

BOLDLY MOVING FORWARD

Annual Review 2017/18



For a small fruit

WE'VE GOT SOME **AMBITIOUS** PLANS

Grow global sales kiwifruit revenue to
\$4.5 billion by 2025



Our industry has
what it takes to
compete on the

WORLD STAGE

Backed by strong partnerships.
Supported by dedicated growers



We are transforming
to bring our growers
and consumers...

...CLOSER TOGETHER

To drive growth and value,
for a united industry, through
the goodness of kiwifruit



We are
**BOLDLY
MOVING
FORWARD**
**MAKING LIFE
DELICIOUS**

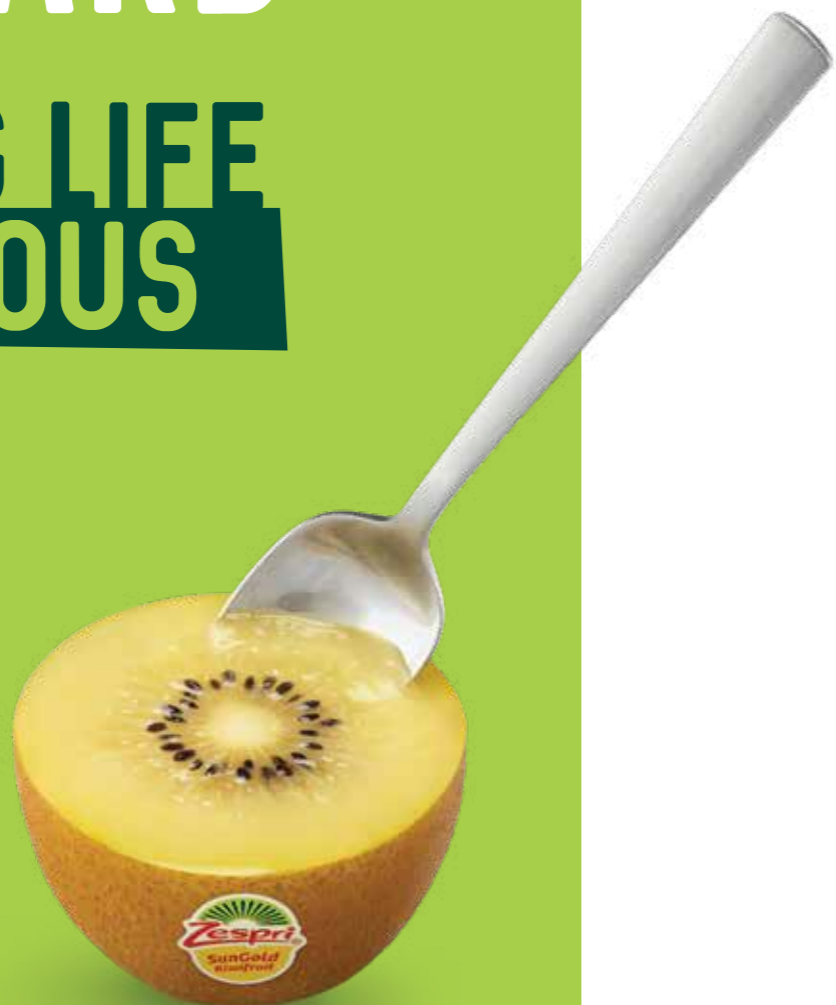


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SEASON OVERVIEW

A YEAR OF LOWER VOLUME BUT HIGHER VALUE AS STRONG CONSUMER DEMAND AND EXCELLENT MARKET PERFORMANCE SUPPORT RETURNS

In a season in which sales of New Zealand kiwifruit reduced by 11 percent, Zespri was able to deliver an increase in value to growers, with fruit and service payments (including loyalty premium) rising by 6 percent to \$1.47 billion.

The reduction in volume was driven by a sharp fall in Green supply from the exceptionally high yields of 2016/17. Despite a 27 percent decline in average yields for Green to 8,937 trays per-hectare, Zespri delivered an excellent sales result supported by good quality and low rates of onshore fruit loss. The average per hectare return for Green across the industry was \$59,981, a new record for the category.

The result for SunGold gives us further confidence in our long-term outlook, with Zespri achieving a strong increase in returns at the same time as continued growth in volumes. Sales volume for the total Gold category rose by 9 percent to 52.1 million trays and the average return per hectare across the industry was up 16 percent at \$114,345.

Sales volumes through Zespri Global Supply (ZGS), critical in enabling Zespri to serve consumers with premium kiwifruit 12 months of the year, fell by 7 percent. Supply of Green was reduced because of a very damaging frost in Italy. However, SunGold sales increased to more than offset the fall in volume, with ZGS recording total sales revenue of \$264 million, up from \$217 million in 2016/17.

Zespri's net profit after tax in 2017/18 increased by 38 percent to \$101.8 million. Zespri intends to return a total dividend to shareholders of 76 cents per share, versus 25 cents per share for the previous season. This result was primarily driven by revenues received from the release of 400 hectares of SunGold licence in 2017.

The 2017/18 season also represents a period of progress in strengthening the foundations of our industry. The industry agreed on an enduring funding mechanism that ensures Zespri is funded appropriately, balanced against the need for cost control so that the benefits of economies of scale are shared between growers and shareholders. In March, Zespri shareholders backed changes to Zespri's Constitution to strengthen grower ownership and control of the Company – critical for the stability of the industry structure. This support for change reflects the cohesiveness of our industry and a common interest among growers and former growers in seeing it prosper.

In summary, the 2017/18 season represents strong progress and performance, as we look forward to growth in volume and value in 2018/19 and beyond.

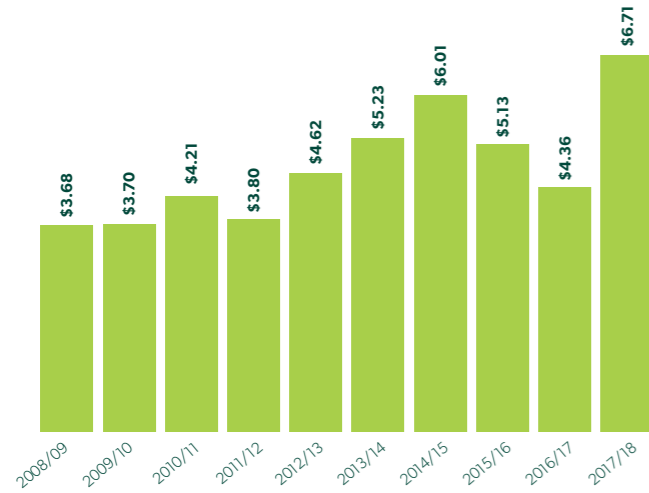
FINANCIAL HIGHLIGHTS

	2017/18	2016/17	Variance
New Zealand-grown fruit and service payments (including loyalty premium)	1,468.1 million	1,380.0 million	6%
– Per tray supplied	\$11.80	\$9.46	25%
Net profit after tax	\$101.8 million	\$73.7 million	38%
Normalised profit after tax	\$104.5 million	\$78.8 million	33%
New Zealand-grown Orchard Gate Return (OGR) per hectare	\$79,361 (average)	\$68,868 (average)	15%
– Green	\$59,981	\$53,555	12%
– Organic Green	\$52,375	\$54,427	–4%
– Gold	\$114,345	\$98,838	16%
– Green14	\$38,937	\$45,853	–15%
Equity	\$168.3 million	\$172.0 million	–2%
Dividend per share (cents)			
– Interim	58.0	8.0	
– Final	18.0	17.0	
– Total	76.0	25.0	
Percentage of available profit	88%	87%	
Zespri global kiwifruit sales	\$2.391 billion	\$2.262 billion	6%
Export earnings (New Zealand-grown)	\$1.708 billion	\$1.603 billion	7%
Zespri global volume (trays sold)	138.6 million	154.3 million	–10%
New Zealand-grown	123.2 million	137.7 million	–11%
– Green	64.4 million	83.3 million	–23%
– Organic Green	2.7 million	3.9 million	–29%
– Gold	52.1 million	47.9 million	9%
– Green14	1.2 million	1.5 million	–21%
– Other	2.8 million	1.1 million	155%
Non-New Zealand-grown	15.4 million	16.6 million	–7%
– Green	9.1 million	11.3 million	–20%
– Gold	6.3 million	5.3 million	19%

