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Cameron Partners

Overview of Seafood Sector

STRICTLY PRIVATE AND CONFIDENTIAL

11 FEBRUARY 2014

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 ROTHSCCHILD



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Introduction

Disclaimer

- This summary of the global fishing industry (Summary) has been prepared for the exclusive use of Tim Castle (the Reviewer) for the purpose of background information and context on the global fishing industry.
- It is a high level overview of the global fishing industry and not an in depth analysis. As such it does not represent a developed analysis by Cameron Partners Limited and does not constitute final recommendations or advice.
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Global Fishery Sector

Past, current and future trends

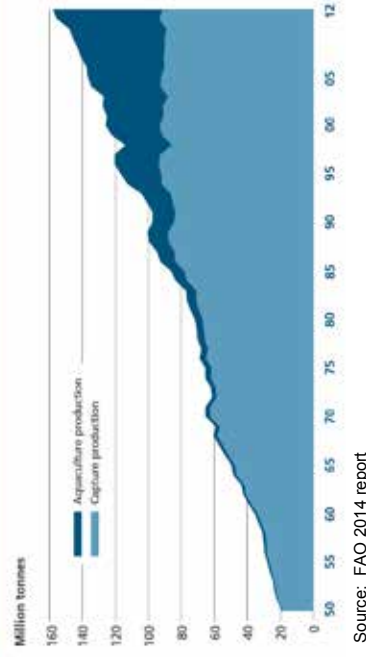
Increasing demand and production

- *The global fisheries sector is undergoing significant changes as pressures converge from diminishing supply, increasing demand and environmental and regulatory changes*
- Per capita seafood consumption has almost doubled over the last 40 years, driven by
 - Income growth
 - Urbanisation interlinked with modern distribution channels
 - Changes in dietary needs / preferences
- Population and income growth, together with urbanisation and dietary diversification, are expected to create additional demand for animal products
- Per capita fish consumption is expected to continue rising
 - This is forecast in all continents except Africa, where population growth is expected to outpace fish consumption growth
- Seafood production has increased to meet increased demand
 - This has come from significant growth in aquaculture, particularly inland. This trend is set to continue

Aquaculture driven supply increase

- Global food fish supply has grown steadily in the last five decades at an average rate of 3.2%, outpacing population growth
- The supply increase is largely driven by aquaculture, which now accounts for around 50% of total seafood production
- Wild capture supply has flattened / declined in the last two decades

World capture fisheries and aquaculture production



- Both aquaculture (to realise economies of scale) and wild capture (to decrease costs in a mature, flat growth sector) are consolidating
- China continues to be the number one country in terms of seafood production, and is now the third largest country in terms of seafood imports (behind the US and Japan)

