



ZESPRI **PRODUCER** VOTE 2019

**PROTECTING ZESPRI'S
INVESTMENT IN 12-MONTH SUPPLY
AND IN PLANT VARIETY RIGHTS**

Dear Grower,

Zespri is asking producers to vote to protect two activities that are vital in delivering strong, sustainable returns over the long-term. These are Zespri's ownership of **plant variety rights (PVRs)** and investment in **12-month supply**.

This vote arises from the 2017 amendments to the **Kiwifruit Export Regulations** and the definition in the regulations of what is Zespri's 'core business'. In our 2015 grower referendum, over 92 percent of producers who voted supported PVRs and 12-month supply being included in the definition of core business. However, these activities were not added.

Zespri believes that our ownership of PVRs and investment in 12-month supply must be protected. These activities are **fundamental to our long-term strategy**, which we have sought to implement consistently over two decades: providing the world's best portfolio of kiwifruit for 12 months of the year. This has delivered exceptional growth and value to the industry, reflected in the increase in average returns, in orchard values and in Zespri's profitability over successive seasons. We believe this strategy will continue to create enduring value in the future.

Consequently, Zespri is asking you to back two resolutions to support our ownership of PVRs and our investment in 12-month supply. The producer vote, permitted under the regulations, will enable Zespri to **continue to invest with confidence** in these two vital activities. The regulations still require that Zespri minimises any risks arising from these activities, over which KNZ will have oversight.

Information about the purpose, benefits and risk management associated with PVRs and 12-month supply is provided in this brochure, and explanatory notes are presented with the voting paper. We strongly recommend that you vote to support these essential activities.

Peter McBride
Chairman of the Board
of Directors



Bruce Cameron
Chairman-elect of the
Board of Directors



CONTENTS



12-MONTH SUPPLY 4

ZGS activities: What does 12-month supply involve? 6

Proven benefit 7

ZGS in perspective: How does the size of ZGS compare with New Zealand supply? 7

What are the risks? 10

How does Zespri mitigate the risks? 10



OWNERSHIP OF PLANT VARIETY RIGHTS (PVRs) 12

What does ownership of PVRs involve? 16

What are the risks and how do we mitigate them? 17



PRODUCER VOTE 20

How does the vote work? 23

What are the consequences of not getting producer vote approval? 24

How regulations work 25

What are the consequences for Zespri's ownership of the SunGold PVR if the producer vote approval isn't achieved? 26

What is the Regulator's role if the vote passes? 26



Zespri

New Zealand
佳沛新西兰

990228402 5192 5192 7192



nd Kiwifruit
兰奇异果



12-MONTH SUPPLY

*What do we do in the 12-month
supply side of the business?*

Zespri's 12-month supply business, called 'Zespri Global Supply' (ZGS), was established almost 20 years ago. Zespri recognised that to build the brand and maintain shelf space it needed to be a kiwifruit provider 12 months of the year. In order to do this, Zespri has worked with growers and post-harvest in the Northern Hemisphere to grow fruit to the Zespri standard and fill the shelf space for the four months when New Zealand-grown fruit is not available.

ZGS ACTIVITIES: WHAT DOES 12-MONTH SUPPLY INVOLVE?

The offshore segment of 12-month supply involves much the same as the New Zealand Zespri business, but with increased support to ensure the fruit provided is worthy of the Zespri brand on the shelves. It includes:

- Procurement of non-New Zealand-grown fruit from overseas growing locations to fill the four month gap.
- Contracts for nursery propagation, cultivation, production and associated distribution of plant material to approved growers.
- Proof of concept work in early stage locations, applying Zespri processes to existing orchards to establish feasibility of commercial growing and procurement.
- Working with local growers and government to establish improved growing practices.
- PVR licences and supply agreements for growing and distribution of non-New Zealand-grown kiwifruit.
- Supply chain management activities, including fruit quality management, pre-harvest certification activities, supply chain relations, fruit packaging management, shipping logistics and coordination, and supply chain planning.

- Activities to support the sales, marketing and market development.

PROVEN BENEFIT

Now that 12-month supply has been operating for some time, Zespri sees the following benefits:

- **More value from our marketing investment:** Having the brand in market all year around and maintaining brand awareness and the ability to keep providing fruit to our most loyal consumers throughout the year.
- **Lower promotion costs to launch the season:** With the brand already present, Zespri does not have to spend as much on marketing promotion at the start of the New Zealand season each year to re-introduce the brand to market.
- **Stronger government and trade relationships:** As well as selling into markets, our investment and partnership with local growers is recognised by governments as a positive contribution to local communities and the local economy.

