

NOVEMBER 2017



Zespri 5 YEAR OUTLOOK



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An aerial photograph of a dense forest, likely a coniferous forest, with a grid of thin, light-colored lines overlaid on it. The lines form a pattern of irregular polygons, possibly representing a survey grid or a network of paths. The forest is dark green, and the lines are a light, almost white color. The overall image has a high-contrast, somewhat abstract appearance.

INTRODUCTION

Purpose of this communication

This outlook provides a summary of Zespri's rolling Five Year Plan, which is updated and reviewed by the Zespri Board annually. This updated publication covers the period from 2017/18 to 2021/22. A special extended commentary on Zespri's 10-year view of demand and supply is provided in Section E.

The outlook provides a snapshot of how Zespri's medium-term strategy will be implemented by category, and sets out the challenges and opportunities ahead. The Outlook relies on a number of assumptions and the further out we look, the less certain we become of these assumptions, and the more the plan becomes directional.

Our intent is to provide information for growers to inform their business decisions, whether that is investing, divesting or changing their variety mix. More generally, the Outlook aims to provide shareholders with an explanation of our strategy and direction. This strategy and direction may, of course, change over time in response to new developments and new ideas.



Key points from this Outlook

- Zespri's purpose is to deliver long-term value for growers and shareholders by helping more consumers lead healthy and delicious lives. Our strategy is to market the world's leading portfolio of kiwifruit 12 months of the year.
- After emerging from the impact of Psa, the industry is in a period of strong growth. In this context, Zespri remains committed to preserving its position as the category leader through delivering a high-quality product and a premium, branded strategy.
- Zespri's strategy is essentially unchanged, however this latest Five Year Plan charts faster growth rates and more aggressive investment to build demand ahead of supply.
- Gross supply from New Zealand continues to increase rapidly from 96 million trays in 2014 /15, to 120 million trays in 2015/16, to 146 million trays in 2016/17. Gross supply decreased to 124 million trays in 2017/18 as a consequence of seasonal factors, but we expect New Zealand volumes to continue to grow strongly to 2021/22. This is mainly driven by SunGold plantings, with NZ volumes projected to increase from 45 million trays in 2016/17 to over 88 million trays in 2021/22. The acceleration of supply of SunGold, following the announcement of the release of 3,750 hectares of licence, including organic, over the next five years, will only start to impact supply volumes towards the end of this outlook.
- Green volumes are proving to be unexpectedly dynamic with exceptional improvements in average orchard productivity of around 30 percent between 2014/15 and 2016/17 taking yields to over 12,000 trays per hectare.
- The 2017/18 season has seen Green yields back around 9,000 trays per hectare, but it is important to consider that this yield would be considered strong in historical terms and we expect to see average Green yields over 10,000 trays a hectare in the long term, reflecting improving growing practices in New Zealand.
- A focus over the next five years is to seize the growth opportunity inherent in the fantastic success of SunGold, while continuing to grow Green demand. Following the success of SunGold to-date, Zespri has followed up the 2016 release of 400 hectares of SunGold licence with a second tranche of 400 hectares of SunGold licence in 2017. Zespri now intends to allocate 700 hectares of SunGold licence and 50 hectares of Organic SunGold per year from 2018, subject to a review of performance and demand growth at the conclusion of each selling season.
- On the supply side, our strategy is about optimising delivered quality to markets through a lean and efficient supply chain which effectively passes market signals back to growers. This is about optimising taste and ready-to-eat quality and working relentlessly to improve our supply chain processes.
- On the demand side our strategy is about optimising product choices and service levels for our retail and distribution customers through a robust, sustainable, supply chain that reliably delivers safe, healthy, traceable, high quality, branded kiwifruit and world class sales and marketing support.