Global Fishery Sector

Past, current and future trends

	Increasing aquaculture production	Decreasing wild capture supply
<p><i>Aquaculture has increased significantly over the past 30 years, while wild capture supply is flat / in decline –this trend is set to continue</i></p> <p><i>The aquaculture and wild capture sectors are continuing to consolidate, due to economies of scale (aquaculture) and to reduce costs in a declining industry (wild capture)</i></p>	<ul style="list-style-type: none"> ■ Aquaculture is at an all time production high and forecast to account for 62% of seafood consumption by 2030 ■ Aquaculture is filling the supply-demand gap created by flat / declining wildcatch <ul style="list-style-type: none"> ■ Aquaculture growth has been driven by growth in inland aquaculture, which has outpaced mariculture growth through increasing its contribution to total farmed fish production from 50% in 1980 to 63% in 2012. This trend is set to continue ■ There is a drive to reduce supply-limiting input costs; particularly fish feed and energy <ul style="list-style-type: none"> ■ Cheaper vegetable alternatives are replacing fish oil and feed ■ Aquaculture producers are finding ways to use lower quantities of fishmeal (feed) and become more energy efficient to reduce exposure to higher energy prices ■ Increasing competition from developing countries with lower production costs <ul style="list-style-type: none"> ■ Developed countries (including US, Spain, France, Italy, Japan and Korea) have recently reduced their aquaculture output in response to growing competition from developing countries ■ Large economies of scale driving consolidation <ul style="list-style-type: none"> ■ This has created further consolidation in the aquaculture sector, with the 15 main producer countries accounting for 92.7% of all farmed food fish production ■ Salmon is particularly highly consolidated due to large economies of scale in production systems, marketing, processing skills, genetics and capital 	<ul style="list-style-type: none"> ■ Global production capacity has been reached <ul style="list-style-type: none"> ■ Combined with the impacts of overfishing, production is forecast to decline ■ Declining production and increased demand has pushed up prices <ul style="list-style-type: none"> ■ The FAO's price index for wild fish nearly doubled between 1990 and 2012, compared to farmed fish which rose by a fifth ■ Consolidation is key to future growth <ul style="list-style-type: none"> ■ There has been significant consolidation across countries, with 18 countries (11 in Asia) now accounting for over 76% of global marine catches. This trend is likely to continue ■ Farmed fish (aquaculture) is likely to dominate the medium value market. Wild capture must move into niche "high value" products <ul style="list-style-type: none"> ■ Prof Frank Asche (from University of Stavanger, who helped devise the FAO fish-price index), sees parallels with the divergence between farmed meat and wild game. "As the supply of wild fish declines relative to farmed fish, it will become a luxury commodity, and "in 20 years' time, people will think of wild fish like we now think of wild venison" ■ This trend is already emerging with Sapmer, a French fishing company recently discontinuing its canned-tuna production to concentrate on catching tuna for sushi and sashimi for the top end of the market

Source: The State of World Fisheries and Aquaculture, 2014.
Food and Agriculture Organisation of the United Nations



The seafood sector in New Zealand

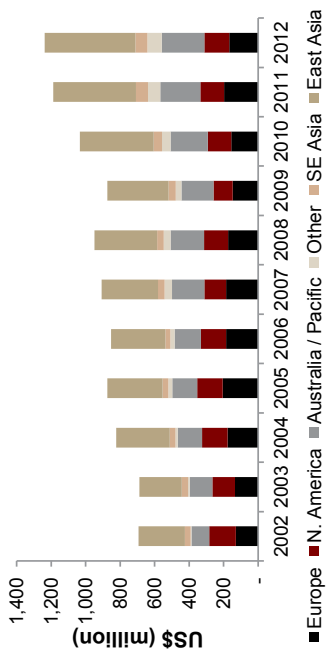
Past, current and future trends

Demand driven by Asia / Pacific

Highest growth in exports has been driven from Australia / Pacific, South East Asia and China

Over the period 2002-2012, growth in NZ seafood exports has been driven by demand from Australia / Pacific Islands and China / East Asia

10 year New Zealand Seafood Export Value by Region



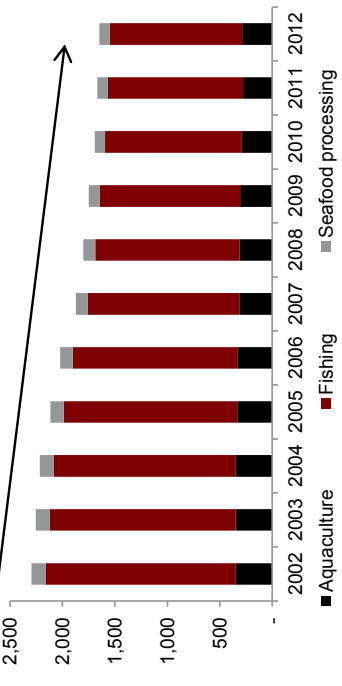
Source: IFAB 2013 Seafood Review

The seafood sector in New Zealand has continued to consolidate over recent years

Consistent with global trends

- Consistent with global trends, NZ wild capture has been trending downward since the late 1990s, while aquaculture has been growing since the early 1980s
- New Zealand achieves low production yields in both aquaculture and wild capture (due to a low proportion of the EEZ available for commercial activities) relative to its peers
- The number of organisations in New Zealand involved in the sector continues to decline as the industry consolidates, consistent with global trends