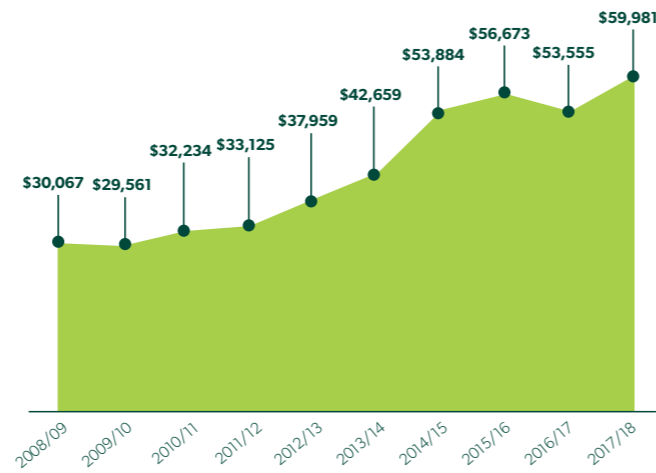
ORCHARD GATE RETURN

Zespri Green Kiwifruit New Zealand-grown kiwifruit

\$6.71 AVERAGE ORCHARD GATE RETURN PER TRAY

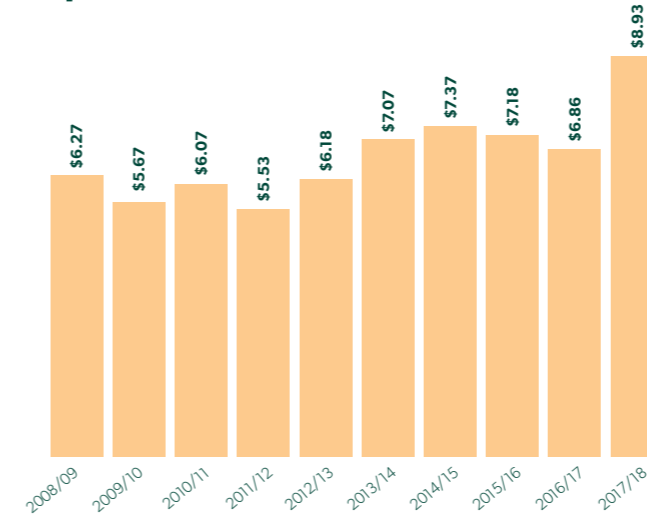


\$59,981 AVERAGE ORCHARD GATE RETURN PER HECTARE

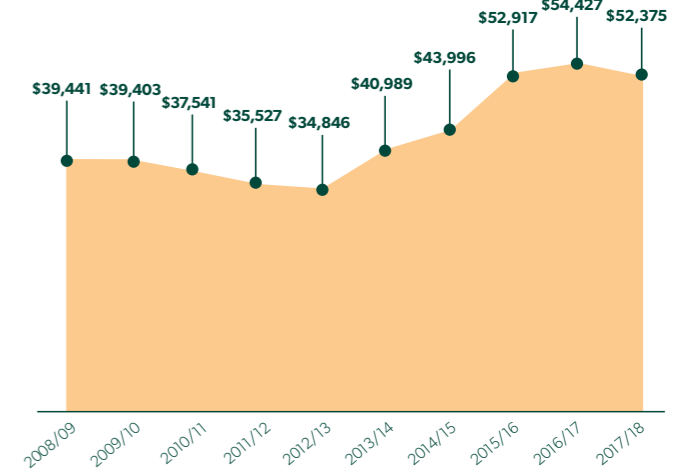


Zespri Organic Green Kiwifruit New Zealand-grown kiwifruit

\$8.93 AVERAGE ORCHARD GATE RETURN PER TRAY

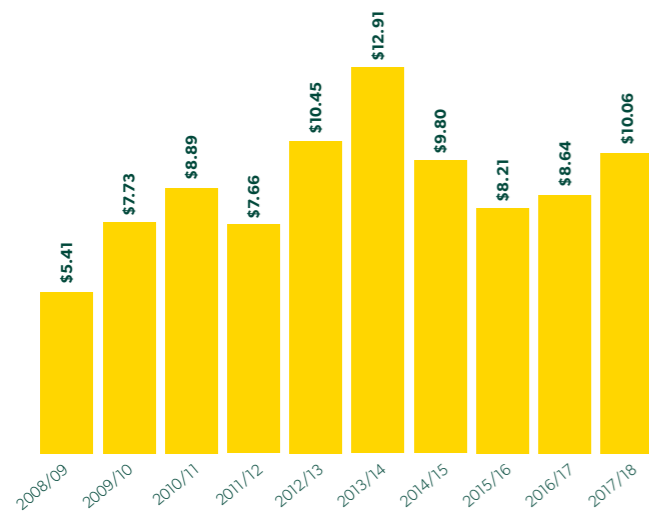


\$52,375 AVERAGE ORCHARD GATE RETURN PER HECTARE

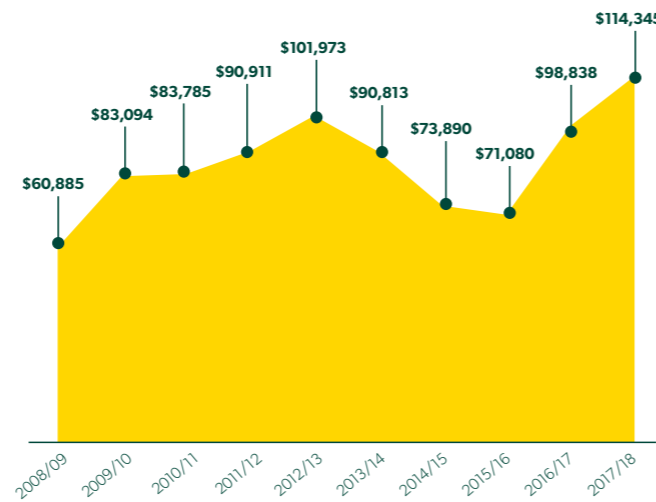


Zespri Gold Kiwifruit New Zealand-grown kiwifruit

\$10.06 AVERAGE ORCHARD GATE RETURN PER TRAY

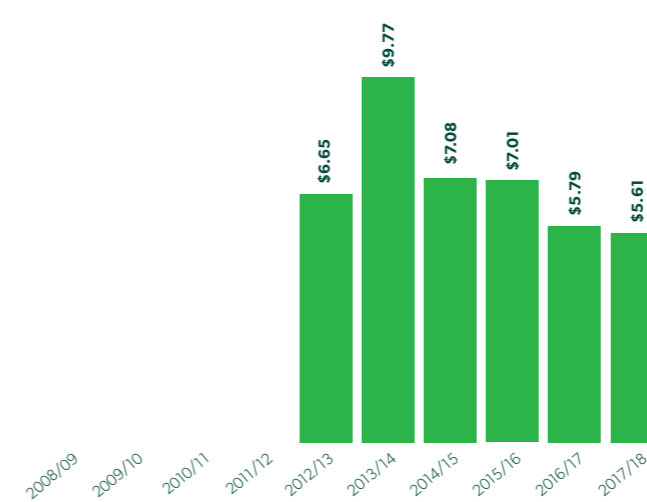


\$114,345 AVERAGE ORCHARD GATE RETURN PER HECTARE

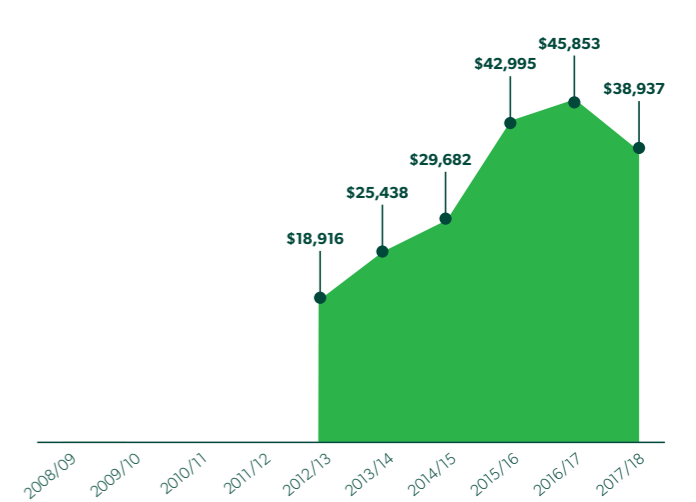


Zespri Sweet Green Kiwifruit New Zealand-grown kiwifruit

\$5.61 AVERAGE ORCHARD GATE RETURN PER TRAY



\$38,937 AVERAGE ORCHARD GATE RETURN PER HECTARE



LOOKING BACK

CHAIRMAN AND CEO'S REPORT

The 2017/18 season was, in several respects, a year of change and progress. Change in the executive leadership of Zespri and further development of our disciplined approach to strategy implementation. Change in the Kiwifruit Export Regulations and the Zespri Constitution, enabling measures to improve alignment between production and shareholding. Change through the acceleration of SunGold supply to fill the gap between strong demand and our current growth trajectory.

Zespri's fundamental purpose is unchanged, however. We exist to deliver long-term value to growers and shareholders by helping more consumers lead healthy and delicious lives. We aim to achieve this through supplying the highest-quality kiwifruit to consumers all year round.

Underpinning this purpose are three strategic drivers:

- **increasing demand** by understanding consumer needs, leveraging the Zespri brand, building in-market distribution and enhancing customer relationships
- **fulfilling demand** in collaboration with an interconnected industry both in New Zealand and in our offshore locations, to deliver the highest-quality kiwifruit in the world, 12 months of the year
- **innovating** to develop better ways of delivering value.

Performance during the last season reinforces our confidence in our strategy and potential for strong and sustainable growth. We sold a record volume of SunGold while growing returns at both per-tray and per-hectare levels. Supply of Green and Organic Green reduced considerably from the exceptionally high volume of the previous year, but pricing improvements more than offset the impact on per-hectare returns for Green and mitigated the impact on Organic Green per-hectare returns. The per tray result for Sweet Green was impacted by a smaller crop profile. We believe we can steadily grow demand for Green at about two million trays per year, while providing good value to both growers and consumers.

RESULTS

Corporate results

Despite lower sales volume than in 2016/17, Zespri was able to deliver an increase in value to growers and shareholders. The total volume of trays sold, including New Zealand and non-New Zealand supply, decreased by 10 percent to 138.6 million trays (2016/17: 154.3 million trays), but global revenue increased by 6 percent to \$2.39 billion. The total fruit and service payment to New Zealand growers, including the loyalty premium, was \$1.47 billion, up from \$1.38 billion in 2016/17.

Net profit after tax increased from \$73.7 million to \$101.8 million, which includes revenue from the release of 400 hectares of SunGold licence in April 2017. Net profit after tax, excluding licence revenue, is \$28.6 million, compared with \$25.3 million in 2016/17.

In August 2017, Zespri paid an additional interim dividend of 50 cents per share to distribute the majority of funds generated through the 2017 SunGold licence round. The total dividend per share is expected to be 76 cents, versus 25 cents in 2016/17.



Peter McBride, Chairman (left), and Dan Mathieson, CEO

Business performance

In the 12 months to 31 March 2018, Zespri's share price increased from \$4.00 a share to \$7.55 a share. Zespri's market capitalisation increased from \$483 million to \$911 million.

As one measure of value to the industry and the return from overhead investment, Zespri reports the ratio of the number of full-time employees to both revenue and sales volume. During 2017/18, revenue per full-time employee equivalent was \$5.2 million, versus \$5.4 million in 2016/17, and trays sold per full-time employee equivalent was 290,000 trays, versus 354,000 in 2016/17.

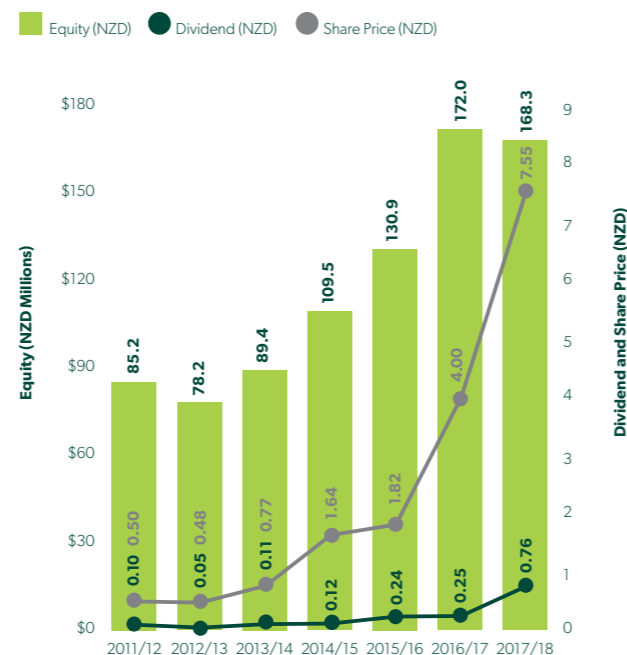
One factor underlying the 2017/18 ratios was the significant reduction in sales volume. Secondly, a portion of our spend during the 2017/18 season aims to create value beyond this year as we have done in previous seasons to move demand ahead of supply. We need to configure the business for future growth through disciplined investment in capability and leadership in priority areas, such as sales and marketing, digital, supply chain and our global supply business, at the same time as ensuring strong overhead controls. Zespri's enduring funding mechanism, agreed in 2017, helps to reinforce the critical focus Zespri has on overhead cost while funding the business appropriately (see page 20 for further detail on the enduring funding mechanism).

Zespri continues to report business performance against four key operating segments: New Zealand kiwifruit; non-New Zealand supply; new cultivars; and other. In 2016/17 Zespri also changed the way it allocated costs to the various segments to more accurately reflect costs incurred among different business activities.

The New Zealand kiwifruit segment generated revenue of \$2.129 billion in 2017/18, up from \$2.048 billion in 2016/17. It accounted for 89 percent of total global sales volumes and generated \$25 million of segment profit before tax.

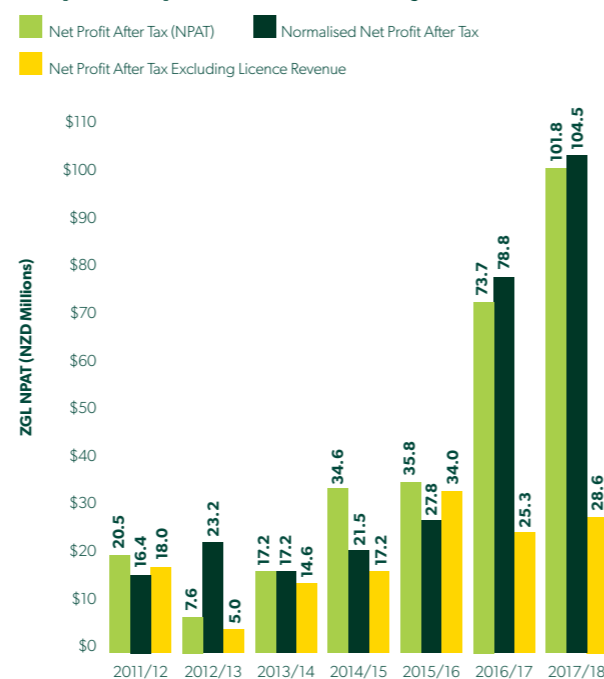
The non-New Zealand supply segment generated core sales revenue of \$264 million, versus \$217 million in 2016/17. The increase was achieved despite a reduction in total sales volume attributable largely to a very short supply of Green in Italy due to frost damage. Procurement costs increased because of the higher purchase prices needed to secure supply in the short volume year. This had an impact on profit before tax, which was \$9.2 million (2016/17: \$11.9 million).

Zespri Group Limited Equity, Dividend Returned and Share Price – 7 Years



Over a five-year period from 1 April 2013 to 31 March 2018 Zespri has achieved a compound annual total shareholder return of more than 80 percent. This measure reflects a combination of the increase in share price and gross dividend over the period.

Zespri Group Limited Profitability – 7 Years



The new cultivar segment comprises revenue through licensing, royalty streams and co-funded new cultivar research. Zespri charges a royalty of 3 percent for SunGold, with 1.35 percent paid to Plant & Food Research and 1.65 percent being an income stream for Zespri. The segment generated revenue of \$125 million in 2017/18 and segment profit before tax of \$108 million.

We had two licence tender rounds in 2016 and 2017, with SunGold gross licence revenues (excluding GST) being around \$70 million in 2016 and \$98 million in 2017. It is important to note that most growers opted for the deferred payment mechanism in 2016; this means these revenues will be collected between 2018 and 2020. The 2017 licence sale did not offer deferred terms and attracted 235 successful bids at a median price (excluding GST) of \$235,000 per hectare. Revenues for future licence rounds will depend on the performance of SunGold in each successive season, the number of hectares actually licensed, and the value bid for the licence by growers.

The 'other' segment includes activities related to land and buildings, and revenue that does not belong to the other three segments, such as interest revenue. Other segment revenue was \$4.3 million and profit before tax was \$3.1 million. During 2017/18, Zespri started its new head office project in Mount Maunganui, New Zealand.

Foreign exchange and oil hedging

In 2017/18, Zespri's foreign exchange and oil hedging policy, which is designed to reduce volatility season on season, added \$49.2 million to grower pools compared to spot rates.

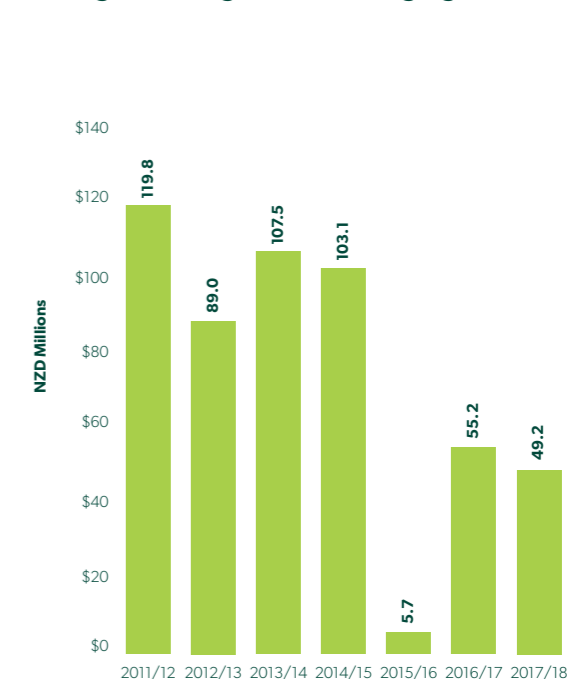
Zespri Group Normalised Profit After Tax

Zespri provides a normalised profit view to reflect normal operating profit. Normalised profit is derived by adjusting net profit after tax for significant extraordinary items. Extraordinary items adjusted below are historical and relate to: a historical China provision; pre-2013 Psa funding; and specific pre-2016 licence revenue.