ZGS IN PERSPECTIVE: HOW DOES THE SIZE OF ZGS COMPARE WITH NEW ZEALAND SUPPLY?

The 12-month supply business is relatively small compared to New Zealand supply. This non-New Zealand season (underway at present) is expected to increase supply to around 18 million trays. It is currently just 12 percent of the size of New Zealand volumes when compared to the New Zealand sales during the 2018/19 season.

New Zealand planned growth in the Zespri 10-year plan (out to 2028) is to grow non-New Zealand season demand to up to 50 million trays of SunGold (representing a total of around 5,000 hectares of SunGold licence) and



up to 20 million trays by 2028 for Green. This will support planned growth of New Zealand fruit to 157 million trays of SunGold and 62.2 million trays of Green over the same period. Therefore at that point the 12-month (non-New Zealand) supply business would be 32 percent of the size when compared to New Zealand supply, subject to the relevant figures tracking as forecast. These figures (in particular ZGS figures) are of course revisited every year based on market demand, quality and interaction with New Zealand supply to ensure ZGS volumes are optimised to best support the New Zealand business maximise value.

"WE HAVE A BOLD AMBITION TO MAKE ZESPRI ONE OF THE MOST LOVED HEALTHY FOOD BRANDS IN THE WORLD. HAVING OUR FANTASTIC PRODUCT AVAILABLE ALL YEAR ROUND HELPS TO KEEP THE BRAND IN CONSUMERS' MINDS, WHICH IS VITAL TO PERSUADING MORE CONSUMERS TO BUY MORE ZESPRI KIWIFRUIT AND TO CONNECT WITH OUR BRAND."

Jiunn Shih, Chief Marketing Officer.

Experience: An extensive international sales and marketing career prior to Zespri, including as a senior global category leader for Unilever, and involved in major brand development work for global brands.

WHAT ARE THE RISKS?

The relevant risk for the purposes of this vote is the risk to producers generally. As the direct costs and returns of the 12-month supply business are borne by Zespri and its shareholders, the risk for producers is whether an activity could affect returns to New Zealand growers, i.e. a financial risk which affects Orchard Gate Returns. That risk could arise in various ways, including:

- **Regulatory and/or legislative risk:** Zespri either in New Zealand or overseas breaches local laws which can impact on its reputation and its access to markets.
- **Loss of production:** An event that impacts New Zealand fruit production and/or impacts on the value of orchards here. Therefore in the case of 12-month supply, it is more likely to be whether any activity risks having a flow on effect on value in New Zealand.
- **Brand reputation:** Negative media, customer or government interest, and a resulting impact on demand for New Zealand fruit. Misuse of the brand by third parties.

When we assess these risks we look at their impact versus the likelihood of these events occurring, to assess the level of risk involved.

HOW DOES ZESPRI MITIGATE THE RISKS?

Zespri takes measures to mitigate risks, such as:

- Putting in place intellectual property protection through registration, enforcement and contractual obligations that protect our interests;
- Having skilled staff on the ground in overseas jurisdictions with the know-how to implement and enforce Zespri standards for fruit produced for sale overseas, as well

as to maintain close relationships with local kiwifruit producers and communities. This in turn enables Zespri to maintain oversight of activities and identify risks proactively;

- In new jurisdictions there is a great deal of time spent assessing viability and the business case, alongside the ability to effectively enforce and protect Zespri's interests. Each jurisdiction will have issues in common with others and some have unique risks that have to be taken into account.

These mitigation measures protect producers from the risk that the 12-month supply business affects their returns.

For an explanation of what is excluded in the 12-month supply vote, please refer to page 22.

"GROWTH IN OUR OFFSHORE SUPPLY ALLOWS US TO MEET INCREASING CONSUMER DEMAND FOR OUR PREMIUM QUALITY KIWIFRUIT AND ENSURE THAT OUR BRAND REMAINS TOP OF MIND IN THOSE MONTHS OF THE YEAR WHEN HIGH QUALITY NEW ZEALAND-GROWN KIWIFRUIT IS UNAVAILABLE. ULTIMATELY, THE AIM IS TO MEET THE NEEDS OF OUR CONSUMERS AND SUPPORT SUSTAINABLE LONG-TERM RETURNS FOR OUR NON-NEW ZEALAND AND NEW ZEALAND-GROWN CROP."

Sheila McCann-Morrison, Chief International Production Officer.

Experience: Over 25 years in the global fruit industry with senior roles in Dole and Chiquita.





OWNERSHIP OF **PLANT** VARIETY RIGHTS [PVRs]

What does owning PVRs involve?