Number of New Zealand Seafood Processing Enterprises



Source: IFAB 2013 Seafood Review

The seafood sector in New Zealand

Aquaculture

Overview

- New Zealand is yet to reach a consensus regarding the future of aquaculture, with proponents arguing for further development of the billion dollar industry while opposition from recreational fishermen, inshore fishing companies, holiday home owners and environmental advocates remains
- There are risks, uncertainty and costs around ocean space tenure and renewability of tenure. Any change is slow, uncertain and costly
- The 4th largest investment in New Zealand seafood industry in past two years was \$10m that New Zealand King Salmon (NZKS) spent on paperwork and applications
- Government has recently changed the rules around aquaculture regulations. It is too early to judge the effectiveness of latest rules
- Oyster production has started to recover from 2013 following oyster herpes virus issues that caused significant loss in 2009/10
- No new species has emerged since 1976 (King Salmon)

New Zealand Aquaculture Metrics (2010)

	Productive marine space (ha)	Value (NZ\$m)	\$ / ha
Mussels	5,250	\$206	\$39,238
Salmon	100	\$145	\$1,450,000
Oysters	900	\$26	\$28,889

Sources: Food & Beverage Information Project 2011
Situation and Outlook for Primary Industries 2014 Mid-year Update

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Mussels

- There has been significant consolidation in the industry – now Sanford holds most of the mussel market. In 2013 Sealord announced that it planned to exit the New Zealand aquaculture market, citing an overly regulated industry as too much of an impediment
- Prices have gone from US\$1.80 / pound in Sep 2010 to \$3.10 / pound in Sep 2013
- Rising prices in key international markets and lower exchange rates will continue to improve returns
- US, South Korea and Australia remain the largest export markets for New Zealand mussels, however China is becoming increasingly large

Salmon

- There has been a large amount of recent growth in salmon, and this is set to continue with NZKS receiving resource consent for three new farms
- New Zealand is the world's largest producer of King Salmon, which earns a premium over other salmon species, in part due to its higher levels of Omega 3 content. Benchmarking with peer group suggests this could be a key growth opportunity going forward
- NZKS and Sanford have 68% and 24% of the market respectively
- There are opportunities to expand salmon farming. The biggest roadblock to development is the regulatory environment
- International comparisons are significantly more productive
 - Norway has similar coastline to New Zealand yet produces 75 times more
 - Faroe Islands has similar coastline to Banks Peninsula yet produces 218 times more



The seafood sector in New Zealand

Wild catch

NZ's sustainable management practices have led to a decline in total wild catch over the past 15 years