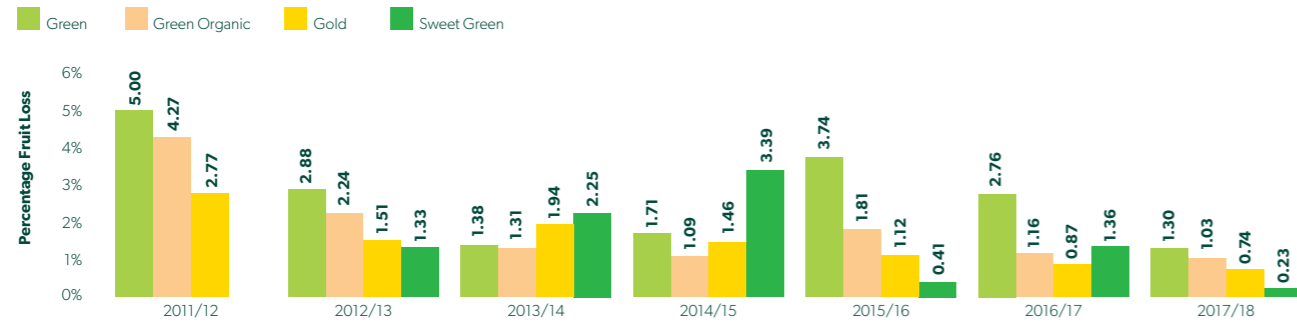
	2018 \$m	2017 \$m	2016 \$m	2015 \$m	2014 \$m	2013 \$m	2012 \$m
Net profit after taxation	101.8	73.7	35.8	34.6	17.2	7.6	20.5
China provision	-	-	(13.0)	-	-	12.5	-
Psa funding	-	-	-	-	-	3.1	(4.1)
Licence revenue*	2.7	5.1	5.0	(13.1)	-	-	-
Normalised profit after taxation	104.5	78.8	27.8	21.5	17.2	23.2	16.4

* The licence revenue adjustment relates to a change in revenue recognition for licences, subject to a specific Psa clause. The reduction from profit in 2015 is brought back over time as the revenue is received. The final adjustment will be made in 2019. Licence revenue releases from 2016 do not have these clauses and are not adjusted in normalised profit.

Foreign Exchange and Oil Hedging Gain/Loss

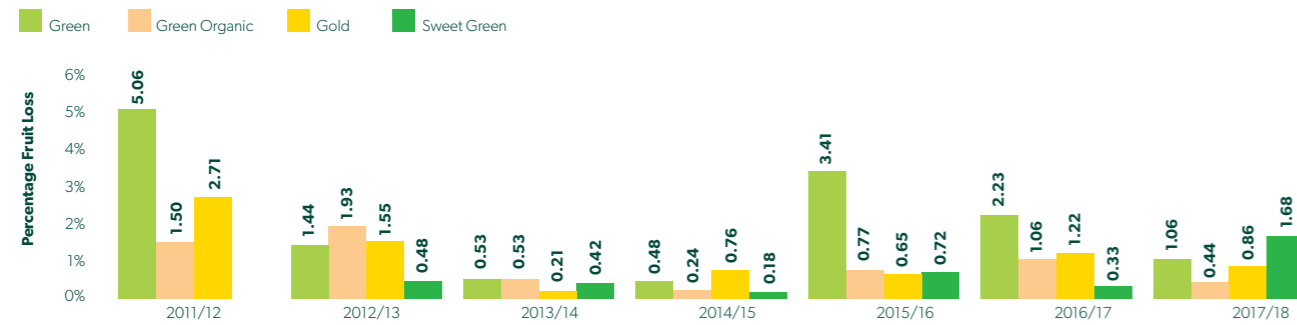


Onshore Fruit Loss – 7 Years



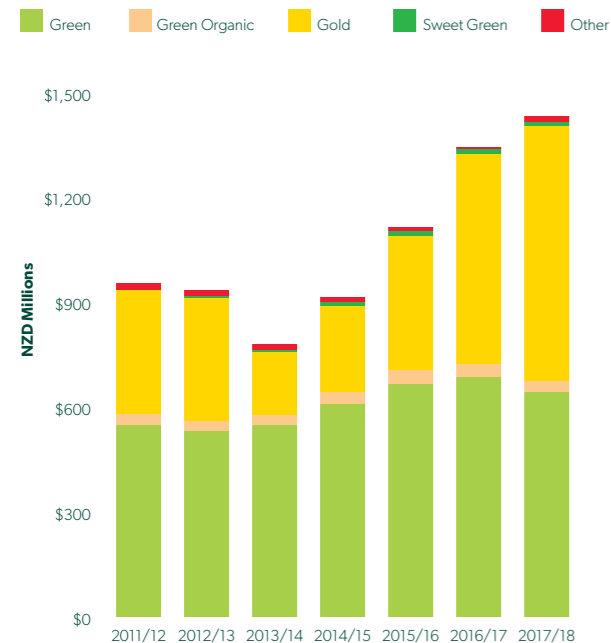
These fruit loss percentages do not include crop-management trays.

Offshore Fruit Loss – 7 Years



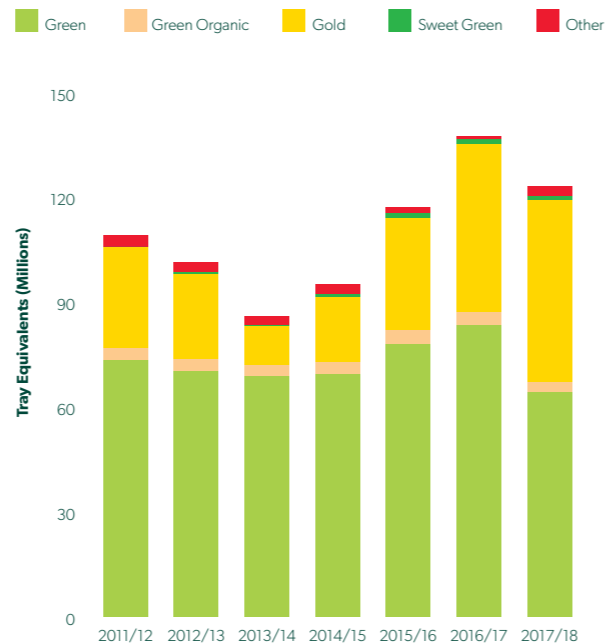
Total Fruit and Service Payments

New Zealand-grown kiwifruit (excluding loyalty premium)



Total Volume Sold – 7 Years

New Zealand-grown kiwifruit



Category performance

The 2017/18 season began relatively late. High autumn rainfall, warm temperatures and low sunshine hours impacted both Green and SunGold dry matter accumulation, slowing down clearances and harvest, and contributing to a significantly larger size profile.

The Green crop was characterised by greater-than-expected yield volatility. The 2017/18 crop volume fell by almost 30 percent to 65 million trays, from the record crop of 91 million trays in the 2016/17 season. The reduction in supply impacted our ability to meet customer expectations on sales programmes, but we were able to work with our customers to create good value from a lower volume supported by strong consumer demand. The industry also achieved a good result on quality with onshore fruit loss at 1.30 percent, versus 2.76 percent (excluding crop-managed fruit) in 2016/17.

The average per-tray return for Green was considerably stronger at \$6.71 (2016/17: \$4.36), supported by strong performance in all our markets, particularly Europe. Despite average yields dropping 27 percent to 8,937 trays per hectare from 12,281 trays per hectare in 2016/17, average per-hectare returns were 12 percent up at \$59,981 (2016/17: \$53,555) – the highest-ever return for the industry.

The Organic Green return per tray was \$8.93 (2016/17: \$6.86), reflecting pricing improvements in Europe and our major markets and an improved market mix. The return per hectare fell 4 percent to \$52,375 (2016/17: \$54,427), impacted by a 26 percent decrease in average yields across Organic Green orchards – 5,862 trays per hectare, versus 7,933 trays per hectare in 2016/17. The total volume supplied reduced to 2.8 million trays, versus 3.9 million trays in the previous year.

The SunGold result gives us further confidence in our long-term outlook, with Zespri achieving an increase in average returns at the same time as continued growth in volumes. The average return per tray was \$10.06 (2016/17: \$8.64) and the average return per hectare was \$114,345 (2016/17: \$98,838).

SunGold’s consistently strong performance in the markets over successive seasons, along with our assessment of future demand, underlies our decision to accelerate supply growth.

Zespri has allocated 700 hectares of SunGold licence in 2018 via a closed tender bid and plans to extend the release to 2022; this means a total of 3,500 hectares of additional licence over a five year period. This is subject to an annual review that will consider any potential new risks to our current demand outlook.

The Zespri Board also approved the additional release of 50 hectares a year of licence for Organic SunGold, specifically for greenfield plantings in 2018 and a further 50 hectares each year to 2022, subject to annual review.

Zespri is closely reviewing the performance of Sweet Green and continuing discussions with growers about how to maximise value from the variety. Sweet Green has been challenged with quality issues and a small profile, but we believe its sweet and early proposition has a place in the Zespri portfolio for the foreseeable future.

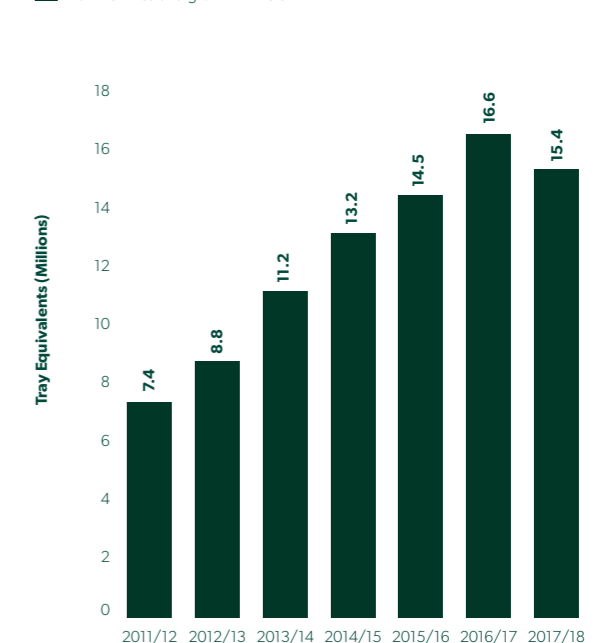
Global Kiwifruit Sales – 7 Years

New Zealand-grown kiwifruit / Non-New Zealand-grown kiwifruit



Total Volume Sold – 7 Years

Non-New Zealand-grown kiwifruit



During the 2017/18 season, Zespri sold just over 1.2 million trays of Sweet Green, almost exclusively into Japan and Europe. The average per-tray return was \$5.61 (2016/17: \$5.79) and the average per-hectare return was \$38,937 (2016/17: \$45,853). Sweet Green was line priced with Green, but the per-tray result was impacted by a smaller crop profile. The focus ahead remains on supplying a high taste offering, as early as possible, to complement the Green sales programme by getting the season off to a great-tasting start.

Zespri Global Supply (ZGS)

Zespri sources kiwifruit from Italy, France, Japan and South Korea to provide customers and consumers with premium Zespri Kiwifruit 12 months of the year. During the 2017/18 season ZGS recorded sales of 15.4 million trays, down from 16.6 million trays in 2016/17. Partly offsetting this impact was an increase in supply of Gold from 5.4 million trays in 2016/17 to over 6 million trays.

To meet supply growth targets, Zespri is continuing with the release of 1,800 hectares of SunGold licence in Europe, bringing the total area of SunGold licensed offshore to 3,900 hectares. We aim to quadruple European volumes of SunGold over the next five years.

As demand for 12-month supply of premium kiwifruit increases and, with it, increased competition, we are also looking at options to increase the number of growing locations, such as potentially in China and North America, and to expand production in existing locations, such as Japan and South Korea. In Japan, total productive hectares have decreased as Hort16a growers have left the business, but this shortfall is expected to be filled as SunGold volumes increase from 2018.

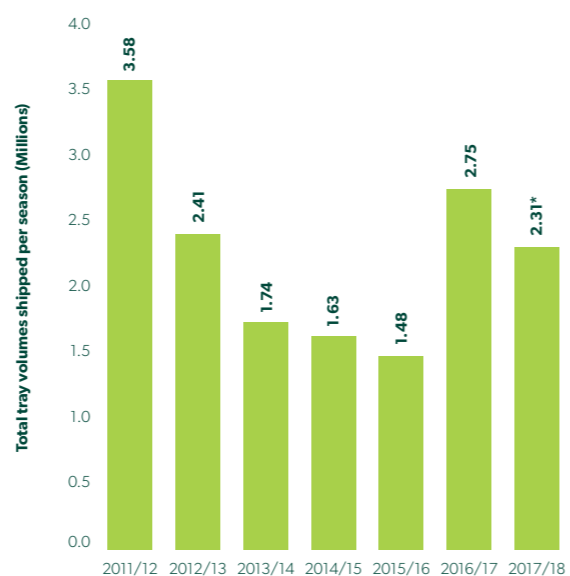
Collaborative marketing

In 2017/18, 15 companies operated 25 collaborative marketing sales programmes, selling 2.3 million trays of New Zealand kiwifruit. The reduction in the Green crop had a negative impact on the overall volume.

Zespri supports collaborative marketing. It offers an alternative channel for those individuals or companies that believe they can create wealth for New Zealand kiwifruit producers from sales programmes through collaboration with Zespri.

Kiwifruit New Zealand Industry Collaborative Marketing Growth

Volumes shown include both proactive and regular collaborative marketing programmes.



*Final tray volumes to be confirmed by partners in June/July 2018.

It is our experience that well-considered programmes with high-quality collaboration with Zespri are more likely to be supported by the regulator, Kiwifruit New Zealand (KNZ). In recent years we initiated a programme of partnering with other fruit export companies to develop selected markets, using Zespri-branded Hayward and SunGold. This proactive approach was one of the developments growers supported through the Kiwifruit Industry Strategy Project. In 2017/18 this proactive collaborative marketing approach involved Zespri partnering with four New Zealand export companies with programmes in Thailand, Cambodia, Myanmar, the Philippines, Russian Far East and Indonesia. The four programmes represented 1.20 million trays in emerging markets that will see volume and value growth in the longer term.

Marketing and market development

The past few years have seen the sales and marketing team focus on creating demand ahead of supply to support continued strong returns.