Zespri has a comprehensive research and development programme in conjunction with Plant & Food Research (“PFR”). The objective is to produce and select kiwifruit varieties with commercially desirable characteristics, which Zespri may evaluate with a view to commercialising varieties that will fit within the kiwifruit portfolio and be desirable to consumers. Developing these PVRs is vital for the future of the business.

The research and development side of this work is now part of Zespri’s core business under the Kiwifruit Export Regulations. However, the ownership of the resulting PVRs were not specified as part of core business. Under the operating agreement with PFR, Zespri invests significant sums to develop new varieties and as a result Zespri owns the material that results from the research. Zespri applies for the PVRs to be protected in New Zealand and in the relevant jurisdictions overseas.

"A NEW CULTIVAR CAN TRANSFORM OR PROVIDE A STEP CHANGE FOR THE KIWIFRUIT INDUSTRY, AND IS FUNDAMENTAL TO IMPROVING THE PRODUCT WE OFFER THE CONSUMER IN THE LONG-TERM. WHILE WE HAVE SOME GREAT CULTIVARS TODAY, THIS DOES NOT ASSURE US OF GOOD PROFITS IN THE FUTURE. BEING ONE OF NEW ZEALAND’S BIGGEST EXPORT COMPANIES GIVES US THE ABILITY TO INVEST LONG-TERM TO DEVELOP SUPERIOR PRODUCTS, AND USE OUR SCALE AND BRAND-POWER TO THEN COMMERCIALISE AND REALISE VALUE FROM THE CULTIVARS."

Bryan Parkes, New Cultivar Innovation Manager
Experience: Previously operations manager for the Zespri-PFR breeding programme.

SPEND ON KIWIFRUIT NEW CULTIVAR DEVELOPMENT

The below table shows the amount Zespri has invested between 2000 - 2017 in projects relating to developing new cultivars.



15

WHAT DOES OWNERSHIP OF PVRs INVOLVE?

Zespri's ownership of PVRs means Zespri can identify and focus on the varieties that demonstrate attributes most suitable for Zespri's export portfolio and for New Zealand growers to produce. For example, varieties that are more Psa resistant, deliver superior value to growers, and maintain quality during storage and shipping.

Extensive trialling takes place both in New Zealand and overseas prior to commercialisation.

Identifying and developing new varieties enhances the sale of Zespri Kiwifruit and has underpinned the industry's growth, particularly over the last few years with SunGold. This programme is anticipated to do the same with new varieties that are now on the horizon.

Zespri licenses new PVRs to growers. Licensing is a means of recovering the cost of investment in developing PVRs, which is a corporate cost. It is an efficient way to ensure those that grow the fruit (whether in New Zealand or overseas) are bound by the contractual terms for growing and supply of the varieties owned by Zespri. Zespri has the ability to terminate the licence for breach of licence conditions, and enforce its PVR rights against anyone that infringes the PVRs in New Zealand and in overseas countries where the PVR has been applied for or already registered. Infringements include anyone illegally obtaining the plants and growing them without a licence.

In New Zealand, royalties are collected on the sale of fruit and revenue is also made from the sale of licences.

Licences granted to growers offshore through 12-month supply have a royalty built into their margin payments to Zespri, so they pay a higher percentage to Zespri from the fruit supplied.

WHAT ARE THE RISKS AND HOW DO WE MITIGATE THEM?

Again, the relevant risk for the purposes of the vote is to producers generally, rather than to Zespri which bears costs and returns from ownership and commercialisation of PVRs, or to growers who take up PVR licences. In other words, the risk is ultimately about whether anything could affect Orchard Gate Returns for all producers.

There are risks to Zespri, and to growers who take up PVR licences. One of the risks associated with owning PVRs is obtaining adequate protection of the asset. There is also the risk in loss of value of licences if there were to be significant infringement, and the associated risk of lower returns, although Zespri's quality standard associated with use of the brand somewhat off-sets the latter.

We take steps against third parties that illegally obtain the plants so as to prevent from growing them or to make them cut out plants in order to protect the integrity and value in the licences for the benefit of the New Zealand industry. Zespri actively monitors the growing of the PVR plants and enforces rights against infringers.

The licence agreements are important also from the perspective of requiring supply to be made ultimately to Zespri and linking with supply chain requirements that ensure the fruit meets Zespri's quality specifications. In addition, Zespri maintains trademarks associated with its varieties, so the link between the quality of the fruit and the brand are therefore integrated, along with the supply chain. This means that similar risks, such as loss of brand reputation, are avoided.

