LA NIÑA.



490

LICENCES ACROSS OUR 211 AQUACULTURE FARMS

NATIONAL ENVIRONMENTAL STANDARD FOR MARINE AQUACULTURE (NES)

In New Zealand, licences are needed for growing of all types of shell fish and fin fish. Sanford holds over 490 licences across our 211 aquaculture farms, and these are core to the ongoing success of our aquaculture business. Sanford has continued to inform development of the proposed NES, which is intended to provide national guidance to regional councils on how they should process the re-consenting of existing marine farm licences. Ted Culley (General Manager, Aquaculture at Sanford) is a member of the multi-stakeholder NES Working Group tasked with developing the NES.

The NES is proposed by the Ministry for Primary Industries in partnership with the Ministry for the Environment and the Department of Conservation. It was put out for public consultation in the third quarter of 2017, and the Working Group is now reading and considering the submissions. Sanford has also worked with Aquaculture New Zealand, our sector representative body, on an industry submission, as well as lodging a company submission. These types of processes create a good forum for marine farmers to come together and have robust debate on how our industry should move forward on a collaborative basis.

The opportunity to create more value from this industry by taking a measured approach to further growth, and ensuring that we focus on investments in value creation – and not mere increases in volume – is significant.

Marine conservation

GOAL

Embrace our role as a leader of change in the seafood industry, applying influence on the sustainability of our oceans, leading to better practices and more sustainable outcomes, while making a positive impact on the communities and coastal ecosystems where we operate.

The New Zealand government manages protected species and marine conservation in line with a number of international and regional agreements, and through several recognised international bodies. Sanford supports such measures; the commercial seafood industry is worth over $2 billion/year to the New Zealand economy. Collectively, we provide work for over 20,000 New Zealanders and around 600,000 of us are recreational fishers.

Sanford believes that New Zealand has a unique opportunity to be world leaders in how we protect our oceans and everything in them. We are already proactive, early adopters of the fisheries management system that are regarded internationally as amongst the best. At the same time we are facing the urgent need for protecting our Exclusive Economic Zone (EEZ), the 4th largest in the world, to preserve a magnificent environment that provides value for every New Zealander into the future.

While as a nation we are dependent upon the ocean for a huge range of economic activities; currently there is no cohesive approach across business, science, and government that we can unite behind to manage our marine environment. Sanford is exploring ways to effect positive change.

With plastic pollution, ocean acidification, and runoff from land-based farming currently threatening the health of our marine areas, it is now more important than ever for us to turn our obligation to act into the ambition to lead by example. Sanford advocates shared responsibility for enhancing our marine environment so that its use is sustainable, enriching and accessible to all. We are a strong supporter of multi-stakeholder processes that span all ocean-related activities, and ultimately have the ability to link with terrestrial activities that affect the ocean, such as sedimentation and water quality.

As set out in ***Outcome 5 – Communities and partnerships***, Sanford are actively involved in a range of multi-stakeholder forums and initiatives, from advising on global forums on ocean stewardship to providing leadership and operational input into a range of industry forums, such as the Southern Seabird Solutions Trust, Fisheries Inshore New Zealand, Deepwater Group and the Convention for the Conservation of Antarctic Marine Living Resources (CCAMLR).

VISION AND ACTION: WHAT ARE WE DOING FOR MARINE CONSERVATION

Sanford calls on New Zealand to:

- Co-create an ambitious vision for the ocean with a wide range of users and lovers of the sea
- Set up a Ministry for the Oceans to address the many diverse and interrelated issues about our oceans
- Manage fisheries in a wider ecosystem approach
- Reinstate New Zealand as a world leader in marine and fisheries management
- Support excellent research and monitoring to inform better understanding, policy and management of our oceans and fisheries
- Take a multi-stakeholder approach to how we work with and sustain our fisheries, with science at the centre of what we do

Sustainability sits at the core of our business – it is fundamental to our survival, and is the foundation for our growth. Our vision is to be the best seafood company in the world through the sustainable growth of our business; founded on our belief that we owe a responsibility to the environment we operate in, and the society that grants us the licence to operate.

Some sustainability challenges arise from or affect how and where we fish, and Sanford is committed to continuing to work with others to do whatever we can in response. Our key priority areas include:

- Interactions with seabirds, marine mammals and other species and how to avoid and/or reduce these
- Transparency and accountability assurance from accurate data collection systems on fishing vessels
- Biodiversity and biosecurity issues
- Marine reserves and the science, policy and engagement around their coverage and location
- Climate change and the real threat it poses
- The effects of land use on fresh and marine water quality
- The effects of other uses of the sea and sea floor
- Bottom trawling and how to avoid or reduce its adverse ecosystem effects

Sanford has been working on some of these challenges for some time, and is committed to continuing to work with other stakeholders in open conversations that help to co-create new solutions.

New Zealand may end up being the last place in the world where we can truly demonstrate sustainable fishing. Sanford have a responsibility to do everything they can to ensure this happens. They have taken some courageous steps already, but there is much more to be done to ensure New Zealand can, in fact, provide a sustainable seafood sector for generations to come.

—

Chris Morrison
CO-FOUNDER, ALL GOOD ORGANICS

• CASE STUDY •

Our supporting activities: taking action on marine plastics

The effect of plastics on the marine ecosystem is under increased international focus. A new report from the World Economic Forum[1] estimates that, by weight, the world's oceans will contain more plastic than fish by 2050. Sanford's General Manager of Sustainability (Lisa Martin) was invited by the Ministry of Foreign Affairs and Trade (MFAT) to attend the East Asia Summit in Bali in September 2017, an international forum focusing on the challenges in managing marine plastic debris. Lisa presented on the impact plastic has on our industry, shared practical insights into Sanford's commitments towards marine plastic reduction to date, and informed discussion on how local and national governments can support further innovation and practical solutions. The summit was attended by diplomatic and private sector representatives from 19 countries in East Asia, the United States, Australia and New Zealand, and the attendees are now working to agree on a Regional Plan of Action on marine plastics.

Sanford was one of several New Zealand players at the conference that have taken the initiative to develop world-leading technology to grapple with the massive and growing problem of plastic pollution in the seas of our region. This will help clean up our own maritime environment, but if much larger countries follow suit, this also offers the prospect of achieving scale and impact that can roll back this problem over time.

—

Stephen Harris
DIRECTOR FOR SOUTH AND SOUTH EAST ASIA, MINISTRY OF FOREIGN AFFAIRS AND TRADE

1. World Economic Forum and Ellen MacArthur Foundation, 2016: The New Plastics Economy: Rethinking the Future of Plastics

Initiatives to reduce the use of plastic across Sanford operations are gaining momentum: a cross-functional team is working on packaging innovations across our retail stores and fresh produce supply chains (replacing polybins) (refer ***Outcome 3 – Healthy food***); our mussel farming operations are focused on developing an eco-farm concept incorporating a range of solutions to replace plastic-based equipment (for example, compostable eco-ties) (refer ***Outcome 6 – Protecting the environment***); and investigations are underway to identify systematic solutions to support re-using and recycling key plastic waste streams (such as fish bins, ropes and nets beyond repair) as a proactive step towards supporting a circular economy.

SEAFOOD BUSINESSES FOR OCEAN STEWARDSHIP

Eight of the world's largest seafood companies issued a ten-point statement in December 2016 committing to action on ocean stewardship. Their action followed the first keystone dialogue between scientists and business leaders. The initiative was a unique meeting between CEOs and senior leaders of major seafood companies together with leading scientists from the Stockholm Resilience Centre. There were also several advisors from prestigious organisations from around the world, including the CEO of Sanford, Volker Kuntzsch.

The keystone dialogues is a new approach to getting major international businesses to engage on the global sustainability challenges. The eight seafood companies committed to improving transparency, traceability, and reducing illegal, unreported and unregulated fishing in their supply chains. They will also prioritise action to reduce antibiotic use in aquaculture, greenhouse gas emissions, plastic pollution and eliminate any products in their supply chains that may have been obtained through modern slavery including forced, bonded and child labour.

In describing the experience, Volker concluded, "It was a great honour to be invited to support the keystone dialogue. These large companies understand the role they play in our ocean ecosystems and are taking action to ensure that their role benefits our oceans to promote the long term sustainability of our industry and a healthy global food supply."

Endangered, threatened and protected species

GOAL

Ensure protection of marine species, including seabirds, sea lions, dolphins and sharks through delivering best practice farming and fishing practices, implementing protection measures and participating in ongoing robust research programmes.

New Zealand is rich in marine species of all kinds, and many of them are endangered, threatened and/or protected. All seabirds and marine mammals, including many species of sharks, are fully protected by our laws, and Sanford strives to minimise our interactions with them when carrying out all operations.

While we do invest significant effort in crew training, implementing best practice mitigation devices, continually improving our monitoring systems, data collection, and interpretation to provide information on the effectiveness of these devices, incidental catch remains a challenging issue to address.

The best practice mitigation measures we employ include bird scaring devices, sleds, weights on long-line hooks and escape holes in nets. We are also continuing to work with scientists and a wide range of other stakeholders to carry out ongoing research, trials and innovation to reduce injuries and mortality of both seabirds and marine mammals, through our involvement in a range of initiatives, including:

SEABIRDS

- Endorse and follow the MPI *National Plan of Action for Seabirds* (NPOA) to reduce the incidental catch of seabirds, implementing requirements in crew training and on water practices and procedures
- Signatory and member of the Black Petrel Seabird and Fisher Working Group, committed to reduce fishing-related mortalities through enhanced mitigation, observation and monitoring methods, and supporting relevant research
- Board and management committee involvement in Southern Seabird Solutions Trust, working to develop and implement targeted initiatives to protect 24 seabird species

MARINE MAMMALS

- Endorse and follow the Deepwater Group *Marine Mammals Operational Procedures* to reduce the incidental catch of marine mammals, implementing requirements in crew training and on water practices and procedures
- Co-leadership of the *Māui Dolphin Protection Plan*, a proactive and collaborative initiative to progressively remove fishing-related threats and enable the Māui population to recover and expand
- Endorse and follow the MPI and DoC *Sea Lion Risk Threat Management Plan*, implementing requirements in crew training and on water practices and procedures

• CASE STUDY •

Praise for Sanford skipper's dolphin release

The skipper of the *San Columbia*, Gum, was praised for releasing 30 tonnes of jack mackerel to save half a dozen dolphins surrounded by the boat's net.

The Sanford vessel was purse seine fishing off the Tauranga coast in March when a pod of dolphins were surrounded by the net. The crew lowered the sides, but the dolphins didn't swim out. The skipper faced a choice: to risk losing the 30 tonnes of catch by trying to free the dolphins, or to see the dolphins die. Gum wanted to save the dolphins, so he decided to release one end of the net, enabling all the dolphins to swim away unharmed; this allowed all the jack mackerel to escape too.

Sanford fully supported the skipper's decision, and despite releasing all of the fish alive, we were legally required to report the fish as catch: it counts against our annual catch entitlement for this species. Gum believes that any New Zealander in his position would have done the same and Sanford agrees with him. With Sanford's focus on sustainability, in a situation like this, we all agree that cost comes second.

Sanford is investing in identifying how to avoid similar situations in the future; we are trialing a dolphin dissuading device on the *Ana* and the crew have reported that it works well.

PHOTO: SANFORD'S CHIEF OPERATING OFFICER, GENERAL MANAGER OF FISHING AND GENERAL MANAGER OF CORPORATE COMMUNICATIONS THANKED GUM AND HIS CREW BY PRESENTING THEM WITH SANFORD MERINO JACKETS.

PHOTO: THE *SAN COLUMBIA* DOCKED IN TAURANGA

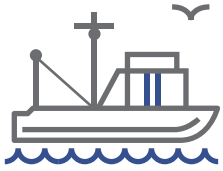
> Every crew and skipper working for Sanford should know that you will always have our support when you do the right thing and if you're ever in any doubt about whether the public cares and appreciates this, take a look at some of the emails that we've received.
>
> **Volker Kuntzsch**
> CEO OF SANFORD

BY THE NUMBERS

During 2017, Sanford harvested 91,936 GWT of fish, compared with 83,495 in 2016. Regrettably, despite our ongoing focus on operational measures to minimise the risk of interaction with seabirds and marine mammals, we experienced a number of unintended interactions during our increased activity on the water. All such incidents were thoroughly investigated, and we remain committed to implementing and continuing to explore new mitigation measures to improve our performance towards an ultimate goal of zero interactions.

In overall terms, the mortality rate for seabirds increased from 66.3% in 2016 to 75% in 2017, although the number of birds that we released during operations increased slightly to 94 (2016: 90). Sadly, a significant incident occurred with one of our charter vessel operators that resulting in a loss of 101 seabirds. After full investigation, appropriate remedial action was taken, as set out in the ***Continual improvement*** case study. There were 286 seabird losses during the nine months of data (October to June) available from MPI at the time of preparing this Report, an increase from last year (FY16: 177) for the same period. This data tells us the number of unintended interactions by type and outcome, recorded by species and by vessel.

MPI SUMMARY OF SANFORD'S



Action

FOLLOWING A SIGNIFICANT INCIDENT WITH A LOSS OF 101 SEABIRDS, A FULL INVESTIGATION AND FULL REMEDIAL ACTION WAS TAKEN

PHOTO: FUR SEAL ON BUOY IN MARLBOROUGH SOUNDS
PHOTO CREDIT: STEVE HUSSEY

REPORTED INCIDENTAL CATCH DATA

	SEABIRDS[5]		MARINE MAMMALS[5]	
	2017	2016	2017	2016
Uninjured	86	84	6	0
Injured	8	6	0	0
Dead	286	177	47	27
Total	380	267	53	27
Mortality Rate (%)[6]	**75%**	**66.3%**	**89%**	**100%**

5. 2016 and 2017 data covers the 9 month period 1 October to 30 June, which reflects the data set available from MPI at the time of reporting. Based on 12 months of data for 2016 (as subsequently supplied by MPI in relation to 2016 dataset), the mortality rates for seabirds and marine mammals are 77% and 96% respectively.
6. Mortality rate is calculated as the ratio between total species caught and species caught dead.

The mortality rate for marine mammals reduced from 100% in 2016 to 89% in 2017, although we unfortunately recorded 47 marine mammal deaths for the 9 month period of October 2016 to June 2017. The majority of these interactions occurred in June, which is the beginning of the hoki spawning season, when New Zealand fur seals gather to take advantage of the fishing activity. The New Zealand fur seal is a hoki predator, with a growing population. We are continuing to work towards putting in place special measures to address this challenge.

> **Sanford is being brave around transparency, e.g. the number of seabirds and marine mammals caught.**
>
> **Abbie Reynolds**
> EXECUTIVE DIRECTOR, SUSTAINABLE BUSINESS COUNCIL (SBC)

While this year we caught and recorded the successful release of six uninjured mammals (five fur seals and one pilot whale), it is not currently possible to record live escapes directly from the mitigation measures deployed. However, as technology advances we will aim to capture more information in relation to the efficacy of the mitigation measures deployed, and this will assist in the enhancement and development of our mitigation measures.

Sanford operates within and strongly advocates the various industry operational plans, codes of practice and procedures referred to above, which are over and above the regulatory requirements.

• CASE STUDY •

Continual improvement

In April 2017, one of our deep sea charter vessels experienced gear failure while deploying its net to fish for squid on behalf of Sanford.

The crew tried to correct the failure as quickly and safely as possible, but while the empty net was sitting on the surface, a large number of small seabirds flew into the net and unfortunately drowned, despite bird mitigation gear being deployed on the vessel itself. The MPI observer on board counted 101 birds in total; 76 sooty shearwater (mutton birds) and 25 white-chinned petrels.

Sanford reviewed the incident using the Deepwater Group (DWG) industry agreed environmental risk reduction procedures and standards, and noted that despite the extensively observed fishery and gear type involved (including the experience of the charter vessel operator working in this area over 28 years), nothing of this nature or scale had occurred. Above all, the findings demonstrated the need for mitigation procedures to be regularly reviewed and updated, and for crews to be constantly vigilant and responsive. Mitigating the risk of re-occurrence of such an incident of this nature is a high priority, and learnings have been shared with all deepwater fleet operators through the issue of a DWG Advisory Note.

Sanford continues to communicate with its crews that they must constantly be aware of seabird activity and unusual behavior, and that in the event of operational failure, they must urgently remove nets from the water while working to solve the problem. We have agreed with the charter vessel's management that if a gear failure incident happens again, they must deploy one person to solely watch for any unusual bird activity and initiate urgent action, while others focus on fixing the gear.

SANFORD AND THE MĀUI DOLPHIN PROTECTION PLAN

The world's tiniest and rarest dolphin, the Māui dolphin or popoto (*Cephalorhynchus hectori maui*), is found in the shallow waters off the west coast of New Zealand's North Island. Currently, there are estimated to be only 63 dolphins over one year old, and with the population so dangerously low, this species is on the brink of extinction. This is a conservation emergency requiring concerted and collaborative action, and Sanford have responded.

While the New Zealand government has permanently protected the Māui core habitat with fishing prohibitions, Sanford and Moana, together with WWF New Zealand, worked to identify a set of actions that would remove the human induced residual risk to Māui dolphins from commercial fishing on a broader scale, recognising that larger companies have a responsibility to lead and collaborate.

The *Māui Dolphin Protection Plan* (the Plan) took us several years to develop; both companies signed it in December 2016. We have also reached out to other fishers and invited them to join us. Margret Hall, the Project Coordinator, has been working with these fishers and is impressed with their willingness to come on board. We are also working to develop a dolphin-safe trawl net that can be used across New Zealand fishing waters on all dolphin species. Sealord, Maruha, Pegasus Trawling and Raglan Trawling have also joined the project. Sanford CEO Volker Kuntzsch said, "We can't do it all on our own, but we've made a good start with a joint 2017-2019 budget of $500,000."

From April 2017, all harbour set netters that are catching or landing Sanford or Moana's fishing entitlements were required to use vessel tracking systems. From October 2017, no Sanford annual catch entitlements (ACE) have been leased to fishers using set nets in the coastal fishery north of New Plymouth. From December 2022, we aim to have a dolphin-safe trawl net, or we will stop trawling in the Māui habitat.

Good progress has been made on the Plan's commitments; over 50 harbour set net fishers have agreed to use a mobile app that we developed to track their fishing effort. Trident Systems will aggregate all of the fishers' tracks and overlay these with locations where Māui dolphin have been sighted. If there is a risk to dolphins, we have committed to go back out to fishers and find a solution. Sanford has also supported coastal set net fishers to transition to long lining, and we are pleased to report that over the last year, two fishers have completed this process.

Find the plan at http://www.sanford.co.nz/assets/Sanford-and-Moana-Maui-Protection-Plan-2016.pdf.

MOANA & SANFORD

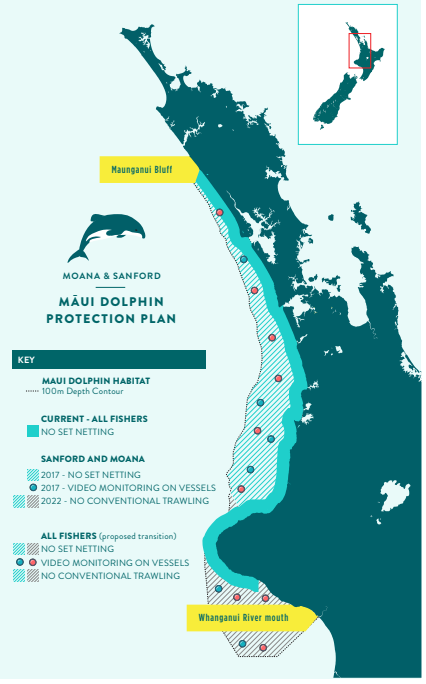
NEW ZEALAND MĀUI DOLPHIN PROTECTION PLAN

1
No catching rights leased to coastal set netters within 100m depth contour north of New Plymouth from 2017.

2
No conventional trawling within 100m depth contour after 2022.

3
Video cameras and electronic tracking on all vessels.

4
2017/18 companies to spend $500,000 on research and compliance to support 'Māui-safe' fishing.



• CASE STUDY •

Black Petrel visit to Great Barrier Island

PHOTO: STEVE JONES, SKIPPER OF SANFORD VESSEL THE *SAN ANA* HOLDS A BLACK PETREL AS PART OF A BANDING EXERCISE WITH WILDLIFE MANAGEMENT INTERNATIONAL ON GREAT BARRIER ISLAND

Wildlife Management International has taken several of our staff to the top of Great Barrier Island to see the petrels close up, and in early 2017, Steve Jones, one of our skippers who regularly fishes in the Hauraki Gulf and our General Manager of Sustainability, Lisa Martin, went on just such a trip. While there, our staff were shown where the black petrels nested, told more about their life cycle and habits, and over two days helped the conservation team band juvenile birds.

Steve described this trip as an experience that reinforced his perspective and encouraged him to do even more to help the black petrels. He feels inspired to continue spreading the word about the mitigation measures Sanford uses, and that he has on his vessel. While on this trip, he worked with a film crew to make an informative video to share with his peers. For Lisa, it reinforced why Sanford works to educate both staff and share fishers about seabird care, and brought to life the commitment that Sanford, and others, have made to protect the Black Petrel through the Black Petrel Working Group Pledge.

AND our future focus

MATERIAL ISSUES	STRATEGIC GOALS	FUTURE TARGETS 2018 AND BEYOND	OUR 2025 VISION
Sustainable fish stocks and marine farms	Ensure clear commitment to comply with all applicable laws and regulations governing our operations, including relevant international conventions, recognising the importance of healthy ocean management including zero tolerance for overfishing, underreporting and discarding catch.	Actively continue to explore opportunities to achieve and maintain appropriate third party certifications of wildcatch and marine farms, considering a common certification platform. Actively engage with leading players to develop and roll out accurate recording and reporting systems for both target catch and incidental catch to ensure maximum transparency of fish stock status.	Sanford leads the industry to ensure, through its operations, that fish stocks and marine farms are verified as sustainable on the basis of robust, scientific research, monitoring and transparent reporting.
Marine conservation	Embrace our role as a leader of change in our industry, applying influence on the sustainability of our oceans, leading to better practices and more sustainable outcomes, while making a positive impact on the communities and coastal ecosystems where we operate.	Continue to collaborate with multiple stakeholders through targeted research and partnership projects to advance sustainable marine conservation outcomes. Actively promote the multi-stakeholder co-creation of a shared vision for our oceans and the establishment of a Ministry for the Oceans.	Sanford contributes significantly to ensuring the sustainability of our oceans, leading industry best practice, leaving a positive and lasting legacy on the communities and coastal ecosystems where we operate.
Endangered, threatened and protected species	Ensure protection of marine species, including sea birds, sea lions, dolphins and sharks through delivering best practice farming and fishing practices, implementing protection measures and participating in ongoing robust research programmes.	Continue to engage in robust research and development initiatives to advance best practice species avoidance and protection techniques, such as the trial of a dolphin dissuading device on the *Ana*. Actively implement and promote industry, public and government support for the *Māui Dolphin Protection Plan* and extend this to other dolphin species and marine mammals as soon as possible. Actively work with scientists, fishing crews and key stakeholders to progressively reduce fatal interactions with seabirds and marine mammals.	Sanford is an industry leader in the delivery of best practice marine species avoidance and protection techniques, and a significant contributor to ongoing innovation, scientific research and development initiatives.

These targets for **2018 and beyond** have been informed by Sanford's strategy, and a thorough review of international guidance[2] on business commitments to support achievement of the UN Sustainable Development Goals.

2. GRI and UN Global Compact 2017: Business Reporting on the SDGs – An Analysis of the Goals and Targets.

AND

SUPPORTING ENDURING COMMUNITIES AND PARTNERSHIPS

Our leadership in creating employment and skills opportunities, coupled with our understanding of the needs of our communities and partners, ensure we deliver a significant and positive contribution everywhere we work.

UN SDG 8

DECENT WORK AND ECONOMIC GROWTH

Under-employment affects communities around New Zealand, and we need decent work opportunities if we are all to share in our progress as a country. Sustainable economic growth creates the conditions that enable people to hold down decent jobs that stimulate the local and national economy. We are committed to creating productive employment opportunities for our local communities and we value living and working in them. The increasing diversity in our product portfolio through innovation and with the aquaculture sector having a high potential for growth, we believe we can create long term employment in our communities through our growth goals.

UN SDG 17

PARTNERSHIPS FOR THE GOALS

To achieve all of our sustainability goals, Sanford needs to work in partnership with our stakeholders to ensure that we have sustainable outcomes for the future. Our strategic partnerships, both local and global, help us create the most value that we can for current and future generations. We invest significant time and energy collaborating with stakeholders to help shift the dial in areas where we can make the most difference.

Material issues AND value creation

This table summarises Sanford's material issues relating to ***supporting enduring communities and partnerships,*** the strategic goals defined through our Business Excellence Framework, our targets for 2017 and our progress against these targets in contributing to value creation. At the end of this section, we also define our future targets and vision to 2025.

MATERIAL ISSUES	STATEGIC GOALS	2017 TARGETS*	PROGRESS AGAINST TARGETS**
Engagement and employment	Respect and support our local communities in line with our social licence to operate. Where possible, we will create local business, employment and skills development opportunities.	Implement targeted strategies and plans to support local business, employment, and skills development. **(M)**	**Ongoing.** At the regional level, support various educational and employment initiatives, from university and school visits to internships. Worked with the Graeme Dingle Foundation's Career Navigator programme in Southland to support the delivery of a 'Ready-for-Work' programme.
		Continue to grow the engagement across the communities that we operate in through a range of initiatives from open days to communication through multiple forums. **(M)**	**Ongoing.** Implemented a wide range of community initiatives from planting to coastal clean-up events, fundraising activities and open days. The Sanford Annual Report 2016 was a case study in the NCEA national curriculum, with visits from four school groups, and presentations from Sanford representatives. Engagement tracked through social media metrics. In-house GM Communications function established, further extending outreach.
Strategic partnerships and collaboration	Establish strategic partnerships that create value for the community, our partners and Sanford in the short, medium and long term.	Continue to foster existing strategic partnerships and establish new ones, where appropriate in line with our overall business strategy and priorities. **(L)**	**Achieved.** Formal partnerships with the Graeme Dingle Foundation and Paralympics New Zealand continue. Active memberships across a range of organisations (refer ***Appendix C***). Signatory to a range of initiatives, such as Climate Action, *Māui Dolphin Protection Plan*, and Black Petrel Pledge.
		Contribute towards the New Zealand Inc brand and key sustainability initiatives through collaborating with others to deliver outcomes that make a difference. **(L)**	**Ongoing.** Active involvement in a wide range of multi-stakeholder forums and initiatives at industry, national and international levels.

VALUE CREATION – OUTCOME:

Our leadership in creating employment and skills opportunities, coupled with our understanding of the needs of our communities and partners, ensure we deliver a significant and positive contribution everywhere we work

* **S** = Short term (1 year or less); **M** = Medium term (2-5 years); **L** = Long term (5-10 years, or more)

** Refer to ***'Progress on our 2017 sustainable business targets'*** for full updates across all targets defined

Further information on data and trends is provided in the Key Performance Indicator (KPI) table, contained in ***Appendix A*** of this Report.