Consumer and trade marketing has driven further category and brand development, and, combined with the popularity of SunGold with consumers, created a level of demand well in excess of supply. We need to capture that demand before our competition does.

With respect to sales promotion in 2017/18, Zespri was able to drive greater efficiency in marketing spend through a strong focus on using the right mix of activities to influence sales and brand building. Zespri globally invested a total of \$140.4 million in 2017/18, which compares with almost \$155.3 million the previous season. Promotion investment as a percentage of total sales revenue decreased to 5.9 percent, versus 6.9 percent in 2016/17.

While lower volumes of New Zealand-grown Green and Organic Green and lower-than-expected volume growth of SunGold resulted in stronger returns to New Zealand growers in 2017/18, market managers had a tough year managing customer expectations. Despite the challenging conversations, Zespri continues to build relationships with customers (directly or in partnership with distributors). This is helping us develop more integrated planning for key account management and better understand and work for our customers' longer-term requirements.

This deeper customer understanding, together with continued consumer insight research, enabled market managers to validate their longer-term demand position, resulting in a 10-year demand outlook being provided to the industry in 2017/18.

With such forecast demand opportunities, Zespri reviewed its market development strategy during 2017/18. The development framework focuses investment in some markets to build greater depth and efficiency, while slowing previously planned growth in other markets. We define every market by its stage of growth and tailor the level of investment and marketing to its needs. For example, our strategy in a 'launch' market that has the potential for rapid volume growth will involve relatively large investment in marketing and capability. This will change over time as the market becomes more established. Overall, Zespri will maintain a broad market base to mitigate risk and sustain the value of investment already made.



Continued SunGold popularity in the US has resulted in a change of business model so that Zespri becomes the importer of record into the US for the 2018 season, as it did in China in 2016. The China business model is progressing to implement Zespri's capability to hold inventory and make movement more visible in China and transact sales directly to some key account retail customers as well as supplying our distributor partners.

Innovation

Innovation is fundamental to creating value and delivering Zespri's strategy. During 2017/18, Zespri's investment in innovation is supported by further contribution from partners including Callaghan Innovation, Plant & Food Research and the New Zealand Government. More than half our investment is into our joint programme for breeding new varieties.

There is strong market demand for a red variety in our portfolio, so in the coming year, Zespri is focusing research and development on fast-tracking our learnings on reds, with a commercialisation decision in 2019/20 if possible. We are also continuing work towards a potential commercialisation of a new proprietary green variety.

Zespri also invests in innovation to protect fruit from pests and diseases, improve sustainable orchard productivity, optimise how we deliver high-quality fruit through the supply chain, and create knowledge for health communications.

Partnership and collaboration are an important aspect of our innovation investment. In November 2017 the Ministry of Business, Innovation and Employment (MBIE) confirmed support for a renewed partnership to develop new kiwifruit products and breeding technologies. MBIE will invest \$6.7 million over the next seven years, adding to Zespri's contribution of \$15.7 million during the same period. The partnership aims to develop at least one novel fresh fruit product type by 2030.

In February 2018 Zespri secured an extension to the Callaghan Innovation Growth Grant for a further two years, up to \$5 million per year.

Also in 2017/18, Zespri joined a partnership of 10 local companies to establish a Regional Research Institute in Tauranga, called PlantTech. The institute will carry out research and development that supports the application of advanced technologies to the horticultural sector and supply chains. PlantTech seeks to grow regional and national innovation capability, leveraging the Western Bay of Plenty's regional strengths in horticultural industries.

INDUSTRY FOUNDATIONS

Zespri's enduring funding mechanism

During 2017/18, Zespri and the industry agreed an enduring funding mechanism for the New Zealand supply of kiwifruit.

The mechanism ensures Zespri is funded appropriately, balanced against the need for cost control so that the benefits of economies of scale are shared between growers and shareholders.

It replaces the former industry convention of renegotiating funding and margin arrangements every three years.

The agreement is a key outcome of the Kiwifruit Industry Strategy Project, in which growers called for an evergreen funding model that provides a fair balance of returns for New Zealand-grown fruit between New Zealand growers and Zespri shareholders.

Implementation will mean that Zespri's New Zealand supply margin in 2018/19 will be about \$3.5 million to \$4.0 million lower compared with the current calculation – equivalent to around 2.5 cents per tray on average. The mechanism also includes a further reduction in Zespri's gross margin on New Zealand kiwifruit sales in 2019/20. From 2020/21 an automatic margin resetting mechanism has been agreed that targets a New Zealand supply earnings before interest and tax (EBIT) of approximately one percent. In addition to the above mechanism, a further measure is in place, effective for the 2017/18 season, whereby if New Zealand supply EBIT exceeds one percent after the 25 cents loyalty payment is applied, then the excess above one percent is shared evenly between Zespri and growers, through an uplift to the 25 cents loyalty payment.

For 2017/18, the change in margin structure has given an additional 3 cents per Class 1 tray, or an extra \$3.7 million, back to New Zealand growers via the loyalty payment.



Changes to the Zespri Constitution

A milestone during 2017/18 was the amendment of the Kiwifruit Export Regulations, enabling Zespri to propose changes to its Constitution to align shareholding of the Company more closely with production.

The need is significant. A growing number of New Zealand orchard owners do not own Zespri shares, and over 18 million of the 120.7 million shares on issue are held by people who have left the kiwifruit industry.

Left unaddressed, the issue could destabilise the industry structure that underpins our ability to deliver sustainable value to growers. Consequently, some 92 percent of the growers who voted in the Kiwifruit Industry Strategy Project referendum in 2015 backed proposals to improve alignment.

Zespri held a Special Meeting of Shareholders in March 2018 to present a number of recommendations. The key aspects were: a share cap to improve alignment between production and shareholder, with a maximum shareholding of four shares for each tray of production; and dividend restrictions on those shareholders who are no longer producing.

Throughout the process, it was important to recognise the significant diversity of shareholder positions. The changes proposed would come into effect over a number of years, with a substantial transition period.

Shareholders responded positively to this uniquely important moment for our industry. On 14 March the changes to Zespri's Constitution were backed by more than 75 percent of shareholders who voted.

Following the Special Meeting, a small number of shareholders exercised their minority buy-out rights under the Companies Act 1993 to require Zespri to repurchase all their shares. Zespri subsequently purchased approximately 1.8 million shares for a total consideration of \$14.7 million. These shares are currently being held by Zespri as Treasury Stock.

This support for change, strengthening grower ownership and control of Zespri, reflects the cohesiveness of our industry and a common interest among growers and former growers in seeing it prosper for generations to come.

Targeted share issue and buy-back

Another step which can improve alignment is a targeted share issue and buy-back programme. Under the Companies Act 1993, transactions that exceed a certain financial size require the approval of shareholders by way of a special resolution for a 'major transaction'. This special resolution approval, which also covered the possible return of excess capital if proposed by the Board, was obtained in March 2018.

Proceeding with the targeted share issue, buy-back and return of capital as proposed is still subject to finalisation of a number of factors, including tax considerations, compliance with financial markets legislation, and Board approval of the final structure.

It is intended that a targeted share issue and buy-back would occur in the second half of 2018. The proposed share issue would target unshared and under-shared growers, and the buy-back programme would target shares held by dry or overshared growers. Any participation in the share issue or buy-back would be entirely voluntary, and the proposed transaction price will be set by the Board, guided by an independent valuation.

CAPABILITY

People and systems

At the beginning of 2018, we made changes to Zespri's Executive Team structure, with the direct inclusion of all main functional areas of responsibility, reporting to the Chief Executive Officer. The structure enables greater agility, more informed decision-making and insight into all areas of our business.

Among the changes, we have created a Chief Marketing Officer role, which will help ensure we have the voice of the consumer at the heart of our decisions. We have included the portfolios of Supply Chain, Grower and Alliances, and International Production. The team includes a Chief Digital Officer position, reflecting technology's central role in improving performance across a global organisation. It also includes an executive portfolio for innovation and sustainability; putting social and environmental sustainability at the core of our business is important for creating long-term commercial health and will become a competitive advantage.

The changes to our Executive Team aim to improve the execution of our strategy and better position Zespri to deliver on our potential for exceptional growth over the next decade.

Zespri employed 478 full-time equivalent (FTE) people during 2017/18, with 239 FTEs in the markets and 239 FTEs in New Zealand (including seasonal employees). This compares with 436 FTEs during 2016/17. As Zespri grows, an important focus is to build a highly engaged, connected global organisation, supported by investment in learning and development, tools to support collaboration, and the development of our performance culture.

Information systems are a foundation for business performance. A key project is to improve integrated global supply chain systems, involving how we collaborate with industry partners and customers, manage grower payments, and view and trace inventory. This project is known as the Industry Collaboration Platform. The system design will deliver a stable platform that supports our ability to make decisions with speed and precision.

Another area of progress has been developing a planning and decision-making framework to link strategy to performance, which we call our Business Alignment Framework. We need lean, compliant global business processes and accurate data. The framework now in place helps to align our processes, projects and performance to achieving our strategic objectives.

Governance

It is important we continually review succession planning at both an executive level and a Board level. We take this opportunity to note that Tony de Farias is stepping down as a Director at the Annual Meeting held on Thursday 26 July 2018. Tony has been a Board member since 2007 and has made a significant contribution to Zespri and the industry, including through his role on the Industry Advisory Council. We sincerely thank Tony for his commitment and service.

Compliance and ethics

Our focus on compliance is of fundamental importance, with work on training and awareness and on developing and enforcing robust standards and systems. During 2017/18, staff completed mandatory courses on ethical leadership, financial fraud prevention and data privacy, and we have developed a mandatory, comprehensive induction for new employees.

During 2017/18, after receiving information through our 'Speak-Up line', Zespri terminated the employment of two China-based employees and two India-based employees. The two separate cases involved detailed internal reviews, which showed multiple breaches of company policy. While these breaches are disappointing, their detection showed our global compliance system and processes doing their job and underscoring our commitment to acting ethically and lawfully in all our markets.

Health and safety is a critically-important issue for Zespri and the entire kiwifruit industry. Our industry experienced a tragic and deeply regrettable accident in May 2016, with a fatal quad bike incident on an orchard near Katikati.

Subsequent to an investigation by WorkSafe New Zealand in 2017, the health and safety regulator accepted an enforceable undertaking from Zespri relating to the above incident. An enforceable undertaking is a voluntary agreement that WorkSafe may consider following an alleged breach of the Health and Safety at Work Act 2015. In this case, WorkSafe acknowledged that Zespri's alleged failures did not directly cause the worker's death. WorkSafe noted that our undertaking aims to provide long-term health and safety improvements in the workplace and industry.

Since the agreement of the Enforceable Undertaking, Zespri has supported a number of initiatives to promote health and safety. This includes providing guidance to growers, together with New Zealand Kiwifruit Growers Incorporated (NZKGI), on their duty of care if designated as a person conducting a business or an undertaking. Zespri has also commenced research into light vehicles on orchards and is sponsoring Blue Light Ventures to raise health and safety awareness in local schools.



The interdependent nature of our industry means there are overlapping duties between orchard owners, contractors, post-harvest and Zespri for health and safety. As an industry, we need to work collaboratively to improve safety, and Zespri recognises its position in being able to promote greater awareness and higher standards.

The Enforceable Undertaking aims to deliver benefit for workers in the kiwifruit industry and the communities in which we operate, by promoting education and awareness.

Similarly, our industry has a common responsibility in ensuring that all contractors in the kiwifruit industry comply with employment laws. NZKGI and Zespri have a work programme with the New Zealand Government to ensure industry compliance with labour standards. During the 2017/18 season, we rolled out industry-wide auditing of growers and contractors for compliance with labour law and worker welfare, as part of our GlobalGAP industry programme. This is under an additional module called GRASP, supporting how social risks are managed in primary production.

CONCLUSION

Zespri's performance in 2017/18 delivered an uplift in value, helped by strong consumer demand and excellent market performance. The 2017/18 season represents positive progress.

We are now looking forward to growth in volume and are anticipating record production of New Zealand and non-New Zealand kiwifruit in 2018/19 driven by increasing supply of SunGold and a recovery in supply of Green.

In this context our challenge is to continue to lift our performance. Our ability to succeed rests as always on strong connected partnerships and co-operation across the industry.

Naku te rourou nau te rourou ka ora ai te iwi: with your basket and my basket the people will live. Through co-operation, our industry has achieved great progress and we have exciting opportunities ahead.

OUTLOOK

A note from Dan Mathieson

Last year we took the opportunity to talk to growers around the country about the potential for exceptional growth over the next decade. Zespri's view of demand goes beyond our \$4.5 billion target by 2025 and represents a huge opportunity for our industry. We can achieve this by connecting growers closer to the needs of our consumers and by putting consumers, and what drives them to purchase our kiwifruit, at the heart of our strategy.

In terms of market performance, we are in a period of strong demand creation and a number of factors underlie our confidence. Zespri has developed good quality demand through market development, brand and category growth – underpinned by high-quality Green, the popularity of SunGold, and strong sales and marketing. An unrelenting focus on taste and quality continues to place us above the competition.

SunGold, in particular, is a game-changing product that consumers love. Moreover, kiwifruit is an under-developed category within the global fruit bowl. SunGold is expected to drive future growth and is likely to overtake Green in its share of the total Zespri portfolio in 2018/19.

Another feature is that the share of volume from northern hemisphere locations will increase to around 30 percent of total supply in the next 10 years, compared to 11 percent today. A balanced portfolio will remain important, with demand for Organic a significant opportunity.

A reasonable question to ask is: why grow? We are absolutely certain of the need to seize the opportunity, because we are in a dynamic race. Standing still will mean falling behind. The risk of not accelerating growth is forfeiting the potential to bring further value back to our growers and the broader industry and opening the door to new competitors.