Delivering on our long-term mission

- Aligned to our purpose of delivering long-term value is a mission to grow global sales revenue to \$4.5 billion by 2025.
- This is an aspirational goal about our growth trajectory. Zespri is committed to ensuring that sales growth delivers value for growers. This is through our continued focus on delivering a premium-branded strategy, supported by investment in sales and marketing, innovation and 12-month supply and ongoing supply chain improvements.
- Our strategic drivers to deliver on our strategy and mission are to increase demand, fulfil demand and innovate.
- Increasing demand involves rapidly growing demand ahead of supply; increasing overall frequency of consumption; and building consumer resonance with the Zespri brand. Our goal is to grow the category and Zespri's share of the category through attracting new buyers globally and increasing the frequency of consumption in targeted markets.
- To fulfil demand, we are seeing strong growth in both New Zealand and non-New Zealand supply. Our Zespri Global Supply (ZGS) business continues to be a source of competitive advantage allowing Zespri to supply retail customers for 12 months of the year.
- The \$4.5 billion in targeted global sales in 2025 equates to volume supply of around 260 million trays from both New Zealand and Zespri Global Supply. The volume of trays and mix of products contributing to the \$4.5 billion target will change with the plan announced in October 2017 to accelerate SunGold licensing in New Zealand, and will be dependent on the mix of conversion to SunGold versus new plantings. With increased new planting and less conversion, we would expect to potentially exceed the target.
- Furthermore, we expect that an additional contributor to sales growth toward the end of the period to 2025 will be the potential commercialisation of a new proprietary green variety, as well as potential red and novel varieties.
- Zespri together with Plant & Food Research invests around 1.5 percent of New Zealand revenue in innovation, with new cultivar development forming the biggest share of our innovation programme. The development of new products in our portfolio, with strong consumer appeal and great agronomics, will help create value for the industry.
- For more information on Zespri's long term view of supply and demand beyond 2025, see Section E.



INDUSTRY CONTEXT

Opportunities

The longer term operating environment is positive in light of these general trends:

- **Ageing populations:** Older consumers generally eat more fruit, are wealthier and respond to health messaging.
- **Rising middle classes:** Rising middle class and urbanisation in developing economies will support spend on protein and high quality fresh food.
- **Health and wellness:** an increasing focus of governments and populations particularly as obesity and diabetes become ever more significant concerns.
- **Focus on food safety and sustainability:** governments, retailers and consumers are demanding greater compliance on the complex issues of food safety and sustainability. The scale of the New Zealand kiwifruit industry offers growers a competitive advantage through offering major retailers secure supply and safe, socially-responsible food production systems.

In addition to these broad macro trends, there are several factors that are positive for the New Zealand Kiwifruit Industry:

- Leveraging free trade agreement opportunities. For example, the South Korea FTA has significantly reduced tariffs of New Zealand kiwifruit imports.
- The growing presence of brands and consumer goods marketing activity in the fruit category.
- The continued development of production and supply chain technologies that will increase productivity and reduce costs.



Challenges & Risks

While our future is positive, growers should assess the business of growing and exporting kiwifruit from New Zealand as being relatively high risk and should configure their businesses accordingly.

Some factors growers should be aware of include:

- Increasing global debt levels and market and debt bubbles in some countries raising the risks of economic volatility and financial crises.
- The potential global economic impact and risk for emerging market economies associated with US dollar rate rises.
- The rise of anti-free trade sentiment globally.
- A trend toward declining fruit consumption in developed markets.
- Biosecurity: the broad spectrum of pests and disease that can affect crop quality, volume and market access.
- Market access. While Zespri is working hard to broaden our market base, loss of any major market during a season could result in an over-supply of fruit relative to demand.
- Product contamination or tampering requiring product recall and causing brand damage.
- Increasing competition: as competitors try to leverage the value space created by Zespri.
- Increasing compliance and regulatory requirements.
- Increasing supply chain pressure as SunGold becomes a bigger share of the portfolio.





CATEGORY UPDATES



Green (Hayward)

Situation and challenges

A good way to think about our Green business is to consider it from demand and supply perspectives.

On the demand side we continue our focus on developing markets and sales channels and marketing the health benefits of this fantastically-healthy product. This investment means that we are confident we can continue to grow demand for Green at around two to four million trays a year.

We continue to build our understanding of the extent to which consumers substitute Gold for Green. At this time the data suggests there is a relatively small substitution effect depending on the price differential, but it appears Gold is taking more share from other fruits than it is from Green kiwifruit. There is demand for Green and sufficient Green is required to maintain a balanced portfolio for our customers and maintain our category leadership position. Most of the competitive kiwifruit grown outside of China is still Green. Zespri continues to focus on getting the per tray return up for Green and, all other things being equal, we expect we can maintain orchard gate returns over \$5.50 per tray except in very high yield and high volume years or where markets are uncharacteristically soft.