Overview	Consumers / Markets
<ul style="list-style-type: none"> ■ New Zealand has access to quality natural resources for wild catch fishing ■ Wild catch accounts for 79% of NZ seafood volume (45% globally) ■ Sustainable management has led to a decline in total wild catch over past 15 years, consistent with global trends ■ The industry has mixed ownership – a combination of iwi interests, private investment, foreign ownership and one public firm (Sanford) ■ The industry is reasonably consolidated but there is potential for further consolidation ■ The industry has high fixed costs, requiring large boats (particularly for deep water fishing) therefore consolidation is advantageous 	<ul style="list-style-type: none"> ■ Consumption per capita of wild catch has been declining globally, from a combination of depleting resources and population growth ■ Prices have remained high as consumer demand has risen from: <ul style="list-style-type: none"> ■ Scientific research showing health benefits and changing consumer preferences ■ Key seafood – consuming countries (South East Asia, China) experiencing high income growth ■ In 2012 NZ exported seafood to 112 countries – Western and Asian markets accounting for ~50% of the value each ■ There is increasing demand for sustainable seafood from the Western markets and there is an opportunity for New Zealand to take advantage of this
<ul style="list-style-type: none"> ■ Very limited growth potential with the main source of value creation being cost reduction through consolidation ■ Improving the quality – Sealord and Sanford have developed a Primary Growth Partnership (PGP) with the government investing up to \$52.6m to develop better wild catch technology forecasting improvements in annual revenue by \$100m by 2020 ■ Selling the sustainable story – New Zealand is in a good position to get a premium for being sustainable. General consensus is that NZ does not currently market this well: <ul style="list-style-type: none"> ■ NZ could replicate Iceland and Alaska, and certify all species in QMS as sustainable. In 2014, Hake and Ling were certified and additional deep water species including orange roughy are in the process ■ There is strong demand from the US and Europe for fish to be sustainably certified – it is predicted that Asia will also be demanding sustainable fisheries in 10-15 years time 	<ul style="list-style-type: none"> ■ Wild catch volume has fallen by 34% since 1998 ■ New Zealand is a relatively small industry compared with international peers – it does not get scale benefits that larger companies can achieve ■ Currently firms are small, with limited access to capital and a lack of market integration ■ Increasing competition from countries with lower production costs ■ Special interest groups driving the domestic regulatory environment ■ Rising costs of airfreight reducing potential for fresh exports (which have greatest value)
<p style="text-align: center;">Opportunities</p>	<p style="text-align: center;">Weakness / Challenges</p>

Framework and questions provided to the Reviewer (December 2014)

- The two documents attached are a copy of the questions that the Reviewer (Tim Castle) provided to Sealord and AFL to assist discussions with each of these parties as part of the Review.
- Cameron Partners was engaged by the Reviewer and assisted the Reviewer in preparing the framework and questions for these meetings.

Questions to Sealord

Background

Introduction

This memo is prepared for the purposes of the 2015 Maori Fisheries Act 2004 Review. I have engaged Cameron Partners to assist in specific areas of the Review, focusing on financial and strategic analysis and governance. Due to the nature, size and significance of Sealord's operations within the Review, and the impact on the performance of Aotearoa Fisheries Limited (AFL) I have determined that I will give attention to the Sealord and AFL performances, separately.

So, I deal with Sealord first.

In undertaking the desired analysis, it is critical to understand the strategic framework Sealord has adopted which has shaped Sealord's strategic choices and in turn its relative performance. This memo outlines a set of questions to be separately addressed by Sealord in the context of a changing international seafood industry. The goal is to better understand Sealord and provide a strategic context for analysis.

Industry overview & context

The seafood industry has been undergoing significant changes:

- Per capita seafood consumption has almost doubled over the last 40 years, driven by:
 - Income growth
 - Urbanisation interlinked with modern distribution channels
 - Changes in dietary needs / preferences
- Global food fish supply has grown steadily in the last five decades at an average rate of 3.2%
 - Supply increase to meet this gap has been solely driven by aquaculture, which now accounts for ~50% of total seafood production. Wild capture supply is in decline
 - Within aquaculture, inland aquaculture growth has outpaced mariculture growth, increasing its farmed fish production contribution from 50% in 1980 to 63% in 2012
 - Wild capture is expected to move into niche "high value" products. Frank Asche of the University of Stavanger, sees parallels with the divergence between farmed meat and wild game - "in 20 years' time, people will think of wild fish like we now think of venison"
- Both aquaculture (to realise economies of scale and diversify into other types of seafood / species) and wild capture (to decrease costs in a declining sector and grow through increasing TAC quotas) are consolidating through acquisitions
 - From 2010-2013 there were over 200 deals in the seafood sector. 80% of acquisitions were by strategic buyers (i.e. companies that consider seafood as their core activity)
- Aquaculture has significant input costs (with fish feed accounting for 40-50% of these costs) There is a drive to reduce these costs through finding cheaper food alternatives and through acquisitions (obtaining greater control in input costs by integrating vertically)
- Food safety issues have driven greater traceability requirements for all food ingredients, and this in turn has led to greater integration across large parts of the value chain