Engagement and employment

PHOTO: ZANE CHARMAN TRAVELLING IN THE MARLBOROUGH SOUNDS

PHOTO CREDIT: STEVE HUSSEY

GOAL

Respect and support our local communities in line with our social licence to operate. Where possible, we will create local business, employment and skills development opportunities.

Strong local communities are critical to our success and we take it seriously to actively make a positive contribution. Our 2017 stakeholder engagement and materiality process confirmed that our social licence to operate is important to Sanford's stakeholders – in fact it ranked as the eighth most important material issue overall.

The extent to which a community grants a company such as Sanford a 'social licence to operate' essentially reflects the degree to which we share a trusted and enduring regard for each other's interests[1]. The same is true for our regulators, tangata whenua, and governing bodies.

Here we describe some of the ways in which we express our regard for the social, environmental and economic wellbeing of the local communities where we live and work.

Our operations benefit many regions in New Zealand, from Auckland to Stewart Island (refer ***A global presence***). In this section we have focused particularly on Marlborough and Southland, the regions that stood out in the number of highlights achieved in 2017.

1. Quigley, R. and Baines, J. (2014) *How to improve your social licence to operate.* Wellington: Ministry for Primary Industries.

> **It's local people that fish for Sanford. It's local revenue going into their communities.**
>
> —
>
> **Tony Mildon**
> SALES DIRECTOR, MAERSK LINE

OUR CONTRIBUTION TO THE MARLBOROUGH COMMUNITY

Sanford is committed to the Marlborough region and we are honoured to have received the prestigious Marlborough Award in 2016 in recognition of the leading role the marine farming sector plays there. We remain committed to creating a strong future for the region through our sustainable marine farming business and ongoing investments. Our recent acquisition of Enzaq in Blenheim (refer ***Outcome 1 – Sustainable seafood business***) reinforces this commitment, and Sanford continues to make key contributions to advance marine farming innovation (refer ***Outcome 6 – Protecting the environment***) and new product innovation (refer ***Outcome 1 – Sustainable seafood business***).

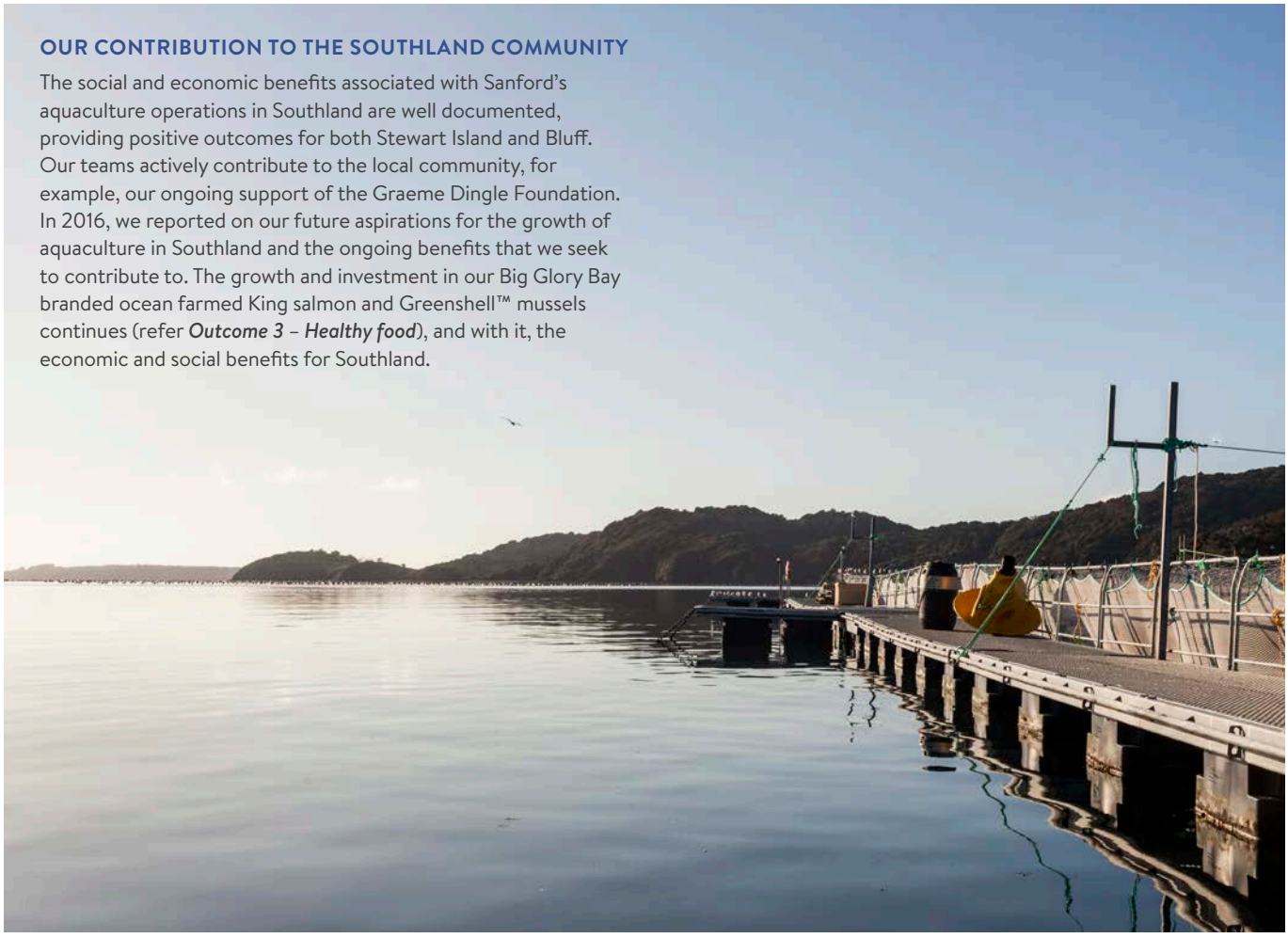
We currently operate a large number of aquaculture farms in the Marlborough Sounds and are the largest holder of marine farming licences there. We harvest a significant proportion of all the Greenshell™ mussel production in Marlborough, and employ around 300 people in the region. The combination of farming and processing enables Sanford to keep the Havelock plant open all year round, making us a strong and stable business for Marlborough.

The Sanford team remains highly committed to supporting our local Marlborough communities, and we are involved in a range of local support and partnership initiatives from volunteering to fund raising. This includes providing assistance to the harbour master for oil spills, support to our volunteer fire fighters and engaging with our key partnerships such as the Graeme Dingle Foundation.

> **There has been real willingness to create a shared understanding and shared solutions. Because of Sanford's investment in and engagement with the community, the people of Marlborough are much more willing to work together with the company rather than in opposition to it.**
>
> —
>
> **John Leggett**
> MAYOR OF MARLBOROUGH

OUR CONTRIBUTION TO THE SOUTHLAND COMMUNITY

The social and economic benefits associated with Sanford's aquaculture operations in Southland are well documented, providing positive outcomes for both Stewart Island and Bluff. Our teams actively contribute to the local community, for example, our ongoing support of the Graeme Dingle Foundation. In 2016, we reported on our future aspirations for the growth of aquaculture in Southland and the ongoing benefits that we seek to contribute to. The growth and investment in our Big Glory Bay branded ocean farmed King salmon and Greenshell™ mussels continues (refer ***Outcome 3*** – ***Healthy food***), and with it, the economic and social benefits for Southland.



• CASE STUDY •

BONAMIA'S IMPACT

The Ministry for Primary Industries (MPI) reported in May that it had detected the parasite *Bonamia ostreae* in two flat oyster farms on Stewart Island.

One of those farms was a joint venture farm run by Sanford and local company Tio. While *Bonamia ostreae* presents no risk to humans, MPI decided to remove all farmed oysters from the area to reduce the risk of spread to the wild oyster population. Sanford and our partners at Tio cooperated with MPI's requirements immediately and we were one of the first farming operations to remove all our oysters from the area.

The overall impact on Sanford's business is not significant, but for the people who worked on our farms, the *Bonamia ostreae* incursion has been a personal and professional blow.

Sanford is a significant quota holder in the wild oyster fishery. We are committed to the health of this fishery and wish to see its preservation through decisions and actions that are supported by the best available science and ongoing testing.

MPI will offer compensation for losses incurred by farmers directly affected, but as of November 2017, the amounts in question are yet to be settled on.

SOUTHLAND – HELPING STUDENTS GET READY-FOR-WORK

Sanford partner, Graeme Dingle Foundation run Career Navigator, a 'Ready-for-Work' programme for secondary school students. The initiative supports teens in their decision making around future employment and provides a platform for employers to share real-world knowledge, and offer mentoring and active learning opportunities.

In September, fifteen Career Navigator students from Te Wharekura (a full immersion Māori school) visited our Sanford team in Bluff.

> **The students learned a great deal on the day and the Sanford team were incredibly engaging. Many students had never been into a workplace before, so it was an invaluable experience for them to understand how a local business ticks. I'd be surprised if, based on their experience today, some of them don't end up becoming future Sanford employees!"**
>
> —
>
> **Scott Bowden,**
> REGIONAL MANAGER, SOUTHLAND
> GRAEME DINGLE FOUNDATION

PHOTO: SANFORD TEAM MEMBERS TOGETHER WITH SCOTT BOWDEN (GRAEME DINGLE FOUNDATION) AND CAREER NAVIGATOR STUDENTS FROM TE WHAREKURA

• CASE STUDY •

PHOTO: TOMMY FOGGO, PHOTO CREDIT: AQUACULTURE NEW ZEALAND

TOMMY FOGGO VALEDICTORY

Sanford is proud to be woven into the fabric of the communities in which we work. Tommy Foggo in Bluff is an exemplar of this.

After 37 years Tommy is retiring from Sanford in December 2017. His career has been the story of a local man who rose to be a leader in a proudly New Zealand business, which balances a global focus with a strong sense of belonging in its home base.

Tommy started his career with Sanford in Bluff as a Production Manager in 1980 with just six staff. The salmon and aquaculture business he leaves behind now has 190 employees, farming and processing around 6,000 metric tonne of New Zealand seafood every year. This seafood is one of Sanford's premium offerings - our beautiful Big Glory Bay salmon passes through the Bluff factory, en route to some of New Zealand's finest restaurants.

Tommy has also made his mark outside Sanford. He established the Youth Development Southland Regional Trust to oversee Kiwi Can in Southland and he worked to kick start the funding for the programme locally.

He was also involved in setting up the Bluff Oyster Festival and has served on the boards of many different companies over the years, including the Invercargill Airport (where he is the current Chair) and South Port.

Marie McDonald, the Quality Assurance Manager in Sanford's Bluff factory said, "Tommy is a real Bluff boy made good. He has experience like no one else and he is great at dealing with people at every level - anyone can wander into his office for a chat."

In turn, Tommy says he will miss the team very much. "My heart will always be with Sanford and I'll certainly just be on the other end of the phone if they ever need anything. I have worked with some wonderful people and I wish them all the best."

From the start of 2018, Tommy will be focusing on the community involvement he built during his time at Sanford as he looks to increase his work with a number of local boards and organisations.

Strategic partnerships and collaboration

GOAL

Establish strategic partnerships that create value for the community, our partners and Sanford in the short, medium and long term.

PHOTO: NEW ZEALAND DELEGATION TO EAST ASIA SUMMIT ON MARINE PLASTIC DEBRIS
PHOTO CREDIT: MINISTRY OF FOREIGN AFFAIRS AND TRADE

Partnerships continue to be important to us because we believe we have a responsibility to improve social, environmental and economic outcomes as part of being in business. We have continued to focus on two community partnerships this year where we believe we can make the most significant and sustainable difference.

Contributing towards the New Zealand Inc brand, and a sustainable global seafood industry have been the drivers behind the many multi-stakeholder engagements we have undertaken this year, both locally and globally.

ADDING VALUE TO LOCAL COMMUNITIES

Sanford contributed significantly to community and charity programmes in 2017; although it was $89,154 below our 2016 contribution, this was because the timing of scheduled payments to our key partners fell outside FY17. This does not include the significant in kind support our teams have contributed through volunteering and fund raising efforts within our local communities.

PROGRAMME	COMMUNITY INVESTMENT
Community Programmes	$37,731.40
Paralympics New Zealand and the Spirit of Gold® Initiative	$119,579.77
Graeme Dingle Foundation	$52,569.93
Other Charities	$8,535.13
2017 Total	**$218,416.23**
2016 Total	$307,570.00

$218,416

CONTRIBUTED TO COMMUNITY AND CHARITY PROGRAMMES IN 2017.

Partnership 1

Sanford and Paralympics New Zealand

We are very proud to have extended our partnership with Paralympics New Zealand (PNZ). By doing so, we continue to care for the community, championing diversity and inclusion and promoting the best seafood in the world. Our shared ambition is to provide opportunities for Sanford employees to get behind PNZ and to meet, hear and learn from the Paralympians who represent New Zealand.

In May, our work with PNZ was acknowledged at the 2017 New Zealand Sport and Recreation Awards, when alongside two of PNZ's other partners, we won the Commercial Partnerships category. The award recognised the tremendous achievements that connected Sanford employees, stakeholders and customers with PNZ and the Paralympic Movement before, during and after the Rio 2016 Paralympic Games, and commended Sanford for its support of the successful New Zealand Paralympic Team.

In September, our employees dressed in gold for the PNZ Spirit of Gold® Mufti Day, raising vital funds to support the team going to the PyeongChang 2018 Paralympic Winter Games in South Korea. Paralympian Anna Grimaldi joined the Auckland office for morning tea and a short video was produced to share her story with the wider organisation. To encourage everyone to take part in the 2017 Sanford Employee Survey, we are making a donation to PNZ for every completed survey.

We are working hard to develop other initiatives aimed at connecting Sanford with aspiring Para athletes in our local communities and to share the achievements of our Winter Paralympians at the PyeongChang 2018 Paralympic Winter Games. At the time of writing, the Games are now less than five months away and we are excited once again to be supporting the team, every step of the way.

PHOTO: PARALYMPIAN ANNA GRIMALDI IN ACTION AT THE RIO 2016 PARALYMPIC GAMES

PHOTO: THE INITIAL SELECTION OF ATHLETES FOR THE PYEONGCHANG 2018 PARALYMPIC WINTER GAMES FROM LEFT TOP: CARL MURPHY, ASHLEY LIGHT (CHEF DE MISSION), ADAM HALL. FRONT ROW: AARON EWEN AND COREY PETERS

PHOTO: NZ'S GOLD MEDALLISTS AT THE RIO 2016 PARALYMPIC GAMES

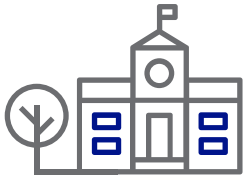
Partnership 2

Sanford continues to support the Graeme Dingle Foundation

Sanford is delighted to partner with the Graeme Dingle Foundation, an established charity and leader in positive child and youth development. The Foundation has a vision for 'New Zealand to be the best place in the world for children to grow up in'. It is a vision that we are proud to be associated with.

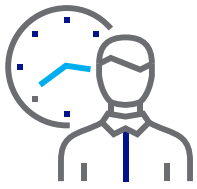
In 2017, Sanford contributed towards supporting 9,503 students in five regions across 55 schools through the Foundation's four school based programmes. On top of our financial support, our regional teams around the country got stuck into supporting their local communities – often getting their hands dirty in the process!

WE'RE HELPING TO SUPPORT SCHOOLS IN FIVE REGIONS, POSITIVELY IMPACTING:



55

SCHOOLS



9,503

STUDENTS

POSITIVE IMPACT TO LOCAL COMMUNITIES

Sanford has had a long running partnership with Graeme Dingle Foundation and is proud to be impacting young people through our support of their Kiwi Can programme.

GRAEME DINGLE FOUNDATION VISION

'New Zealand to be the best place in the world for children to grow up in'

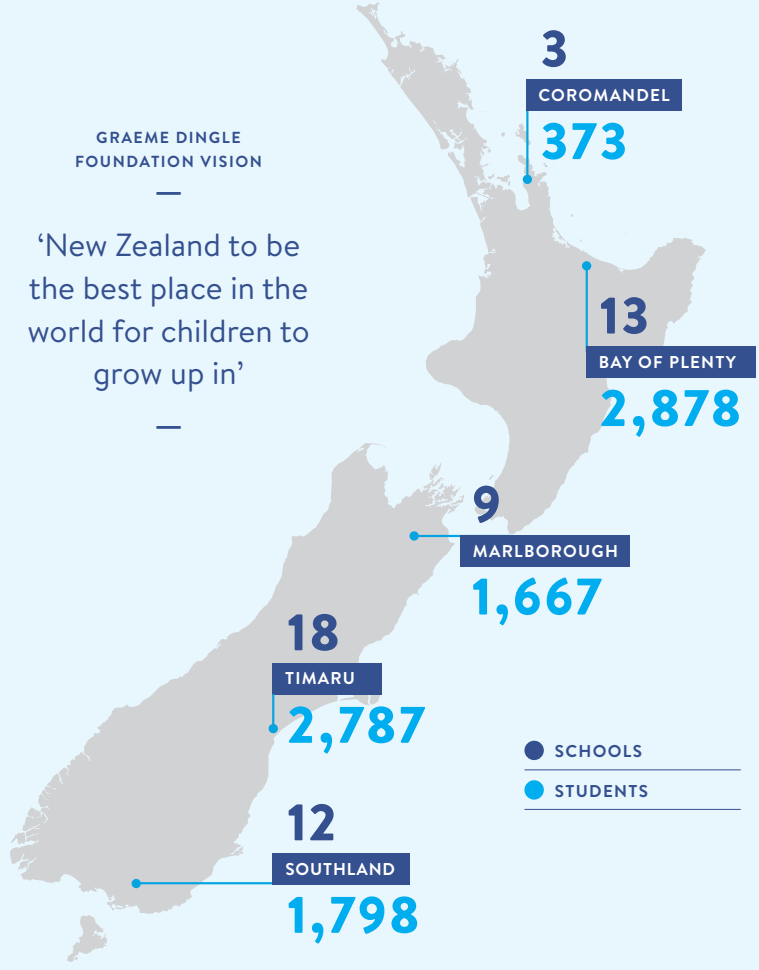
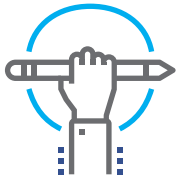


PHOTO: KIWI CAN CLEAN-UP AT HAVELOCK ESTUARY WITH HAVELOCK SCHOOL, JUNE 2017

HAVELOCK ESTUARY CLEAN UP IN MARLBOROUGH

Students from Havelock School were joined in June by volunteers from our Sanford team, who helped them keep a local beauty spot rubbish free by collecting debris from the nearby Havelock Estuary. The students are part of the Graeme Dingle Foundation Kiwi Can programme, which runs in the school every week of the year. A key aspect of Kiwi Can is the 'Community Project', which allows the children to think and take action beyond their classroom or school gate and gives children an opportunity to put the values they learn through Kiwi Can into practice.



1,700 KIDS AND NINE SCHOOLS IN 2017.

Sanford have been a big player in helping us get off the ground in Marlborough and have provided ongoing support. We started in Marlborough four years ago with four schools and 400 kids. In 2017, we'll be working with almost 1,700 kids in nine schools across the region. That's 40% of kids in the region that we're working with and empowering them with the skills to interact positively with each other, take on challenges, bounce back and give things a go. The difference we are making in the community is huge; we are 99% funded from our own community and the support of the aquaculture industry is vital.

—

Kelvin Watt
REGIONAL MANAGER, MARLBOROUGH
GRAEME DINGLE FOUNDATION

PHOTO: TIMARU STUDENTS PROUDLY SHOW THEIR PLANTS FOR THE CAROLINE BAY FORESHORE PLANTING DAY

TIMARU – PLANTING DAY AT CAROLINE BAY

The Graeme Dingle Foundation liaised with the Timaru District Council to find a project that was genuinely needed. The Council suggested planting the sand dunes at Caroline Bay and Sanford was keen to get involved because the dunes are near the factory and the project had a seafront environmental focus. In September, parents, staff, and 125 pupils from Kiwi Can schools, 20 Sanford staff, and four Kiwi Can staff took part in the weekday planting, where 3,000 trees were planted to protect the foreshore.

There was great teamwork and co-operation. As the planting took place everyone systematically cleaned up after themselves. Children learned about the ecology of their beach, which is very important in their community. Members of the public walking along the beach came and got involved and positively commented and supported the children and their work that profiled both the schools and the programme positively.

—

Noeline Allan
REGIONAL MANAGER, CANTERBURY
GRAEME DINGLE FOUNDATION

Collaboration

RECREATIONAL FISHING COMMUNITY

Collaborative relationships between the commercial and recreational fishing sectors are critical if, as a nation, we are to responsibly manage fish stocks. For the first time, as part of our formal stakeholder engagement process, Sanford met with recreational fisher representatives. Tensions and challenges were present, but we know that we share a commitment to a future where all New Zealanders can catch a fish. Recreational fishing was raised as an issue by some stakeholders such as John McDonald; stakeholders who happen to enjoy recreational fishing and want to ensure that these rights are not compromised.

> **I am a recreational fisherman. I, like many other Auckland people can go a tiny distance to catch snapper over the summer. I love the fact that I can do that. Every year there are snapper there and it's important that that doesn't change.**
>
> —
>
> **John McDonald**
> HEAD OF IN-HOUSE PRODUCTION
> MEDIAWORKS NZ

WORKING WITH OTHERS TO SHARE IN VALUE CREATION

This year we have focused on the role that partnerships play in helping us achieve our vision of becoming the Best Seafood Company in the World. We've invested a considerable amount of time and energy in collaborating with other stakeholders to help shift the dial in areas that make a real difference to achieving our vision, and contributing positively towards the UN Sustainable Development Goals (SDGs).

Some examples of key multi-stakeholder forums and initiatives that Sanford has actively contributed to this year include:

- Acting as an advisor to a 'keystone dialogue' in the Maldives between scientists and seafood industry leaders; an engagement process for major international seafood businesses in global sustainability challenges, which created a breakthrough commitment to action on ocean stewardship in the form of a ten-point statement (refer ***Outcome 4 – Healthy oceans***)
- Contributing to a national forum of public and private sector leaders focused on creating a new ambition and platform for action on sustainable wealth creation for our natural assets, providing a unique opportunity for New Zealand to lead by example
- Advising, informing and providing leadership to peer businesses across a range of sustainability topics, from climate issues to integrated reporting, through both national and international forums such as the Sustainable Business Council (SBC), International Integrated Reporting Council (IIRC) and Australasian Reporting Awards (ARA) (refer ***Reporting what matters*** and ***Outcome 6 – Protecting the environment***)
- Presenting to and informing policy development across 19 countries on marine plastic debris at the Asia-Pacific Economic Cooperation (APEC) and East Asia Summit (EAS) in Indonesia (refer ***Outcome 4 – Healthy oceans***)
- Providing leadership and operational input into a wide range of industry forums from the Southern Seabird Solutions Trust, to Fisheries Inshore New Zealand, Deepwater Group and the Convention for the Conservation of Antarctic Marine Living Resources (CCAMLR)
- Developing and implementing the *Māui Dolphin Protection Plan* in conjunction with WWF-New Zealand and Moana to ensure Māui dolphin safe fishing (refer ***Outcome 4 – Healthy oceans***).

• CASE STUDY •

Sustainable Business Council

wbcsd Global Network Partner

FUTURE LEADERS PROGRAMME

This year we had two Sanford team members take part in the Future Leaders Programme led by the Sustainable Business Council (SBC) and Catapult (leadership trainers).

The programme aims to develop future leaders in business who understand the sustainability challenges in their own companies and society. There were 23 participants from companies around New Zealand for a series of three workshops over four months. The participants researched and developed recommendations for action on five of the United Nations Sustainable Development Goals using adaptive leadership frameworks.

The Sanford members presented on ***SDG12: Responsible Consumption and Production***, and ***SDG13: Climate Action***. The SDG12 group highlighted opportunities for collaboration through building awareness, SBC facilitated workshops, and strengthening reporting requirements and transparency. The SDG13 group identified that the main barrier to getting businesses on board to tackle climate change was a lack of a compelling vision of the future and a positive narrative on what businesses stand to gain.

The recommendations will be shared at the SBC '(How to) Push Go on the Global Goals' event in November.

AND our future focus

MATERIAL ISSUES	STRATEGIC GOALS	FUTURE TARGETS 2018 AND BEYOND	OUR 2025 VISION
Engagement and employment	Respect and support our local communities in line with our social licence to operate. Where possible, we will create local business, employment and skills development opportunities.	Develop a strategic approach to engagement with communities of interest, including through social media and other communication channels as well as face to face. Continue to roll out targeted initiatives, such as the Graeme Dingle Foundation Career Navigator 'Ready-for-Work' programme, to create local and wider employment opportunities and attract youth into our industry.	Sanford is recognised for leaving a positive legacy for our communities, as a significant contributor to community initiatives, employment generation and skills development.
Strategic partnerships and collaboration	Establish strategic partnerships that create value for the community, our partners and Sanford in the short, medium and long term.	Continue to work at the national and international level in formal and informal partnerships to collaboratively progress the vision and outcomes for a truly sustainable fishing industry in New Zealand and globally. Continue to review our strategic partnership and collaboration activities to align and move towards our vision of being the Best Seafood Company in the World.	Through leveraging our strategic partnerships, tangible value is realised and clearly communicated by our partners, Sanford and the wider national and international community, all of whom share in the value creation opportunities.

These targets for **2018 and beyond** have been informed by Sanford's strategy, and a thorough review of international guidance[2] on business commitments to support achievement of the UN Sustainable Development Goals.

2. GRI and UN Global Compact 2017: *Business Reporting on the SDGs – An Analysis of the Goals and Targets*.

AND

PROTECTING AND ENHANCING THE ENVIRONMENT

We will work with our people, customers and suppliers to lead the way in maximising resource utilisation, minimising our footprint and protecting the environment wherever we operate.

UN SDG 12

RESPONSIBLE CONSUMPTION AND PRODUCTION

Sanford can responsibly consume and produce food by efficiently using resources and growing the aquaculture industry. Our efforts to do more and better with less, and the growth of our aquaculture sector's comparatively small environmental footprint (relative to other protein sources) contributes positive, sustainable outcomes for New Zealand. We are formalising our approach towards improving our resource efficiency, and driving innovation.

UN SDG 13

CLIMATE ACTION

Climate change is affecting every country and the disruption is likely to have a significant impact on all of our stakeholders. We are conscious of the impact that climate change could have on the oceans and the inherent risk to our business model. We can reduce climate change impact through our operations and are striving to reduce our greenhouse gas emissions to 30% below 2005 levels by 2030.

PHOTO: BIG GLORY BAY, STEWART ISLAND

Material issues AND value creation

This table summarises Sanford's material issues relating to ***protecting and enhancing the environment***, the strategic goals defined through our Business Excellence Framework, our targets for 2017, and our progress against these targets in contributing to value creation. At the end of this section, we also define our future targets and vision to 2025.