On the supply side, Green is characterised by greater-than-expected yield volatility. The volume for the 2014/15 season was nearly 70 million trays, increasing to over 80 million trays in the 2015/16 season and to a record crop of 91 million trays in the 2016/17 season. The 2017/18 crop volume reduced to 65 million trays. This volatility raises the question of what is the new normal for average Green yields. The best answer we

have to this question at this time is that we expect that a new normal has moved from the historical 8,000 to 9,000 trays per hectare to 10,000 to 11,000 trays per hectare. That is very positive provided we can deliver these yields with good taste and storage characteristics.

Through this five-year planning horizon, the planted area of Hayward is expected to moderate through the ongoing availability of SunGold licence. This will tend to have the effect of reducing Green hectares and supporting Green returns.



Green (Hayward)

Marketing and market development

Optimising the taste attributes of the product is the most important aspect of differentiating Zespri Green from competitor Greens around the world and maintaining our price positioning. That is why the last taste review was so critical, particularly in the context of improving Green yields. Higher volumes are manageable provided taste performance is also good. Expect Zespri to initiate further Taste Zespri reviews depending on taste performance of successive crops.

Building demand for higher volumes requires several elements:

- Investing in market and sales channel development to build a broadened distribution base.
- Optimising product quality, taste and availability for early and late supply.
- Strengthening retail relationships, creating awareness of Zespri's quality attributes.
- Investing in brand marketing to create consumer demand for our premium proposition.
- Focusing strongly on health communication to recruit more regular eaters of kiwifruit to the category, particularly around the digestive health properties of Green Kiwifruit.
- Offering 12-month supply to customers to maintain Zespri's position.

In terms of market allocations, Europe will continue to take the largest share of Green in 2021/22 – accounting for around 40 percent of global sales. Zespri is also targeting growth in certain markets – from a relatively low base – including in South-East Asia, South Korea, South Africa and India. We expect we can continue to grow Green demand in both Japan and China.

In the long term, Zespri is focused on deepening penetration into the value chain and enhancing retail relationships.



Green (Hayward)

Points ahead

We are seeing signs of oversupply of Northern Hemisphere Green due to strong growth in Italian, Greek and Chinese supply volumes, although it also seems that Northern Hemisphere volumes are volatile due to seasonal factors and the impact of Psa and other pests and diseases. The strong growth in Northern Hemisphere supply is good and bad: good in that supply growth supports category growth; bad in that when markets are oversupplied that pushes northern hemisphere fruit early and late into the Southern Hemisphere sales window.

It appears Chile continues to struggle with variable quality and seasonal impacts reducing supply volumes.

Hayward continues to be the dominant Green cultivar globally although we are aware of new Greens with stronger consumer attributes. We expect that in the longer term someone will be successful in breeding a better Green that will take significant market share from Hayward.

From a Zespri perspective our high level approach is to:

1. Work systematically to optimise the quality of Hayward Green kiwifruit and to grow demand for Zespri Green 12 months of the year;
2. To continue the long term work of breeding and commercialising a New Green that will unlock further growth in the Green category. The earliest possible commercialisation of a new Green would be in 2018.

Through this planning window we expect average per hectare returns at over \$55,000, subject to seasonal factors. We note that very low yield years, of less than 9,000 trays per hectare, would challenge this outlook.



Green (Hayward)