Another risk is that we 'jump the gun' and commercialise before the variety has been fully evaluated and trialled. Demand for

a variety may appear strong, but if it is commercialised too soon and results in a variety that it is not easy to get through the supply chain to market in good condition, then there will be a significant cost and losses for licensed growers. While Zespri can't guarantee its trials will anticipate every potential risk, given the nature of plants and the natural environment, it can and does do its best to mitigate those risks by conducting extensive trials, from growing through to market, to work through potential issues.

Zespri does its best to inform licensed growers of new varieties that there is no guarantee of the fruit's commercial success because ultimately that depends on the consumer.

Zespri considers that risks to returns for producers generally, as distinct from licensed growers, from owning and commercialising PVRs are low. However, the mitigation measures Zespri uses to manage commercialisation risks also protect producers generally, and not just licensed growers.

"INNOVATION SITS AT THE HEART OF ZESPRI AND WE'RE CONSTANTLY CONSIDERING 'WHAT'S NEXT?' THAT'S TRUE NOT ONLY IN THE WORK WE DO TO EXPLORE NEW CULTIVARS LIKE SUNGOLD THAT GIVE OUR CONSUMERS DELICIOUS NEW EATING EXPERIENCES BUT ALSO IN OUR DETERMINATION TO DEVELOP TOOLS AND TECHNIQUES TO GROW ZESPRI KIWIFRUIT PROFITABLY AND SUSTAINABLY IN LIGHT OF THREATS LIKE PSA."

Carol Ward, Chief Innovation and Sustainability Officer.

Experience: Previously Zespri's General Manager for Marketing, plus leadership roles in planning and supply and corporate and grower services.





PRODUCER VOTE

*What are we asking producers
to consider?*

IN THIS VOTE, THERE ARE TWO RESOLUTIONS:



1
Resolution one asks producers to vote for or against Zespri continuing to proceed with its 12-month supply business



2
Resolution two asks producers to vote for or against Zespri ownership of PVRs.

It is important to note that Zespri has expressly excluded the commercial growing and procuring of kiwifruit in China and Chile from the vote.

We feel that China carries with it unique circumstances and given the experience of other industries going into production in China, it requires separate consideration. In the case of Chile, it would require a significant business case for New Zealand growers to feel they would benefit from growing kiwifruit in this Southern Hemisphere country which already has growers competing head-on against Zespri.

Aside from the exceptions outlined above, this producer vote approval will effectively enable Zespri to continue with 12-month supply and ownership of PVRs as if they are part of core business, but with one additional requirement.

That requirement is that the Regulations require Zespri to mitigate the risks from these businesses for producers that do not vote in favour of the resolution (whether they voted or not). Zespri as a matter of course actively mitigates risks for all producers.

The regulator, KNZ, will also continue to monitor Zespri's activities to ensure it only carries out those it is authorised to.

PRODUCER VOTE

The Zespri Board has determined that if it wishes at any time to exceed the 10-year plan figures of up to 5,000 hectares of SunGold planted offshore and purchasing up to 20 million trays of Green, or to grow more than 1,000 hectares of any other new variety offshore, it intends to come back to producers to discuss this and to carry out a further vote before it would exceed these thresholds.

HOW DOES THE VOTE WORK?

Each producer votes once. A producer is a landowner or a lessee (with a lease of at least one years' duration as at 30 January 2019) of land on which kiwifruit is grown for supply to Zespri.

Each vote is counted in two ways.

The first count of votes, is a simple count of all landowners and lessees that voted, and the number of those that vote in favour. This is referred to as the 'Producer Count'.

The second count is of the production weight in kilograms of those who vote. It is based on an average of the last two completed seasons being the 2016 and 2017 season (ending March 2017 and March 2018) and is all fruit supplied to Zespri. This is referred to as the 'Fruit Weight Count.'

In the case of an orchard that is leased, the vote of the landowner is counted by default for that orchard's production weight. However, if the landowner has notified Zespri by 18 January 2019 that it wished for the lessee's vote to count for the production, then the lessee's vote will be counted for the Fruit Weight Count.

To pass, the producer vote resolution must be passed by 75 percent of those who vote (the 'Producer Count'), and by 75 percent of the production in kilograms of those who voted (the 'Fruit Weight Count').

WHAT ARE THE CONSEQUENCES OF NOT GETTING PRODUCER VOTE APPROVAL?

Zespri considers that both activities support core business and can continue to be carried out on that basis. However, if KNZ decided that either activity did not support core business, KNZ could decide that Zespri must limit, or cease, that activity. The only exception would be if it were PVR ownership, as Zespri would at a minimum still retain PVRs it already owns (for example SunGold).