- Companies with reliable access to processing facilities have become particularly attractive targets, as this provides seafood producers with greater control over the final product
- China continues to be the number one country in terms of seafood production, and now is the third largest country in terms of seafood imports (behind the US and Japan)

Sealord

- Sealord competes in a global industry / markets. Its performance therefore needs to be viewed in a global context and relative to those competing in this industry / market
 - An analysis of how individual firms' performance in this environment relate to the way they have responded to these industry / market changes – i.e. their strategic choices (competitive, organisational and financial) and the execution of decisions made
 - For this reason, and to inform the Review, the following questions have been formulated to assist building an understanding of Sealord's governance responses to the changing global environment and the consequent impact on governance of AFL (and, for that matter, consequently, of TOKM).

Questions

Competitive strategy

Market positioning

1. In your opinion, what are the areas of high growth in the seafood industry? What are the areas of low growth?
2. As discussed above in the industry overview, two key trends are:
 - Wild catch globally becoming a declining resource
 - Aquaculture production increasing

What have been and are Sealord's strategic responses to these two trends?

3. Have you considered investing in Salmon, particularly in the NZ market where there is the high-value NZ King Salmon (with a ~40% premium)
4. Given that fish feed is a large component of the input cost for the aquaculture industry (which in turn is a growth area) have you looked to invest in the fish feed sector?
5. There is increasing demand, particularly from Europe, for seafood products that have been harvested in a sustainable manner. Do you have a plan for leveraging New Zealand's reputation to market your products as environmentally sustainable and, if so, how successful has Sealord been in executing this plan?
6. To successfully develop a reputation for environmentally sustainable seafood requires collaboration from other industry participants. Have you been working with other market participants to develop a "NZ" brand (NZ so far has not managed to do this, particularly compared with countries such as Iceland) and if so, how (and how have you ensured no conflict or competition with other Maori commercial fishing entities doing the same (or much the same) thing)?

Business model

7. What business lines / areas does Sealord consider to be of strategic importance and which does it consider non-strategic / non-core?
8. Can you briefly describe the way Sealord perceives its value chain, identifying

- The key value drivers
 - Constraints that have hindered performance
 - Areas of the value chain you would like to see changed
9. Across the industry, profitability margins are becoming tighter. What does Sealord consider the main causes of this to be? How have Sealord's margins performed relative to competitors/ external benchmarks? How is Sealord responding to this?
 10. Apart from government / regulatory impediments, were there any other reasons for exiting the NZ aquaculture industry?
 11. Given the growth in the global market, some of the reforms in the NZ seafood sector and other initiatives that the government have been partnering with other industry participants (e.g. mussel hatcheries with Sanford and Sealord), are you considering re-entering the NZ aquaculture sector?
 12. Have you looked to decrease input costs in Sealord's Tasmanian aquaculture operations, and if so, how?
 13. There is a current global focus on acquiring distribution companies to increase global footprint. Have you got plans to increase your distribution through acquisition?
 14. There is a trend towards higher value "niche" products with higher margins (particularly in the wild capture market). What, if any, initiatives has Sealord taken in this area?
 15. Processing companies have been attractive acquisition targets for fish producers given that the by-products from fish processing plants can be used to prepare fish feed and thereby allowing producers to get better control over raw material costs. Have you managed to realise these synergies between processing and production? If so, to what extent?
 16. Consolidation and cost base rationalisation has been among some of the key industry trends observed. Can you give examples of any consolidation or rationalisation activities that Sealord has undertaken recently?
 17. Do you think that Sealord needs to be involved in more consolidation and rationalisation to achieve scale benefits?
 18. Is there further consolidation activity planned in the future strategy of Sealord? If so, can you describe what, and how this fits into the overall strategy?