Distribution of performance across orchards

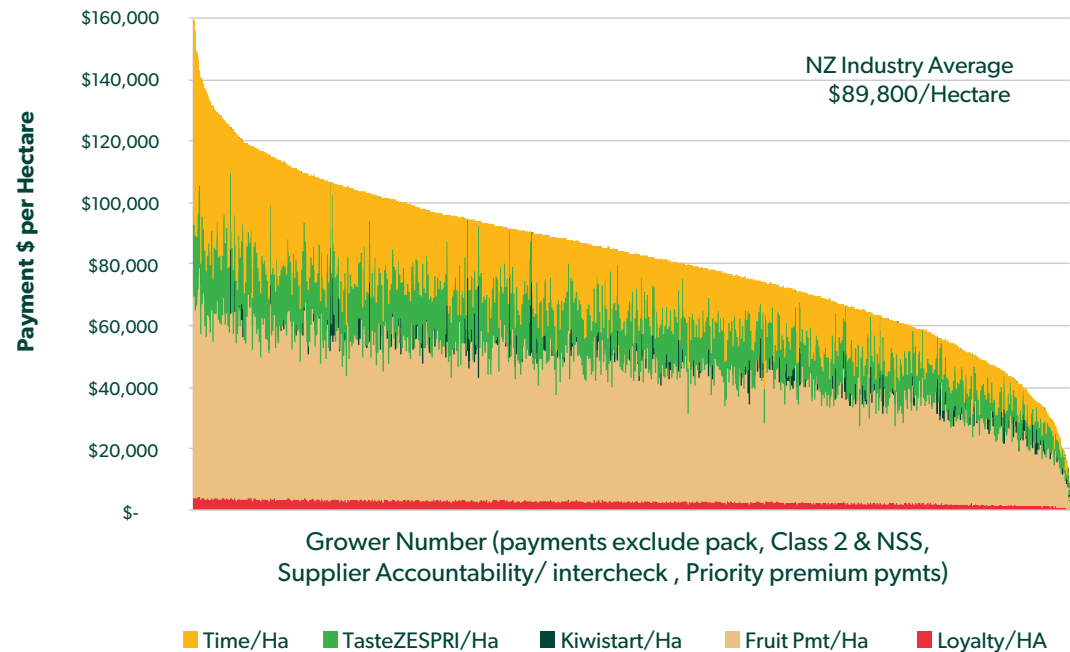
Based on the final 2016/17 season result published in May 2017, the average Fruit and Service Payment, including loyalty, paid per hectare is \$89,800.

The average yield is 12,281 trays per hectare which is up from 11,048 trays per hectare in 2015/16. The average size per tray is 32.5, which is the same as the previous season.

The largest portion of the Fruit and Service Payment is fruit payments (56 percent), which comprises a submit payment of \$2.25 per tray and progress payments of \$1.95 per tray. The Taste Zespri Grade contributed \$1.40 per tray on average, up from the 2015/16 season, and taste contributed 19 percent of the overall Fruit and Service Payment.

ZESPRI® GREEN Kiwifruit Fruit & Service Payments 2016/17

(based on the final result published in May 2017)



Green (Hayward)

Orchard Gate Return

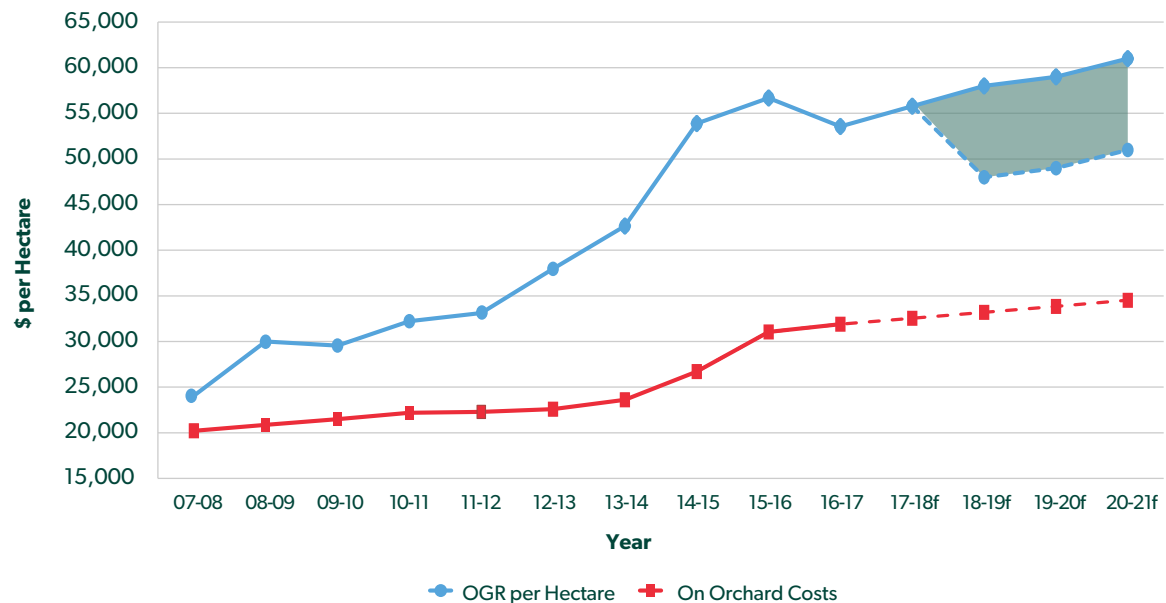
The final 2016/17 season result published in May 2017 shows the Zespri Green average OGR per hectare at \$53,555. This is the third season in succession that has delivered per hectare returns of over \$50,000.