MATERIAL ISSUES	STRATEGIC GOALS	2017 TARGETS*	PROGRESS AGAINST TARGETS**
Environmental effects	Minimise our impact on the environment when carrying out our business operations, avoid pollution or contamination of land, air and water and enhance the environment in which we operate through sound management and mitigation.	Maintain ISO 14001:2004 across all of our operations. **(S)**	✓ **Achieved.** ISO 14001:2004 certification maintained across all in scope operations.
		Maintain legal compliance through 100% compliance monitoring, thereby receiving no punitive regulatory action. **(S)**	✓ **Achieved.** No punitive regulatory action. Monitoring of compliance and increased visibility through reporting. A regulatory compliance management programme is underway across mussel farming operations.
		Develop and implement environmental risk mitigation plans across identified critical risk areas and have up-to-date aspects and impacts registers. **(S)**	→ **Ongoing.** New systems and risk mitigation plans are developed for four key land-based processing sites with remaining sites planned for 2018. A new aspects and impacts assessment process is being developed that considers the full lifecycle of our operations.
Resource utilisation and efficiency	Do more with less by maximising efficient use of resources, including optimising the utilisation of all fish and mussels harvested, and ensuring waste minimisation, re-use and recycling.	Improve water intensity by 2% at all land-based processing sites and report all available water consumption data. **(S)**	✗ **Not achieved.** There was a 10% increase in water intensity due largely to a change in processing requirements in Bluff. Realised a 4% efficiency improvement in Auckland and Tauranga. All water consumption data that is available is now reported.
		Reduce the core energy intensity at our land-based processing sites by 3%. **(S)**	✓ **Achieved.** There was a 12% improvement in core energy intensity. Monthly energy and carbon plant level monitoring in place.
		Achieve 30% waste diversion rate across all of our operations. **(M)**	→ **Ongoing.** The waste diversion rate was 24%. Waste data is now captured more accurately and we are less reliant on estimates.
Carbon reduction and offsetting	Demonstrate our commitment to climate change response by actively reducing our energy consumption and emission of greenhouse gases and seeking to introduce low carbon solutions into our value chain, where practicable.	Reduce our carbon emission intensity by 2.5% across all of our operations. **(S)**	✓ **Achieved.** There was a 4.5% improvement in carbon emission intensity across all operations.
		Save 5GWh of energy or renewable energy conversion potential by the end of FY18 across all operations in line with the Energy Efficiency and Conservation Authority (EECA) agreement. **(M)**	→ **Ongoing.** Energy programme initiatives actively managed and reported internally and to EECA. Increased focus on intensity metrics and renewable energy conversion potentials. The proposed biomass boiler project in Timaru is a key project.
		Actively engage in collaborative, multi-stakeholder initiatives to support climate change agendas and actions. **(L)**	→ **Ongoing.** Signatory to open letter to NZ Government on climate action. Leadership role with Sustainable Business Council on climate action. Developed and delivered pre-election briefings, informing political discussions and peer businesses on climate action.

VALUE CREATION – OUTCOME:

We will work with our people, customers and suppliers to lead the way in maximising resource utilisation, minimising our footprint and protecting the environment wherever we operate

* **S** = Short term (1 year or less); **M** = Medium term (2-5 years); **L** = Long term (5-10 years, or more)

** Refer to ***'Progress on our 2017 sustainable business targets'*** for full updates across all targets defined

Further information on data and trends is provided in the Key Performance Indicator (KPI) table, contained in ***Appendix A*** of this Report.

Environmental effects

GOAL

Minimise our impact on the environment when carrying out our business operations, avoid pollution or contamination of land, air and water and enhance the environment in which we operate through sound management and mitigation.

We recognise that our operations have the potential to impact on New Zealand's natural coastline, sea, biodiversity and climate change. The environment we operate in provides the natural capital that is fundamental to Sanford's future prosperity, and is an important foundation for our growth. We also recognise that we owe a responsibility to the environment we operate in, and the society that grants us the licence to operate.

Our most significant environmental effects are the risk of pollution through fuel or oil spills and the contribution to debris in the marine environment from our operations. Our approach to environmental management is therefore aligned with ensuring we actively look for new and innovative ways to not only protect, but positively impact the environment.

ENVIRONMENTAL MANAGEMENT THROUGH SYSTEMS AND RISK MITIGATION

In 2017, we initiated a programme to identify, establish priorities, and implement targeted programmes to manage our most critical environmental risks. Some of the key aspects of this programme included:

- Site assessments across four of our key operations to identify and ensure the effective management of critical environmental risk areas.
- The development of a comprehensive environmental impact assessment process, accounting for the full lifecycle of all of Sanford's operations.
- A compliance database implemented across all farming operations to streamline how we track and manage our environmental compliance obligations.

INNOVATION TO DELIVER POSITIVE ENVIRONMENTAL OUTCOMES

Our pilot 'Eco-Farm' project is underway in the Pelorus Sound, which aims to develop New Zealand's lowest impact and technically smart mussel farm. The farm is the hub of all the ideas the mussel farming team have brought together with a vision to create a multi-trophic, fully biodegradable smart farm that is a complete, self-reporting ecosystem. The farm is still being developed and the team are investigating options for load cell reporting (to identify when to harvest or fix a line), cameras to monitor interactions with sea life, and the potential for symbiotic farming with other species.

ENVIRONMENTAL MANAGEMENT THROUGH POLLUTION CONTROL

The nature of our fishing operations and the proximity of our land-based processing sites to the marine environment puts us at risk of pollution through fuel and oil spills during our everyday operations. To reduce the risk to the environment, in 2017 we used 12,508L of biodegradable oil across our vessel operations, replacing traditional hydraulic oil. We have put a greater focus on documenting and tracking spill events based on actual and potential risks to the environment; we previously reported diesel spills only. Now we have classified a notifiable spill as any fuel or oil spill regardless of the amount, that has entered the land or a body of water or is greater than 100 litres. In 2017, we had two significant spills one 150 litre spill of hydraulic oil on *San Granit* in Timaru Port that was contained onboard, and one small spill of 1.8 litres of diesel that seeped into Napier Port when refuelling *San Tangaroa*. In both cases we implemented pollution control measures and neither incident resulted in a negative environmental impact.

> **While there is always a desire from NGOs to move faster, Forest and Bird does appreciate Sanford's commitment to improving their environmental performance. There is still a long way to go, but the company is out in front of the New Zealand fishing industry.**
>
> —
>
> **Kevin Hackwell**
> CHIEF CONSERVATION ADVISOR
> ROYAL FOREST AND BIRD PROTECTION SOCIETY OF NEW ZEALAND INC.

Resource utilisation and efficiency

GOAL

Do more with less by maximising efficient use of resources, including optimising the utilisation of all fish and mussels harvested, and ensuring waste minimisation, re-use and recycling.

A focus on resource utilisation and efficiency helps us achieve our environmental and economic outcomes. Performance is managed through our 2020 continuous improvement programme and our Environment, Health and Safety (EHS) Management System. Obtaining robust data on the use of resources, product utilisation and waste production has been a focus for this year, giving us one source of truth and enabling us to understand opportunities for environmental improvement in greater detail. We have also continued our focus on maximising resource efficiencies across key metrics including water, electricity and fuel.

FUEL EFFICIENCY

We improved our wildcatch vessel fuel efficiency by 3% from 0.354L/GWkg in 2016 to 0.344L/GWkg mainly because we installed more fuel efficient engines, introduced new vessels into our fleet, and increased the greenweight landed in our wildcatch fishing operations. Around 96% of our liquid fossil fuels are consumed by our vessels, which highlights the ongoing need to focus on vessel energy consumption reduction initiatives. We have continued to progress the engine replacement project on our mussel farming vessels, installing six additional motors in 2017, with three more planned for 2018. Based on engines replaced to date, we estimate that a total reduction of 26,000L of diesel per year will be realised, saving approximately 5% per vessel.

PRODUCT UTILISATION

We have continued our focus on full product utilisation in 2017, for example producing fish oil and fish meal from hoki (refer ***Outcome 1 – Sustainable seafood business***), and our ongoing investigation into sustainable uses for Greenshell™ mussel shells.

CLIMATE FRIENDLY REFRIGERATION

Active Refrigeration have conducted a companywide assessment of the cargo and domestic refrigeration systems on all of Sanford's vessels and land-based processing sites. This project focused on making improvements to the safety of our ammonia refrigeration plants and reducing our refrigerant gas consumption. In 2017, we achieved a significant reduction in refrigerant gas loss across our land-based processing sites and vessels. This was achieved through the implementation of the Active Refrigeration assessment recommendations, including the improved maintenance of our systems and the ongoing phase out of hydro chlorofluorocarbon (HCFC) gases.

Active Refrigeration and Sanford's journey together has been rewarding and extremely valuable. It started out with a guiding principle with an end goal to improve the overall safety and compliance of every Sanford land based site and fishing vessel.

Embarking on a collaborative approach to effective measurement and benchmarking health and safety aligns Active Refrigeration's ISO14001 compliant vision with Sanford's sustainability and safety policies. The pragmatic approach taken has proven to be beneficial with ongoing improvements that are continuing to develop with our energy saving concepts, ongoing plant maintenance support, risk reduction and future improvements for ammonia containment.

—

Craig Duff
OWNER – ACTIVE REFRIGERATION

Carbon reduction and offsetting

GOAL

Demonstrate our commitment to climate change response by actively reducing our energy consumption and emission of greenhouse gases and seeking to introduce low carbon solutions into our value chain, where practicable.

Climate change is a key business risk for Sanford; it could change the distribution and abundance of fish stocks, increase the number of biosecurity incursions, and increase the ocean's acidity, affecting marine ecosystems and causing a loss of income to our industry. Sanford is committed to responding to the impacts of climate change to our business. We have a jointly funded SPATNZ Primary Growth Partnership Programme with the Ministry for Primary Industries (MPI), which has been highly successful, yielding a wide range of high performing mussel strains selected for traits valued by farmers, processors and consumers (refer ***Outcome 1 – Sustainable seafood business***). The benefits of SPATNZ also include protecting Sanford from the future insecurities of spat supply, which could be created by climate change impacts.

We are taking a leadership role alongside other organisations to initiate climate change and carbon emission discussions. We have actively engaged in collaborative, multi-stakeholder initiatives to support climate change action. In November 2016, we signed an open letter to the New Zealand Government, calling for ambitious targets to reduce emissions, a long term plan to achieve them, the implementation of strong policies, and the necessary information to be provided to empower New Zealanders to make low carbon choices.

In 2017, our carbon emission intensity reduced by 4.5% from 0.81 T CO_2-e/GWT to 0.77 T CO_2-e/GWT, exceeding our 2.5% target and putting us on track to meet our 2030 ambition to reduce our greenhouse gas emissions to 30% below 2005 levels by 2030. Sanford recognises the role of voluntary action by business and industry as an important contribution to international commitments such as the Paris Agreement.

CARBON EMISSION INTENSITY REDUCED BY 4.5%, EXCEEDING OUR 2.5% TARGET

AN OPEN LETTER TO THE NEW ZEALAND GOVERNMENT

It's time for climate action

In New Zealand, and around the world, people are responding to the threat posed by climate change by joining together to create a better world with clean energy, good jobs and resilient communities.

We believe that climate action will not only protect our environment but will also help to unleash a wave of innovation to power our economy and help us to create a cleaner, healthier country.

With the world at a turning point, we need to grasp the opportunity to move our country to a clean energy future. New Zealand has the natural resources, technology and people to rise to the challenge of reducing our emissions.

The move to a low-carbon economy is starting already with businesses, people and organisations taking action, but this needs to be backed up by New Zealand government action on climate change.

Without the government pulling its weight we will not be able to make the necessary changes at the pace and scale required.

We are calling on the government to set ambitious targets to reduce emissions, create a long term plan for how to do it, and implement policies that can set us on the right path and empower New Zealanders to make low carbon choices.

Our beautiful country may be small but we do matter. The whole world needs to act and that includes us.

A clean energy future for New Zealand is 100% possible. Let's make it happen.

Climate Change Signatories

Sir Geoffrey Palmer • Dame Anne Salmond • Sir Stephen Tindall • Dr Jim Salinger • Prof James Renwick
Prof Tim Naish • Prof Jonathan Boston • Assoc Prof Ralph Chapman • Chris Karamea Insley • Aroha Mead
The New Zealand Nurses Organisation • Te Rūnanga o Aotearoa • Anglican Diocese of Auckland • Bishop Justin Duckworth
Bishop Ross Bay • Riversun • Rise Financial • TetraMap International • Barbarian Productions • Ora Ora Retreat • Vision Kerikeri

PHOTO: OPEN LETTER TO THE NZ GOVERNMENT
SOURCE: WWF WEBSITE

• CASE STUDY •

Timaru biomass project

A key development in 2017 has been our focus on renewable energy, including the potential transition of our Timaru fishmeal plant boiler fuel source from coal to wood chip. We completed extensive trials and once commissioned, anticipate a range of benefits including improved processing controls, safety and fuel efficiency, a 50% projected reduction in emission levels, and a considerable reduction in carbon emissions.

Fully replacing coal with wood chip biomass as proposed, will realise a saving of 1,721.34 T CO_2-e per year, significantly reducing our greenhouse gas emissions towards our goal of 30% below 2005 levels by 2030.

With the support of EECA, we will continue to progress this opportunity in 2018.

PHOTO: TERRY DENLEY, PROJECTS AND PROCESS IMPROVEMENT MANAGER, HAS BEEN INSTRUMENTAL IN PROGRESSING THE TIMARU BOILER PROJECT AND OUR OTHER WORK WITH EECA

> **The people of New Zealand own the Marlborough Sounds, so we must behave in such a way that we are always welcome to be here.**
>
> **Grant Boyd**
> FLOATING & FARM DEVELOPMENT MANAGER
> SANFORD

ENERGY EFFICIENCY AND CONSERVATION AUTHORITY (EECA) AND SANFORD

Sanford is continuing to partner with EECA, which follows our energy management collaboration agreement. Energy management has played a significant role in our continuous improvement work and around 25 energy projects with short term paybacks and low investment thresholds were identified. Of these projects, 18 have the potential to deliver energy savings such as replacing light-emitting diode lighting, installing variable speed drives on motors, optimising freezing systems, and replacing the mussel vessel fleet's diesel engines.

> **Over the past year, Sanford has continued to build a clear link between energy savings and improved productivity. This is a win for Sanford's ongoing competitiveness and more broadly NZ Inc. I also applaud the continued priority given to carbon reduction through energy management – a cost effective way of responding to our climate change challenge.**
>
> **Andrew Caseley**
> CHIEF EXECUTIVE – EECA

To better understand our operational energy efficiency opportunities, we are producing monthly energy monitoring reports for our land-based processing sites and a select number of vessels. These reports have highlighted a number of energy saving opportunities across our operations. For example, we have had an efficiency benchmark improvement of 10.4% (kWh/kg) at our Havelock processing plant when compared to 2015. The improvement is due to implementing a number of initiatives such as optimising the boiler, reviewing our spiral freezer and boiler operating procedures, and focusing on the start-up and shutdown processes to avoid wastage. There was a $279,100 saving from tariff improvements during the year across all of Sanford's land-based processing sites, including a $124,600 saving in Havelock.

• CASE STUDY •

PHOTO: GRANT BOYD, DARREN BROWN AND LYNDON DAYMOND ACCEPTING THE CAWTHRON MARLBOROUGH ENVIRONMENTAL AWARD
PHOTO CREDIT: JACQUI LESLIE PHOTOGRAPHY

Cawthron environmental award in Marlborough

Our Havelock mussel farming team were the winners of the Cawthron Marlborough Environmental Award's Marine Category in March 2017. The judges concluded that the staff initiatives were an excellent example of a team's effort towards continuous improvement. Some of the initiatives that enabled the win include:

- ✓ **Smart tech:** From innovative, new compostable eco-lashings to sand-weighted ropes.
- ✓ **Beach clean-ups:** The Sanford team are working proactively with the community to keep marine debris off Marlborough's beaches and bays.
- ✓ **Cleaner engines:** Introducing biodegradable hydraulic oil, more effective bilge water filters and more efficient engines across the farming fleet.
- ✓ **Mussel float recycling:** Sanford acts as the recycling hub for all floats throughout Marlborough, recycling around 4,500 floats every year.

The team plan to invest the prize money into an environmental improvement project.

AND our future focus

MATERIAL ISSUES	STRATEGIC GOALS	FUTURE TARGETS 2018 AND BEYOND	OUR 2025 VISION
Environmental effects	Minimise our impact on the environment when carrying out our business operations, avoid pollution or contamination of land, air and water and enhance the environment in which we operate through sound management and mitigation.	Achieve and maintain certification to the updated ISO 14001:2015 EMS standard across all of our operations, while progressing integration with health, safety and quality systems. Build a leadership driven environmental culture to deliver consistently high engagement and performance. Develop and deliver targeted programmes to identify and mitigate critical environmental risk areas including legal compliance, reputation, and pollution prevention and control.	Sanford responsibly manages, protects and demonstrates positive impacts on the environment across all our operations, including sourcing, processing, and delivery of our products across our value chain.
Resource utilisation and efficiency	Do more with less by maximising efficient use of resources, including optimising the utilisation of all fish and mussels harvested, and ensuring waste minimisation, re-use and recycling.	Continue to set annual targets to progressively achieve energy use, water use, and carbon emission reductions, supported by targeted improvement programmes. Drive ongoing improvements in waste diversion rates across all of our operations, targeting plastic waste streams as a key priority to reduce. Implement innovative approaches to optimise the utilisation of all materials as a proactive step towards supporting a circular economy.	Sanford is 'virgin resource neutral', where practicable, and all materials are fully utilised, reused, recycled or where necessary, disposed of in a sustainable manner.
Carbon reduction and offsetting	Demonstrate our commitment to climate change response by actively reducing our energy consumption and emission of greenhouse gases and seeking to introduce low carbon solutions into our value chain, where practicable.	Implement targeted programmes, aligned with our low carbon roadmap, to drive our overall goal of reducing greenhouse gas emissions to 30% below 2005 levels by 2030 through a combination of reducing and offsetting emissions. Research opportunities to optimise the potential of carbon sequestration across all of our farming operations through innovation and targeted research and development.	Sanford is recognised as a 'zero emissions' business. All Sanford products and services are carbon neutral. We provide solutions to our value chain in carbon reduction and offsetting.

These targets for **2018 and beyond** have been informed by Sanford's strategy, and a thorough review of international guidance[1] on business commitments to support achievement of the UN Sustainable Development Goals.

1. GRI and UN Global Compact 2017: *Business Reporting on the SDGs – An Analysis of the Goals and Targets.*

Corporate Governance

CREATING VALUE THROUGH SOUND CORPORATE GOVERNANCE

The Board of Directors of Sanford Limited (the Board) and management are committed to building long-term value for shareholders and employees. As a values-based business, with a strong foundation in sustainability, Sanford is committed to maintaining the highest standards of governance, supported by best practice structures, people, practices and policies. This includes maintaining high standards of business integrity and ethics in all our activities.

Consistent with its commitment to best practice corporate governance, Sanford has chosen to adopt and report against the recommendations of the NZX Corporate Governance Code (NZX Code) 2017 in advance of the effective date required by the NZX Main Board Listing Rules (Listing Rules).

This section provides an overview of Sanford's Corporate Governance Framework, introducing our Board and Executive Team, and detailing key information on remuneration, shareholdings, indemnity and insurance. For further details on governance structure, policies and practices, please refer to the Sanford Corporate Governance Statement 2017, available at: www.sanford.co.nz/investors/governance/corporate-statement.

OUR GOVERNANCE FRAMEWORK

The Board, supported by the Audit and Finance, Health & Safety and Regulatory Compliance, People and Board Nomination Committees, regularly review and benchmark the organisation's structure and processes to ensure they support effective and ethical leadership, good corporate citizenship and sustainability, and ensure that these principles are applied in the best interests of Sanford and its diverse range of stakeholders.

As a listed company on the NZX, our governance practices and policies reflect, and are consistent with, the Listing Rules. The Company considers that the governance practices it has adopted follow these principles and policies for the year ended 30 September 2017.

The Board provides effective leadership in the best interest of Sanford and is responsible for the strategic direction and control of the company. The Board exercises this control by way of a governance framework, which includes detailed reporting to the Board and its Committees, effective delegation, risk management and a system of assurances regarding financial reporting and internal controls.

Sanford's constitution, and each of the charters, codes and policies are referred to in our Corporate Governance Statement 2017.

The Board's charter recognises the respective roles of the Board and management, and reflects the sound base the Board has developed for providing strategic guidance and oversight of management.

Strong Governance and Effective Leadership

OUR DIRECTORS AND COMPOSITION OF THE BOARD

Sanford's Directors bring a diverse wealth of experience and passion, acting on behalf of our shareholders and other stakeholders. Directors are chosen for their corporate leadership skills, professional backgrounds, experience and expertise. The right blend of skills and experience, combined with the diversity of Directors' perspectives, is crucial to ensuring the attainment of long-term value for Sanford's shareholders.

LEFT TO RIGHT: PETER GOODFELLOW, PETER KEAN, PAUL NORLING, ELIZABETH (LIZ) COUTTS, ROBERT MCLEOD AND BRUCE GOODFELLOW.

For more information about each Director, please visit:
http://www.sanford.co.nz/investors/governance/board-of-directors/

Under the Constitution of Sanford, and the Listing Rules one third of the independent non-executive Directors (two, being the nearest third), shall retire from office at the Company's Annual Meeting. This requires the retirement, by rotation, of Mr P G Norling and Mr P J Goodfellow, both of whom will seek re-election at the Annual Meeting in December 2017.

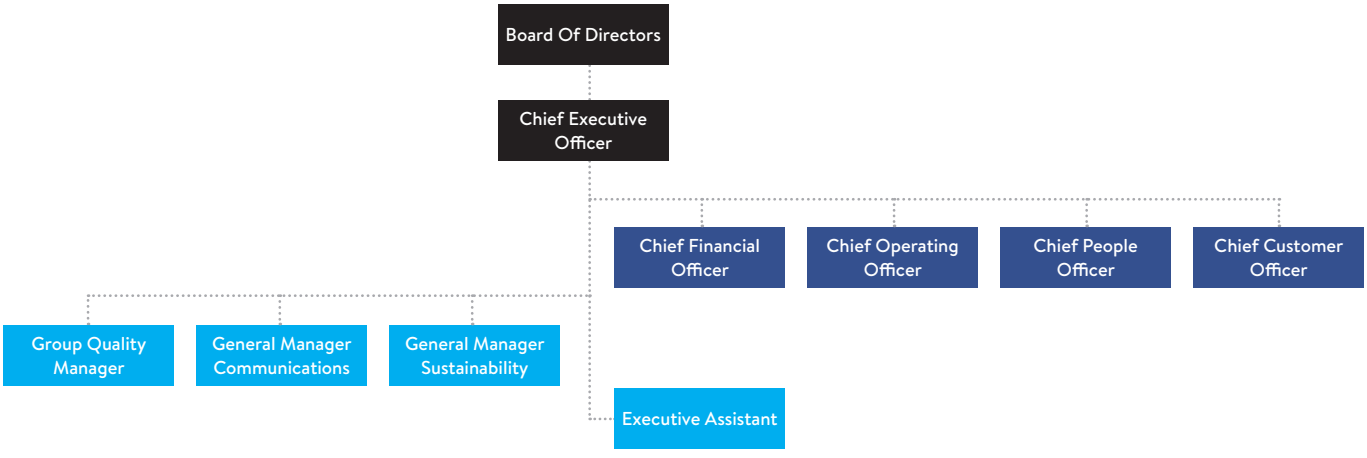
Our Executive team – leading the way

Our vision is ambitious, and our strategy supports this. We have continued to embed a cross-functional approach to realise it, led by an Executive team who are all experts in their respective fields. Our strong Executive team, enhanced in 2017 by the appointment of our Chief People Officer, positions us well on our journey to become the Best Seafood Company in the World.

LEFT TO RIGHT: GREG JOHANSSON (CHIEF OPERATING OFFICER), KAREN DUFFY (CHIEF PEOPLE OFFICER), VOLKER KUNTZSCH (CHIEF EXECUTIVE OFFICER), CLEMENT CHIA (CHIEF FINANCIAL OFFICER) AND ANDRE GARGIULO (CHIEF CUSTOMER OFFICER).

EXECUTIVE AND CEO DIRECT REPORT ORGANISATION CHART

The Board and Chief Executive Officer (CEO) are effectively assisted by the Executive Team who are direct reports to the CEO. All direct reports to the CEO are shown in the following diagram, with members of the Executive Team shown in dark blue:



* For more information about our Executive Team, please visit: http://www.sanford.co.nz/investors/governance/executiveteam

GENDER DIVERSITY

In accordance with the NZX Diversity Rule, we continue to report the gender composition of our Directors and our Senior Leadership Team. As noted above, the Board is comprised of six members (2016: 6), of which five are male (2016: 5), and one is female (2016: 1). The gender diversity of the Board comprises 83% male and 17% female representation. The Senior Leadership Team (inclusive of the Executive Team) is comprised of 26 members, (2016:22) of which 19 are male (2016: 16) and seven are female (2016: 6).

Indemnity and Insurance

In accordance with section 162 of the Companies Act 1993 and the constitution of the Company, the Company has given indemnities to, and has effected insurance for, the directors and executives of the Company and its related companies which, except for some specific matters that are expressly excluded, indemnify and insure directors and executives against monetary losses as a result of actions undertaken by them in the course of their duties. Specifically excluded are certain matters, such as the incurring of penalties and fines, which may be imposed for breaches of law.

Remuneration

The following tables provide a breakdown of remuneration for Board fees and committee roles. No other payments were made to Directors.

DIRECTORS' REMUNERATION 2017

NAME OF DIRECTOR	BOARD FEES	AUDIT & FINANCE COMMITTEE	HEALTH & SAFETY AND REGULATORY COMPLIANCE COMMITTEE	PEOPLE COMMITTEE	TOTAL REMUNERATION
Paul Norling (Chair)	150,000	7,500	6,250	5,000	168,750
Elizabeth (Liz) Coutts	85,000	20,000 (Chair)			105,000
Peter Goodfellow	85,000			5,000	90,000
W Bruce Goodfellow	85,000		6,250		91,250
Peter Kean	85,000		6,250	10,000 (Chair)	101,250
Robert McLeod	85,000	7,500	12,500 (Chair)		105,000
Total	**575,000**	**35,000**	**31,250**	**20,000**	**661,250**

DIRECTORS' REMUNERATION 2016

NAME OF DIRECTOR	BOARD FEES	AUDIT & FINANCE COMMITTEE	EMPLOYMENT AND REGULATORY COMPLIANCE COMMITTEE (OLD) [3]	HEALTH & SAFETY AND REGULATORY COMPLIANCE COMMITTEE	PEOPLE COMMITTEE	TOTAL REMUNERATION
Paul Norling (Chair)	150,000	6,875	1,250	4,688	3,750	166,563
Elizabeth (Liz) Coutts	85,000	18,750 (Chair)				103,750
Mark Cowsill[1]	14,166		2,500			16,666
Peter Goodfellow	85,000	1,250			3,750	90,000
W Bruce Goodfellow	85,000		1,250	4,688		90,938
Peter Kean	85,000	1,250	2,082	4,688	7,500 (Chair)	100,520
Robert McLeod[2]	63,750	5,625		9,375 (Chair)		78,750
Total	**567,916**	**33,750**	**7,082**	**23,438**	**15,000**	**647,187**

(1) Retired 30 November 2015

(2) Appointed 1 January 2016; fees do not represent a full year

(3) Committee structure changed from 1 January 2016; Employment and Regulatory Compliance Committee split into Health & Safety and Regulatory Compliance Committee and People Committee

The total Directors' fees pool is capped at $700,000, effective 1 October 2015; this was approved by shareholders at the 2015 Annual Meeting.