Capabilities

19. Historically, do you think that Sealord has been strategically disadvantaged due a lack of compatibility, across any of the following areas?
 - People
 - Industry knowledge
 - Global / local market knowledge
 - Operational capability

Organisational Strategy

Ownership and governance

20. What are the main strategic challenges and opportunities facing Sealord?
21. What do you see as the Board's priorities?
22. Do you think the Board's capabilities and composition are well matched to Sealord's strategic challenges and opportunities?
23. Do you consider that the selection and evaluation process for board appointments has been/is well aligned with Sealord's strategic challenges and opportunities?

24. Looking forward, is there any capability or composition you would like to see changed at the Board level?

Financial strategy

Industry participants have been investing in both wild capture and aquaculture to either take advantage of a growing industry (aquaculture) or expand their business model to take advantage of synergies (wild capture). They have also been restructuring and transitioning their businesses to changing global trends. Given this, we would expect entities to maintain relatively high levels of financial flexibility, low gearing and conservative dividend policies.

Capital structure

Sealord's capital structure has shown increased gearing over the past decade, towards the top end of the targeted gearing ratio range. Sanford, on the other hand has not altered its structure significantly, nor have international comparators which have remained consistently within the mid to high 30% range. In this context:

25. What were the key drivers for Sealord's decision to increase its gearing over the past decade?
 26. Is there a plan or policy in place to manage debt levels?
 27. What framework is in place to guide and manage capital structure?
 28. Given the strategic opportunities and industry transition, what does Sealord consider to be the optimal target for Sealord's capital structure?
 29. How much financial flexibility do you think Sealord requires to achieve its strategic objectives and to navigate a successful path through the industry transition?

Cash release and management

Sealord has appeared to continue declaring dividends despite a downward trending bottom line. Sanford on the other hand appears to have not declared any dividends in 2008 and 2011.

30. What is Sealord's policy regarding dividends?
 31. Do you think that retaining relatively high dividend payouts is consistent with acceptable levels of financial flexibility and an optimal capital structure?

Use of capital

32. Based on data available to us Sealord has achieved a lower ROA than both Sanford and international comparators over the past five years, and it appears to be trending downwards. What policies are in place to monitor and assess capital allocation and investment decision making?
 33. Clearly in this new environment some activities are becoming more attractive and some less attractive. Do you have a capital 'recycling' plan (divestments, acquisitions, organic growth) that addresses this?
 34. In relation to the question above, can you provide some examples of significant investment decisions and how they relate to the strategic direction of Sealord?

In relation to Yuken, the Argentinean joint venture which Sealord exited in 2013

35. What was the rationale for the initial strategic decision?
 36. What were the key factors that resulted in the erosion of value?
 37. How was the exit strategy managed and executed?

38. Does the Yuken experience impact on how future strategic decisions are made / viewed / executed?
39. Sanford appeared to respond quickly to changes in the industry (e.g. their exit from their Argentinean operations in 2007) in comparison to Sealord. What were the reasons for this? What is Sealord doing to manage timely strategic decisions? What are considered to be the obstacles or challenges (if any)?
40. Sanfords investment amount (around \$6m) appears to be lower than the amount invested by Sealord. What process was in place to determine the optimum amount to invest in Argentina?

Final contextual questions

41. What is the board and mangement's vision for Sealord in five years time?
42. What are the key differences between Sealord and Sanford:
 - a) Competitive (including market positioning, business model, capabilities)
 - b) Organisational (including organisation architecture, ownership and governance)
 - c) Financial (including capital structure, cash release and management, use of capital)
 - d) Any other, e.g. operational differences

Questions to AFL

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In this Memorandum of Questions for Answers I focus on AFL. There is something of an overlap with Sealord. This is unsurprising. I want to understand the strategic financial performance and decision making processes of AFL both independently of, and, separately, having regard to, Sealord. A like set of questions is to be put to Sealord.