The result on a per hectare basis reflects the exceptional yield of large-sized Hayward.

The projected OGR range per-hectare, based on Zespri's Five Year Plan, is shown opposite. The range has been increased to \$10,000 in the years ahead, reflecting current uncertainty over supply volumes. *Note that a significant factor that could increase the forecast range for Green is volume supplied. In the longer term, beyond the five year plan, we expect to deliver average per hectare returns for Green of \$55,000 to \$65,000. As green volumes reduce through grafting it is expected that average returns will be closer to the top of the range. See slide 46 for information on the 10-year estimate of average returns.*

On-orchard costs per hectare are estimated to have averaged \$31,900 in 2016/17. The increase on the previous season reflects costs associated with the very large increase in average yields. This figure excludes any management fees and debt servicing costs. The projection assumes a two percent inflationary increase year-on-year, however we note that potential cost increases relating to wage inflation and compliance may increase this factor.

ZESPRI® GREEN OGR / COSTS PER HECTARE



Green (Hayward)

Net Orchard Return

The graph shows the spread of orchard or part-orchards throughout the country and their expected net orchard returns (NOR) based on the final result for 2016/17.

NOR is the average amount received for each orchard or part orchard after Zespri, post-harvest and on-orchard costs are deducted. In this case, an average of \$3.33 per tray for post-harvest costs and an average of \$31,900 per hectare for on-orchard costs were used.

ZESPRI® GREEN Kiwifruit Net Orchard Return (NOR) 2016/17 per Hectare (based on the final result published in May 2017)



Gold

Situation and challenges

The forecast supply volume of NZ SunGold is over 88 million trays in 2021/22.

The Outlook incorporates Zespri's previous plan to release up to 2,000 hectares of additional SunGold in New Zealand licence over the coming years, with 400 hectares of licence already allocated during 2016 and again in 2017. It also takes account of existing plantings coming into full production. However, it does not take into account Zespri's decision to accelerate SunGold licence allocation, announced in October, with 750 hectares (including organic) to be released annually up to 2022. Note though that the effect on volume of this revised plan doesn't start to come into play until the back end of the five year plan. It is important to note that planned licence release will only be confirmed at the conclusion of each season depending on quality and demand growth performance of SunGold.

The focus on growth of SunGold is driven by the positive market and consumer response during the past two seasons. Optimism in the growth potential of SunGold is strong.

Taste is even more important for SunGold than it is for Green because SunGold does not deliver on the consumer promise at lower dry matter levels. Growers have supported measures to improve the financial incentives for growing higher-tasting fruit by moving the Gold Minimum Taste Standard (MTS), reducing sampling variability and modifying the Taste Zespri Grade. A second adjustment in the MTS has been made for the 2017 season. This focus on taste is all the more important given the plethora of potential competitor new varieties coming into the market.

One positive result from the 2016/17 season (and the 2017/18 season) is that Zespri has demonstrated that SunGold can store and maintain quality later in the season in increasing volumes. We note that we experienced storage breakdown disorder in some lines of fruit and this is a space where further technical learning is still required. There are additional sales opportunities for SunGold both early and late in the season.



Gold

Marketing and market development

We will continue to invest strongly in SunGold promotion in strategic markets, with investment declining as a percentage of revenue through to the end of the plan as SunGold becomes established and growth rates slow.

Achieving sales rate growth in markets requires a good supply of fruit early, great-tasting fruit and extended logistics capacity. The tools we use are: price, promotion investment, investment in sales and marketing resources, distribution expansion and focus on taste.

For Hort16A, remaining supply (around 300,000 trays in 2017) will be managed and allocated to mitigate complexity and consumer confusion as volumes of SunGold rapidly increase and Hort16A comes out of production.