CHIEF EXECUTIVE OFFICER (CEO) REMUNERATION

The CEO's remuneration consists of fixed remuneration, a short term incentive (STI) and a long term incentive (LTI). This is reviewed annually by the People Committee and the Board after reviewing the Company's performance, the CEO's individual performance and advice from external remuneration specialists.

The aim of the STI is to reward the CEO for achieving strategic objectives, which will result in strong financial returns for our shareholders. Participation in the plan is by annual invitation at the discretion of the Company at which time financial targets and key performance indicators are established. If minimum financial thresholds are not met, no incentive will be paid. The STI value is set at 30% of the CEO's base salary. The STI has two components, individual performance and financial performance. Individual performance accounts for 30% and is based on achieving certain personal performance goals. Financial performance accounts for 70% and is based on EBIT against budget. For FY17 the financial threshold is set at achieving 90% of budget with the maximum target set at 110%. Achievement of the maximum financial target results in a payment of 150% of the financial performance component. The STI payments are shown in the financial year that they are paid, which may not be the same year that they are earnt.

2014 LTI

In July 2014, the Company announced an LTI plan for the CEO. The LTI plan is designed to improve the long-term sustainable performance of the company by incentivising and motivating the CEO and to encourage share ownership. The Board retain absolute discretion as to whether any future offers will be made and to review the terms. The benefits provided under the plan are capped at 30% of the CEO's annual base salary, which at the time was the equivalent of up to $240,000 under the 2014 offer. This is then translated to the equivalent number of shares based on the weighted average share price over the 10 trading days immediately following the market announcement of the annual financial results for the year. The CEO has been granted three tranches of Performance Share Rights as follows:

- Tranche one – 53,097 issued 28 July 2014
- Tranche two – 46,466 issued 17 December 2014
- Tranche three – 42,770 issued 11 December 2015

Each tranche vests over a consecutive three year period. A Performance Share Right represents a conditional right to, upon vesting, acquire a Sanford Limited ordinary share at a nil exercise price. If the CEO departs the Company's employ for any reason prior to vesting, all Performance Share Rights will lapse. Vesting is conditional on achieving certain threshold levels in relation to the objective to progressively improve underlying operating profit to a level which approximates 130% of its Weighted Average Cost of Capital over a five year period. The threshold for tranche one was achieved for the vesting period ended 30 September 2016 resulting in 21,735 (41%) Performance Share Rights becoming Eligible Share Rights that the CEO subsequently exercised in April 2017. The balance of 31,362 Performance Share Rights are forgone. Vesting of the remaining tranche two and three Performance Shares Rights are recorded in the financial year of Board approval.

2017 LTI

A second LTI plan was established in February 2017 on similar terms and conditions to the 2014 plan but with the benefits provided under the 2017 plan capped at 30% of the CEO's current annual base salary at the time, which is the equivalent of up to $253,000. Vesting is conditional on achieving certain threshold levels in relation to achieving a Return on Funds Employed Compound Annual Growth Rate of 18% over a three year period.

The CEO was granted the following Performance Share Rights:

- Tranche one – 38,525 issued 22 February 2017

The CEO is not a member of the Board.

YEAR	BASE SALARY $	VEHICLE ALLOWANCE $	FIXED REMUNERATION $	PAY FOR PERFORMANCE $		TOTAL REMUNERATION $
				STI	LTI	
FY17*	846,000	50,000	896,000	250,000	159,000	1,305,000
FY16*	825,000	50,000	875,000	120,000	–	995,000

*Based on year the amount was paid

EMPLOYEES' REMUNERATION

The table below shows the number of employees and former employees who received remuneration and other benefits in excess of $100,000 during the year ended 30 September 2017. The table does not include amounts paid after 30 September 2017 that relate to the year ended 30 September 2017.

REMUNERATION RANGE $000	NUMBER OF EMPLOYEES	REMUNERATION RANGE $000	NUMBER OF EMPLOYEES
100 – 110	17	230 – 240	5
110 – 120	23	240 – 250	1
120 – 130	12	250 – 260	1
130 – 140	9	260 – 270	1
140 – 150	6	280 – 290	2
150 – 160	6	310 – 320	1
160 – 170	6	350 – 360	2
170 – 180	5	410 – 420	1
180 – 190	3	540 – 550	1
190 – 200	1	550 – 560	1
200 – 210	4	620 – 630	1
210 – 220	3	1,300 – 1,310	1

Shareholdings

DISCLOSURE OF DIRECTORS' INTERESTS

Interests Register

Sanford maintains an Interests Register in which relevant transactions and matters involving the Directors are recorded. Details of Directors' interests are set out in the Directors' Shareholding table below.

DIRECTORS' INTERESTS IN SHARES

The Directors disclosed the following relevant interests in shares as at 30 September 2017:

	BENEFICIAL INTEREST		NON BENEFICIAL INTEREST		ASSOCIATED PERSONS	
	2017	2016	2017	2016	2017	2016
E M Coutts	24,000	24,000	–	–	–	–
P J Goodfellow	127,200	127,200	–	–	–	–
W B Goodfellow	146,049	146,049	–	–	500	500
P N Kean	5,000	5,000	–	–	–	–
R A McLeod	500	500	–	–	–	–
P G Norling	43,500	43,500	–	–	–	–

SHARE TRADING

Sanford's Constitution directs that each Director holds a minimum of 500 shares in the Company. Directors and Executives are required to seek approval in advance of share trading, and certify to the Board that they are not in possession of inside information, in accordance with the Share Trading Policy and Guidelines. The Board has determined that share trading may only occur during two trading window periods in each year. The periods commence at the time the interim and annual reports are announced and end on 31 August, after the end of the half-year and on 28 February, after the end of the financial year.

There was no share trading by Directors in this reporting period.

External Auditor

KPMG were commissioned as Sanford's external auditors for the year ending 30 September 2017. The Board, after considering the recommendation of the Audit and Finance committee, consider and review the appointment of external auditors. It is proposed that the current Auditor should continue in office, in accordance with Section 207T of the Companies Act 1993.

SHAREHOLDING ANALYSIS

AS AT 20 OCTOBER 2017

SIZE OF HOLDING	NUMBER OF SHAREHOLDRS	%	NUMBER OF SHARES	%
1 – 999	497	23.27	220,769	0.24
1,000 – 4,999	1,002	46.91	2,086,188	2.23
5,000 – 9,999	291	13.62	1,904,355	2.03
10,000 – 49,999	258	12.08	4,775,022	5.10
50,000 – 99,999	33	1.54	2,176,449	2.32
Over 100,000	55	2.58	82,463,952	88.08
	2,136	**100.0**	**93,626,735**	**100.0**

TWENTY LARGEST SHAREHOLDERS

AS AT 20 OCTOBER 2017

SHAREHOLDER	NUMBER OF SHARES	%
Amalgamated Dairies Limited	22,771,567	24.32
New Zealand Central Securities Depository Limited[1]	21,012,038	22.44
Avalon Investment Trust Limited	8,606,054	9.19
Maruha Nichiro Corporation	4,534,231	4.84
Masfen Securities Limited	4,079,605	4.36
Forsyth Barr Custodians Limited <1-Custody>	3,820,540	4.08
JB Were (NZ) Nominees Limited <NZ Resident A/C>	2,659,899	2.84
Sterling Nominees Limited	2,159,037	2.31
Kevin Glen Douglas & Michelle McKenney Douglas – K & M Douglas A/C)	1,395,180	1.49
Tasman Equity Holdings Limited	1,062,886	1.14
Arden Capital Limited	708,590	0.78
James Douglas & Jean Ann Douglas <Douglas Family A/C>	623,722	0.67
Kevin Douglas & Michelle Douglas <Douglas Irrevocable A/C>	623,504	0.67
Seaford Holdings Limited	534,750	0.57
The Goodfellow Foundation Incorporated	523,687	0.56
Brian Grove Spackman & Murray Gordon Wells <Brian Spackman Family A/C No 2>	500,000	0.53
Auckland Medical Research Foundation	494,920	0.53
Investment Custodial Services Limited <A/C C>	431,335	0.46
Marie Roberta Taylor & Richard Heywood Taylor <Taylor Family A/C>	431,314	0.46
Geoffrey Francis Lindberg & Craig Francis Lindberg <G F Lindberg Family A/C>	400,300	0.43

1 New Zealand Central Securities Depository Limited provides a custodial depository service to institutional shareholders and does not have a beneficial interest in these shares. Its major holders are:

Citibank Nominees (New Zealand) Limited	4,939,173	5.28
HSBC Nominees (New Zealand) Limited	2,946,161	3.15
BNP Paribas Nominees (NZ) Limited	2,650,055	2.83
National Nominees New Zealand Limited	2,554,148	2.73
TEA Custodians Limited Client Property Trust Account	1,845,339	1.97
Accident Compensation Corporation	1,670,000	1.78
JP Morgan chase Bank NA NZ Branch – Segregated Clients Acct	1,528,977	1.63
New Zealand Permanent Trustees Limited	1,052,000	1.12
BNP Paribas Nominees (NZ) Limited	794,447	0.85

SUBSTANTIAL PRODUCT HOLDERS

According to the Company's records and substantial product holder notices given to the Company under the Financial Markets Conduct Act 2013, as at 30 September 2017, the following were substantial product holders in the Company through having a relevant interest in the Company's ordinary shares:

	NUMBER OF VOTING SECURITIES
Avalon Investment Trust Limited	8,606,054
Amalgamated Dairies Limited	22,771,567*
Paul Gerard Keeling and Edgar William Preston	26,404,517*

The total number of quoted voting products of Sanford Limited on issue as at 30 September 2017 was 93,506,137.

Because of the provisions of the Financial Markets Conduct Act 2013 more than one relevant interest can exist in the same Voting Security.

*The shares held by Amalgamated Dairies Limited are included in the shares in which Messrs Keeling and Preston have a relevant interest.

NZX WAIVER AND OVERSEAS OWNERSHIP

In November 2016, NZX granted the Company a waiver from NZX Main Board Listing Rule 11.1.6 which allows the Company to suspend the voting rights of any of the Company's shares which are "Affected Shares".

"Affected Shares" are those shares which the Board determines have caused the Company to be in Breach of the "Overseas Ownership Threshold" (currently, a level of overseas ownership of 22.5% of the Company) and in respect of which the Board can exercise its powers to require (or effect) a sale to transfer the "Affected Shares" to a "Non-Overseas Person".

The NZX also granted approval for the Company to include provisions in its Constitution which allow the Board to restrict the transfer of the Company's shares to "Overseas Persons" and which allow the Board to require certain documentation and/or information in relation to a proposed transfer or transferee of the Company's Shares.

A more detailed outline and explanation of the effects of the powers that the Board has to restrict the transfer and in certain circumstances suspend voting rights of securities can be found on our website www.sanford.co.nz/investors/governance/company-constitution/Overseas Ownership, and the provisions which enable the Board to exercise those powers are set out in the Company's Constitution. The full text of the NZX's waiver can also be found here www.nzx.com/files/documents/companies/SAN/249139.pdf.

The Company estimates Overseas Person ownership to be 16.09% based on NASDAQ reporting, as at 30 September 2017 (16.21% at 30 September 2016). Sanford's level of overseas ownership may have changed since this estimate was prepared. Overseas persons intending to trade in Sanford shares should seek legal advice regarding their obligations under the Overseas Investment Act 2005.

NON-GAAP PROFIT MEASURES

Sanford's standard profit measure prepared under New Zealand GAAP is net profit. Sanford have used non-GAAP measures when discussing financial performance in this document. The Directors and management believe that these measures provide useful information as they are used internally to evaluate divisional and total Group performance and to establish operating and capital budgets. Non-GAAP profit measures are not prepared in accordance with NZ IFRS (New Zealand International Reporting Standards) and are not uniformly defined, therefore the non-GAAP profit measures included in this report are not comparable with those used by other companies. They should not be viewed in isolation or as a substitute for GAAP profit measures as reported by Sanford in accordance with NZ IFRS.

DEFINITIONS

EBITDA: Earnings before interest, taxation, depreciation, amortisation, restructuring, adjusting items, impairment and gain (loss) on sale of investments, intangible and long term assets.

Reported EBIT: Earnings before interest, taxation and gain (loss) on sale of investments, intangible and long term assets.

GAAP TO NON-GAAP RECONCILIATION

	Audited 30 September 2017 $000	Audited 30 September 2016 $000
Reported net profit for the period (GAAP)	**37,478**	**34,731**
Add back:		
Income tax expense	14,172	14,681
Net interest expense	8,492	8,193
Net loss on sale of investments and property, plant and equipment	580	136
Reported EBIT	**60,722**	**57,741**
Adjustments:		
Impairment of assets	2,130	5,389
Provision for one-off vessel disposal costs	474	–
Restructuring costs	418	228
Adjusted EBIT	**63,744**	**63,358**
Add back:		
Depreciation and amortisation	18,803	15,515
EBITDA	**82,547**	**78,873**

The Directors are pleased to present the Financial Statements of the Group for the year ended 30 September 2017.

For and on behalf of the Board of Directors:

P G Norling
CHAIRMAN
15 November 2017

E M Coutts
DIRECTOR
15 November 2017

CONTENTS

FIVE YEAR FINANCIAL REVIEW 114

INCOME STATEMENT 115

STATEMENT OF COMPREHENSIVE INCOME 116

STATEMENT OF FINANCIAL POSITION 117

STATEMENT OF CASH FLOWS 118

STATEMENT OF CHANGES IN EQUITY 120

NOTES TO THE FINANCIAL STATEMENTS 121

INDEPENDENT AUDITOR'S REPORT 151

FIVE YEAR FINANCIAL REVIEW

	2017 $000	2016 $000	2015 $000	2014 $000	2013 $000
Revenue	**477,940**	**463,472**	**450,332**	**460,521**	**462,644**
EBITDA*	**82,547**	**78,873**	**64,362**	**60,040**	**49,285**
Depreciation and amortisation	(18,803)	(15,515)	(16,901)	(17,975)	(17,428)
Restructuring costs	(418)	(228)	(3,048)	–	–
Impairment of assets	(2,130)	(5,389)	(13,287)	(2,260)	(4,226)
Other one-off items	(474)	–	–	4,332	–
EBIT	**60,722**	**57,741**	**31,126**	**44,137**	**27,631**
Net interest expense	(8,492)	(8,193)	(9,460)	(9,607)	(8,692)
Net currency exchange (losses) gains	–	–	–	(4,558)	10,349
Net (loss) gain on sale of investments, property, plant and equipment and intangible assets	(580)	(136)	136	1,755	152
Profit before income tax	**51,650**	**49,412**	**21,802**	**31,727**	**29,440**
Income tax expense	(14,172)	(14,681)	(8,024)	(9,363)	(9,040)
Profit for the year	**37,478**	**34,731**	**13,778**	**22,364**	**20,400**
Non controlling interest	8	13	21	66	(39)
Profit attributable to equity holders of the Company	**37,486**	**34,744**	**13,799**	**22,430**	**20,361**
Equity					
Paid in capital	94,690	94,958	95,027	95,152	95,355
Reserves	480,619	462,779	417,592	450,206	458,978
Non controlling interest	527	398	451	483	575
Total equity	**575,836**	**558,135**	**513,070**	**545,841**	**554,908**
Represented by:					
Current assets	150,363	141,149	127,708	121,543	132,416
Less current liabilities	123,682	90,366	114,082	53,972	48,366
Working capital	**26,681**	**50,783**	**13,626**	**67,571**	**84,050**
Property, plant and equipment	132,000	119,841	93,658	128,769	131,077
Investments	10,940	11,313	10,964	10,438	10,651
Biological assets	16,448	14,978	12,654	10,510	6,693
Intangible assets	504,398	500,327	500,356	506,078	499,177
Derivative financial instruments	5,816	10,228	–	–	–
	696,283	707,470	631,258	723,366	731,648
Less non-current liabilities	120,447	149,335	118,188	177,525	176,740
Total net assets	**575,836**	**558,135**	**513,070**	**545,841**	**554,908**
Dividend per share (cents)	23†	23†	23†	23†	23†
Dividend cover (times)	1.7†	1.6†	0.6†	1.0†	1.0†
Return on average total equity	6.6%	6.5%	2.6%	4.1%	3.7%
Earnings per share (cents)	40.1	37.1	14.8	24.0	21.7
Net asset backing per share	$6.16	$5.97	$5.48	$5.83	$5.93

* Earnings before interest, taxation, depreciation, amortisation, restructuring, adjusting items, impairment, gain (loss) on sale of investments, intangible and long term assets and up to 2014, non-trading net currency exchange gains (losses).

† Includes the dividends proposed after balance date.

The five year financial review includes both the continuing and discontinued businesses.

INCOME STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2017

	Note	2017 $000	2016 $000
Continuing Operations			
Revenue	4	477,940	463,469
Cost of sales		(365,661)	(350,753)
Gross profit		**112,279**	**112,716**
Other income		6,464	5,530
Distribution expenses		(24,457)	(24,452)
Administrative expenses	5	(23,329)	(23,962)
Other expenses	5	(11,676)	(9,214)
Operating profit		**59,281**	**60,618**
Finance income	6	389	474
Finance expense	6	(8,853)	(8,649)
Net finance expense		**(8,464)**	**(8,175)**
Share of profit of equity accounted investees	13	833	1,249
Profit before income tax		**51,650**	**53,692**
Income tax expense	7	(14,172)	(15,879)
Profit for the year from continuing operations		**37,478**	**37,813**
Discontinued Operation			
Loss for the year from discontinued operation (attributable to equity holders of the Company)	18	–	(3,082)
Profit for the year		**37,478**	**34,731**
Profit attributable to:			
Equity holders of the Company		37,486	34,744
Non controlling interest		(8)	(13)
		37,478	**34,731**
Earnings per share from continuing and discontinued operations, net of tax attributable to equity holders of the Company during the year (expressed in cents per share)			
Basic and diluted earnings per share (cents)			
From continuing operations		40.1	40.4
From discontinued operation		–	(3.3)
From profit for the year	16	40.1	37.1

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 SEPTEMBER 2017

	2017 $000	2016 $000
Profit for the year (after tax)	**37,478**	**34,731**
Other comprehensive income		
Items that may be reclassified to the income statement		
Foreign currency translation differences	189	(257)
Change in fair value of cash flow hedges recognised in other comprehensive income	2,254	41,083
Deferred tax on cash flow hedges	(631)	(11,503)
Cost of hedging (losses) gains recognised in other comprehensive income	(385)	3,631
Deferred tax on cost of hedging	108	(1,017)
Items that may not be reclassified to the income statement		
Amount of treasury share cost expensed in relation to share-based payment	62	171
Other comprehensive income for the year	**1,597**	**32,108**
Total comprehensive income for the year	**39,075**	**66,839**
Total comprehensive income for the year is attributable to:		
Equity holders of the Company	39,075	66,865
Non controlling interest	–	(26)
Total comprehensive income for the year	**39,075**	**66,839**
Total comprehensive income attributable to shareholders arises from:		
– continuing operations	39,075	69,921
– discontinued operation	–	(3,082)
	39,075	**66,839**

STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2017

	Note	2017 $000	2016 $000
Current assets			
Cash on hand and at bank	8	5,150	3,589
Trade receivables	9	55,362	64,340
Derivative financial instruments	19	12,450	10,512
Other receivables and prepayments		7,277	4,896
Biological assets	10	18,048	14,876
Inventories	11	43,576	34,140
Assets held for sale	18	8,500	8,796
Total current assets		**150,363**	**141,149**
Non-current assets			
Property, plant and equipment	12	132,000	119,841
Investments	13	10,940	11,313
Derivative financial instruments	19	5,816	10,228
Biological assets	10	16,448	14,978
Intangible assets	14	504,398	500,327
Total non-current assets		**669,602**	**656,687**
Total assets		**819,965**	**797,836**
Current liabilities			
Bank overdraft and borrowings (secured)	8	55,121	55,234
Current portion of bank loans (secured)	19	36,000	–
Derivative financial instruments	19	2,631	2,169
Trade and other payables	15	29,354	29,923
Taxation payable		576	3,040
Total current liabilities		**123,682**	**90,366**
Non-current liabilities			
Bank loans (secured)	19	95,000	121,400
Contributions received in advance		3,756	3,814
Employee entitlements	15	1,964	1,791
Derivative financial instruments	19	3,496	9,294
Deferred taxation	7	15,781	12,128
Lease obligation		450	908
Total non-current liabilities		**120,447**	**149,335**
Total liabilities		**244,129**	**239,701**
Equity			
Paid in capital		94,690	94,690
Retained earnings		472,147	456,164
Other reserves		8,472	6,883
Shareholder funds		**575,309**	**557,737**
Non controlling interest		527	398
Total equity	16	**575,836**	**558,135**
Total equity and liabilities		**819,965**	**797,836**

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 SEPTEMBER 2017

	Note	2017 $000	2016 $000
Cash flows from operating activities			
Receipts from customers		490,102	449,684
Interest received		361	456
Dividends received		28	18
Payments to suppliers and employees		(418,078)	(394,738)
Income tax paid		(13,505)	(12,501)
Interest paid		(8,628)	(8,547)
Net cash flows from operating activities		**50,280**	**34,372**
Cash flows from investing activities			
Sale of property, plant and equipment		419	4,301
Contributions received in advance		(58)	205
Dividends received from associates	13	1,206	854
Purchase of property, plant and equipment and intangible assets		(36,803)	(42,148)
Purchase of business		(1,478)	–
Net cash flows from investing activities		**(36,714)**	**(36,788)**
Cash flows from financing activities			
Proceeds from borrowings		23,600	41,240
Repayment of term loans		(14,000)	(18,402)
Dividends paid to Company shareholders	17	(21,503)	(21,507)
Dividends paid to non controlling shareholders in subsidiaries		(27)	(27)
Purchase of own shares	16	–	(240)
Net cash flows from financing activities		**(11,930)**	**1,064**
Net increase (decrease) in cash and cash equivalents		**1,636**	**(1,352)**
Effect of exchange rate fluctuations on cash held		38	(35)
Cash and cash equivalents at beginning of year		(51,645)	(50,258)
Cash and cash equivalents at 30 September		**(49,971)**	**(51,645)**
Represented by:			
Bank overdraft and borrowings (secured)		(55,121)	(55,234)
Cash on hand and at bank		5,150	3,589
	8	**(49,971)**	**(51,645)**

FOR THE YEAR ENDED 30 SEPTEMBER 2017

RECONCILIATION OF PROFIT FOR THE PERIOD WITH THE NET CASH FLOW FROM OPERATING ACTIVITIES

	Note	2017 $000	2016 $000
Profit for the year (after tax)		**37,478**	**34,731**
Adjustments for non-cash items:			
Depreciation and amortisation		18,803	15,515
Impairment of property, plant and equipment	12	1,865	343
Impairment of assets held for sale	18	265	5,000
Impairment of other investments		–	46
Share-based payment expense		62	171
Change in fair value of biological assets		(4,642)	(4,851)
Change in fair value of fuel swaps		–	(118)
Change in fair value of foreign currency options		(479)	(1,782)
Change in fair value of forward exchange contracts		(515)	(4,402)
Share of profit of equity accounted investees	13	(833)	(1,249)
Increase in deferred tax		3,130	388
Unrealised foreign exchange losses (gains)		2,658	(75)
		20,314	**8,986**
Movement in working capital			
Decrease (increase) in trade and other receivables and prepayments		4,034	(13,541)
(Increase) decrease in inventories		(8,913)	2,271
(Decrease) increase in trade and other payables and other liabilities		(749)	178
(Decrease) increase in taxation payable		(2,464)	1,611
		(8,092)	**(9,481)**
Items classified as investing activities			
Loss on sale of property, plant and equipment		580	136
		580	**136**
Net cash inflows from operating activities		**50,280**	**34,372**

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2017

Group	Note	Share Capital $000	Share Based Payment Reserve $000	Translation Reserve $000	Cashflow Hedge Reserve $000	Cost of Hedging Reserve $000	Retained Earnings $000	Total $000	Non Controlling Interest $000	Total Equity $000
Balance at 1 October 2016		**94,690**	**268**	**276**	**5,116**	**1,223**	**456,164**	**557,737**	**398**	**558,135**
Profit for the year (after tax)		–	–	–	–	–	37,486	37,486	(8)	37,478
Other comprehensive income										
Foreign currency translation differences		–	–	181	–	–	–	181	8	189
Hedging gains (losses) recognised in other comprehensive income		–	–	–	2,254	(385)	–	1,869	–	1,869
Deferred tax on change in reserves		–	–	–	(631)	108	–	(523)	–	(523)
Amount of treasury share cost expensed in relation to share-based payment		–	62	–	–	–	–	62	–	62
Total comprehensive income		**–**	**62**	**181**	**1,623**	**(277)**	**37,486**	**39,075**	**–**	**39,075**
Shares issued to non-controlling shareholders in subsidiaries		–	–	–	–	–	–	–	156	156
Distributions to shareholders	17	–	–	–	–	–	(21,503)	(21,503)	(27)	(21,530)
Balance at 30 September 2017		**94,690**	**330**	**457**	**6,739**	**946**	**472,147**	**575,309**	**527**	**575,836**
Balance at 1 October 2015		**94,930**	**97**	**520**	**(24,464)**	**(1,391)**	**442,927**	**512,619**	**451**	**513,070**
Profit for the year (after tax)		–	–	–	–	–	34,744	34,744	(13)	34,731
Other comprehensive income										
Foreign currency translation differences		–	–	(244)	–	–	–	(244)	(13)	(257)
Hedging gains recognised in other comprehensive income		–	–	–	41,083	3,631	–	44,714	–	44,714
Deferred tax on change in reserves		–	–	–	(11,503)	(1,017)	–	(12,520)	–	(12,520)
Amount of treasury share cost expensed in relation to share-based payment		–	171	–	–	–	–	171	–	171
Total comprehensive income		**–**	**171**	**(244)**	**29,580**	**2,614**	**34,744**	**66,865**	**(26)**	**66,839**
Acquisition of treasury shares	16	(240)	–	–	–	–	–	(240)	–	(240)
Distributions to shareholders	17	–	–	–	–	–	(21,507)	(21,507)	(27)	(21,534)
Balance at 30 September 2016		**94,690**	**268**	**276**	**5,116**	**1,223**	**456,164**	**557,737**	**398**	**558,135**

NOTE 1 – GENERAL INFORMATION

(a) Reporting entity

Sanford Limited ('the parent' or 'the Company') is a profit-orientated company that is domiciled and incorporated in New Zealand. The Company is registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange (NZX). The Company is an FMC entity for the purposes of Part 7 of the Financial Markets Conduct Act 2013.

The financial statements presented are for Sanford Limited ('Sanford' or 'the Group') as at, and for the year ended 30 September 2017. The Group comprises the Company, its subsidiaries, and its investments in joint arrangements and associates.