Meeting the demand requires a step change in the pace of development. It requires investment and innovation by Zespri, growers, post-harvest operators and partners across the supply base. The implications of moving towards 260 million trays of demand in 2025 are significant and place demands right across the industry. In New Zealand significant new plantings will be needed, with a corresponding investment in post-harvest needed to meet volume growth.

Based on the current SunGold licence release plans, we believe we will have enough hectares in the ground to meet our 2025 production targets. However, if the grafting of Hayward to SunGold continues at the rate it has to date we may not have enough producing Hayward hectares to meet our production targets.

The hurdles to overcome to achieve this include finding the land and water to grow the increased volume. Already the New Zealand industry is facing a seasonal shortage of labour, which can only be overcome by long-term investment in training, building capability and new ways of working. The 12-month supply business faces similar challenges of more new plantings and the need to find partners willing to invest in our growth plan.

The answer to overcoming these challenges will be complex and require co-operation across the industry. Meeting the demand gap and protecting the Zespri brand requires the industry to connect its supply chain systems and processes more seamlessly than ever before. We are very aware that this requires the significant commitment and effort from growers, post-harvest and the broader community.

Our outlook should also be tempered with an understanding of the risks of growing and exporting kiwifruit. These include risks on both the production and market side, such as biosecurity, costs of production, being able to maintain our quality standards at much bigger volumes, market access, and competition.

Strategic priorities

For Zespri to fulfil its role in this collective effort, we must be clear on our near-term priorities. These support our ability to focus resource on the right areas over the next few years and to be clear about which areas will be of lower priority. Our investment priorities over the next three years, which we're calling our 'must-wins', are transformational changes to ensure we have the foundations in place to maximise value from our global business. They are changes needed to grow to our potential and strengthen our business platform to meet the \$4.5 billion goal and beyond.

We have four priorities that are described further in this Annual Review (see pages 30 to 33). In brief, they are as follows.

- **Winning through our operating model:** we need a fit-to-win organisation with systems and processes that can scale to a much bigger business from where we were just a number of years ago. We need to ensure that we transform our organisation to be consumer and customer-centric, insights-led and agile.
- **Winning through culture:** our people are our most important asset and Zespri is changing and growing. We need to continue to invest in the people systems and processes that support us and the aspects that guide how we work together to accomplish better results.
- **Winning through Zespri Global Supply:** 12-month supply is a vital component of our strategy and we have to meet the challenge of profitably expanding supply from non-New Zealand locations to fulfil demand for 12 months for our customers and consumers over the coming years.
- **Winning through sustainability:** A core value and commitment. We need to view our business decisions within the context of economic, societal and environmental impact, to provide the foundation for a resilient business strategy.

These priorities sit within a strategic framework based on increasing demand, fulfilling demand and innovation. Across the organisation we have a focus on delivering sustainable returns to our growers and shareholders by delivering the best experiences to consumers and growing strong partnerships with customers. These are our core tasks and we must maintain an unrelenting focus on them. We are also committed to innovation to develop game-changing new kiwifruit products, including green, red and novel varieties, that offer benefit to consumers and value to our growers and shareholders. See pages 27 to 28 for information on how we are making progress against these goals.

We take confidence from a season of strong performance but are sure we can do better as we look forward to growth in volume in 2018/19.

Zespri will stay focused by driving our brand-led strategy, supported by excellence in marketing and strong relationships with distribution and retail partners. We also look forward to making progress against each of our priorities, to help accomplish a bold, ambitious plan to drive growth and value for the industry well into the future.



FOCUSED ON OUR CORE

ACROSS THE ORGANISATION, ZESPRI HAS A FOCUS ON VALUE CREATION FOR GROWERS AND SHAREHOLDERS BY DELIVERING THE BEST EXPERIENCES TO CONSUMERS AND GROWING STRONG PARTNERSHIPS WITH CUSTOMERS. THESE ARE OUR CORE TASKS AND WE MUST MAINTAIN AN UNRELENTING FOCUS ON THEM. IN THIS SECTION, WE HIGHLIGHT PROGRESS IN MARKETING, MARKET DEVELOPMENT AND INNOVATION.

CONSUMERS AT THE HEART OF OUR STRATEGY

The objective of Zespri's marketing investment is to sell the season's crop as quickly as possible and at the best price, while also taking a perspective of creating an emotional connection for consumers with our product long-term. Ideally, every marketing dollar we invest does both. The art and science is to find the right combination. However, some investment is better at sales activation and some is better at brand positioning. It is difficult to sustain a premium if you fail to invest sufficiently in brand positioning.

This context is critical for Zespri's marketing strategy. During 2017/18, our priorities have been to track and optimise investment, better understand consumers, to grow one global brand, and to build a best-in-class marketing team.

For example, we have changed our budget planning process by applying a simple process to assess the reach, cost and quality of our marketing activities. This discipline helped us to deliver a greater return on investment in fruit sampling in the Japan market over the period. Sampling accounts for around a third of the total Japan marketing budget, with 10,000 events reaching over eight million people during the season. A first step to increasing the effectiveness was to improve our data on the operations, from ordering fruit to storage, ripening, logistics and delivery. This allowed us to set better performance indicators with the agencies and simplify processes.

We are using data to better understand consumers. This is so important for building the meaning, distinctiveness and importance of our brand versus those of our competitors. One example is the way we test television advertisements on consumers, before airing them. We do this not only through a conventional approach of asking people what they think but

also by monitoring people's facial expressions. This helps to unveil the subconscious, emotional reaction to the advert. Ultimately, the work helps us to make sure our advertising is as compelling, meaningful and distinct as possible.

We know that irresistible brands have a well-established positioning in consumers' minds. Through a study across eight markets in 2017 we found that the way Zespri is represented can be more consistent. To that end, we launched a brand book in 2018 that defines the core elements that need to be expressed in all our markets globally. There is flexibility to ensure that our brand is suited to local norms, values and cultures, and that there is also consistency in what we want consumers to think and feel about our company.

Zespri has built a strong, highly-engaged marketing team, but developing new capability is an ongoing priority. This involves hiring the right skills and developing our people. During 2017/18, we created a development framework of 12 skills, such as executing flawless marketing campaigns and translating data into opportunities. We will use this tool to support a winning team.

Finally, we have added a fifth priority in 2017/18. This is to win at the moment of purchase. In France, we found that the most impactful touchpoints with consumers are in-store; for example, point-of-sale advertising rather than radio adverts. So we ran a trial in stores in Germany to identify the location of Zespri point of sales advertising that generates the highest visibility and sales. We will be continuing trials in other countries with other display formats during 2018/19.

We have a bold ambition to make Zespri one of the most loved brands in the world. Equally, we remain relentless in our focus on helping achieve the best returns for growers and shareholders through world-class marketing campaigns.

A POINT OF DIFFERENCE THROUGH CUSTOMER RELATIONSHIPS

The Zespri brand is the global leader in kiwifruit. Because of this, we have an opportunity to go further in delivering great service through distributors and customers, maximising the return on our marketing and market development investment, and creating demand through consumer and customer understanding.

Zespri is evolving its distribution model from one of selling our product to distributors who have the main contact with customers. We are increasingly selling through a range of different models, underpinned by closer relationships with customers. This might be by working with distributors or via direct Zespri accounts. We are able to add value for all parties through strong account management to build integrated sales and marketing programmes.

The optimal model depends to a degree on market context. During 2017/18 we developed an approach to assessing market development stages using four categories: explore, launch, establish and enhance. Factors in our consideration include the target population, ease of distribution and our ability to reach consumers through retail.

In a launch market, for example, we might focus on investment to build distribution and penetration in order to grow sales rapidly from a low base. For example, in 2018 the US market has moved to an Importer of Record model – a first step designed to create a new scale market for Zespri. This is the critical first step before moving on to an inventory model and looking to move closer to direct retail sales. In a more mature market, we might invest to increase frequency of consumption. Japan is a good example, where Zespri sold over 23 million trays in 2017/18. Although we have invested in Japan for many years we have strong trade partnerships and headroom to grow further.

Wherever we operate, we need to ensure we have flexibility in market choices, spare demand headroom and agility to respond to changing supply situations. We also need to invest in capability to provide the very best service to our customers, with sales and marketing experts located in our key markets. Zespri's sales and marketing centre of excellence in Singapore is now well-established and supporting the wider regional teams. The importance of being customer-centric is also reflected in the new Executive Team structure, with two executive positions responsible for keeping the consumer in focus and ensuring our customers receive the very best partnership and service.

COMPETITIVE ADVANTAGE THROUGH INNOVATION

The purpose of our focus on innovation is to create better ways of delivering value to growers and consumers. We have a strategy centred on meeting consumer needs through developing new products, raising productivity sustainably, optimising fruit quality, protecting against pests and diseases, ensuring our fruit is safe to eat, and proving the health attributes of the amazing kiwifruit that we market to consumers.

The new cultivar development programme is our largest investment, accounting for almost half our total innovation spend. The world's largest kiwifruit breeding programme, in partnership with Plant & Food Research, aims to develop a differentiated portfolio of proprietary products to underpin our industry's competitive advantage. We evaluated over 100,000 seedlings in 2017/18 and now have more than 240 promising varieties in stage 2 trials around the country. We progressed two new red varieties into pre-commercial trials. New cultivar development is a long process and we aim to accelerate the pace at which new varieties can be developed.

Zespri's investment to protect supply has a high degree of urgency, in light of new and emerging threats. A study into the life cycle of Brown Marmorated Stink Bug on kiwifruit is continuing, and we benefit from being able to conduct research outside of New Zealand at sites in China and Italy. The focus remains on improving the toolbox for Psa management. A multi-year programme 'GoldFutures' is designed to understand the management practices in SunGold blocks less impacted by Psa and transfer these learnings to blocks more challenged by the disease. Key outcomes from the first year highlight the importance of good spray practices and orchard hygiene.

Providing scientific data to support health communications helps to increase consumer demand. Digestive health is at the core of our strategy in synergy with the excellent nutritional components of kiwifruit. In 2017/18 we submitted a health claim to the European Food Safety Authority (EFSA), backed by clinical trials across Italy, Japan and New Zealand, regarding the laxation and digestive comfort benefit of kiwifruit. The result of EFSA's review is due at the end of 2018.

In 2018/19 we will be undertaking projects aiming to extend the packing window for SunGold, so important given the growth in volumes. This work encompasses post-harvest conditioning trials to shift volume earlier and store bulk fruit to be packed later. It extends to fruit conditioning studies and research into the impact on quality while in storage and when being transported on vessels. The benefits of this work will be to smooth out the two-week peak packing window, at the same time maintaining high-quality fruit for consumers.

Looking ahead, Zespri's strategy is also focused on improving the process of innovation, an initiative supported by Callaghan Innovation. This includes project management performance and assessment of the commercial outcomes of projects. Each major programme is rigorously reviewed during the year, allowing us to determine strategic priorities and outcome targets, and ensure investment is appropriately targeted.



FOUNDATIONS FOR FUTURE SUCCESS

ZESPRI HAS DEVELOPED INCREMENTALLY TOWARDS BECOMING AN INTEGRATED AND MORE GLOBAL SALES AND MARKETING BUSINESS. HOWEVER, THE CHALLENGE OF BECOMING A \$4.5 BILLION ORGANISATION REQUIRES TRANSFORMATION. THIS SECTION LOOKS AT FOUR NEAR TERM PRIORITIES THAT WILL HELP LAY THE FOUNDATION FOR OUR FUTURE SUCCESS.

WINNING THROUGH OUR OPERATING MODEL

Zespri's current internal operating model – the organisation, systems, processes and technologies that together determine how the Company works – needs to be set up to scale as efficiently as possible to support a much larger and significantly different business than we were just a number of years ago.

Our business has changed from being primarily export-led to being a demand-driven organisation. We now capture more value by working further down the value chain by partnering with our customers more closely. Our workforce is becoming more global and we source fruit from multiple growing origins. The challenge we face today is that our systems and processes haven't kept pace. We require an operating model that will enable us to scale to \$4.5 billion and beyond.

Zespri will review its current and target operating model during 2018/19. The work will involve understanding consumer and grower needs – an essential step for a business that aims to put consumers at the heart of its strategy and connect growers closer to the signals from our consumers.

The review is broad, taking into account how we can deliver sustainable value to consumers and growers, what the competitor landscape is and what our strengths are, to create a competitive advantage. The model encompasses a number of components; for example, products and services, channels to market, organisational design, processes, and information technology.

We intend to develop the high-level design for our future operating model. This will be a significant change programme, with initial focus on the roadmap before the phased implementation plan over the next few years.

Ultimately, we aim to transform the organisation to be agile, consumer-centric and insights-led. This will require Zespri to be better enabled through technology, in particular through having accurate and reliable data and easily accessible information at our finger-tips so that every team can access the information they need and collaborate with others to make fast, well-informed decisions. Consequently, we are pushing ahead with the Industry Collaboration Platform project, which will provide greater visibility and traceability of product data and volumes throughout the supply chain for all our partners on the supply and demand sides of the business.

Our operating model will provide a stable backbone for the organisation, and the flexibility to respond to changes effectively and efficiently. It will reduce unnecessary complexity as we grow and position Zespri well to deliver on our ambitious growth targets.



WINNING THROUGH CULTURE

The scale of the long-term demand opportunity requires more than growth in supply to meet growth in demand. People are our most important, versatile, agile and flexible asset, and culture is key to achieving great results.

Go back five years and Zespri was a company of 282 people with most people based in New Zealand. At the time of publishing this Annual Review, we have around 550 people, with offices in over 20 countries and half our workforce employed outside New Zealand. Zespri's current people processes and systems were set up to support a smaller, predominantly New Zealand-based workforce.

Our people systems, processes and culture need to support and enable employees to be accountable and empowered to think and act in ways which support the performance outcomes we seek. We need to leverage the significant diversity of skills and perspectives that we have within the business. This must be done with the spirit and passion that are core to Zespri and the New Zealand kiwifruit industry.