In undertaking the desired analysis, it is critical to understand the strategic framework AFL has adopted which has shaped AFL's strategic choices and in turn its relative performance. This memo outlines a set of questions to be separately addressed by AFL in the context of a changing international seafood industry. The goal is to better understand AFL (and Sealord) and provide a strategic context for analysis.

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- Food safety issues have driven greater traceability requirements for all food ingredients, and this in turn has led to greater integration across large parts of the value chain
 - Companies with reliable access to processing facilities have become particularly attractive targets, as this provides seafood producers with greater control over the final product
- China continues to be the number one country in terms of seafood production, and now is the third largest country in terms of seafood imports (behind the US and Japan)

Aotearoa Fisheries Limited

- AFL competes in a global industry / markets. Its performance therefore needs to be viewed in a global context and relative to those competing in this industry / market
 - An analysis of how individual firms' performance in this environment relate to the way they have responded to these industry / market changes – i.e. their strategic choices (competitive, organisational and financial) and the execution of decisions made
 - For this reason, and to inform the Review, the following questions have been formulated to assist building an understanding of AFL's governance responses to the changing global environment and the consequent impact on governance of AFL (and, for that matter, consequently, of TOKM).

Questions

Competitive strategy

Market positioning

43. In your opinion, what are the areas of high growth in the seafood industry? What are the areas of low growth?
44. As discussed above in the industry overview, two key trends are:
 - Wild catch globally becoming a declining resource
 - Aquaculture production increasing
 What have been and are AFL's strategic responses to these two trends?
45. Have you considered investing in Salmon, particularly in the NZ market where there is the high-value NZ King Salmon (with a ~40% premium)
46. Given that fish feed is a large component of the input cost for the aquaculture industry (which in turn is a growth area) have you looked to invest in the fish feed sector?
47. There is increasing demand, particularly from Europe, for seafood products that have been harvested in a sustainable manner. Do you have a plan for leveraging New Zealand's reputation to market your products as environmentally sustainable and, if so, how successful has AFL been in executing this plan?
48. To successfully develop a reputation for environmentally sustainable seafood requires collaboration from other industry participants. Have you been working with other market participants to develop a "NZ" brand (NZ so far has not managed to do this, particularly compared with countries such as Iceland) and if so, how (and how have you ensured no conflict or competition with other Maori commercial fishing entities doing the same (or much the same) thing)?

Business model

49. What business lines / areas does AFL consider to be of strategic importance and which does it consider non-strategic / non-core?
50. Can you briefly describe the way AFL perceives its value chain, identifying
 - The key value drivers
 - Constraints that have hindered performance
 - Areas of the value chain you would like to see changed
51. Across the industry, profitability margins are becoming tighter. What does AFL consider the main causes of this to be? How have AFL's margins performed relative to competitors/ external benchmarks? How is AFL responding to this?
52. Apart from government / regulatory impediments, what are the reasons for exiting from or investing in the NZ aquaculture industry?
53. Given the growth in the global market, some of the reforms in the NZ seafood sector and other initiatives that the government have been partnering with other industry participants (e.g. mussel hatcheries with Sanford and Sealord), is AFL considering pursuing further growth in the NZ aquaculture sector?
54. Are you concerned about the high input costs in Sealord's Tasmanian aquaculture operations? If so, what steps are you taking in that respect?
55. There is a current global focus on acquiring distribution companies to increase global footprint. Have you got plans to increase your distribution through acquisition?
56. There is a trend towards higher value "niche" products with higher margins (particularly in the wild capture market). What, if any, initiatives has AFL taken in this area?
57. Processing companies have been attractive acquisition targets for fish producers given that the by-products from fish processing plants can be used to prepare fish feed and thereby allowing producers to get better control over raw material costs. Have you managed to realise these synergies between processing and production? If so, to what extent?
58. Consolidation and cost base rationalisation has been among some of the key industry trends observed. Can you give examples of any consolidation or rationalisation activities that AFL has initiated recently?
59. Do you think that AFL needs to be involved in more consolidation and rationalisation to achieve scale benefits?
60. Is there further consolidation activity planned in the future strategy of AFL? If so, can you describe what, and how this fits into the overall strategy?