In accordance with the Financial Markets Conduct Act 2013, where a reporting entity prepares consolidated financial statements, parent disclosures are not required.

The Group is a large and long-established fishing and aquaculture farming business devoted entirely to the farming, harvesting, processing, storage and marketing of quality seafood products and investments in related activities.

NOTE 2 – BASIS OF PREPARATION

(a) Statement of compliance

The financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards as appropriate for Tier 1 for-profit entities. They also comply with International Financial Reporting Standards.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following which are measured at fair value:

- Derivative financial instruments: interest rate and fuel swaps, forward exchange contracts and foreign currency options
- Biological assets: immature salmon and mussels are measured at fair value less costs to sell

(c) Foreign currency

Functional and presentation currency

These financial statements are presented in New Zealand dollars (NZD), the Company's functional currency. All financial information presented in NZD has been rounded to the nearest thousand dollars (unless described as milllions within the notes to these financial statements).

Foreign currency transactions

Foreign currency transactions are translated to NZD at the exchange rates ruling at the dates of the transactions. At balance date foreign currency monetary assets and liabilities are translated at the closing rate. The exchange variations arising from these translations are recognised in the income statement.

Foreign operations

Foreign operations are entities within the Group, the activities of which are based in a country other than New Zealand, or are conducted in a currency other than NZD. The assets and liabilities of foreign operations are translated into NZD at the balance date closing rate, while revenues and expenses are translated at rates approximating the exchange rate ruling at the date of the transaction. Exchange variations are taken directly to the foreign currency translation reserve.

(d) Use of estimates and judgements

The preparation of financial statements requires the Board of Directors to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts in the financial statements. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Accounting policies, and information about judgements, estimates and assumptions that have had a significant impact on the amounts recognised in the financial statements are disclosed in the relevant notes as follows:

- Valuation of deferred tax assets and liabilities (refer note 7)
- Impairment testing of property, plant and equipment (refer notes 12 and 18)
- Impairment testing of intangible assets (refer note 14)
- Valuation of biological assets (refer note 10)
- Valuation of financial instruments (refer note 19)

Estimates are designated by a E symbol in the notes to the financial statements.

(e) Significant accounting policies

Accounting policies are disclosed within each of the applicable notes to the financial statements and are designated with a P symbol.

The Group's accounting policies have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities.

There have been no changes in accounting policies or methods of computation. To ensure consistency with the current period, comparative figures have been restated where appropriate.

NOTE 2 – BASIS OF PREPARATION (continued)

(f) New accounting standards and interpretations not yet adopted

The following standards and interpretations which are considered relevant to the Group but not yet effective for the year ended 30 September 2017 have not been applied in preparing the financial statements:

NZ IFRS15: Revenue from Contracts with Customers

The standard was issued in May 2014 and will replace all existing guidance for revenue recognition, including NZ IAS11: *Construction Contracts* and NZ IAS18: *Revenue*. It is required to be adopted by the Group in the year ending 30 September 2019. The Group is continuing to evaluate the impact of this standard but does not anticipate it will have a significant impact on the financial statements.

NZ IFRS16: Leases

This standard was issued in January 2016 and will replace all existing guidance on leases, including NZ IAS17: *Leases*. The standard introduces a single, on-balance sheet accounting model for leases that is similar to current finance lease accounting. It is required to be adopted by the Group in the year ending 30 September 2020. The Group has not yet fully evaluated the impact this standard will have on the financial statements.

Disclosure Initiative (Amendments to NZ IAS7)

The amendments to NZ IAS7: *Cash Flow Statements* were issued in January 2016. The amendments introduce a reconciliation between cash flows arising from financing activities as reported in the statement of cash flows to the corresponding liabilities in the opening and closing statement of financial position. It is effective for the Group's financial year ending 30 September 2018.

NOTE 3 – SEGMENT REPORTING

Executive management of the Group monitors the operating results of the wildcatch and aquaculture (mussels and salmon) divisions. Divisional performance is evaluated based on operating profit or loss. Capital expenditure consists of additions of property, plant and equipment and intangible assets.

The Group's key operating divisions are:

- wildcatch – responsible for catching and processing inshore and deepwater fish species; and
- aquaculture – responsible for farming, harvesting and processing mussels and salmon.

The Group has determined that the divisions above should be aggregated to form one reportable segment to reflect the farming, harvesting, processing and selling of seafood products, due to the aggregated manner in which performance is monitored.

The criteria as set out in paragraph 12 of NZ IFRS8: *Operating Segments* was considered in determining the aggregation of the operating divisions. In aggregating these operating divisions into one reportable segment, the Group identified similarities in the following:

Similar economic characteristics

The Group considered and identified similarities in economic characteristics in the wildcatch and aquaculture divisions. The Group concluded, having considered several factors, that the operating divisions exhibited similar long term economic characteristics because the impact of these factors is expected to be similar across all operating divisions. This is supported by the following observations:

Foreign exchange

A large proportion of the Group's sales are derived from exporting seafood products. Movements in foreign exchange rates have a significant influence on the degree of profitability of the Group.

Competitive and operating risks

The operating risks are similar for all of the seafood products in which the Group trades, due to the vagaries of nature and its impact in respect of weather patterns, nutrients in the oceans, parasites and disease.

The global growth in seafood product demand and rising commodity prices has led to a heightened competitive environment in which the Group trades, this applies in a similar manner across all of the operating divisions.

Economic and political risk

Economic/political prosperity and stability for countries in which Sanford's customers are based, have a direct impact across the Group in its ability to derive increasing positive returns to shareholders.

Other variables impacting profit

There are many other variables that directly or indirectly impact the profitability of the operating divisions such as international trade rules and tariffs and climate change. The Group has assessed that the operating divisions are similarly impacted by these variables.

Nature of the products

All of the seafood products have similar nutritional factors, principally they are a good source of protein and relatively low in fat.

Similar nature of production processes

The Group has determined that all of the seafood products produced for its customers are harvested from the sea. Additionally, certain fish species and mussels have hand opening or machine opening processes involved in the final completion of the production chain.

The type or class of customer for the product

The Group sells products derived from all of its operating divisions to eight (2016: nine) of its top ten customers. The Group's customers are largely of a wholesale nature.

The methods used to distribute the product

The Group's sales and marketing team is structured geographically and not by product type or by operating division.

The nature of the regulatory environment

Both aquaculture and fish products are governed by the quality control regulations set by the Ministry for Primary Industries in New Zealand and those countries to which the Group exports. In respect of vessels these must meet Maritime New Zealand regulations; this requirement is similar for all operating divisions.

NOTE 3 – SEGMENT REPORTING (continued)

(a) Income and expenditure (continuing operations)

Segmental information is presented in respect of the Group's industry and geographical segments.

	NEW ZEALAND		AUSTRALIA		ELIMINATIONS		TOTAL	
	2017 $000	2016 $000	**2017 $000**	2016 $000	**2017 $000**	2016 $000	**2017 $000**	2016 $000
Total external revenue	451,786	434,146	26,154	29,323	–	–	477,940	463,469
Inter-segment revenue	2,824	2,512	–	–	(2,824)	(2,512)	–	–
Segment revenue	**454,610**	**436,658**	**26,154**	**29,323**	**(2,824)**	**(2,512)**	**477,940**	**463,469**
Segment profit (loss) for the year	**36,657**	**36,760**	**(12)**	**(196)**	**–**	**–**	**36,645**	**36,564**
Share of profit of equity accounted investees							833	1,249
Reported profit for the year (continuing operations)							**37,478**	**37,813**

Inter-segment transactions

Inter-segment revenue is eliminated upon consolidation and is reflected in the eliminations column.

(b) Revenue by geographical location of customers (continuing operations)

	2017 $000	2016 $000
New Zealand	169,247	155,977
North America	85,083	69,779
Australia	65,542	69,601
Europe	45,554	52,842
China	40,488	40,022
Japan	18,261	16,029
Africa	13,589	10,782
Other Asia	12,749	18,260
Korea	12,351	11,079
Middle East	5,623	6,503
Hong Kong	4,326	8,506
Pacific	3,307	2,857
Other	1,820	1,232
Revenue	**477,940**	**463,469**

The revenue information above is based on the delivery destination of sales.

Sales to one customer for the year accounted for $49.8m or 10% of total sales (2016: $53.0m and 11%).

(c) Assets and liabilities

		NEW ZEALAND		AUSTRALIA		TOTAL	
	Note	**2017 $000**	2016 $000	**2017 $000**	2016 $000	**2017 $000**	2016 $000
Segment assets		802,747	780,711	6,367	5,901	809,114	786,612
Investment in equity accounted investees	13	10,851	11,224	–	–	10,851	11,224
Total assets		**813,598**	**791,935**	**6,367**	**5,901**	**819,965**	**797,836**
Segment liabilities		223,046	219,626	21,083	20,075	224,129	239,701
Total liabilities		**223,046**	**219,626**	**21,083**	**20,075**	**244,129**	**239,701**
Capital expenditure		36,228	42,231	131	47	36,359	42,278
Depreciation and amortisation		18,669	15,388	134	127	18,803	15,515

There are no assets or liabilities that are classified as discontinued in 2017 and 2016, all discontinued assets and liabilities having been sold and cleared by 30 September 2016.

NOTE 4 – REVENUE

Revenue from the sale of goods is measured at the fair value of the consideration received and is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

NOTE 5 – EXPENSES

	Note	2017 $000	2016 $000
Continuing Operations			
(a) Administrative and other expenses includes			
Directors' fees	24	661	647
Donations		179	152
Audit fees – KPMG		204	196
Audit fees – other auditors (for audit of Group companies)		58	60
KPMG fees for other services†		49	82
Leasing charges		5,242	5,302
Bad debts written off		120	54
Increase in allowance for doubtful debts	19	145	8
Impairment of property, plant and equipment	12	1,865	343
Impairment of assets held for sale	18	265	–
Impairment of other investments		–	46
Loss on sale of property, plant and equipment		580	136
Restructuring costs		418	228
Research and development		3,314	3,715
(b) Personnel expenses included in cost of sales, administrative and distribution expenses			
Wages and salaries (including short-term employee benefits)		113,613	105,006

† KPMG fees for other services are in respect of a limited assurance engagement in relation to selected sustainability information included in the Sanford annual report ($41,500) and scrutineering the results of the annual meeting ($7,000). 2016 fees for other services related to a limited assurance engagement in relation to selected sustainability information included in the Sanford annual report ($36,500), accounting advice on transition to NZ IFRS9 ($40,000) and scrutineering results of the annual meeting ($5,000).

NOTE 6 – FINANCE INCOME AND EXPENSE

Finance income comprises interest income on funds invested and dividend income. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings and impairment losses recognised on financial assets (except for trade receivables).

	2017 $000	2016 $000
Finance income		
Interest income	361	456
Dividends received	28	18
	389	**474**
Finance expense		
Interest expense on bank loans and bank overdraft	8,853	8,649
	8,853	**8,649**
Net finance expense	**8,464**	**8,175**

NOTE 7 – TAXATION

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income (OCI) in which case it is recognised in OCI.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is:

- Recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.
- Not recognised for the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future.
- Measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at balance date.

7.1 Income tax expense (continuing operations)

	2017 $000	2016 $000
Current period	**11,054**	**13,450**
Adjustments for prior periods	(12)	786
	11,042	**14,236**
Deferred tax expense		
Origination and reversal of temporary differences	3,093	1,896
Adjustments for prior periods	37	(253)
	3,130	**1,643**
Income tax expense	**14,172**	**15,879**
Reconciliation of effective tax rate		
Profit for the year	37,478	37,813
Income tax expense	14,172	15,879
Profit before income tax	**51,650**	**53,692**
Tax at current rate of 28%	**14,462**	**15,034**
Non-deductible expenses	152	585
Capitalised asset timing differences	(5)	(2)
Non-taxable income	(7)	–
Adjustments for prior periods	25	533
Different foreign tax rate	4	2
Other	(459)	(273)
	(290)	**845**
Income tax expense	**14,172**	**15,879**
Imputation credit account		
Imputation credits available for use in subsequent reporting periods	71,384	66,597

The Group imputation credits are available to be attached to dividends paid by Sanford Limited.

NOTE 7 – TAXATION (continued)

7.2 Deferred tax

	2017			
	Balance 30 September 2016 $000	**Recognised in Income Statement – Continuing Operations $000**	**Recognised in Other Compre-hensive Income $000**	**Balance 30 September 2017 $000**
Movement in temporary differences during the year				
Property, plant and equipment	(2,633)	(654)	–	(3,287)
Intangible assets	(10,974)	(1,563)	–	(12,537)
Trade receivables	60	–	–	60
Derivative financial instruments	(2,466)	–	(523)	(2,989)
Biological assets	1,454	(1,147)	–	307
Other liabilities	2,431	234	–	2,665
Net deferred tax liability	**(12,128)**	**(3,130)**	**(523)**	**(15,781)**

	2016			
	Balance 30 September 2015 $000	Recognised in Income Statement – Continuing Operations $000	Recognised in Other Compre-hensive Income $000	Balance 30 September 2016 $000
Movement in temporary differences during the year				
Property, plant and equipment	(3,071)	438	–	(2,633)
Intangible assets	(9,431)	(1,543)	–	(10,974)
Trade receivables	60	–	–	60
Derivative financial instruments	10,054	–	(12,520)	(2,466)
Biological assets	1,899	(445)	–	1,454
Other liabilities	2,524	(93)	–	2,431
Net deferred tax asset (liability)	**2,035**	**(1,643)**	**(12,520)**	**(12,128)**

Deferred tax recognised in OCI relates to tax on the effective portion of the change in fair value of cash flow hedges, and on cost of hedging gains or losses.

A deferred tax asset has not been recognised in respect of the following item because it is not probable that future taxable profit will be available against which the Group can utilise the benefits. There is no expiry time for the use of these tax losses.

	2017 $000	2016 $000
Unrecognised deferred tax asset		
Net tax losses – Australia	2,852	2,736

NOTE 8 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes deposits that are subject to insignificant risk of changes in their fair value. Cash and cash equivalents are classified and measured at amortised cost in the statement of financial position. These financial instruments are short term in nature and the carrying amount is considered to be a reasonable approximation of fair value.

Bank overdraft and borrowings are classified and measured at amortised cost. These financial instruments are short term in nature and the carrying amount is considered to be a reasonable approximation of fair value.

	2017 $000	2016 $000
Cash on hand and at bank	5,150	3,589
Bank overdraft and borrowings (secured)	(55,121)	(55,234)
	(49,971)	**(51,645)**

Borrowings expire in April 2018 (2016: April 2017).

Interest rates

Interest rates applicable on call deposits range from 0.60% – 3.30% (2016: 0.50% – 3.58%).

Interest rates applicable on the bank overdraft and borrowings range from 2.62% – 13.75% (2016: 2.72% – 14.40%).

Security

Bank loans are secured by a general security interest over property and a mortgage over quota shares.

NOTE 9 – TRADE RECEIVABLES

Trade and other receivables are financial assets classified and measured at amortised cost less allowance for doubtful debts. Short term trade receivables are not discounted. These financial instruments are short term in nature and the carrying amounts are considered to be a reasonable approximation of fair values.

	2017 $000	2016 $000
Gross trade receivables	55,640	64,473
Less: Allowance for doubtful debts (refer to note 19(a))	(278)	(133)
	55,362	**64,340**

NOTE 10 – BIOLOGICAL ASSETS

Biological assets include pre-harvest salmon and mussel stocks, and are measured at fair value less costs to sell, with any change therein recognised in the income statement. Costs to sell include all costs that would be necessary to sell the assets. Biological assets are transferred to inventories at the date of harvest.

	2017		
	Mussels $000	**Salmon $000**	**Total $000**
Balance at beginning of year	23,001	6,853	29,854
Change in fair value less estimated costs to sell	23,845	6,671	30,516
Harvested produce transferred to inventories	(21,690)	(4,184)	(25,874)
Balance at 30 September 2017	**25,156**	**9,340**	**34,496**
Current	11,148	6,900	18,048
Non-current	14,008	2,440	16,448
	25,156	**9,340**	**34,496**

	2016		
	Mussels $000	Salmon $000	Total $000
Balance at beginning of year	19,287	5,716	25,003
Change in fair value less estimated costs to sell	24,145	5,534	29,679
Harvested produce transferred to inventories	(20,431)	(4,397)	(24,828)
Balance at 30 September 2016	**23,001**	**6,853**	**29,854**
Current	10,010	4,866	14,876
Non-current	12,991	1,987	14,978
	23,001	**6,853**	**29,854**

Risk factors

The Group is exposed to a number of risks relating to its growing of salmon and mussel stocks. These include storms, marine predators, biosecurity incursions and other contamination of the water space. The Group has extensive processes in place to monitor and mitigate these risks including insurance of salmon and mussels, regular inspection of the growing areas and contingency plans in the event of an adverse climatic event.

The key assumption which would lead to future uncertainty which may cause an adjustment to the carrying amounts of biological assets is the fair value per kg at the point of harvest. The value of these assets may fluctuate with both the market prices and foreign exchange movements.

Supply and demand risks

The Group is exposed to risks arising from fluctuations in the price and sales volumes of salmon and mussels. Management performs regular analysis to ensure that the Group's pricing structure is in line with the market and to ensure harvest volumes are appropriate.

Determining fair value

Salmon

The pre-harvest salmon stock has been valued with reference to their stage of development, the length of the growth cycle, number in the water, assumptions in respect of biomass and feed conversion rates, and the fair value per kg at the point of harvest. The fair value per kg at the point of harvest is determined with reference to the market selling prices as at 30 September 2017.

Mussels

The pre-harvest mussel stock has been valued with reference to their stage of development, the length of the growth cycle for the mussels in the regions being farmed, the fair value per kg at point of harvest, and the physical quantity in the water at balance date. The fair value per kg at the point of harvest is determined with reference to market selling prices as at 30 September 2017.

NOTE 11 – INVENTORIES

Inventories are measured at the lower of cost and net realisable value. The estimated costs of marketing, selling and distribution are deducted in calculating net realisable value.

Cost is based on the weighted average cost principle and includes expenditure incurred in acquiring the inventory and bringing it to its existing condition and location. In the case of processed inventories and work in progress, cost includes an appropriate share of overheads. Fixed overheads are allocated on the basis of normal operating capacity. The cost of items transferred from biological assets is their fair value less costs to sell at the date of transfer.

	2017 $000	2016 $000
Seafood	34,354	26,361
Packaging, fishing gear, fuel and stores	9,222	7,779
	43,576	**34,140**

NOTE 12 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses.

Cost may include:

- the consideration paid on acquisition of the asset;
- the cost of materials and direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use;
- the costs of dismantling and removing the items and restoring the site on which they are located; and
- borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset.

The capitalisation of expenditure ceases when the asset is ready for use.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent expenditure that increases the economic benefits derived from an asset is capitalised.

Depreciation of property, plant and equipment, other than land, is calculated using straight-line basis and is expensed over the useful life of the asset. Depreciation methods, useful lives and residual values are reassessed at balance date. Leased assets are depreciated over the shorter of the lease term and their estimated useful lives. Estimated useful lives (years) are as follows:

	2017	2016
Buildings (freehold and leasehold)	20–25	20–25
Fishing vessels:		
Hulls	20–30	20–30
Engines	12–15	12–15
Electronic equipment	3–4	3–4
Machinery and plant	7–10	7–10
Motor vehicles	5	5
Office fixtures and fittings	3–7	3–7
Marine farm assets	5–15	5–15

NOTE 12 – PROPERTY, PLANT AND EQUIPMENT (continued)

	2017					
	Land $000	Freehold Buildings $000	Leasehold Buildings $000	Fishing Vessels $000	Plant and Equipment $000	Total $000
Cost						
Balance at beginning of year	2,572	20,990	43,359	165,392	127,515	359,828
Additions – business combination	–	–	9	–	141	150
Additions – other	–	333	4,154	23,486	5,676	33,649
Disposals	–	–	(798)	(5,351)	(3,215)	(9,364)
Effect of movements in exchange rates	–	–	45	–	16	61
Balance at end of year	2,572	21,323	46,769	183,527	130,133	384,324
Accumulated depreciation and impairment						
Balance at beginning of year	–	(7,913)	(26,505)	(111,820)	(93,749)	(239,987)
Depreciation	–	(541)	(1,675)	(9,764)	(6,823)	(18,803)
Impairment	–	–	(51)	(1,814)	–	(1,865)
Disposals	–	–	500	5,144	2,687	8,331
Balance at end of year	–	(8,454)	(27,731)	(118,254)	(97,885)	(252,324)
Net book value at 30 September 2017	**2,572**	**12,869**	**19,038**	**65,273**	**32,248**	**132,000**

	2016					
	Land $000	Freehold Buildings $000	Leasehold Buildings $000	Fishing Vessels $000	Plant and Equipment $000	Total $000
Cost						
Balance at beginning of year	2,572	20,776	43,070	132,437	124,370	323,225
Additions – other	–	196	361	35,620	6,080	42,257
Disposals	–	–	–	(2,665)	(3,483)	(6,148)
Net transfer of assets held for sale	–	18	–	–	555	573
Effect of movements in exchange rates	–	–	(72)	–	(7)	(79)
Balance at end of year	2,572	20,990	43,359	165,392	127,515	359,828
Accumulated depreciation and impairment						
Balance at beginning of year	–	(7,376)	(24,838)	(107,208)	(90,145)	(229,567)
Depreciation	–	(525)	(1,667)	(6,671)	(6,617)	(15,480)
Impairment	–	–	–	(343)	–	(343)
Disposals	–	–	–	2,402	3,297	5,699
Net transfer of assets held for sale	–	(12)	–	–	(284)	(296)
Balance at end of year	–	(7,913)	(26,505)	(111,820)	(93,749)	(239,987)
Net book value at 30 September 2016	**2,572**	**13,077**	**16,854**	**53,572**	**33,766**	**119,841**

Impairment

The fishing vessels impairment charge ($1.8m) relates to an inshore vessel acquired during the year, which subsequently was found to have structural weakness that requires significant remediation work in order for the vessel to meet compliance standards for fishing. The Company is investigating legal remedy, however no recoveries have been recorded at balance date due to the early stage of this process. A provision of $0.5m has been raised in respect of the anticipated disposal costs of this vessel.

The Havelock mussel processing plant was impacted by an earthquake which struck the top of the South Island on 14 November 2016 and has subsequently been subject to both engineering and insurance assessments. Operations at the facility have been largely unaffected by the earthquake, however the extent of remediation to restore the facility to its pre-earthquake state is still to be finalised. It is expected that the Group has sufficient insurance to cover any remediation expenditure but the quantum has not been finalised. Therefore no financial impact of the earthquake is recognised in these financial statements.

NOTE 12 – PROPERTY, PLANT AND EQUIPMENT (continued)

Commitments

The estimated capital expenditure for property, plant and equipment contracted for at reporting date but not provided is $1.0m for the Group (2016: $4.4m).

NOTE 13 – INVESTMENTS

The Group's interest in equity accounted investees comprises interests in those associates and joint ventures disclosed in note 22.

Associates are those entities in which the Group has significant influence, but not control or joint control over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement rather than the rights to its assets and obligations for its liabilities.

Interests in associates and joint ventures are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the financial statements include the Group's share of the profit or loss and OCI of equity accounted investees, until the date on which significant influence or joint control ceases.

Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent there is no evidence of impairment.

The Group's other investments comprise shareholdings in other companies which do not constitute controlling interests, nor does the Group have significant influence over the investees. As these are not held for trading, the Group has elected these equity instruments to be classified and measured at fair value through OCI.

	2017 $000	2016 $000
Equity Accounted Investees		
(a) Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by the Group:		
Current assets	18,971	21,550
Non-current assets	11,354	11,606
Total assets	**30,325**	**33,156**
Current liabilities	3,460	4,632
Non-current liabilities	633	1,752
Total liabilities	**4,093**	**6,384**
Revenue	40,479	37,411
Expenses	(38,833)	(34,909)
Profit	**1,646**	**2,502**
(b) Movements in carrying value of equity accounted investees:		
Balance at beginning of year	11,224	10,829
Share of profit	833	1,249
Dividends received from associates	(1,206)	(854)
Balance at 30 September	**10,851**	**11,224**
Other Investments		
Shares in other companies	89	89
	10,940	**11,313**

NOTE 14 – INTANGIBLE ASSETS

Purchased fish quota is carried at cost less impairment losses. Quota and licences which are initially recognised on the basis of previous permits, catch history or when purchased through business combinations are initially valued at fair value on allocation. Fair value is determined by reference to Crown tender prices and market prices available close to the time of the acquisition. This became the deemed cost upon the adoption of NZ IFRS.

Marine farm licences are recorded at cost, or when purchased through business combinations are initially measured at fair value.

Marine farm licences and quota have indefinite useful lives are not amortised but are tested annually for impairment at balance date. Quota has no expiry date and is therefore deemed to have an indefinite useful life. Marine farm licences are deemed by the Directors to have indefinite useful lives as it is highly probable that they are renewed and the costs of renewal are expected to be minimal.

	2017				
	Intellectual Property $000	**Fishing Quota $000**	**Marine Farm Licences $000**	**Goodwill $000**	**Total $000**
Carrying amount					
Balance at beginning of year	–	412,709	99,537	974	513,220
Additions – business combination	–	–	–	1,350	1,350
Additions – other	414	–	2,296	–	2,710
Effect of movements in exchange rates	–	11	–	–	11
Balance at end of year	414	412,720	101,833	2,324	517,291
Impairment					
Balance at beginning and end of year	–	(11,649)	(1,244)	–	(12,893)
Carrying amount at 30 September 2017	**414**	**401,071**	**100,589**	**2,324**	**504,398**

	2016				
	Intellectual Property $000	Fishing Quota $000	Marine Farm Licences $000	Goodwill $000	Total $000
Carrying amount					
Balance at beginning of year	35	412,703	99,537	974	513,249
Additions – other	–	21	–	–	21
Amortisation	(35)	–	–	–	(35)
Effect of movements in exchange rates	–	(15)	–	–	(15)
Balance at end of year	–	412,709	99,537	974	513,220
Impairment					
Balance at beginning and end of year	–	(11,649)	(1,244)	–	(12,893)
Carrying amount at 30 September 2016	**–**	**401,060**	**98,293**	**974**	**500,327**

The Group purchased water space at Wilson's Bay in the Coromandel during 2017 for $2.3m (2016: Nil).

Impairment testing

The carrying amounts of the Group's non-financial assets other than inventories, biological assets and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount which is the greater of its value in use and its fair value less costs to sell. If it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the cash generating unit (CGU) to which the asset belongs.

Impairment losses directly reduce the carrying amount of assets and are recognised in the income statement. For goodwill and intangible assets that have indefinite lives, recoverable amount is estimated at each reporting date.