In ceasing these activities, practically this would likely mean Zespri would sell these businesses, and do its best to obtain fair value for these businesses to return value to the company and ultimately shareholders.

This means Zespri exiting its markets overseas for about four months of the year, and changing part of its marketing strategy to account for the need to re-build brand awareness every year in time for New Zealand supply coming online in April. Zespri would have to potentially increase its marketing spend to attract back regular consumers of Zespri varieties again, and renegotiate with retailers to regain shelf space. This also leaves a gap for third party kiwifruit suppliers in the Northern Hemisphere to fill shelves in those four months of the year.

With respect to PVR ownership, Zespri's inability to own future varieties would see a significant shift in its focus in this area. For Zespri there would be less incentive to invest in development of plant varieties.

The impact would be less if KNZ decided to restrict the activity, rather than requiring it to cease.

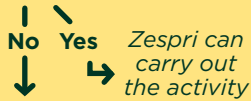
HOW REGULATIONS WORK

STEP 1

An activity is under consideration or an activity was carried out before the new Regulations came into force

STEP 2

Is the activity core business (or does it have transitional provision protection*)?

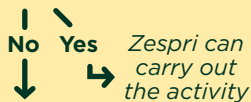


STEP 3

Does the activity meet the legal 'support core business' test below?

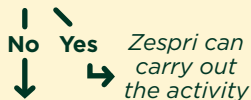
- Does it enhance the performance of core business; and
- Is it low risk to the interests of producers?

If so notify KNZ (the regulator), and if they agree this provision applies, then Yes. If not, then go to step 4



STEP 4

Have producers voted in favour of Zespri carrying out the activity (75% by number and 75% by weight of production, of those who voted)?



STEP 5

Zespri cannot carry out the activity

**Transitional provision protection for existing contracts/ assets in place prior to 1 April 2017 and assets arising from contracts in place at that date, where notified to KNZ during transition period under new Regulations.*

Can go direct to step 4 producer vote as a back up to step 3

WHAT ARE THE CONSEQUENCES FOR ZESPRI'S OWNERSHIP OF THE SUNGOLD PVR IF THE PRODUCER VOTE APPROVAL ISN'T ACHIEVED?

The PVRs that Zespri owned prior to 1 April 2017, such as SunGold, will remain Zespri varieties under the protection of the transitional provisions in the Regulations.

Depending on who purchases the rights to the new varieties under development, it would be a matter of whether that entity would want to be in the business of investing in research and development for further new varieties. That party would also not be restricted in terms of who they licensed varieties to overseas. So they could sell licences to third parties who have no obligation to supply fruit through Zespri, which could significantly increase our competition.

Zespri's business would be much more limited to supply from New Zealand, and face much more adverse market conditions.

WHAT IS THE REGULATOR'S ROLE IF THE VOTE PASSES?

If the producer vote passes, there is still an important role for KNZ as the regulator. In addition to its role pursuant to other parts of the Regulations, Zespri is required to mitigate the risks for producers who did not vote in favour of the resolution (whether or not they voted), as it does with all producers. KNZ will have oversight over this. It will also continue to monitor Zespri's activities to ensure it only carries out activities it is authorised to do.

HOW TO VOTE

THE VOTING PERIOD

Opens from 9am,
Friday 22 February

and closes 12pm on
Friday 15 March 2019.



YOU CAN VOTE BY

post

or

online.



You will also be able to vote and ask questions at the Zespri Grower Roadshows that run from 21 February to 1 March. The Zespri Board encourages you to come to the roadshows if you can. Refer to the Canopy website and the January *Kiwiflier* for dates and venue information.

The Independent Returning Officer, electionz.com, is running this voting process.

The Board of Directors of Zespri strongly encourages you to vote yes to both resolutions.

VOTING ENQUIRIES

For voting enquiries, including requests for replacement voter packs, please contact the election helpline on 0800 666 946 (New Zealand residents) or 00 64 3 377 3530 (overseas residents) or email iro@electionz.com.

Zespri Grower Support Services
0800 155 355
contact.canopy@zespri.com.



Whilst Zespri had endeavoured to ensure that the information provided in this brochure is accurate, Zespri shall not be directly or indirectly liable (whether in contract, tort or otherwise) to any person for any statement, representation, misrepresentation, inaccuracy, omission or otherwise in respect of, or any reliance by any person on, any information or documentation Zespri or any of its representatives directly or indirectly makes available or otherwise discloses (whether orally or in writing) in this document or in relation to this document.

©2019 Zespri Group Limited. All rights reserved.