Capabilities

61. Historically, do you think that AFL or Sealord has been strategically disadvantaged due a lack of compatibility, across any of the following areas?
 - People
 - Industry knowledge
 - Global / local market knowledge
 - Operational capability

Organisational Strategy**Ownership and governance**

62. What are the main strategic challenges and opportunities facing AFL?
63. What do you see as the Board's priorities?

64. Do you think the Board's capabilities and composition are well matched to AFL's strategic challenges and opportunities?
65. Do you consider that the selection and evaluation process for board appointments has been/is well aligned with AFL's strategic challenges and opportunities?
66. Looking forward, is there any capability or composition you would like to see changed at the Board level?

Financial strategy

Industry participants have been investing in both wild capture and aquaculture to either take advantage of a growing industry (aquaculture) or expand their business model to take advantage of synergies (wild capture). They have also been restructuring and transitioning their businesses to changing global trends. Given this, a reasonable expectation is that entities would maintain relatively high levels of financial flexibility, low gearing and conservative dividend policies.

Capital structure

Sealord's capital structure has shown increased gearing over the past decade, towards the top end of the targeted gearing ratio range. Sanford, on the other hand has not altered its structure significantly, nor have international comparators which have remained consistently within the mid to high 30% range. In this context:

67. What does AFL understand to be the key drivers for Sealord's decision to increase its gearing over the past decade?
68. Is there a plan or policy in place (discussed and approved by AFL) to manage its own and Sealord's debt levels?
69. What framework is in place to guide and manage capital structure?
70. Given the strategic opportunities and industry transition, what does AFL consider to be the optimal target for Sealord's capital structure?
71. How much financial flexibility does AFL think Sealord requires to achieve its strategic objectives and to navigate a successful path through the industry transition?

Cash release and management

Sealord has appeared to continue declaring dividends despite a downward trending bottom line. Sanford on the other hand appears to have not declared any dividends in 2008 and 2011.

72. What does AFL know about, and monitor, Sealord's policy regarding dividends?
73. Do you think that retaining relatively high dividend payouts is consistent with acceptable levels of financial flexibility and an optimal capital structure?

Use of capital

74. Based on data available Sealord has achieved a lower ROA than both Sanford and international comparators over the past five years, and it appears to be trending downwards. What AFL policies are in place to monitor and assess capital allocation and investment decision making?
75. Clearly in this new environment some activities are becoming more attractive and some less attractive. Does AFL have a capital 'recycling' plan (divestments, acquisitions, organic growth) that addresses this?

76. In relation to the question above, can you provide some examples of significant investment decisions and how they relate to the strategic direction of AFL?

In relation to Yuken, the Argentinean joint venture which Sealord exited in 2013

77. What is AFL's understanding of the rationale for the initial strategic decision?
78. What were the key factors that resulted in the erosion of value?
79. How was the exit strategy managed and executed?
80. Does the Yuken experience impact on how future strategic decisions are made / viewed / executed?
81. Sanford appeared to respond quickly to changes in the industry (e.g. their exit from their Argentinean operations in 2007) in comparison to Sealord. What were the reasons for this? What is AFL's understanding of what Sealord is doing to manage timely strategic decisions? What are considered to be the obstacles or challenges (if any)?
82. Sanfords investment amount (around \$6m) appears to be lower than the amount invested by Sealord. What process was in place to determine the optimum amount to invest in Argentina?

Final contextual questions

83. What is the board and management's vision for AFL in five years time?
84. What are the key differences between AFL and Sanford:
- e) Competitive (including market positioning, business model, capabilities)
 - f) Organisational (including organisation architecture, ownership and governance)
 - g) Financial (including capital structure, cash release and management, use of capital)
 - h) Any other, e.g. operational differences