NOTE 14 – INTANGIBLE ASSETS (continued)

Cash Generating Units

The table below outlines the allocations of intangible assets with indefinite useful lives to CGUs:

	2017				
	Intellectual Property $000	**Fishing Quota $000**	**Marine Farm Licences $000**	**Goodwill $000**	**Total $000**
New Zealand Seafood	414	400,750	100,589	2,324	504,077
Australia Seafood	–	321	–	–	321
	414	**401,071**	**100,589**	**2,324**	**504,398**

	2016			
	Fishing Quota $000	Marine Farm Licences $000	Goodwill $000	Total $000
New Zealand Seafood	400,750	98,293	974	500,017
Australia Seafood	310	–	–	310
	401,060	**98,293**	**974**	**500,327**

14.1 Fishing Quota and Marine Farm Licences

Impairment testing and assumptions

Based on impairment testing undertaken in September 2017, no impairment is required for New Zealand quota or marine farm licences and none for the remaining Australian fish quota or licences, given the recoverable amount of all CGUs exceed the carrying value of the net assets at 30 September 2017.

Impairment testing was performed on the applicable New Zealand CGU to determine whether fishing quota and marine farm licences were impaired using a discounted cash flow model based on value-in-use. Post-tax discount rates of between 7.3% and 7.9% (2016: 7.3% and 8.0%) were applied. Future cash flows were projected for 5 years and a terminal growth rate of 3% (2016: 3%) was applied. Key assumptions on EBITDA and capital expenditure were based on actual results and Board approved business plans. The forecasts for purposes of valuation are sensitive to changes in foreign exchange rates, projected operating earnings and cash flows in the terminal year.

14.2 Goodwill

Goodwill represents the excess of the consideration transferred over the fair value of the net identifiable assets of the acquired business. Goodwill is carried at cost less accumulated impairment losses.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the income statement.

During the 2017 year, the Group acquired the business and assets of Enzaq Aquaculture Limited. The acquisition gave rise to goodwill ($1.35m). No impairment was identified in respect of the goodwill in this or any other CGU (2016: Nil).

NOTE 15 – TRADE AND OTHER PAYABLES

Trade and other payables

Trade and other payables are financial liabilities, classified and measured at amortised cost. As these are short term in nature and the carrying amount is considered to be a reasonable approximation of fair value.

Employee entitlements

(i) Long service leave

The Group's net obligation in respect of long service leave is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using an actuarial technique. Changes in long service leave provision are recognised in the income statement.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

	2017 $000	2016 $000
Trade payables	7,841	5,755
Other payables and accruals	12,817	16,152
Employee entitlements	10,660	9,807
	31,318	**31,714**
Less: employee entitlements classified as non-current	(1,964)	(1,791)
	29,354	**29,923**

NOTE 16 – CAPITAL/RESERVES AND EARNINGS PER SHARE

(a) Translation reserve

This reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Group's net investments in foreign subsidiaries.

(b) Cash flow hedge reserve

This reserve comprises the effective portion of changes in the fair value of derivative contracts for highly probable forecast transactions.

(c) Cost of hedging reserve

This reserve contains the cumulative net change in fair value of the time value component of foreign currency options which are excluded from the hedge designations of foreign currency risk.

(d) Share capital and earnings per share

	ORDINARY SHARES	
	2017 No. of Shares	2016 No. of Shares
On issue at beginning and end of year	93,626,735	93,626,735

All issued shares are fully paid. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to Sanford's residual assets. In respect of the Company's shares that are held by the Group, all rights are suspended until those shares are reissued.

The calculation of basic earnings per share at 30 September 2017 was based on the profit attributable to ordinary shareholders of $37.5m (2016: $34.7m) and a weighted average number of ordinary shares outstanding of 93,495,121 (2016: 93,493,922).

(e) Treasury shares

In 2014, Sanford established a long-term incentive plan (the LTI plan) for the CEO. The LTI plan is designed to improve the performance of the Group by incentivising and motivating the CEO. This involves the Group purchasing treasury shares pursuant to the terms of the LTI plan. The Group has not acquired any Sanford Limited shares in 2017 for the purposes of the LTI plan (2016: 42,770 shares acquired at a price of $5.60 per share). Total treasury shares held at 30 September 2017 was 120,598 shares (2016: 142,333 shares) following the vesting of 21,735 shares which were issued to the CEO and are treated as fully-paid up.

NOTE 17 – DIVIDENDS

	2017 $000	2016 $000
The following dividends were declared and paid by the Company for the year ended 30 September:		
$0.23 per ordinary share (2016: $0.23)	21,503	21,507

On 15 November 2017 the Directors proposed a final dividend of 14 cents per share (2016: 14 cents per share) to be paid on 8 December 2017. This dividend has not been provided for in the financial statements at 30 September 2017.

NOTE 18 – ASSETS CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATION

(a) Assets Classified as Held for Sale

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, plant and equipment is not depreciated once classified as held for sale.

	2017 $000	2016 $000
Property, plant and equipment at fair value (continuing operations)	8,500	8,796
Total assets held for sale	**8,500**	**8,796**

Property, plant and equipment classified as held for sale reflects the Christchurch mussel processing facility, which was closed during the 2015 financial year and continues to be marketed for sale. During the year, an impairment loss of $0.3m was recognised against the carrying value of these assets (2016: Nil).

(b) Discontinued Operation

Policies

Where a disposal group that is either sold or is held for sale meets the following parameters, it is reported as a discontinued operation:

- The operations and cash flows can be clearly distinguished from the rest of the Group; and
- It represents a separate major line of business or geographical area of operations.

With the decision to exit the IPS business in 2015, the results of this operation are disclosed as a discontinued operation.

	2017 $000	2016 $000
(i) Income Statement		
Revenue	–	3
Operating expenses	–	717
Impairment	–	(5,000)
Loss before income tax	–	(4,280)
Income tax expense	–	1,198
Loss for the year	**–**	**(3,082)**
(ii) Cash Flows		
Operating cash flows	–	(520)
Investing cash flows	–	3,917
Total	**–**	**3,397**

There are no operations which are classified as discontinued during 2017. During 2016 the carrying value of *San Nikunau* was reviewed and a further impairment of $5.0m was recognised in the results of the discontinued operation in the income statement in that year. The vessel was sold for $3.9m in May 2016.

NOTE 19 – FINANCIAL INSTRUMENTS

Classification and measurement

Classification and measurement of financial assets

Financial assets are classified into three categories depending on their contractual cash flow characteristics and the Group's business model for managing the financial assets. These categories are:

- Amortised cost;
- Fair value through profit or loss; and
- Fair value through OCI.

A financial asset which is a debt instrument is measured at amortised cost only if both the following conditions are met:

- it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest.

However, the Group may choose at initial recognition to designate a debt instrument that meets the amortised cost criteria as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

For investments in equity instruments that are not held for trading nor managed on a fair value basis, the Group has elected to measure these at fair value through OCI.

Derivative financial instruments which are not designated in an effective hedge relationship are classified as fair value through profit or loss.

Classification and measurement of financial liabilities

Financial liabilities are classified as either amortised cost or fair value through profit or loss. The Group may choose at initial recognition to designate a financial liability as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch. All financial liabilities of the Group are measured at amortised cost except for derivative financial instruments which are measured at fair value. Changes in the fair value of derivative financial liabilities are recognised in profit or loss except when the derivative instrument is designated in an effective hedge relationship.

Specific accounting policies for the Group's financial assets and liabilities are described below.

Exposure to credit, interest rate, foreign currency, fuel price and liquidity risks arises in the normal course of the Group's business. Derivatives may be used as a means of reducing exposure to fluctuations in foreign exchange rates, interest rates and fuel prices. While these instruments are subject to the risk of subsequent changes to market rates, such changes would generally be offset by opposite effects on the items being hedged.

The Group is not exposed to substantial other market price risk arising from financial instruments.

Fair value measurement

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows using market interest rates. The fair value of forward foreign exchange rate contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using market interest rates. The fair value of foreign currency options is estimated using option valuation methods with reference to current spot rates and market volatility. The fair value of fuel contracts is estimated using forward fuel prices at reporting date.

Fair value hierarchy

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

NOTE 19 – FINANCIAL INSTRUMENTS (continued)

(a) Credit risk

Credit risk, the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, arises principally from the Group's receivables from customers.

The Group does not generally require collateral in respect of trade and other receivables. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. Reputable financial institutions (defined as having a minimum credit rating of A-) are used for investing and cash handling purposes.

Maximum exposure to credit risk

The carrying amount of financial assets represents the Group's maximum credit exposure.

The Group has not renegotiated the terms of any financial assets which would result in the carrying amount no longer being past due or avoid a possible past due status.

The Group's maximum exposure to credit risk for trade and other receivables by geographic region is as follows:

	2017 $000	2016 $000
New Zealand	25,614	26,631
North America	16,138	14,689
Europe	11,359	10,501
Australia	6,420	7,140
Japan	1,544	1,911
Other	1,564	8,364
Trade and other receivables	**62,639**	**69,236**

Concentration of credit risk

The Group has credit insurance in respect of two (2016: one) of its largest customers for USD 15.0m (2016: USD 8.4m). At balance date the Group's exposure in respect of these debts is USD 11.7m (2016: USD 8.4m) which comprised 29% (2016: 18%) of trade receivables. Since balance date and in accordance with agreed credit terms these customers have subsequently paid 40% (2016: 47%) of the outstanding balance. There are no concerns with the collectability of these debts.

The status of trade receivables at the reporting date is as follows:

	Gross Receivables 2017 $000	**Allowance for Doubtful Debts 2017 $000**	Gross Receivables 2016 $000	Allowance for Doubtful Debts 2016 $000
Not past due	48,301	–	58,763	–
Past due 0 – 30 days	5,779	–	4,382	–
Past due 31 – 120 days	714	–	858	(3)
Past due 121+ days	846	(278)	470	(130)
	55,640	**(278)**	**64,473**	**(133)**

Impairment assessment – expected credit losses

The Group applies the simplified approach to providing for expected credit losses prescribed by NZ IFRS9, which permits the use of the lifetime expected loss provision for all trade receivables. The allowance for doubtful debts on trade receivables that are individually significant are determined by an evaluation of the exposures on a line by line basis. For trade receivables which are not significant on an individual basis, collective impairment is assessed on a portfolio basis based on number of days overdue, and taking into account the historical loss experience in portfolios with a similar number of days overdue. The expected credit losses incorporate forward looking information and relevant macroeconomic factors.

NOTE 19 – FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk

Liquidity risk represents the Group's ability to meet its contractual obligations. The Group evaluates its liquidity requirements on a daily basis. The Group has secured bank loans which contain debt covenants. A breach of covenant may require accelerated repayment of the loans earlier than indicated in the loan contract.

The following table sets out the contractual and expected cash flows for all financial liabilities and derivatives:

	2017						
	Statement of Financial Position $000	Contractual Cash Out (In) Flows $000	6 Months or Less $000	6–12 Months $000	1–2 Years $000	2–5 Years $000	More than 5 Years $000
Bank loans	131,000	136,896	1,758	37,374	52,030	45,734	–
Trade payables	7,841	7,841	7,841	–	–	–	–
Other payables	12,817	12,817	12,817	–	–	–	–
Bank overdraft and borrowings	55,121	55,876	759	55,117	–	–	–
Total non-derivative liabilities	**206,779**	**213,430**	**23,175**	**92,491**	**52,030**	**45,734**	**–**
Foreign currency options	(7,521)	(8,738)	(2,410)	(2,863)	(2,819)	(646)	–
Forward exchange contracts	(8,960)	(9,223)	(4,565)	(2,165)	(2,493)	–	–
Interest rate swaps	5,458	5,883	1,169	1,113	1,791	1,713	97
Fuel swaps	(1,116)	(1,128)	(538)	(410)	(180)	–	–
Total derivative liabilities (assets)	**(12,139)**	**(13,206)**	**(6,344)**	**(4,325)**	**(3,701)**	**1,067**	**97**

	2016					
	Statement of Financial Position $000	Contractual Cash Out (In) Flows $000	6 Months or Less $000	6–12 Months $000	1–2 Years $000	2–5 Years $000
Bank loans	121,400	131,486	1,798	1,808	40,164	87,716
Trade payables	5,755	5,755	5,755	–	–	–
Other payables	16,152	16,152	16,152	–	–	–
Bank overdraft and borrowings	55,234	56,112	988	55,124	–	–
Total non-derivative liabilities	**198,541**	**209,505**	**24,693**	**56,932**	**40,164**	**87,716**
Foreign currency options	(9,684)	(13,466)	(2,094)	(3,896)	(4,389)	(3,087)
Forward exchange contracts	(9,516)	(9,764)	(3,538)	(2,747)	(3,479)	–
Interest rate swaps	9,266	10,288	1,061	993	2,188	6,046
Fuel swaps	657	661	357	398	(88)	(6)
Total derivative liabilities (assets)	**(9,277)**	**(12,281)**	**(4,214)**	**(5,252)**	**(5,768)**	**2,953**

Facilities

The Group generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has credit lines in place to cover potential shortfalls. At balance date the Group had available approximately $44m of headroom funding to meet any unforeseen liability obligations (2016: $54m). The Group will refinance $36m of current debt in April 2018, in line with its contractual maturity and taking full advantage of favourable rates.

NOTE 19 – FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk (continued)

Term loans

Bank loans are recognised initially at fair value, net of attributable transaction costs. Subsequent to initial recognition bank loans are measued at amortised cost, applying the effective interest method.

Facilities, interest rate ranges, expiry dates and balances of bank loans for the Group are as follows:

	2017		
	Facility $000	**Expiry Date**	**Balance $000**
Current liabilities	40,000	April 2018	36,000
Non-current liabilities			
Term loans (secured)			
4 year	70,000	April 2019	50,000
5 year	65,000	April 2020	45,000
	175,000		131,000

	2016		
	Facility $000	Expiry Date	Balance $000
Non-current liabilities			
Term loans (secured)			
3 year	40,000	April 2018	37,000
4 year	70,000	April 2019	44,400
5 year	65,000	April 2020	40,000
	175,000		121,400

Interest rates

Interest rates on the above loans ranged from 2.50% – 2.87% (2016: 2.72% – 3.12%).

Security and covenants

Bank loans are secured by a general security interest over property and a mortgage over quota shares. All borrowings are subject to borrowing covenant arrangements. The Group has complied with all covenants during the year.

NOTE 19 – FINANCIAL INSTRUMENTS (continued)

(c) Market risk

Financial risk management and hedge accounting

Market risk is the risk that arises from changes in foreign exchange rates, interest rates and commodity (specifically fuel) prices. Such changes will affect the Group's earnings and/or the value of its holdings of financial instruments. These risks arise due to the Group having financial instruments that would be impacted by changes in these market factors.

The Group enters into derivative contracts, being forward exchange contracts, foreign currency options and interest rate swaps to manage exposure to foreign currency and interest rate risks. The Group also enters into commodity swaps to manage fuel price risk. Senior management are involved in the operation and oversight of risk management and derivative activities. Regular reporting of activities is provided to the Board of Directors which provides the policy for the use of derivative instruments. In accordance with its Treasury Policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as held for trading and classified at fair value through profit or loss.

The Group initially recognises derivatives at fair value when the Group becomes a party to the contractual provisions of the instrument, and subsequently re-measures these at fair value at each balance date. All derivatives are classified as level 2 on the fair value hierarchy. The resulting fair value gain or loss on re-measurement is recognised in profit or loss immediately, unless the derivative is designated and effective as a hedging instrument, in which case the timing of recognition in profit or loss depends on the nature of the designated hedge relationship.

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in OCI to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the income statement. For cash flow hedges of financial items (for example forecast sales), the changes in fair value deferred in OCI are transferred to the income statement when the hedged item affects the profit or loss.

The Group designates only the intrinsic value of options into hedging relationships. The time value of the options is treated as a cost of hedging. Changes in fair value of the time value component of the option contract are deferred in OCI over the term of the hedge. For transaction related hedged items the cumulative change in fair value deferred in OCI is recognised in profit or loss at the same time as the hedged item.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in OCI remains there until the forecast transaction occurs, or immediately recognised in profit or loss if the transaction is no longer expected to occur.

Interest rate risk

The Group is exposed to interest rate risk through its cash balances, short term and long term borrowings. The Group adopts a risk management strategy of managing the exposure to interest rate risk through a proportion of fixed and floating rate borrowings. In order to meet this strategy the Group has a policy of using interest rate swaps to fix between 25% and 75% of the floating rate exposure on long term borrowings in line with its Board approved Treasury Policy. In the current period, the Group designated the highly probable forecast transactions and the interest rate swap contracts into cash flow hedge relationships.

Interest rate swap contracts are recognised within Derivative Financial Instruments on the statement of financial position as at balance date. The fair value gains and losses on these derivatives were recognised in OCI and transferred to profit or loss when the underlying transactions affected the profit or loss within finance expenses in the income statement. The amounts designated as the hedged item in qualifying cash flow hedges mirror the amounts designated as hedging instruments, therefore the Group has established a 1:1 hedge ratio.

Hedge ineffectiveness is only recognised for accounting purposes if it results in movements in the value of the hedge instrument in excess of those on the hedged item. The source of any ineffectiveness would be largely due to credit valuation adjustments and timing of cash flows. No ineffectiveness arose on cash flow hedges of interest rate risk during the year (2016: None).

NOTE 19 – FINANCIAL INSTRUMENTS (continued)

(c) Market risk (continued)

Interest rate risk (continued)

Interest-bearing variable rate instruments and related derivatives reprice as follows:

	2017					
	Total $000	**6 Months or Less $000**	**6–12 Months $000**	**1–3 Years $000**	**3–5 Years $000**	**More than 5 Years $000**
Cash and cash equivalents	5,150	5,150	–	–	–	–
Bank overdraft and borrowings	(55,121)	(55,121)	–	–	–	–
Bank loans	(131,000)	(131,000)	–	–	–	–
Interest rate swaps						
Notional cash inflows	167,000	167,000	–	–	–	–
Notional cash outflows	(167,000)	–	(27,000)	(43,000)	(41,000)	(56,000)
Total variable rate	**(180,971)**	**(13,971)**	**(27,000)**	**(43,000)**	**(41,000)**	**(56,000)**

	2016					
	Total $000	6 Months or Less $000	6–12 Months $000	1–3 Years $000	3–4 Years $000	4–5 Years $000
Cash and cash equivalents	3,589	3,589	–	–	–	–
Bank overdraft and borrowings	(55,234)	(55,234)	–	–	–	–
Bank loans	(121,400)	(121,400)	–	–	–	–
Interest rate swaps						
Notional cash inflows	168,000	168,000	–	–	–	–
Notional cash outflows	(168,000)	–	(25,000)	(55,000)	(15,000)	(73,000)
Total variable rate	**(173,045)**	**(5,045)**	**(25,000)**	**(55,000)**	**(15,000)**	**(73,000)**

NOTE 19 – FINANCIAL INSTRUMENTS (continued)

(c) Market risk (continued)

Interest rate risk (continued)

Effects of hedge accounting on financial position and performance

The tables below demonstrate the impact of hedged items and the hedging instruments designated in hedging relationships.

	2017					
Cash flow hedges	**Nominal $000**	**Weighted Average Rate**	**Carrying Amounts Assets $000**	**Carrying Amounts Liabilities $000**	**Change in Fair Value Used to Measure Ineffectiveness $000**	**Cash Flow Hedge Reserve $000**
Interest rate risk						
Hedged item: NZD floating rate exposure on borrowings	(186,000)	2.66%	n/a	n/a	5,488	n/a
Hedging instrument: Interest rate swaps	(167,000)	3.62%	72	(5,530)	(5,458)	5,458

	2016					
Cash flow hedges	Nominal $000	Weighted Average Rate	Carrying Amounts Assets $000	Carrying Amounts Liabilities $000	Change in Fair Value Used to Measure Ineffectiveness $000	Cash Flow Hedge Reserve $000
Interest rate risk						
Hedged item: NZD floating rate exposure on borrowings	(176,400)	2.82%	n/a	n/a	9,561	n/a
Hedging instrument: Interest rate swaps	(168,000)	3.66%	–	(9,266)	(9,266)	9,266

The interest rate swaps include $34.0m of forward starting swaps (2016: $36.0m).

NOTE 19 – FINANCIAL INSTRUMENTS (continued)

(c) Market risk (continued)

Foreign currency risk

The Group is exposed to foreign currency risk as a result of sales and investments denominated in foreign currencies, as well as the foreign currency exposure arising from USD denominated fuel and freight purchases. The Group has entered into forward exchange contracts and foreign currency options (hedging instruments) to hedge the variability in cash flows arising from foreign exchange rate movements in relation to foreign currency sales (hedged item) up to two years forward. Minimum and maximum hedging levels for the next two years expected sales volumes are stipulated by its Board approved Treasury Policy. In the current period, the Group designated the highly probable forecast transactions and the forward exchange contracts and options into cash flow hedge relationships.

Forward exchange contracts and foreign currency options are recognised within Derivative Financial Instruments on the statement of financial position as at balance date. The fair value gains and losses on these derivatives were recognised in OCI and transferred to profit or loss when the underlying transactions affected profit or loss within revenue and cost of sales in the income statement. The amounts designated as the hedged item in qualifying cash flow hedges mirror the amounts designated as hedging instruments as set out below, therefore the Group has established a 1:1 hedge ratio.

Hedge ineffectiveness is only recognised for accounting purposes if it results in movements in the value of the hedge instrument in excess of those on the hedged item. The source of any ineffectiveness would be largely due to credit risk adjustments on the derivatives and timing of cash flows. No ineffectiveness arose on cash flow hedges of foreign currency transactions during the year (2016: None).

As at 30 September 2017, the Group's exposure to foreign currency risk for the next 12 months can be summarised as follows:

	2017				
(figures are NZD)	**USD $000**	**AUD $000**	**JPY $000**	**EUR $000**	**GBP $000**
Cash	707	353	42	369	15
Trade receivables	29,880	3,531	1,544	385	451
Trade payables	(2,411)	(388)	–	(461)	–
Net statement of financial position exposure before hedging activity	28,176	3,496	1,586	293	466
Forecast net receipts	164,932	15,096	15,696	5,293	1,389
Net cash flow exposure before hedging activity	193,108	18,592	17,282	5,586	1,855
Forward exchange contracts and options	(134,846)	(16,874)	(11,933)	–	–
Net un-hedged exposure	**58,262**	**1,718**	**5,349**	**5,586**	**1,855**

	2016				
(figures are NZD)	USD $000	AUD $000	JPY $000	EUR $000	GBP $000
Cash	38	213	46	–	7
Trade receivables	36,190	3,667	1,911	39	91
Trade payables	(1,441)	(355)	–	–	–
Net statement of financial position exposure before hedging activity	34,787	3,525	1,957	39	98
Forecast net receipts	189,564	13,125	11,028	3,730	1,935
Net cash flow exposure before hedging activity	224,351	16,650	12,985	3,769	2,033
Forward exchange contracts and options	(123,882)	(15,758)	(12,283)	–	–
Net un-hedged exposure	**100,469**	**892**	**702**	**3,769**	**2,033**

NOTE 19 – FINANCIAL INSTRUMENTS (continued)

(c) Market risk (continued)

Foreign currency risk (continued)

Effects of hedge accounting on the financial position and performance

The tables below demonstrate the impact of hedged items and the hedging instruments designated in hedging relationships.

	2017				
Cash flow hedges*	**Nominal $000**	**Carrying Amounts Assets $000**	**Carrying Amounts Liabilities $000**	**Change in Fair Value Used to Measure Ineffectiveness $000**	**Cash Flow Hedge Reserve $000**
Foreign currency risk					
Hedged item: Forecast transactions denominated in foreign currencies	204,803	n/a	n/a	(12,738)	n/a
Hedging instruments: Forward exchange contracts	(131,993)	7,087	(108)	6,979	(6,979)
Hedging instruments: Foreign currency options	(72,810)	5,743	–	5,743	(5,743)

	2016				
Cash flow hedges*	Nominal $000	Carrying Amounts Assets $000	Carrying Amounts Liabilities $000	Change in Fair Value Used to Measure Ineffectiveness $000	Cash Flow Hedge Reserve $000
Foreign currency risk					
Hedged item: Forecast transactions denominated in foreign currencies	210,998	n/a	n/a	(16,234)	n/a
Hedging instruments: Forward exchange contracts	(103,218)	8,785	(736)	8,049	(8,049)
Hedging instruments: Foreign currency options	(107,780)	8,042	(43)	7,999	(7,999)

* Includes all hedges of forecast future transactions

Fuel price risk

The Group is exposed to fuel price risk through its purchases of fuel for its fishing fleet.

Fuel price risk is the risk of loss to the Group due to adverse fluctuations in fuel prices in USD terms. The currency exposure arising from USD fuel costs is managed separately (see foreign currency risk management). The Group's fuel price risk has the following contractually specified components: gas oil and light fuel oil prices, and shipping costs.

The Group enters into gas oil and light fuel oil commodity swaps to reduce the variability in those components of fuel costs, which historically have comprised approximately 85% (2016: 85%) of total fuel cost. Minimum and maximum hedging levels for the next two years expected purchase volumes are stipulated by its Board approved Treasury Policy. A 1:1 hedge ratio is used, reflecting the match of the hedging instruments and the component exposures in the fuel costs.

Fuel swaps are recognised within Derivative Financial Instruments on the statement of financial position as at balance date and were designated as the hedging instruments in qualifying cash flow hedges. The fair value gains and losses on these derivatives were recognised in OCI and transferred from OCI and included in the initial carrying amount of inventory. When the fuel is consumed it is expensed to profit or loss within cost of sales in the income statement.

Hedge ineffectiveness is only expected to result from credit valuation adjustments and any shortfalls in the amounts of the expected exposures. Hedge ineffectiveness is only recognised for accounting purposes if it results in movements in the value of the hedge instrument in excess of those on the hedged item. Any ineffectiveness is recognised within cost of sales in the income statement.

All fuel derivative contracts mature within 22 months of balance date (2016: 24 months).

NOTE 19 – FINANCIAL INSTRUMENTS (continued)

(c) Market risk (continued)

Reconciliation of changes in hedge reserves

The movement in the fair value of hedging instruments which are deferred to the cash flow hedge reserve during the year are set out below, together with changes in the cost of hedging reserve, and the tax thereon:

	2017			
	Hedging Instruments used to Hedge			
Recognised in Statement of Changes in Equity Hedge Reserves	**Interest Rate Risk $000**	**Currency Risk $000**	**Fuel Price Risk $000**	**Total $000**
Balance at the beginning of the year	**(6,671)**	**13,483**	**(473)**	**6,339**
Changes in cash flow hedge reserve	3,808	(3,326)	1,772	2,254
Changes in cost of hedging reserve	–	(385)	–	(385)
Deferred tax on change in reserves	(1,066)	1,039	(496)	(523)
Balance at the end of the year	**(3,929)**	**10,811**	**803**	**7,685**

	2016			
	Hedging Instruments used to Hedge			
Recognised in Statement of Changes in Equity Hedge Reserves	Interest Rate Risk $000	Currency Risk $000	Fuel Price Risk $000	Total $000
Balance at the beginning of the year	**(3,548)**	**(20,464)**	**(1,843)**	**(25,855)**
Changes in cash flow hedge reserve	(4,338)	43,518	1,903	41,083
Changes in cost of hedging reserve	–	3,631	–	3,631
Deferred tax on change in reserves	1,215	(13,202)	(533)	(12,520)
Balance at the end of the year	**(6,671)**	**13,483**	**(473)**	**6,339**

NOTE 19 – FINANCIAL INSTRUMENTS (continued)

(c) Market risk (continued)

Sensitivity to changes in market prices or rates

All derivatives are measured at fair value and changes in market inputs used to determine these fair values would have an impact on the Group's financial statements. For each type of market risk to which the Group is exposed at the end of the reporting period, the below sensitivity analysis shows the impacts of reasonably plausible changes in the relevant market variables on the profit or loss and OCI for the period. The effects of a variation in a particular assumption is calculated independently of any changes in another assumption. As this sensitivity analysis is only on financial instruments (derivative and non-derivative), these ignore the offsetting impacts of future forecast transactions designated as hedged items to the derivatives held.