People leadership plays a critical role. We want our people to be inspired to give their best for Zespri; to be helped to make the connection between the contribution they make and the impact that has on our consumers and growers; and to be supported to realise their individual potential.

In 2018/19 we will continue to lay the groundwork for this. We are introducing technology to give us a scalable platform to simplify and automate other people processes. We are trialling a global approach to performance management that should address inconsistencies across geographies. We will continue to refine our proactive approach to sourcing talent which was piloted in 2017/18. We will also complete a global review of reward which began in 2017/18. This aims to enable Zespri to compete for talent, incentivise outstanding performance and maintain relevance in the many countries in which we employ our people.

A winning culture, role-modelled by excellent leadership, will lift the performance of a diverse, connected and highly-engaged global workforce.

WINNING THROUGH ZESPRI GLOBAL SUPPLY

Zespri has partnered with growers in northern hemisphere countries for nearly two decades to provide some markets with Zespri Kiwifruit in the three to four months of the year when New Zealand kiwifruit isn't available. This keeps our premium brand top of mind for consumers and gives us a more valuable offering for retailers and customers until the next New Zealand season begins.

Our global supply business is critical to maximise long-term sustainable returns for the New Zealand-grown crop. It would cost more to sell the New Zealand crop without 12-month supply because it would require more promotion investment to regain lost shelf space. Our absence from the market leaves space for competing fruits and it is costly to win back share for New Zealand supply.

Total sales through ZGS this past season were 15.4 million trays but our current view of demand by 2025 is over four times this volume. To achieve this growth, Zespri is looking at options to expand production in existing locations, as well as increase the number of growing locations.

With respect to existing locations, Europe remains Zespri's most significant source of non-New Zealand supply. Italy and France today supply over 90 percent of total volumes. We will continue to increase volumes across Europe but to also manage the risk of a heavily concentrated supply out of Italy. Our supply bases in Japan and South Korea will see significant volume increases as well.

We see real potential to supply China with China-grown Zespri Kiwifruit during the New Zealand off-season. A platform to support sustainable growth in Zespri's largest market is to have a well-functioning 12-month supply programme. We are in the final year of a three-year proof-of-concept trial using local Chinese varieties to determine whether we can sustainably grow Zespri-quality fruit in China. Protecting the Zespri brand is at the heart of our decision, and we need absolute confidence that our standards for quality, taste and food safety can be met before proceeding.

We have also just begun production trials in the US which has become one of Zespri's most significant growth markets due to demand for SunGold. We are working with growers in Oregon and California with a first SunGold harvest potentially in 2020. Here the challenges are weather related and we are seeing whether SunGold can thrive in the unique climates found on the West Coast.

Successful expansion requires a step-change in structure and capability too. With this in mind, we plan to develop ZGS using a shared, scalable and repeatable business model that can be adapted to any growing region. The groundwork for this transformation project is already underway.

We are also assessing our capability to manage the growth ahead. Over the years, ZGS has depended on the goodwill of New Zealand industry experts for season support and to train local staff in the few weeks of downtime available. A sustainable model requires multicultural and multilingual technical and managerial expertise; people willing to work across borders; and teams supported through innovative training and long-term succession planning at the local level.

WINNING THROUGH SUSTAINABILITY

Today, more and more people want to know where their food comes from and how it was grown. In particular, millennial consumers have a desire to connect with the people who are growing their food, and want trust and transparency in sustainable production systems throughout the supply chain.

The New Zealand kiwifruit industry has many positive sustainability attributes. For example, kiwifruit vines actively build soil carbon at a rate of up to three tonnes a year per hectare. There is relatively little need for irrigation. Zespri has internationally-recognised food safety systems in place across the industry. There are many examples.

Sustainability is an important part of Zespri's innovation investment as well. This includes supporting the NZ Sustainability Dashboard Project to create tools for growers to benchmark performance. It also includes research into minimising agrichemical use and finding alternatives for controlling pests and diseases.

This is a good base but just a start and we recognise there are some in the industry who have embraced the sustainability journey much earlier and deeper than Zespri has. We have much to learn from these industry leaders and other leaders in the area of sustainability.

Looking ahead to putting our sustainability commitment into practice, a first step is to create a sound base of knowledge of our current state. To do this we will engage extensively with people across the industry as Zespri is just one part of the interdependent partnerships through our supply chain. This work will identify consumer, regulatory and business drivers, examine what other companies and sectors are doing with respect to reporting, research priority issues for the kiwifruit industry and assess current performance to give us a roadmap to follow in our development.

There are many initiatives already under way in the industry and we want to help identify some objectives for collective ownership and action. Our objective is to develop an approach that is holistic, addressing the environmental, social and economic aspects of the industry. It needs to encompass sound metrics that provide transparency on performance and support Zespri's ability to report to its stakeholders.

Our end game is to underpin the profitable growth of our industry through sustainable business practices that earn the trust of our consumers and of our people and strengthen our brand.



EXECUTIVE TEAM

EARLIER THIS YEAR THE ZESPRI EXECUTIVE TEAM WAS RESTRUCTURED. IT COMBINES THE EXPERTISE AND EXPERIENCE WE NEED TO SUCCEED AGAINST AMBITIOUS GOALS, SETTING OUR STRATEGIC DIRECTION, ESTABLISHING CLEAR PRIORITIES AND LEADING OUR PEOPLE.

LEARN MORE ABOUT THE TEAM BELOW AND FIND OUT WHAT EXCITES THEM MOST ABOUT ZESPRI'S BOLD AMBITIONS FOR THE FUTURE.



ANDREW GOODIN

Acting Chief Digital Officer

“Digital technology plays an increasingly important role in connecting our global ecosystem and supporting our growth. We have the team and partner network to support Zespri and the industry through the exciting times ahead.”

Prior to joining Zespri, Andrew worked for Fonterra in IT, supply chain and programme management roles. He has had significant international experience spanning nearly two decades and within a variety of sectors including consumer goods, telecommunications, technology consulting and health care.



BLAIR HAMILL

Chief Supply Chain Officer

“Working with passionate and talented people within the industry on seasonal challenges that vary from season to season or on long-term initiatives is incredibly motivating and rewarding.”

Blair has a deep understanding of Zespri's global supply chain having worked in several roles both domestically and off-shore for the past 14 years, including a secondment focusing on northern hemisphere supply from Italy and France. Prior to joining Zespri, Blair worked in chartered accountancy and as a Management Accountant.



DAN MATHIESON

Chief Executive Officer

“The opportunities that exist through our ambitious plans for each of us to become the best that we can be. The opportunities to connect our growers to our consumers to help create long-term value and thriving communities.”

Dan was appointed Chief Executive Officer in September 2017 following a 15-year career with Zespri and international roles in Japan, South Korea, Belgium and Singapore. His most recent role was President of Global Sales and Marketing, where he delivered a demand-led strategy, growing mature markets and diversifying into new markets. Dan also led the development of the function, with an increased focus on consumer insight, distributor and retailer relationships, and marketing excellence.



DAVID COURTNEY

Chief Grower and Alliances Officer

“Working for a business where you get to know the people you serve and directly understand how Zespri's performance impacts on growers, the broader industry and the communities where they live and work.”

Dave has been responsible for several pivotal roles and addressed some significant challenges at Zespri, both as Communications Manager and Special Project Manager. Before Zespri, Dave worked in communications roles for the New Zealand Defence Force and the Ministry of Foreign Affairs and Trade. Prior to those roles he was a journalist working in New Zealand and overseas.



DAVID HAZLEHURST

Chief Financial Officer

“The role Zespri and the industry have in generating regional economic growth, while delivering growth and increasing value for growers and shareholders.”

Prior to Zespri, David was CFO and Vice President, Commercial and Pacific Islands for New Zealand Steel. He brings to Zespri extensive experience in senior leadership and finance including roles with Lion Nathan and Fonterra, where he spent time as General Manager Business Services, Global Finance and Integration Manager, and CFO for a joint venture between Friesland Campina and Fonterra, based in Germany.



SHEILA MCCANN-MORRISON

Chief International Production Officer

“The opportunity to develop and coach people in a truly global business with colleagues from different walks of life.”

Sheila has exceptional experience in the global fruit industry with a career spanning 25 years and several continents. She began her working life with Dole in Costa Rica, progressing to become General Manager Dole fresh-cut vegetables. Following this she held Innovation and Packaging and Regional Directorship roles at Chiquita Brands in Latin America and Switzerland. Sheila is from the US and speaks several languages.



LINDA MILLS

Chief Market Performance Officer

“Connecting the dots, helping people solve their problems and supporting a team to deliver results – doing the right thing for our suppliers, customers and consumers.”

Linda is responsible for market allocation and optimisation, and sales and operations planning. She is also involved in market development and longer-term strategic demand planning. Prior to joining Zespri, Linda worked in the kiwifruit industry for over 15 years ranging from grading kiwifruit to being General Manager of the G6 Kiwi Supply Group.



JIUNN SHIH

Chief Marketing Officer

“Marketing an amazingly nutritious product, capturing the hearts and minds of consumers, and helping make Zespri a loved brand.”

Before life at Zespri, Jiunn was a Senior Global Category Director on the Global Beverages Executive Team at Unilever, where he led brand development for worldwide brands such as Lipton and Carte D’Or. Jiunn has worked across Latin America, Asia and Europe, marketing some of the world’s biggest consumer goods brands.



CAROL WARD

Chief Innovation and Sustainability Officer

“Bringing health to the land and to people – innovation and sustainability will be our fuel for the future.”

Carol has worked within Zespri across marketing, planning, supply and corporate grower services, based out of the European head office in Antwerp, Taiwan, Singapore and New Zealand. Before joining Zespri, she held roles with Kiwifruit New Zealand and Kiwifruit Growers Incorporated. Her prior experience includes marketing and sales at Carter Holt Harvey Tissue and divisional management at Hanimex (NZ) Limited and New Zealand Dairy Foods.

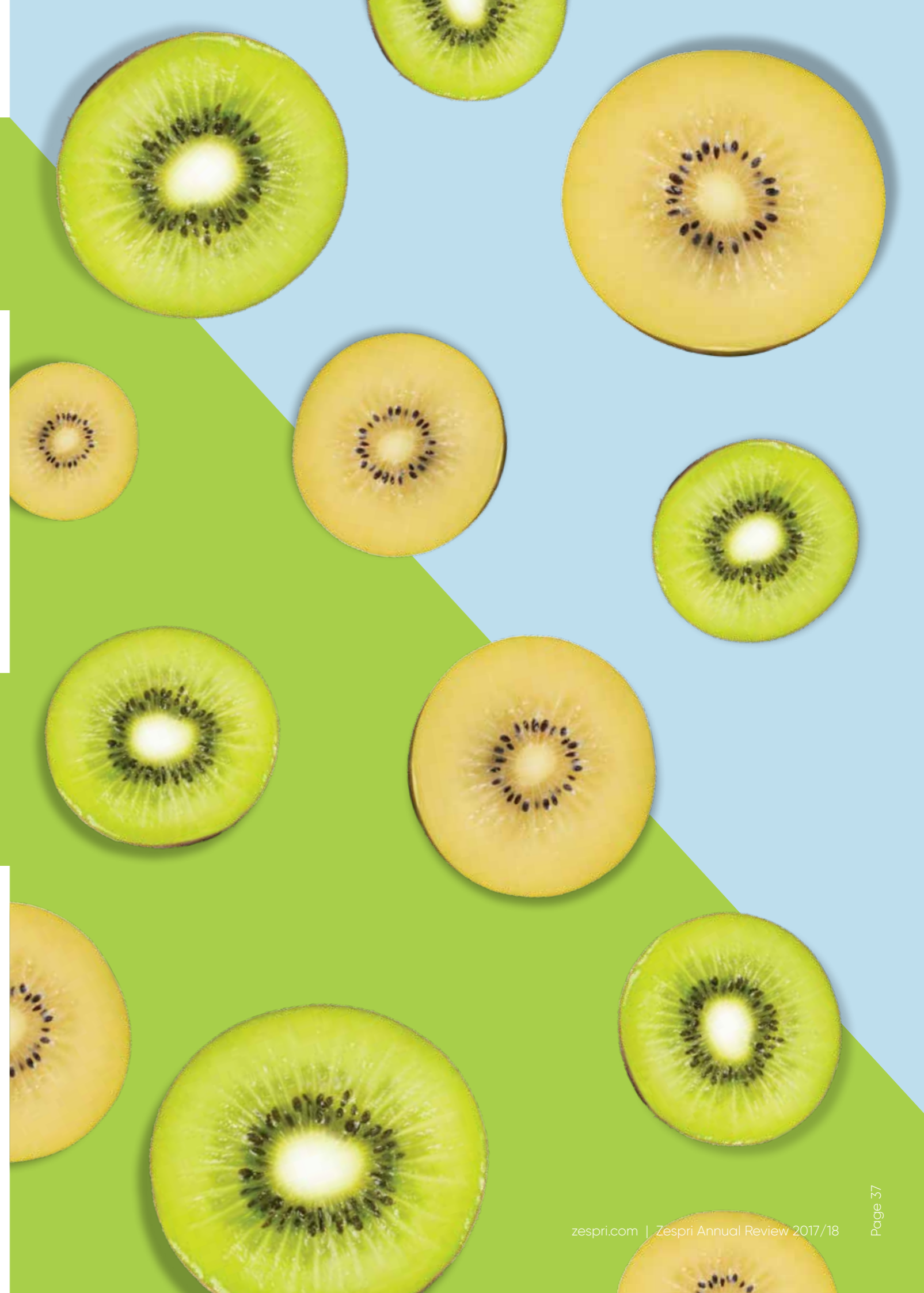


PATRICK WATSON

Chief People Officer

“Building a winning culture and empowering our people to be the best they can be.”