		2017		2016	
		$000 Increase	**$000 Decrease**	$000 Increase	$000 Decrease
Impact on other comprehensive income (net of tax):					
Sensitivity to changes in interest rates					
100 bp change in interest rates	Increase (decrease) in OCI	3,850	(4,057)	3,895	(4,170)
Sensitivity to changes in foreign exchange rates					
10% change in foreign exchange rates	Increase (decrease) in OCI	13,003	(14,851)	13,116	(14,736)
Sensitivity to changes in fuel prices					
10% change in gas oil / light fuel oil prices	Increase (decrease) in OCI	623	(1,225)	887	(888)
Impact on profit after taxation:					
Sensitivity to changes in interest rates					
100 bp change in interest rates	(Decrease) increase in profit after tax	(71)	71	(103)	103
Sensitivity to changes in foreign exchange rates					
10% change in foreign exchange rates	(Decrease) increase in profit after tax	(282)	459	(736)	980

(d) Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of capital structure on shareholders' return is also recognised and the Group acknowledges the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The allocation of capital between its specific business operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The process of allocating capital to specific business segment operations and activities is undertaken independently of those responsible for the operation.

The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

There have been no material changes in the Group's management of capital during the period.

(e) Master netting arrangements

Sanford enters into derivative transactions under the International Swaps and Derivatives Association (ISDA) master agreements. The ISDA agreements do not meet the criteria for offsetting in the statement of financial position. This is because the Group does not currently have any legally enforceable right to offset recognised amounts. Under the ISDA agreements the right to offset is enforceable only on the occurrence of future events such as a default on the bank loans or other credit events. The potential net impact of this offsetting is shown below. Sanford does not hold and is not required to post collateral against its derivative positions.

Net derivatives after applying rights of offset under ISDA agreements

	2017 $000	2016 $000
Deriviative assets	18,266	20,740
Deriviative liabilities	(6,127)	(11,463)
Net amount	**12,139**	**9,277**

NOTE 20 – OPERATING LEASES

Payments made under operating leases, where the lessors effectively retain the risks and benefits of ownership, are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Non-cancellable operating lease rentals are payable as follows:

	2017 $000	2016 $000
Less than one year	5,351	5,053
Between one and five years	14,843	15,521
More than five years	24,818	27,036
	45,012	**47,610**

Lease of premises

The Group leases land and buildings under operating leases. The leases typically run for a period of 25 years with an option to renew the lease after that date. Lease payments are increased periodically to reflect market rentals.

Lease of annual catch entitlement (ACE)

The Group acts as a lessor and lessee in respect of leasing certain ACE to and from other ACE holders in the industry.

	2017 $000	2016 $000
Lessor of ACE	10,386	9,328
Lessee of ACE	9,864	8,261

The leasing arrangements are never for more than one year and vary each year in respect of species and amount.

NOTE 21 – CONTINGENT LIABILITIES

	2017 $000	2016 $000
Guarantees	779	566

The Group considers guarantees to be insurance arrangements and accounts for them as such. In this respect the Group treats the guarantee contracts as contingent liabilities until such times as it becomes probable that the Group will be required to make payments under the guarantees.

NOTE 22 – GROUP ENTITIES

Basis of consolidation

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value (excluding transaction costs), as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the financial statements from the date on which control commences until the date on which control ceases.

Intra-group balances and transactions, and any unrealised income and expense arising from intra-group transactions, are eliminated on consolidation.

Joint arrangements

A joint arrangement is an arrangement where two or more parties have joint control. The Group classifies its joint arrangements as either joint operations or joint ventures depending on the legal, contractual or other rights and obligations. Where the interest in the joint arrangement is in the net residual of the business, the arrangement is a joint venture. Joint ventures are accounted for using the equity method; which is detailed in note 13. Where the Group has rights to the assets, and obligations for liabilities of the joint arrangement, this is a joint operation. The Group recognises its share of assets, liabilities, revenues and expenses of each joint operation.

NOTE 22 – GROUP ENTITIES (continued)

Basis of consolidation (continued)

The Group comprises the Company and the following principal entities:

Name	**2017 Interest Held (%)**	2016 Interest Held (%)	Balance Date	Principal Activity
Subsidiaries:				
New Zealand				
Auckland Fish Market Limited	100	100	30 September	Auction
Sanford Fish Market Limited	100	100	30 September	Retail
Sanford Investments Limited	100	100	30 September	Investment company
Sanford LTI Limited	100	100	30 September	Holding company
Shellfish Production & Technology NZ Limited	100	100	30 September	Research company
BreedCo Limited	80	80	30 September	Research company
Auckland Fishing Port Limited	67	67	31 March	Wharf company
Australia				
Sanford Australia Pty Limited	100	100	30 September	Auction
Sanford Seafoods (Australia) Pty Limted	100	100	30 September	Holding company
Primestone Nominees Pty Limited	75	75	30 September	Seafood wholesaler
Joint Operation:				
New Zealand				
North Island Mussels Limited	50	50	30 September	Mussel farming and seafood processing
Joint Ventures and Associates:				
New Zealand				
Perna Contracting Limited	50	50	31 March	Mussel harvesting
San Won Limited	50	50	30 September	Cold storage
New Zealand Japan Tuna Company Limited	46.74	46.74	30 September	Fish catching and processing
Live Lobster Southland (1995) Limited	50	25	31 March	Seafood processing
Trident Systems General Partner Limited	42.35	42.35	30 September	Research company
Precision Seafood Harvesting General Partner Limited	33.33	33.33	30 September	Research company
China				
Weihai Dong Won Food Company Limited	50	50	31 December	Seafood processing

NOTE 23 – RELATED PARTY TRANSACTIONS

(a) Basis of transactions

Related parties of the Group include the joint ventures, associates and joint operation disclosed in note 22.

Transactions with related parties have been entered into in the ordinary course of business and undertaken on normal commercial terms.

(b) Material transactions and balances with related parties

	Transaction Value Joint Ventures and Associates		Transaction Value Joint Operation	
	2017 $000	2016 $000	**2017 $000**	2016 $000
Income (Expenses)				
Management fees	211	175	–	–
Sales	–	–	2,582	3,479
Interest received	–	–	595	608
Dividends received	1,206	854	–	–
Processing and harvesting services	(3,003)	(3,293)	–	–
Freight	(62)	(77)	–	–
Purchases	–	–	(25,452)	(27,498)
	(1,648)	**(2,341)**	**(22,275)**	**(23,410)**

	Amounts Owing from Related Parties	
	2017 $000	2016 $000
Associates	363	424
Joint Operation	14,044	14,274
	14,407	**14,698**

In respect of the joint operations the transaction values and amounts owing are eliminated on consolidation and are therefore for information purposes.

Except for North Island Mussels Limited (NIML) no interest is charged on balances between New Zealand related parties. Interest is charged at market rates on other balances. All related party balances are repayable on demand. The parties have agreed not to call upon the loans within 12 months from balance date.

NOTE 24 – KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel compensation comprised:

	2017 $000	2016 $000
Salary and short-term employee benefits	7,166	6,324
Directors' fees	661	647
	7,827	**6,971**

Key management personnel is defined as the executive and their direct reports.

NOTE 25 – SUBSEQUENT EVENTS

No subsequent events have been identified.

KPMG

Combined Independent Auditor's and Assurance Report

General

Our assurance procedures consisted of the audit of the Consolidated Financial Statements of Sanford Limited and limited assurance procedures on selected non-financial information in Sanford Limited's Annual Report.

Our scope can be summarised as follows:

Sanford Limited's Financial Report
Audit Scope
Reasonable assurance

Selected Non-Financial Information
Assurance Scope
Limited assurance
- "Our material issues" (pages 16-18)
- "The six performance outcomes" (pages 22-103)
- "Key performance indicators table" (pages 158-160)

Other Information in Sanford Limited's annual reporting
Consider consistency with Financial Report
No assurance

Independent Auditor's Report

To the shareholders of Sanford Limited.

Report on the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Sanford Limited ('the company') and its subsidiaries ('the group') on pages 115 to 150:

i. present fairly in all material respects the Group's financial position as at 30 September 2017 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

— the consolidated statement of financial position as at 30 September 2017;

— the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended; and

— notes, including a summary of significant accounting policies and other explanatory information.

© 2017 KPMG, a New Zealand partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

KPMG

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code and NZX Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

Our firm has also provided other services to the group in relation to sustainability assurance and accounting advisory services. Subject to certain restrictions, partners and employees of our firm may also deal with the group on normal terms within the ordinary course of trading activities of the business of the group. These matters have not impaired our independence as auditor of the group. The firm has no other relationship with, or interest in, the group.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at $2.6 million determined with reference to a benchmark of group profit before tax from continuing operations. We chose the benchmark because, in our view, this is the key measure of the group's performance.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
Valuation of quota and marine farm licenses (carrying value $501.66m)	
Refer to Note 14 to the Financial Report. The Group holds quota and marine farm licenses in New Zealand and Australia, recognised as indefinite life intangible assets, across three cash generating units. The accounting standards require those assets with an indefinite useful life to be tested for impairment annually.	Our audit procedures to assess the carrying value of the intangible assets included understanding and challenging the key assumptions and estimates used to determine the carrying value, specifically those relating to discount rates, growth assumptions, and terminal growth rates, wherever possible referring to external data. We compared the cash flow forecasts to Board approved business plans, assessed management's accuracy in budgeting, and compared previous forecasts to actual results achieved.

The key audit matter	How the matter was addressed in our audit
Impairment of these assets is considered to be a key audit matter due to the uncertainty inherent in the growth and discount rates used in the cash flow forecasts that support the carrying value. In relation to the Marine Farm Licenses we also note the uncertainty surrounding whether these licenses will be renewed upon expiry in 2024. This required us to assess the continual recognition of the licenses as indefinite life assets.	Additionally, we also applied stress-testing to the Group's assumptions used in the cash flow forecasts, by analysing the impact on results from using reduced growth rates, discount rates and cash flow forecasts. In relation to the 2024 expiration of the marine farm licenses, we performed our own independent research into the status of the marine farm license renewal process, including the costs expected to be incurred upon renewal. Finally, we noted the Group's market capitalisation exceeds the Group's net assets as at 30 September 2017.

Use of this independent auditor's report

This report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders as a body for our audit work, this report, or any of the opinions we have formed.

Responsibilities of the Directors for the consolidated financial statements

The Directors, on behalf of the group, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objective is:

- to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page1.aspx

This description forms part of our independent auditor's report.

Limited assurance report on Selected Non-financial Information included in the annual report

To the Directors of Sanford Limited

Conclusion

Based on the procedures performed, as described, nothing has come to our attention that causes us to believe that the "Selected Non-Financial Information" has not been prepared, in all material respects, in accordance with the GRI Standards.

The Selected Non-Financial Information on which we have concluded comprises:

- Our material issues (pages 16-18)
- The six performance outcomes (pages 22-103):
  - Building a sustainable seafood business
  - Enabling zero harm and great prospects for our people
  - Leading the way to healthy food
  - Ensuring healthy oceans
  - Supporting enduring communities and partnerships
  - Protecting and enhancing the environment
- Key performance indicators table (pages 158-160)

Basis for conclusion

We have performed an engagement to provide limited assurance in relation to whether anything has come to our attention to indicate the Selected Non-Financial Information has not been prepared in all material respects in accordance with the GRI Standards.

We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements (New Zealand) (NZ) 3000 (Revised) *Assurance Engagements other than audits or reviews of historical financial information* ('ISAE (NZ) 3000 (Revised)') and Standard on Assurance Engagements 3100 (Revised*) Assurance Engagements on Compliance* ('SAE 3100 (Revised)'). We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Our procedures included:

— Enquiries of Sanford personnel to understand the process for deriving the "Selected Non-Financial Information";

— Analytical review and other testing to assess the reasonableness of the information presented;

KPMG

— Checking whether the appropriate indicators have been reported in accordance with the GRI Standards in accordance with core level; and

— Overall sense check of the Report against our findings and understanding of Sanford.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement or an audit conducted in accordance with New Zealand Auditing and Assurance Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit or a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance or audit opinion.

Because of the inherent limitations of an assurance engagement, it is possible that fraud, error or non-compliance may occur and not be detected. As the procedures performed for this engagement are not performed continuously throughout the year and the procedures are undertaken on a test and specific procedures basis, our assurance engagement cannot be relied on to detect all instances where Sanford may not have complied with the GRI Standards. The conclusion expressed in this report has been formed on the above basis.

The extent of evidence gathering procedures performed in a limited assurance engagement is less than that for a reasonable assurance engagement, and therefore a lower level of assurance is provided.

We have complied with the independence and other ethical requirements of Professional and Ethical Standard 1 (Revised) issued by the New Zealand Auditing and Assurance Standards Board, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Use of this limited assurance report

The firm applies Professional and Ethical Standard 3 (Amended) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our limited assurance report is made solely to the Directors of Sanford in accordance with the terms of our engagement. Our work has been undertaken so that we might state to Sanford those matters we have been engaged to state in this assurance report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors of Sanford for our work, for this assurance report, or for the conclusions we have reached.

Responsibilities of management for the selected non-financial information

Management, on behalf of the company, are responsible for:

— for the preparation and presentation of the "Selected Non-Financial Information" in accordance with the criteria set out in the GRI Standards, for each of the principles of materiality, stakeholder inclusiveness, sustainability context and completeness; and

— for determining Sanford's objectives in respect of sustainability reporting and for establishing and maintaining appropriate performance management and internal control systems from which the information is derived.

KPMG

Auditor's responsibilities for the assurance of the selected non-financial information

Our responsibility is to carry out a limited assurance engagement and to express a conclusion in relation to whether anything has come to our attention to indicate the Selected Non-Financial Information has not been prepared in all material respects in accordance with the GRI Standards.

Other Information

The Directors, on behalf of the group, are responsible for the Other Information included in the entity's Annual Report (specifically the areas of Now and beyond (page 1), About this report (pages 2-3), Introduction (pages 4-5), Our global operations (pages 6-7), How we create value (pages 8-9), Chairman and CEO review (pages 10-13), Our year in numbers (page 14-15), Reporting what matters (page 19-21), Corporate governance (pages 104-109), Statutory information (pages 110-111), Non-GAAP profit measures (page 112), Five year financial review (page 114) and Appendices (pages 161-167)). We do not express any form of assurance conclusion thereon within the Independent Auditors (in respect of the consolidated financial statements) and Assurance Report (in respect of the Selected Non-financial Information) in respect of the Other Information.

In connection with our audit of the consolidated financial statements and our limited assurance engagement in respect of the Selected Non-Financial Information, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The partners on the engagement resulting in this Combined Independent Auditor's and Assurance Report are

KPMG.

Malcolm Downes – Audit Partner
David Sutton – Assurance Partner
For and on behalf of

KPMG
Auckland

15 November 2017

CONTENTS

APPENDIX A
KPI TABLE 158

APPENDIX B
ALIGNING MATERIAL ISSUES WITH BUSINESS RISK 161

APPENDIX C
INDUSTRY MEMBERSHIPS AND STAKEHOLDERS 162

APPENDIX D
KEY INITIATIVES CONTRIBUTING TO THE UN SUSTAINABLE DEVELOPMENT GOALS: 2017 163

APPENDIX E
GRI CONTENT INDEX 165

APPENDIX A – SANFORD KEY PERFORMANCE INDICATORS

YEAR ENDING 30 SEPTEMBER 2017

GRI Standard Ref	KPI Metric	Units	2017	2016	2015	2014
	OUTCOME 1 – BUILDING A SUSTAINABLE SEAFOOD BUSINESS					
	ECONOMIC PERFORMANCE					
201-1	Revenue	$m	477.9	463.5	450.3	460.5
201-1	Profit Attributable to Shareholders	$m	37.5	34.7	13.8	22.4
102-7	Total Assets	$m	820.0	797.8	745.3	777.3
102-7	Total Equity	$m	575.8	558.1	513.1	545.8
201-1	Return on Average Equity	%	6.6	6.5	2.6	4.1
201-1	Dividend per Share	cents	23.0	23.0	23.0	23.0
201-1	Earnings per Share	cents	40.1	37.1	14.8	24.0
201-1	Wages and Salaries [i]	$m	114	105	102	101
201-1	Payments to New Zealand Income Tax	$m	13.4	12.5	9.2	3.0
204-1	Payments to Domestic Suppliers	$m	283	246	230	238
	OPERATIONAL CAPABILITY AND CAPACITY					
102-7	Number of Vessels [ii]	#	49	50	49	48
102-7	Number of Aquaculture Farms	#	211	210	210	211
103-2	Number of Continuous Improvement Projects [iii]	#	90	77	119	160
N/A	Number of External Compliance Audits [iv]	#	91	76	87	83
	GLOBAL PRESENCE					
102-7	Total Sales Domestic [v]	%	35.4	33.7	27.4	27.7
102-7	Product Sales Domestic [v]	%	32.0	28.9	19.7	17.3
N/A	USD Exchange Rate Comparison	NZD/USD	0.71	0.69	0.73	0.84
102-6	Product Exported to Global Customers	% revenue	62	64	69	84
102-7	Total Sales Export [v]	%	64.6	66.3	72.6	72.3
102-7	Product Sales Export [v]	%	68.0	71.7	80.3	82.7
102-7	Number of Containers Shipped [vi]	TEU	3,498	3,324	4,570	4,697
	OUTCOME 2 – ENABLING ZERO HARM AND GREAT PROSPECTS FOR OUR PEOPLE					
102-7	Total Workforce (as at 30 Sept 2017)	#	1,717	1,548	1,474	1,639
102-8	Independent Sharefishers (as at 30 Sept 2017)	#	583	474	503	427
102-13	Union Membership	%	19	20	22	20
404-1	Training Credits Achieved by Females [vii]	#	2,246	2,410	2,694	940
404-1	Training Credits Achieved by Males [vii]	#	5,238	3,944	3,639	2,843
401-1	Average Length of Service	years	8.10	7.90	8.55	6.98
401-1	Involuntary Turnover	%	7.0	6.6	4.0	2.0
401-1	Voluntary Turnover	%	16.0	18.0	12.0	14.0
	AGE OF WORKFORCE					
405-1	<20 (annual quarterly average)	#	64	68	68	70
405-1	20 to 29 (annual quarterly average)	#	361	340	283	312
405-1	30 to 39 (annual quarterly average)	#	274	278	269	322
405-1	40 to 49 (annual quarterly average)	#	353	345	356	408
405-1	50 to 59 (annual quarterly average)	#	328	318	285	316
405-1	60+ (annual quarterly average)	#	147	146	139	147
N/A	DOB Not Stated (annual quarterly average)	#	51	63	74	56
405-1	Average Age of Employees on Land	years	43	42	43	42
405-1	Average Age of Employees at Sea	years	34	33	32	33
	AGE OF NEW HIRES (LAND ONLY)					
401-1	<20 (annual quarterly average)	%	13	7	9	11
401-1	20 to 29 (annual quarterly average)	%	36	34	28	32
401-1	30 to 39 (annual quarterly average)	%	12	19	34	21
401-1	40 to 49 (annual quarterly average)	%	22	21	20	22

APPENDIX A – SANFORD KEY PERFORMANCE INDICATORS

YEAR ENDING 30 SEPTEMBER 2017

GRI Standard Ref	KPI Metric	Units	2017	2016	2015	2014
401-1	50 to 59 (annual quarterly average)	%	13	17	9	11
401-1	60+ (annual quarterly average)	%	4	2	0	3
	WOMEN IN THE WORKFORCE					
405-1	Directors	%	17	17	17	14
405-1	Executive (annual quarterly average)	%	13	16	25	25
405-1	Senior Leadership Team (annual quarterly average) [viii]	%	26	27	22	Not reported
	ETHNICITY %					
405-1	New Zealand European (annual quarterly average)	%	47	52	52	47
405-1	Pacific Island Peoples (annual quarterly average)	%	19	19	18	17
405-1	Māori (annual quarterly average)	%	14	14	14	14
405-1	Asian (annual quarterly average)	%	3	3	3	11
405-1	European (annual quarterly average)	%	2	2	2	2
405-1	Other (annual quarterly average)	%	5	7	9	7
405-1	Not stated (annual quarterly average)	%	10	3	2	2
	EMPLOYEE BENEFITS					
401-2	Health Insurance Plan	members	178	172	182	176
401-2	– Health Insurance Plan Membership	%	16	Not reported	Not reported	Not reported
201-3	Employees in Super Scheme Only	members	115	125	150	150
201-3	– Super Scheme Membership (excludes Sharefishers)	%	10.4	25.3	27.3	20.2
201-3	Employees in Kiwi Saver Only	members	586	456	368	475
201-3	– Kiwi Saver Membership (excludes Sharefishers)	%	52.9	42.5	50.0	48.4
201-3	Employees in Both Schemes	members	144	147	111	83
	HEALTH AND SAFETY					
403-2	Absenteeism Rate	%	5	4	4	5
NZ/ACC	Number of Near Misses Reported	#	324	289	242	122
403-2	Number of Reported Injuries	#	1,032	1,300	944	853
NZ/ACC	Number of Notifiable Events [ix]	#	10	6	12	6
403-2	Number of Lost Time Injuries [x]	#	55	53	42	56
403-2	Lost Time Injury Frequency Rate (LTIFR) [x]	#/mhrs	14.67	14.69	10.33	18.09
NZ/ACC	Number of Accepted ACC Claims [xi]	#	134	141	188	154
NZ/ACC	– Number of Accepted ACC Claims per Employee	#	0.12	0.14	0.20	0.10
NZ/ACC	– Average Cost per Claim (including outstanding estimates)	$	1,525	3,439	2,761	1,418
403-2	Total Number of Days Off Work [xii]	#	386	846	402	418
419-1	Safety-related Prosecutions	#	0	1	0	0
	OUTCOME 3 – LEADING THE WAY TO HEALTHY FOOD					
416-1	Number of Food Safety Recalls	#	0	0	0	0
416-1	Working Days to Action and Close Complaints (12 month average)	days	9.05	9.77	17.00	Not reported
	OUTCOME 4 – ENSURING HEALTHY OCEANS					
304-2	NZ Quota Owned Based on ACE Equivalent	%	23.00	22.93	22.94	22.82
304-3	Wildcatch sourced from MSC designated fisheries	%	46	37	41	Not reported
102-7	Total Wildcatch (GWT) [xiii][xiv]	tonnes	91,936	83,495 [xv]	95,975	94,857
102-7	– Greenweight wild caught harvested - Deepwater Fleet [xiv]	tonnes	63,501	53,928	56,346	52,953
102-7	– Greenweight wild caught harvested - Inshore Fleet [xiv]	tonnes	28,435	29,567	32,960	36,446
102-7	– Greenweight wild caught harvested - International Fleet [xiv]	tonnes	0	0	6,570	5,385
102-7	Greenweight King Salmon Harvested [xiv]	tonnes	3,657	3,843	3,859	3,624
102-7	Greenweight Mussels Harvested [xiv]	tonnes	31,631	30,957	29,621	37,504
304-3	Marine Stewardship Council Deepwater Species Certified in New Zealand [xvi]	#	6	5	5	5
304-2	Seabird Mortality Rate [xvii]	%	75	77	52	46

APPENDIX A – SANFORD KEY PERFORMANCE INDICATORS

YEAR ENDING 30 SEPTEMBER 2017

GRI Standard Ref	KPI Metric	Units	2017	2016	2015	2014
304-2	– Total Number of Seabirds Caught Dead	#	286	372	242	Not reported
304-2	Marine Mammal Mortality Rate [xvii]	%	89	96	83	87
304-2	– Total Number of Marine Mammals Caught Dead	#	47	73	60	Not reported
	OUTCOME 5 – SUPPORTING ENDURING COMMUNITIES AND PARTNERSHIPS					
201-1	Community and Charitable Investments - Sponsorships and Donations	$000s	182	307	383	172
	OUTCOME 6 – PROTECTING AND ENHANCING THE ENVIRONMENT					
306-3	Number of Notifiable Spills [xviii]	#	2	Not reported	Not reported	Not reported
306-3	– Total Volume of Notifiable Spills	litres	152	Not reported	Not reported	Not reported
302-1	Total Liquid Fossil Fuel Consumed	litres	22,590,717	19,057,553	20,786,897	24,062,218
302-1	– Total Vessel Liquid Fossil Fuel Consumed [xix]	litres	21,657,270	Not reported	Not reported	Not reported
302-3	– Wildcatch Vessel Fuel Efficiency [xx]	L/GWkg	0.344	0.354	0.166	0.175
302-3	– Aquaculture Vessel Fuel Efficiency [xxi]	L/GWkg	0.054	Not reported	Not reported	Not reported
302-1	Electricity Consumed	kWh	25,408,460	25,164,394	27,755,910	30,601,113
302-3	– Electricity Efficiency [xxii]	kWh/GWkg	0.306	0.301	0.568	0.595
302-1	Coal Consumed	kg	381,100	484,060	649,220	608,820
302-1	Lube Oil Consumed	litres	158,760	145,109	92,554	128,517
302-1	– Biodegradable Lube Oil Consumed	litres	12,508	Not reported	Not reported	Not reported
302-1	Natural Gas Consumed	kWh	2,868,330	2,861,134	1,806,346	1,905,188
N/A	Total Greenhouse Gas Emissions (CO_2-e) [xxiii]	tonnes	74,951	71,812	71,563	88,410
305-1	– Direct Emissions (CO_2-e) – Scope 1	tonnes	66,125	61,413	65,927	82,079
305-2	– Purchased Electricity (CO_2-e) – Scope 2	tonnes	3,024	3,473	3,840	4,233
305-3	– Indirect Emissions (CO_2-e) – Scope 3 [xxiv]	tonnes	5,802	6,927	1,796	2,097

[i] Wages and Salaries (including Super) data includes all subsidiaries at 100% (companies we own more than 50% shareholding in), 50% of NIML, excludes Perna, San Won, WDWF, which are associates and not consolidated into our Group accounts.

[ii] Excludes barges, includes MTOP certified vessels and negotiable non-operational registered vessels.

[iii] 2017 captures key continuous improvement (2020) projects defined in business plans and in progress; 2014-2016 included all projects completed, irrespective of size and scale.

[iv] Compliance audits include external food safety, quality, health and safety, environmental and maritime; this does not include internal audits carried out by third parties on behalf of Sanford.

[v] Sales have been restated based on known destination of customers (previously reported under predicted destination of product).

[vi] Twenty-foot equivalent units (TEU) - export containers.

[vii] Report training credits as a proxy for hours – one credit equates to approximately 10 hours of learning.

[viii] Senior Leadership Team formed in 2015 (annual quarterly average). Includes Executive Team and their direct reports.

[ix] Number of notifiable events (formally serious harm injuries) includes injuries, illnesses, and incidents (defined under Health and Safety at Work Act 2015).

[x] Lost time injuries and frequency rate relates to all workforce injuries resulting in lost time per 1,000,000 hours worked. Includes employees, independent sharefishers, and contractors.

[xi] ACC claims relates to Sanford employees only (excludes sharefishers, contractors, and Auckland Fish Market). ACC claims are continuously updated throughout the year.

[xii] Figures relate to ACC cases, refers to days off work >7 days (excludes contractors and independent sharefishers).

[xiii] Total Wildcatch has been adjusted to reflect total catch landed including Sanford and third party fleets landing to Sanford facilities. Includes Deepwater, Inshore, and Charter vessel wildcatch.

[xiv] GWT - weight of seafood before processing.

[xv] 2016 figure restated due to the decision to exclude spat from the final figures.

[xvi] MSC certified fishery - globally recognised standard for a sustainable fishery.

[xvii] Mortality Rate is the ratio between total species caught and species caught dead, data is supplied by MPI. 2016 figures restated to reflect 12 month dataset (9 months available at time of 2016 report production). 2017 figures based on 9 month dataset, as available from MPI at the time of reporting.

[xviii] Notifiable spills (significant as defined by GRI) are discharges into the environment that, if uncontained, are notifiable to a regulatory authority. Includes any discharge of fuel or oil regardless of the amount, that has entered the land or a body of water or is greater than 100 litres.

[xix] Fuels used on all vessels.

[xx] Fuel used/GWkg landed. Calculation relates to wildcatch vessel fuel consumption specifically (rather than total fuel consumption).

[xxi] Fuel used on mussel and salmon farming vessels per greenweight kg harvested.

[xxii] Land based processing sites only per greenweight kg processed.

[xxiii] All six Kyoto gases are included in the calculation as appropriate. Emission factors are based on the most recent Ministry for the Environment guidelines.

[xxiv] Indirect Emissions reporting scope increased from 2016 to capture emissions calculations from sea freight.

APPENDIX B – ALIGNING MATERIAL ISSUES WITH BUSINESS RISK

External experts assist us to identify key risks each year as part of ongoing strategy development and implementation. Risk reporting and response plans are reported to the appropriate Board committee for the top ten risks.

The top ten risks informed the materiality process to ensure that Sanford's material issues reflect not only external stakeholder concerns, but also business risk. These risks are addressed throughout the performance chapters in this Report, structured to reflect the six outcomes of the Business Excellence Framework, as identified in the table below.

Risk mapping was based on a risk criteria model which resulted in the following ranking of inherent risks:

PRIORITY	INHERENT RISK	POTENTIAL IMPACT	IMPACT ON OUTCOMES	KEY MITIGATION STRATEGIES
1.	Climate changes causing short or long term impacts	Changes in water temperature negatively impacting on fish or mussel stocks		• Ongoing monitoring of environmental conditions • Diversity of geography and species mix • Development of SPATNZ (Shellfish Production and Technology)
2.	Biosecurity issues	Causing negative impacts on harvest/take out volume, food safety e.g. algae		• Ongoing monitoring of water conditions • Diversity of geographic locations for farming • Relationship with Ministry for Primary Industries (MPI), scientific research organisations
3.	Accident causing injury and/or fatality	Fatality and resulting negative impacts on families, staff and business		• Health and safety policy and systems • Medium term strategy and plan • Health and safety governance from Board level • Significant investment in staff education and training
4.	Competing operational and commercial drivers compromise food safety	Can lead to contaminated product being exported or product specifications not being met		• Group Quality Manager reporting directly to the CEO • Regular review to ensure compliance, ISO 22000 certification • Rigorous testing, monitoring regime • Finished product sampling on a regular basis
5.	Possible traceability limitations and impacts	Could limit Sanford's growth as consumers demand full traceability. May also lead to food safety issues		• Recall procedure • Trace to vessel process • Day coding for fresh fish
6.	IT systems and information do not support efficient decision making	Limits growth strategies for the future		• Technology roadmap in place • New analysis and reporting tools • Longer term strategy, solutions
7.	Breach of quota/marine farm licence requirements	Potential loss of vessels, quota or marine farm licence		• External onboard observers, independent audits • Electronic and compliance monitoring • Ongoing training for marine farm management, compliance
8.	Loss of licence to operate through government intervention	Loss of revenue streams		• Active and strong relationships with local and central government • Involvement in multi-stakeholder forums to inform, support and influence public policy outcomes
9.	Localised physical/natural disaster	Loss of head office, processing plant or vessels		• Comprehensive insurance • Business continuity plan (IT) • Multiple operating locations and vessels • On vessel monitoring
10.	Reputational risk, brand tarnished	Financial losses sustained as a result of reputational damage		• Values based culture, messaging • Ongoing stakeholder engagement • Communication and public policy strategies and plans • Business focus on quality, brand, value and innovation • GM Sustainability, GM Corporate Communications direct reports to CEO

APPENDIX C – INDUSTRY MEMBERSHIPS AND STAKEHOLDERS

We actively monitor legislative and regulatory change directly and via key industry and sustainability bodies of which we are a member. Our principal memberships and the key roles that Sanford representatives contribute are set out below:

ORGANISATION	FUNCTION	OUR ROLE
Aquaculture New Zealand **www.aquaculture.org.nz**	Industry body for aquaculture sector, focused on representing the current industry, while enhancing profitability and providing leadership to facilitate transformational growth	• Board member • Active industry member • Industry stakeholder group
Deepwater Group **www.deepwatergroup.org**	Industry body focused on the management of deepwater fisheries resources, within a long-term sustainable framework	• Directors • Active industry member • Industry stakeholder group
Fisheries Inshore **www.inshore.co.nz**	Commercial fisheries stakeholder organisation that represents collective interests as an inshore quota owner, Annual Catch Entitlement (ACE) holder and commercial fisher	• Directors • Active industry member • Industry stakeholder group
Groundfish Forum **www.groundfishforum.com**	Meeting place for leading members of the global groundfish industry to increase understanding about global supply and consumption trends and developments for groundfish products	• Executive committee member • Forum members
Seafood New Zealand **www.seafoodnewzealand.org.nz**	Industry peak body for the New Zealand seafood sector, with a strategy to support the Government's growth objective to double seafood export revenue by 2025	• Directors • Active industry member
Southern Seabird Solutions Trust **www.southernseabirds.org**	Group focused on the protection of seabirds, with initiatives across 24 target species (from black petrel to yellow eyed penguins)	• Trustee • Management board member
Sustainable Business Council (SBC) **www.sbc.org.nz**	Executive-led advocacy body for sustainable business in New Zealand	• Advisory board member • Active member
Sustainable Seas **www.sustainableseaschallenge.co.nz**	Ecosystem-based management group set up to enhance and protect our marine resources	• Board member
Trident Systems **www.tridentsystems.co.nz**	Organisation undertaking fisheries science, monitoring and catch sampling	• Directors • Shareholder
World Ocean Council **www.oceancouncil.org**	Industry leadership alliance on 'Corporate Ocean Responsibility'	• Member

STAKEHOLDER GROUPS AND THEIR ROLES

OUR STAKEHOLDERS	ROLE
Our People	Our 1,717 employees, including 583 sharefishers, are the foundation of our business and our most valuable asset. Through their commitment to living our values of care, passion and integrity, our people ensure that we continue to produce, deliver and succeed.
Shareholders and Investor	Around 2,000 shareholders provide the financial capital and stability required to sustain, grow and diversify our business.
Government and Regulators	These stakeholders provide our formal licence to operate, including policy and regulatory frameworks which define what, how, where and when we can perform our activities.
Industry and business associations	As a company committed to its own vision as well as a vision for a sustainable future for New Zealand and the world, we are members of a number of organisations (as shown above). They help us leverage our impact and, in partnership, collectively find ways of achieving a more sustainable future.
Suppliers	Share valued expertise, support and deliver products and services that strengthen our business and facilitate development and growth. Further information on our engagement with suppliers is provided in ***Outcome 3 – Healthy food***.

OUR STAKEHOLDERS	ROLE
Customers	Sustain our business, provide the basis for continued growth, product development and innovation.
Communities, Scientific partners, NGOs	External partners help us to gain a deeper understanding of social and environmental issues. They also can unlock new opportunities, understand industry best practice, scientific research and development and alert us to potential challenges which may need to be addressed.
Civil Society including recreational fishers	The views and needs of civil society and recreational fishers assist us to stay in-step with society, and hence ensure our social license to operate. We share some fishing space with recreational fishers and it is important to us that we collaborate with other users of the ocean.
Iwi	Partnership with Iwi represent a critical relationship for us. As guardians of the land and ocean that we operate on/in, we are pleased to work together to ensure good outcomes for all.

KEY INITIATIVES CONTRIBUTING TO THE UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS: 2017

This table illustrates the initiatives undertaken by Sanford in the achievement of the key Sustainable Development Goals that we can shift the dial on. As a company committed to value creation for all stakeholders, it is critical that we use this international framework to guide us in strategy, goal development and initiatives to ensure we are contributing toward the global achievement of the goals. We are not there yet, but each year we make progress.

UN SUSTAINABLE DEVELOPMENT GOAL	SANFORD CONTRIBUTION THROUGH PERFORMANCE OUTCOMES	KEY INITIATIVES DURING 2017
SDG 3 Good health and wellbeing	Our people	• Implemented wellness programme across all Sanford sites • Delivered health and safety focused training across all levels of the business
SDG4 Quality education	Our people	• Invested in new training programmes internally to enable development opportunities to many people across the business, including 7,484 credits attained by staff through the formal NZ Qualifications Authority (NZQA) channel, and Keeping it Fresh programme • Leadership development programmes implemented across senior management team and frontline staff
SDG 8 Decent work and economic growth	Our people Sustainable seafood business Communities and partnerships	• Identified and implementing 90 key continuous improvement programmes, covering the six outcomes that contribute to achieving our Sustainability Policy and Business Excellence Framework • Key procurement project efficiencies resulting in $2.5 million savings in procurement • Targeted strategies and plans implemented to support local business and optimise employment
SDG 9 Industry, innovation and economic growth	Sustainable seafood business	• Primary Growth Partnerships in place with the Government, turning research into commercial reality (for example, SPATNZ and Precision Seafood Harvesting) • Targeted initiatives to drive improvement to $/kg return, to help achieve our long term goal of an average return of $1/kg greenweight • Invested in targeted business partnerships delivering 100% product utilisation e.g. marine by-products into pet food, nutraceuticals • Identified innovative research partners and acquired Enzaq, providing a platform to launch nutraceuticals and deliver enhanced utilisation and value
SDG 12 Responsible consumption and production	Healthy food Protecting the environment	• Implemented Oritain full product traceability of Big Glory Bay King Salmon and Greenshell™ Mussels • 80% of sites implemented and achieved compliance with the Food safety standard FSSC 22000 • Trialled polystyrene box replacement with a target to replace with recyclable cardboard boxes during 2018 • Developed a project team to identify the actions required to move all packaging materials to 100% renewable resources • Piloted "Eco-farm" in Pelorus Sound which aims to develop NZ's lowest impact and technically smart mussel farm • Developed a comprehensive environmental impact assessment process accounting for the full life cycle of all of Sanford's operations • Maintained ISO 14001:2004 environmental management system certification across our operations • Achieved 24% waste diversion rate across our operations
SDG 13 Climate action	Protecting the environment	• Reduced our carbon emission intensity by 4.5% across our operations, setting ambitious targets to 2030 • Started to adapt to climate change and build resilience in operations (e.g. SPATNZ innovation) • Reduced refrigeration gas loss across sites and vessels • Completed the trial and working to replace our coal fired boiler operation into wood chip changeover to take place in 2018) • Signatory to open letter to NZ Government on climate action • Leadership role with Sustainable Business Council on climate action • Developed and delivered pre-election briefings, informing political discussions with peer businesses on climate action

APPENDIX D – KEY INITIATIVES CONTRIBUTING TO THE UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS: 2017

UN SUSTAINABLE DEVELOPMENT GOAL	SANFORD CONTRIBUTION THROUGH PERFORMANCE OUTCOMES	KEY INITIATIVES DURING 2017
SDG 14 Life below water	Healthy oceans Healthy food	• World Ocean Council representation and leadership • APEC and East Asia Summit on Marine Plastic Debris, Indonesia, informing policy development across 19 countries • Implemented *Māui Dolphin Protection Plan* in conjunction with Moana and WWF to ensure Maui-safe fishing • Achieved multiple aquaculture certifications (BAP, A+ (trials), organic) • 46% of Sanford's total wildcatch in FY17 was Marine Stewardship Council (MSC) certified • 7 year government funded precision seafood harvesting (PSH) and Modular Harvest System (MHS) to deliver more sustainable fishing methods and spat selective breeding; SPAT NZ
SDG 17 Partnerships for the goals	Communities and partnerships	• Two year collaboration agreement with EECA, setting 5 GWh energy reduction targets, audit programme and range of targeted initiatives • Active participant to a range of national and international multi-stakeholder forums to help us to deliver on our vision, and contribute to achievement of SDGs across a range of areas, from sustainable wealth creation to oceans management and plastics reduction • Provided leadership and operational input into a wide range of industry forums from the Southern Seabird Solutions Trust, to Fisheries Inshore New Zealand, Deepwater Group and the Convention for the Conservation of Antarctic marine Living Resources • Graeme Dingle Foundation partner, including Kiwi Can and Career Navigator programmes • Paralympics New Zealand partner • Signatory to the Seafood NZ Promise Campaign code of conduct

APPENDIX E – GRI CONTENT INDEX

This Report has been developed in accordance with the International Integrated Reporting Council (IIRC) Integrated Report <IR> Framework. The Report has been prepared in accordance with the GRI Sustainability Reporting Standards (GRI) 2016, and were applied to a core level of compliance. Further references to GRI indicators are provided in ***Appendix A*** (Key Performance Indicators).

DISCLOSURES	DESCRIPTION	SECTION DESCRIPTION AND PAGE NUMBER
GRI 102: GENERAL DISCLOSURES 2016		
STRATEGY AND ANALYSIS		
102-14	Chairman, CEO statement	Delivering on our Vision, pages 10-13
ORGANISATIONAL PROFILE		
102-1	Name	Sanford Limited
102-2	Operations	Aquaculture, fishing, fish processing, retail; refer Our Global Operations, pages 6-7
102-3	Head Office	22 Jellicoe Street, Auckland, New Zealand
102-4	Locations	Our Global Operations, pages 6-7
102-5	Legal form	NZX listed New Zealand limited liability company
102-6	Markets and customers	Our Global Operations, pages 6-7; Sustainable Seafood Business, page 34
102-7	Scale of operation	Our Global Operations, pages 6-7; Our Business Model, pages 8-9
102-8	Workforce	Great Prospects for Our People, pages 44-55
102-41	Collective agreements	Key Performance Indicators, Page 158
102-9	Supply chain	Operations Overview, page 33; Healthy Food, pages 59, 65-67
102-10	Business changes	Financial and Operations Overviews, pages 30-33; Financial Statements, pages 113-150
102-11	Precautionary principle	Corporate Governance, page 104; Healthy Oceans, pages 72-83
102-12	Charters	Healthy Oceans, pages 72-83; Strategic Partnerships and Collaboration, page 94
102-13	Memberships	Appendix C – Industry Memberships, page 162
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES		
102-45	Organisation	About this Report, page 5; Financial Statements – Group Entities, page 149
102-46	Report content	About this Report, pages 4-5; Reporting What Matters, page 16
102-47	Material issues	Reporting What Matters, pages 17-18
103-1	Scope – Boundary inside	Material issues cover all Sanford entities unless otherwise stated, page 5
103-1	Scope – Boundary outside	About this Report, pages 4-5; How We Create Value, pages 8-9
102-48	Restatements	Key Performance Indicators, pages 158-160; Financial Statements, pages 113-150
102-49	Changes	Reporting What Matters, pages 16-21; Financial and Operations Overviews, pages 30-34
STAKEHOLDER ENGAGEMENT		
102-40	Stakeholders - Groups	Reporting What Matters – Engaging with our Stakeholders, page 19; Appendix C, page 162
102-42	Stakeholders – Basis	Reporting What Matters – Engaging with our Stakeholders, page 16; Appendix C, page 162
102-43	Stakeholders – Approach	Reporting What Matters – Engaging with our Stakeholders, page 16
102-44	Stakeholders – Key Topics	Reporting What Matters – Engaging with our Stakeholders, pages 16-19
REPORT PROFILE		
102-50	Report period	1 October 2016 to 30 September 2017
102-51	Last report	Sanford Annual Report 2016
102-52	Reporting cycle	Annual
102-53	Contact	Contact sustainability@sanford.co.nz for queries, or to provide feedback
102-54	GRI compliance	GRI Standard 2016; Core
102-55	GRI content index	Heading in this Index
102-56	Assurance	Combined (financial and non-financial), pages 151-156
GOVERNANCE		
102-18	Governance	Sustainable Seafood Business page 35-36; Corporate Governance, pages 104-109; Corporate Governance Statement 2017: www.sanford.co.nz/investors/governance
ETHICS AND INTEGRITY		
102-17	Ethics and values	Our Business Model, pages 8-9; Corporate Governance, pages 104-109; Corporate Governance Statement 2017 www.sanford.co.nz/investors/governance

MATERIAL TOPICS AND RELATED INDICATORS

Including GRI 100, GRI 200 2016, GRI 300; 2016

DMA AND INDICATORS	DESCRIPTION	REPORT SECTION TITLE	SECTION DESCRIPTION AND PAGE NUMBER
CATEGORY: ECONOMIC			
ASPECT: ECONOMIC PERFORMANCE (M: SHAREHOLDER VALUE AND RISK)			
103-1	Approach	Sustainable seafood business	Year in numbers, page 14-15; Financial, operations and customer overviews, pages 30-34; Governance and communication, Innovation, pages 35-41
201-1	Economic value	Healthy oceans Communities and partnerships	Shareholder value and risk, pages 28-34; Continuous improvement projects, page 31; EECA, page 102; Communities and partnerships pages 87-95; KPIs, pages 158-160; Financial statements, pages 113-150
201-4	Government assistance		SPATNZ pages 37-38; HVN page 38; Greenshell™ page 38-39; PSH, page 40; EECA page 102
CATEGORY: ENVIRONMENTAL			
ASPECT: ENERGY (M: RESOURCE UTILISATION AND EFFICIENCY)			
103-1	Approach	Protecting the environment	Resource utilisation and efficiency, page 100; Carbon reduction, pages 101-102
302-1	Energy		Resource efficiency, page 100; Carbon reduction, page 101-102; KPIs, page 160
302-3,4	Reduction of energy		Resource efficiency, page 100; Carbon reduction and offsetting, page 101; EECA, page 102; KPIs Appendix A, page 160
ASPECT: BIODIVERSITY (M: SUSTAINABLE FISH STOCKS AND MARINE FARMS)			
103-1	Approach	Healthy oceans	Sustainable fish stocks and marine farms, pages 74-76
304-2	Impact		Sustainable fish stocks and marine farms, pages 74-76; Marine conservation, pages 77-78; Endangered, threatened and protected species, pages 79-82; KPIs Appendix A, pages 158-160
ASPECT: EMISSIONS (M: CARBON REDUCTION AND OFFSETTING)			
103-1	Approach	Protecting the environment	Carbon reduction and offsetting, page 101-102; KPIs, Appendix A, Page 160
305-1	GHG (Scope 1)		Carbon reduction and offsetting, page 101-102; KPIs, Appendix A, page 160
305-2	GHG (Scope 2)		Carbon reduction and offsetting, page 101-102, KPIs, Appendix A, page 160
305-3	GHG (Scope 3)		Carbon reduction and offsetting, page 101-102, KPIs, Appendix A, page 160
ASPECT: EFFLUENTS AND WASTE (M: SUSTAINABLE FISH STOCKS AND MARINE FARMS)			
103-1	Approach	Healthy oceans	Sustainable fish stocks, page 74-76; Environmental effects, page 98-99
306-3	Spills	Protecting the environment	Environmental effects, page 99; KPIs Appendix A, page 160
CATEGORY: SOCIAL			
SUB-CATEGORY: LABOUR PRACTICES AND DECENT WORK			
ASPECT: EMPLOYMENT (M: DEVELOPING OUR PEOPLE)			
103-1	Approach	Our people Communities and partnerships	Developing our people, pages 49-52; Engagement and employment, pages 87-89; Strategic partnerships and collaboration, pages 90-94
401-1	Hires and turnover		Developing our people, pages 49-52; KPIs Appendix A, pages 158-159
ASPECT: OCCUPATIONAL HEALTH AND SAFETY (M: HEALTH, SAFETY AND WELLBEING)			
103-1	Approach	Our people	Health, safety and wellbeing, pages 44, 46-48
403-2	Injury Statistics		Health, safety and wellbeing, pages 44, 46-48; KPIs, Appendix A, page 159
ASPECT: TRAINING AND EDUCATION (M: DEVELOPING OUR PEOPLE)			
103-1	Approach	Our people	Developing our people, pages 49-52; Strengthening our workplace culture, pages 53-54
404-1	Training		Developing our people, pages 59-52; Strengthening our workplace culture, pages 53-54; KPIs, Appendix A, pages 158-159
SUB-CATEGORY: SOCIETY			
ASPECT: LOCAL COMMUNITIES (M: ENGAGEMENT AND EMPLOYMENT)			
103-1	Approach	Communities and partnerships	Engagement and employment, pages 86-89; Strategic partnerships and collaboration, pages 91-94
413-1	Programmes		Engagement and employment, pages 86-89; Strategic partnerships and collaboration, pages 91-94
SUB-CATEGORY: PRODUCT RESPONSIBILITY			
ASPECT: CUSTOMER HEALTH AND SAFETY (M: FOOD SAFETY AND QUALITY)			
103-1	Approach	Healthy food	Food safety and quality, pages 58-61
416-2	Non-compliance	Healthy oceans	Food safety and quality (compliance), pages 60-61; KPIs Appendix A, page 159
G4-FP5[1]	Third party certification	Sustainable seafood business	Certifications, pages 61-62, 76; Compliance audits, page 36; Traceability, page 63; KPIs, Appendix A, page 158-160
G4-FP13[1]	Non-compliance		Compliance, pages 58-61; Product quality and testing, page 61; complaints response, page 61; product recall, page 61, KPIs Appendix A, page 159
ASPECT: PRODUCT AND SERVICE LABELLING (M: CUSTOMER RELATIONSHIPS AND TRACEABILITY)			
103-1	Approach	Healthy food	Drive value through brand creation, pages 62-64; Sustainable fish stocks and marine farms, page 76
417-1, 304-3	Information required	Healthy oceans	Sustainable fish stocks, pages 74-96; Certifications, pages 61-62, 76; Drive value through brand creation, pages 62-64; Traceability, page 63; MSC Certification, KPI Appendix A, page 159
G4-PR5	Customer satisfaction		Customer survey, pages 58, 60-61; Customer relationships, pages 60-64

1. Aspects and indicators sourced from GRI *Disclosure for Food Processing*, 2014

BOARD OF DIRECTORS

Paul Norling, Chairman
Elizabeth (Liz) Coutts
Bruce Goodfellow
Peter Goodfellow
Peter Kean
Robert McLeod

EXECUTIVE TEAM

Volker Kuntzsch, Chief Executive Officer
Clement Chia, Chief Financial Officer
Karen Duffy, Chief People Officer
Andre Gargiulo, Chief Customer Officer
Greg Johansson, Chief Operating Officer

REGISTERED OFFICE

22 Jellicoe Street
Freemans Bay
Auckland 1010
New Zealand

PO Box 443
Shortland Street
Auckland 1140
New Zealand

Telephone +64 9 379 4720
Email info@sanford.co.nz
Website www.sanford.co.nz

PRINCIPAL BANKERS

ANZ Bank New Zealand Limited
Bank of New Zealand
Rabobank New Zealand Limited

SOLICITORS

Chapman Tripp
Russell McVeagh

GROUP AUDITORS

KPMG, Auckland

STOCK EXCHANGE

The Company's shares trade on the New Zealand Stock Exchange (NZX).

NZX Trading Code: SAN

The minimum marketable parcel on the Exchange is 100 shares (price $2 to $5 per share) or 50 shares ($5 to $10 per share)

SHARE REGISTRAR

Computershare Investor Services Limited
Private Bag 92 119
Auckland 1142
New Zealand

159 Hurstmere Road
Takapuna
Auckland 0622
New Zealand

MANAGING YOUR SHAREHOLDING ONLINE

To change your address, update your payment instructions and to view your investment portfolio including transactions please visit:

www.investorcentre.com/nz

GENERAL ENQUIRIES

General enquiries can be directed to:
enquiry@computershare.co.nz
Private Bag 92 119
Auckland 1142
New Zealand

Telephone +64 9 488 8777

Please assist our registrar by quoting your CSN or shareholder number.

Other queries should be directed to the General Manager Risk and Corporate Affairs at the Registered Office.

This document is printed on an environmentally responsible paper, produced using Elemental Chlorine Free (ECF), FSC® certified Mixed Source pulp from Responsible Sources, and manufactured under the strict ISO14001 Environmental Management System. The ink used is 100% vegetable based, mineral oil free and manufactured from 100% renewable resources.

ANNUAL MEETING

Wednesday

13

December 2017

2:00pm

The Maritime Room,
Princes Wharf

Corner Quay
and Hobson Streets
Auckland 1010

Disabled parking is available on the Eastern Viaduct at 210 Quay Street, just after the Canterbury NZ shop. Pay and Display parking is also available at the Eastern Viaduct, 210 Quay Street. Alternative parking is in the Downtown car park at 31 Customs Street West, from where attendees can walk across Customs Street to Princes Wharf.

The Directors encourage full participation of shareholders at the Annual Meeting.

insightcreative.co.nz SAN056

WE VALUE YOUR FEEDBACK

We welcome any questions, comments or suggestions you might have on this Report and our performance.

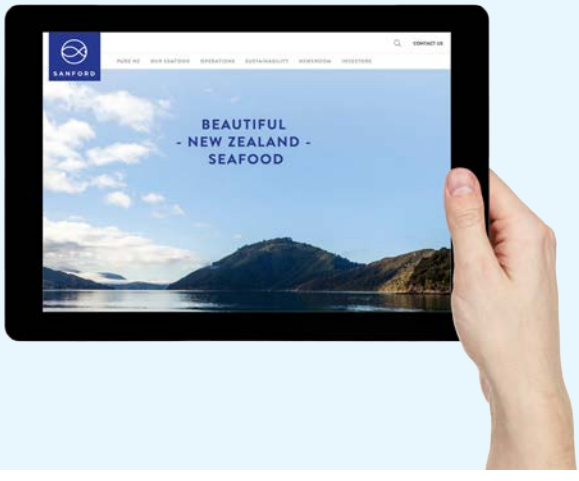
Please send your feedback on this Report to:
sustainability@sanford.co.nz

For all other communications or enquiries, please contact us at:
info@sanford.co.nz

or call us on +64 (9) 379 4720

ENGAGE WITH US

www.facebook.com/SanfordLimited/
twitter.com/sanford_ltd

ONLINE

www.sanford.co.nz
www.sanford.co.nz/investors/