Before joining Zespri, Patrick led the business partnership function of NZ Inland Revenue, including the provision of strategic human resource insight into Inland Revenue’s business transformation programme. His varied international career includes Human Capital Consultancy for Deloitte (in New Zealand, Australia, London and Belfast) and Global Business Management for an global diagnostics manufacturer.



ZESPRI BOARD

ZESPRI'S EIGHT BOARD MEMBERS BRING A WIDE RANGE OF EXPERIENCE, FROM INTERNATIONAL MARKETING AND CORPORATE GOVERNANCE TO INDUSTRY KNOWLEDGE AND FINANCIAL EXPERTISE.



TONY DE FARIAS

Director

- ZGL/ZIL Director since 2007
- Member of the Industry Advisory Council

TERESA CIPRIAN

Director

- ZGL/ZIL Director since November 2014
- Member of the Organisation and Administration Committee
- Member of the Board Innovation Subcommittee

PAUL JONES

Director

- Zespri Grower Director since July 2014
- Chairman of the Industry Advisory Committee
- Member of the Board Innovation Subcommittee

BRUCE CAMERON

Deputy Chairman

- ZGL/ZIL Director since August 2010
- Chairman of the Organisation and Administration Committee
- Member of the Industry Advisory Council

JONATHAN MASON

Director

- ZGL/ZIL Independent Director since May 2013
- Chairman of the Audit and Risk Management Committee
- Member of the Organisation and Administration Committee

PETER MCBRIDE

Chairman

- ZGL/ZIL Director since 2002
- Chairman since May 2013
- Director of Zespri Innovation since 2003

PETER SPRINGFORD

Director

- ZGL/ZIL Independent Director since May 2017
- Member of the Audit and Risk Management Committee

NATHAN FLOWERDAY

Director

- ZGL/ZIL Director since July 2012
- Chairman of the Board Innovation Subcommittee
- Member of the Audit and Risk Management Committee
- Zespri Board appointed Director of Kiwifruit Vine Health (KVH)

INDUSTRY PERFORMANCE

Regional Production Analysis – New Zealand-Grown Kiwifruit

Tray Equivalents (TEs) supplied to Zespri (FOBS)	2017/18		2016/17		2015/16		2014/15	
	Producing hectares	TE supplied per ha	Producing hectares	TE supplied per ha	Producing hectares	TE supplied per ha	Producing hectares	TE supplied per ha
Zespri SunGold and Organic SunGold Kiwifruit (Gold3)								
Northland	319	8,044	189	9,069	122	6,104	62	5,585
Auckland	206	10,701	187	8,928	139	5,694	48	7,688
Bay of Plenty								
– Katikati	525	11,299	501	12,302	423	7,521	205	7,416
– Ōpōtiki	506	12,172	478	11,028	403	8,298	213	5,041
– Tauranga	437	12,320	413	12,484	367	8,073	195	6,229
– Te Puke	1,655	12,390	1,516	12,746	1,262	9,220	786	4,702
– Waihi	53	9,168	51	11,027	43	8,828	26	5,065
– Whakatāne	211	13,211	206	11,175	167	8,861	101	6,514
Waikato	183	7,937	157	7,029	125	3,295	26	2,966
Poverty Bay	208	9,740	146	8,728	103	8,586	62	8,826
Hawke's Bay	149	8,263	131	6,815	80	9,562	52	10,865
Lower North Island	2	7,799	2	5,349	1	5,227	1	4,436
South Island	176	8,693	139	9,635	103	8,758	37	7,124
Total producing hectares	4,630		4,116		3,339		1,814	
Average TE supplied per hectare		11,292		11,366		8,234		5,770

Zespri Green Kiwifruit

Northland	109	5,779	113	9,559	116	7,666	124	7,852
Auckland	273	7,719	272	9,502	273	8,099	304	8,805
Bay of Plenty								
– Katikati	940	7,678	966	11,972	973	9,748	1,015	9,224
– Ōpōtiki	457	8,917	464	11,758	469	10,756	477	9,691
– Tauranga	1,086	9,193	1,116	12,533	1,090	10,135	1,109	9,295
– Te Puke	3,419	9,641	3,508	13,088	3,524	12,204	3,586	9,486
– Waihi	100	6,569	100	8,701	105	7,604	115	6,957
– Whakatāne	402	7,728	439	9,889	438	8,248	466	4,840
Waikato	200	8,339	204	9,664	206	8,867	209	7,462
Poverty Bay	54	8,366	54	5,828	55	6,605	59	5,558
Hawke's Bay	43	6,620	45	7,290	47	8,265	51	7,554
Lower North Island	70	8,696	65	7,056	69	6,186	70	7,750
South Island	229	5,663	258	7,246	250	6,158	309	5,591
Total producing hectares	7,382		7,604		7,614		7,892	
Average TE supplied per hectare		8,812		11,933		10,590		8,812

Zespri Organic Green Kiwifruit

Northland	–	–	–	–	–	–	3	2,473
Auckland	1	2,614	1	5,856	1	3,983	1	4,376
Bay of Plenty								
– Katikati	30	6,593	31	9,208	30	8,037	31	7,274
– Ōpōtiki	22	5,786	22	8,616	22	7,404	22	7,407
– Tauranga	203	6,033	210	8,652	231	8,054	261	5,994
– Te Puke	42	6,979	38	10,408	57	8,841	77	6,953
– Waihi	19	3,964	20	4,219	20	4,808	20	4,099
– Whakatāne	4	4,197	4	5,323	3	5,171	3	1,834
Waikato	151	5,310	151	6,536	153	6,148	156	5,428
Poverty Bay	1	3,676	2	4,637	2	5,284	3	5,817
Hawke's Bay	–	–	–	–	–	–	–	–
Lower North Island	2	5,552	2	6,524	2	6,365	2	6,533
South Island	–	–	21	4,516	16	2,873	19	3,593
Total producing hectares	475		502		537		597	
Average TE supplied per hectare		5,802		7,841		7,254		5,908

Tray Equivalents (TEs) supplied to Zespri (FOBS)	2017/18		2016/17		2015/16		2014/15	
	Producing hectares	TE supplied per ha	Producing hectares	TE supplied per ha	Producing hectares	TE supplied per ha	Producing hectares	TE supplied per ha
Zespri Sweet Green Kiwifruit (Green14)								
Northland	1	3,041	1	7,210	1	4,243	1	3,611
Auckland	14	5,238	14	6,256	13	5,336	13	4,576
Bay of Plenty								
– Katikati	11	7,377	15	8,571	16	6,331	17	3,928
– Ōpōtiki	12	7,790	14	9,758	18	6,507	19	3,848
– Tauranga	6	5,845	8	6,899	10	5,892	12	5,180
– Te Puke	80	7,711	88	9,148	115	6,564	106	3,813
– Waihi	–	–	–	–	–	–	1	8,270
– Whakatāne	18	7,550	20	5,984	15	4,960	19	3,792
Waikato	15	5,428	18	5,686	16	3,175	17	2,743
Poverty Bay	4	6,985	4	6,072	4	6,888	4	4,640
Hawke's Bay	8	4,415	8	4,363	8	8,358	8	7,969
Lower North Island	4	6,486	4	3,679	4	5,505	4	2,800
South Island	2	2,789	1	6,506	1	5,280	2	3,700
Total producing hectares	175		195		223		223	
Average TE supplied per hectare		6,925		7,813		6,109		4,020

Zespri Gold and Organic Gold Kiwifruit (Hort16A)

Northland	11	8,615	52	12,721	172	12,133	213	14,522
Auckland	–	–	1	5,822	15	12,969	38	11,327
Bay of Plenty								
– Katikati	–	–	–	–	1	10,618	10	8,975
– Ōpōtiki	–	–	–	–	–	–	12	3,730
– Tauranga	–	–	–	–	1	4,712	5	4,249
– Te Puke	–	–	–	–	–	–	–	–
– Waihi	–	–	–	–	1	13,777	3	6,706
– Whakatāne	–	–	–	–	–	–	–	–
Waikato	–	–	1	9,394	15	8,802	31	7,931
Poverty Bay	–	–	48	9,245	69	8,365	105	8,251
Hawke's Bay	2	7,793	12	11,484	55	11,667	67	13,722
Lower North Island	–	–	–	–	–	–	–	–
South Island	17	10,647	47	9,349	64	10,796	71	9,853
Total producing hectares	30		161		394		555	
Average TE supplied per hectare		9,689		10,561		11,077		11,586

All Zespri Kiwifruit

Northland	440	7,481						
Auckland	494	8,887						
Bay of Plenty								
– Katikati	1,506	8,916						
– Ōpōtiki	997	10,486						
– Tauranga	1,732	9,599						
– Te Puke	5,196	10,465						
– Waihi	172	7,071						
– Whakatāne	635	9,528						
Waikato	549	7,291						
Poverty Bay	267	9,399						
Hawke's Bay	202	7,757						
Lower North Island	78	8,463						
South Island	424	7,101						
Total producing hectares	12,692							
Average TE supplied per hectare		9,579						

TE/ha = tray equivalents supplied per hectare. Producing hectares includes all hectares producing fruit in the relevant season.







INDUSTRY PERFORMANCE

New Zealand Kiwifruit Industry Statistics

	2017/18	2016/17	2015/16	2014/15	2013/14	2012/13	2011/12	2010/11
Distribution to growers/suppliers								
Fruit and service payments (excluding loyalty premium)	11.53	9.21	9.27	9.57	9.02	9.08	8.37	8.44
Loyalty premium	0.27	0.25	0.24	0.24	0.24	0.24	0.24	0.24
Total payments per tray	11.80	9.46	9.51	9.81	9.26	9.32	8.61	8.68
Crop volumes ('000)								
Trays submitted (gross)	125,822	148,902	123,763	97,304	87,725	105,580	119,444	105,868
Trays supplied	124,433	145,871	120,145	95,683	86,510	102,860	113,932	101,712
Trays sold	123,246	137,748	117,094	95,187	86,094	101,313	109,129	98,117
Trays sold as a percentage of trays supplied	99.0%	94.4%	97.5%	99.5%	99.5%	98.5%	95.8%	96.5%
General statistics								
Production per hectare (trays submitted)	9,913	11,838	10,157	8,662	8,016	8,610	9,556	8,255
Producing hectares	12,692	12,578	12,185	11,233	10,944	12,263	12,500	12,825
Orchard Gate Return per hectare (average)	79,361	68,868	60,758	57,369	49,385	51,153	45,206	41,830
Number of producers	2,405	2,435	2,516	2,540	2,350	2,636	2,662	2,706
Average number of trays supplied per producer	51,739	59,906	47,752	37,670	36,813	39,021	42,799	37,588
Number of orchards registered								
0 – 2 hectares	774	791	807	834	802	855	913	867
2 – 5 hectares	1,509	1,508	1,499	1,428	1,458	1,483	1,521	1,512
5 – 10 hectares	607	589	568	515	487	573	577	602
Over 10 hectares	165	161	147	128	126	146	138	153
Total (KPINs)	3,055	3,049	3,021	2,905	2,873	3,057	3,149	3,134
Average orchard size (hectares)								
Green	3.5	3.5	3.5	3.6	3.6	3.7	3.7	3.8
Gold*	2.7	2.6	2.3	1.9	2.0	2.1	3.2	3.0
*Includes Gold3 (first season producing 2012/13), Hort16A and Gold9 (decommercialised 2015/16)								
Number of packhouses used								
0 – 500,000 trays	20	16	17	15	20	23	20	24
500,000 – 1,000,000 trays	8	7	5	8	9	6	10	11
1,000,000 – 2,000,000 trays	5	5	9	8	7	12	12	15
Over 2,000,000 trays	23	22	20	19	18	18	21	17
Total	56	50	51	50	54	59	63	67
Average trays stored per packhouse ('000)	2,247	2,978	2,427	1,956	1,626	1,792	1,896	1,580
Number of coolstores used								
0 – 500,000 trays	31	35	29	26	33	35	34	40
500,000 – 1,000,000 trays	8	10	5	9	8	10	14	13
1,000,000 – 2,000,000 trays	6	7	9	8	11	12	9	12
Over 2,000,000 trays	22	21	21	19	16	19	22	18
Total	67	73	64	62	68	76	79	83
Average trays stored per coolstore ('000)	1,878	2,040	1,934	1,577	1,291	1,391	1,512	1,276
Number of employees								
New Zealand based (includes seasonal employees)	239	233	194	184	163	164	173	175
Non-New Zealand based	239	203	159	133	123	122	124	117
Total	478	436	353	317	286	286	297	292
Global revenue per employee (\$'000), including seasonal employees	5,244	5,379	5,457	5,062	4,764	5,554	5,517	5,228
Global revenue (adjusted to 31 March 2018 7-year average) foreign exchange rates per employee (\$'000), including seasonal employees	4,785	4,982	5,366	5,666	4,854	5,294	5,098	4,639

New Zealand Total Fruit and Service Payments including Loyalty Premium

	Return \$m 2017/18	\$ PER TE 2017/18	\$ PER TE 2016/17	\$ PER TE 2015/16	\$ PER TE 2014/15
Class 1 Kiwifruit					
 Total tray equivalents supplied (millions)		65.1	90.8	80.7	69.6
Fruit payments	348.2	5.35	4.19	5.30	5.69
Fruit incentives	192.7	2.96	1.84	1.42	1.93
Service payments	101.2	1.55	1.52	1.54	1.11
Loyalty premium	18.3	0.28	0.25	0.25	0.25
Total fruit and service payments (including loyalty premium)	660.4	10.14	7.80	8.51	8.98
 Total tray equivalents supplied (millions)		2.8	3.9	3.9	3.5
Fruit payments	21.3	7.72	5.96	6.36	6.24
Fruit incentives	7.8	2.84	2.54	2.41	2.66
Service payments	2.4	0.87	1.07	1.09	0.79
Loyalty premium	0.8	0.28	0.25	0.25	0.25
Total fruit and service payments (including loyalty premium)	32.3	11.71	9.82	10.11	9.94
 Total tray equivalents supplied (millions)		52.6	48.5	32.6	18.7
Fruit payments	360.8	6.86	6.00	5.39	5.90
Fruit incentives	302.7	5.76	4.98	5.08	5.92
Service payments	67.4	1.28	1.39	1.36	1.36
Loyalty premium	14.7	0.28	0.25	0.25	0.25
Total fruit and service payments (including loyalty premium)	745.6	14.18	12.62	12.08	13.43
 Total tray equivalents supplied (millions)		1.2	1.5	1.4	0.9
Fruit payments	6.9	5.68	6.68	6.34	5.94
Fruit incentives	3.3	2.70	2.11	3.41	3.68
Service payments	0.3	0.22	0.46	0.47	0.70
Loyalty premium	0.3	0.28	0.25	0.25	0.25
Total fruit and service payments (including loyalty premium)	10.8	8.88	9.50	10.47	10.57
Class 2 Kiwifruit (also includes some Zespri branded fruit)					
 Total tray equivalents supplied (millions)		0.7	0.4	0.7	1.0
Fruit payments	4.3	6.18	5.00	5.06	5.19
Service payments	-	-	0.10	0.02	0.03
Total fruit and service payments	4.3	6.18	5.10	5.08	5.22
 Total tray equivalents supplied (millions)		0.1	0.1	0.0	0.1
Fruit payments	0.6	9.67	7.15	6.30	6.67
Service payments	-	0.22	0.18	0.22	0.14
Total fruit and service payments	0.6	9.89	7.33	6.52	6.81
 Total tray equivalents supplied (millions)		1.1	-	-	0.4
Fruit payments	6.6	6.20	-	-	7.37
Service payments	0.1	0.13	-	-	0.48
Total fruit and service payments	6.7	6.33	-	-	7.85
 Total tray equivalents supplied (millions)		-	-	-	-
Fruit payments	-	-	-	4.71	4.77
Service payments	-	-	-	0.04	0.01
Total fruit and service payments	-	-	-	4.75	4.78
Non-standard supply					
Total tray equivalents supplied (millions)		1.0	0.6	0.8	1.4
Fruit payments	7.3	7.66	6.24	5.97	4.76
Fruit incentives	-	-	-	-	0.74
Service payments	0.1	0.05	-	-	0.25
Total fruit and service payments	7.4	7.71	6.24	5.97	5.75
Total all pools					
Total tray equivalents supplied (millions)		124.4	145.9	120.1	95.7
Fruit payments	756.0	6.08	4.88	5.38	5.74
Fruit incentives	506.5	4.07	2.89	2.45	2.71
Service payments	171.5	1.38	1.44	1.44	1.12
Loyalty premium	34.1	0.27	0.25	0.24	0.24
Total fruit and service payments (including loyalty premium)	1,468.1	11.80	9.46	9.51	9.81
Total fruit and service payments 2016/17	1,380.0				
Total fruit and service payments 2015/16	1,143.0				
Total fruit and service payments 2014/15	939.0				

ALTERNATIVE REVENUE STATEMENT

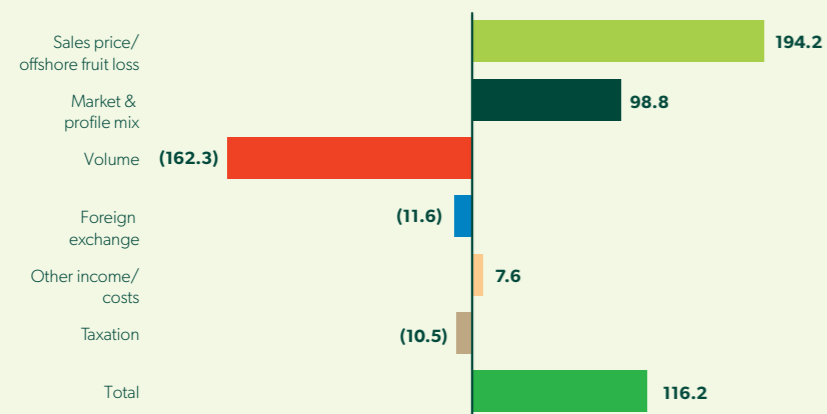
	2017/18	2016/17
Tray Equivalents (TEs) – Supplied (millions)		
Total New Zealand kiwifruit segment (includes collaborative marketing)	124.4	145.9
Total non-New Zealand supply segment	15.5	16.8
New Zealand kiwifruit segment	\$'000	\$'000
Gross sales of New Zealand kiwifruit	2,298,990	2,149,786
Promotional rebates, claims and discounts	(188,080)	(122,595)
Net sales of New Zealand kiwifruit	2,110,910	2,027,191
Net fruit return through collaborative marketers	17,191	19,141
Other pool income	570	1,742
Revenue attributable to New Zealand pools ¹	2,128,671	2,048,074
Less New Zealand pool costs:		
Freight	135,621	135,107
Insurance (onshore and offshore excluding hail)	3,534	3,159
Hail self-insurance	4,509	3,499
Duty and customs	78,563	80,168
Other direct pool costs – onshore ^{2&3&4&6}	62,618	61,592
Other direct pool costs – offshore	68,387	76,763
Promotion	134,090	149,597
Interest income ⁵	(2,364)	(810)
Total pool costs	484,958	509,075
Return from fruit sales	1,643,713	1,538,999
New Zealand fruit and service payments	1,433,956	1,343,983
Zespri margin ⁷	209,757	195,016
Other non-pool revenue	3,245	2,385
Innovation funding ⁹	3,039	4,315
New Zealand kiwifruit corporate revenue	216,041	201,716
Less corporate overhead expenses:		
Innovation	12,344	11,651
Class 2 mainpack subsidy	96	10
Overhead costs – onshore	71,956	70,059
Overhead costs – offshore	70,742	61,781
Allocated excess taxation	1,832	–
New Zealand kiwifruit corporate overhead expense	156,970	143,501
Zespri EBIT and loyalty premium from New Zealand kiwifruit segment	59,071	58,215
Loyalty premium	34,101	36,047
Zespri EBIT from New Zealand kiwifruit	24,970	22,168
Non-New Zealand supply segment ⁸		
Revenue from non-New Zealand supply kiwifruit	263,688	216,533
Less non-New Zealand supply costs:		
Direct costs including fruit purchases	236,319	189,385
Overhead costs	18,160	15,296
	254,479	204,681
EBIT from non-New Zealand supply segment	9,209	11,852

Alternative Revenue Statement (continued)

	2017/18	2016/17
New cultivars segment		
New cultivars licence revenue	101,746	67,178
New cultivars royalty income ²	20,723	16,673
New cultivars innovation funding ⁹	2,318	3,646
Revenue attributable to new cultivars	124,787	87,497
Less new cultivars costs:		
Amortisation of new cultivars	1,950	1,917
New cultivars costs ¹⁰	14,386	14,688
	16,336	16,605
EBIT from new cultivars segment	108,451	70,892
Land and buildings segment		
Income	556	705
Overhead costs	1,242	966
	1,242	966
EBIT from land and buildings segment	(686)	(261)
Zespri Group EBIT	141,944	104,651
Net interest income	1,934	2,424
Add back allocated excess taxation	1,832	–
Zespri Group profit before taxation	145,710	107,075
Taxation	43,868	33,374
Zespri Group profit after tax	101,842	73,701
Total fruit and service payments	1,433,956	1,343,983
Loyalty premium	34,101	36,047
Total fruit and service payments (including loyalty premium)	1,468,057	1,380,030

The Alternative Revenue Statement is used for management information and is the basis for the calculation of the fruit and service payments. Foreign exchange gains and losses are allocated differently from the way that they are allocated in the Financial Statements in that they are apportioned to the relevant line items above. For more detail on segment EBIT's, refer to Note 30 of the Annual Report.

Cause of Change 2017/18 vs 2016/17 \$Millions



The 'Cause of Change' chart above outlines the increase in the return to the industry this season to \$1,570 million from \$1,454 million in 2016/17.

	\$'000
Total fruit and service payments 2016/17 (including loyalty premium)	1,380,030
Add Zespri net profit after tax 2016/17	73,701
Return to industry 2016/17	1,453,731
Movements due to change in:	
Sales price/offshore fruit loss	194,169
Market and profile mix	98,824
Volume	(162,285)
Foreign exchange	(11,636)
Other income/costs	7,590
Taxation	(10,494)
Return to industry 2017/18	1,569,899
Total fruit and service payments 2017/18	1,433,956
Add Zespri loyalty premium 2017/18	34,101
Total including loyalty premium 2017/18	1,468,057
Add Zespri net profit after tax 2017/18	101,842
Return to industry 2017/18	1,569,899

New Zealand Pool Costs as a Percentage of Pool Revenue

	2017/18	2016/17
Zespri margin (net of loyalty premium) ⁷	8.2%	7.8%
Freight	6.4%	6.6%
Insurance	0.4%	0.3%
Duty and customs	3.7%	3.9%
Other direct pool costs – onshore ²	2.9%	3.0%
Other direct pool costs – offshore	3.2%	3.7%
Promotion	6.3%	7.3%
Interest income ⁵	(0.1%)	0.0%
Total fruit and service payments (including loyalty premium)	69.0%	67.4%
	100.0%	100.0%
Revenue attributable to New Zealand pools (\$'000) ¹	2,128,671	2,048,074

1 Net revenue attributable to the pools includes sales of New Zealand-grown kiwifruit, income from New Zealand collaborative marketing programmes and other pool income as noted in the Alternative Revenue Statement.

2 Within 'Other direct pool costs – onshore' is the 3.0 percent royalty from new cultivars on net sales for Gold3 and Green14. This royalty is made up of two components: 1.35 percent of this royalty is paid to The New Zealand Institute for Plant & Food Research Limited and 1.65 percent royalty income to the new cultivars segment in Zespri Group Limited.

3 Other direct pool costs – onshore include: KVH Funding, KNZ Fees and NZKGI funding.

4 The New Zealand pool funded the KVH levy. The rate was \$0.01 per tray across all varieties for 2017/18. For 2016/17 the rate was \$0.01 per tray for Green and \$0.02 per tray for Gold sold in markets other than Australia and New Zealand. The levy for biosecurity readiness and response activities is \$0.006 per tray for all varieties sold in markets other than Australia and New Zealand.

5 Interest income is made up of the following: interest income of \$2.57 million, interest paid of \$0.09 million and an interest charge from Zespri corporate of \$0.12 million. This results in an overall interest income to the pools of \$2.36 million.

6 KNZ is the statutory board funded under Regulation 39 of the Kiwifruit Export Regulations 1999. NZKGI is the kiwifruit grower representation body and Zespri Group Limited is required by the Commodity Levies (Kiwifruit) Order 2012 to pay a levy to NZKGI on behalf of New Zealand growers. The rate for the 2017/18 year was \$0.01 per tray of kiwifruit sold in markets other than Australia and New Zealand.

7 Zespri margin is calculated in accordance with the New Zealand Supply Agreement, being 5.0 percent of net sales (excluding collaborative marketing programmes) and 7.75 percent of fruit payments to suppliers.

8 Further analysis of non-New Zealand-grown supply is available within the segment reporting in Note 30 of the Annual Report.

9 Innovation funding has been split between the New Zealand kiwifruit segment and the new cultivars segment based on the segment activity (refer Note 2(b) and Note 30 of the Annual Report).

10 New cultivars costs include – overhead costs and innovation costs (refer to Note 30 of the Annual Report).



DELICIOUS MOMENTS AROUND THE WORLD

ZESPRI SELLS CONSISTENTLY HIGH-QUALITY, GREAT-TASTING, PREMIUM KIWIFRUIT IN MORE THAN 50 COUNTRIES AROUND THE WORLD. OUR IN-MARKET STAFF SUPPORT SALES AND EXECUTE MARKETING CAMPAIGNS TAILORED TO EACH COUNTRY WE SELL IN.



North America
Power your lunchbox

Zespri partnered with Produce for Kids for the Power Your Lunchbox Pledge. The pledge encourages families and classrooms to start the new school year off on the right foot by pledging to eat a healthier lunch filled with fresh fruits and veggies.



Mexico



Brazil

Germany
Winning at the moment of purchase

Placement trials in stores to achieve more visibility for Zespri Kiwifruit. We're now expanding a new display across 400 stores.

Belgium

United Kingdom

France

Italy

Spain

Sweden

United Arab Emirates

India



Singapore
Digital disruption in an attention-scarce world

How do you get time-strapped Singaporeans to feel alive? Zespri created a memorable campaign that allows people to discover and contribute, based on digital and consumer insights.

South Africa

China
Vitalising the Creators of Good Life

An evocative campaign that leveraged the 'vitality' attribute of Zespri Kiwifruit using integrated video media, e-commerce and social media channels. A viral hit, reaching 90 million views and creating a social media buzz.



Japan
Efficiency in marketing spend

Zespri in Japan runs fruit sampling an incredible 10,000 times a year, reaching more than 8 million customers. Accurate data, agency performance management and training have helped to deliver an increase in reach and an increase in conversion to sales.

South Korea

Taiwan

New Zealand
Promoting a healthy lifestyle with Tauranga kids

Zespri staff got up from their desks to serve smoothies, cook porridge and engage students from Arataki School in Mount Maunganui on the benefits of exercise and healthy food. The programme was created recognising statistics that show that Māori children are 50 percent more likely than their European schoolmates to develop preventable diabetes.

Hong Kong

Malaysia

Indonesia



Australia
Life's Tastier When You Go For Gold

A new marketing campaign that included TV and shopping centre advertising, marathon sponsorships, social media, point-of-sale materials and instore sampling achieved record levels of marketing support for SunGold Kiwifruit and record levels of brand awareness for Zespri in Australia.