Gold

Points ahead

We are confident that our current price positioning of SunGold is sustainable in the current competitive environment. Our pricing will inevitably come under pressure as competitor Golds enter the market. We are seeing this in the Northern Hemisphere already but it appears Chile continues to struggle to commercialise Golds due to pest and disease-related issues. Growers should anticipate alternative southern hemisphere supply options will eventually be successful and therefore returns will moderate in the longer term.

Modelling suggests average OGR per-hectare returns can be sustained above \$100,000 over the five year timeframe (assuming a continued lack of Chilean Golds), on volumes growing to over 88 million trays in 2021/22. As always this Outlook is dependent on seasonal factors, such as volume, taste and market conditions, and on broader factors such as biosecurity and market access.

The strength of our strategy is underwritten by the quality performance of SunGold and our plan is based on the assumption that taste and storage characteristics meet customer expectations and continue to drive sales rates and an extended sales window.

Currently demand growth is strong and we believe we can grow SunGold at up to ten million trays a year. We will inevitably see a flattening of demand at some point in the future and understanding demand growth potential is a key focus for us. At the conclusion of each season we will review quality and storage-related performance together with the growth in weekly runrates we have achieved in that season and the potential demand in each market. Based on this review we will confirm the licence release volume for the following year.

It is strategically important to grow SunGold as quickly as we sensibly can in the competitive context. This is because we are in a race to capture market share versus competitor Golds.

It also allows us to offer value-adding opportunities to growers to expand their production base with a proven high returning Plant Variety Right product, strengthening our supply base.



Gold

Distribution of performance across orchards

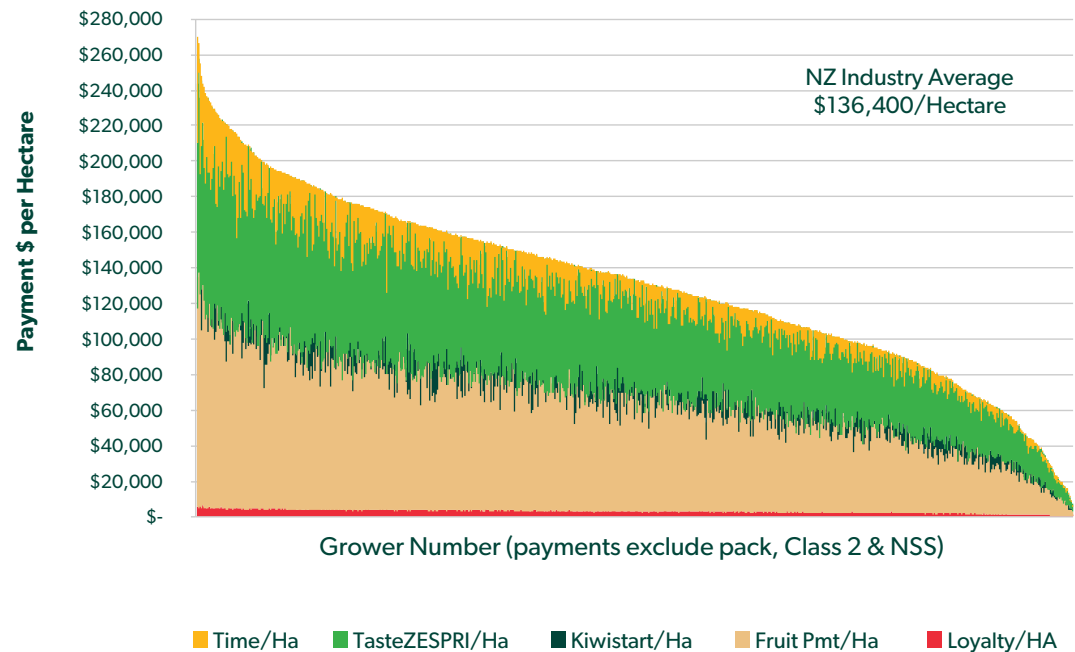
Based on the final 2016/17 season result published in May 2017, the average Fruit and Service Payment, including loyalty, paid per hectare is \$136,400.

The average yield is 11,442 trays per hectare which is up from 8,653 trays per hectare in 2015/16. The average size per tray is 29.9, compared with 30.8 for the previous season.

The largest portion of the Fruit and Service Payment is fruit payments (49 percent), which comprises a submit payment of \$2.80 per tray and progress payments of \$3.20 per tray. The Taste Zespri Grade contributed \$4.40 per tray on average, slightly down on the 2015/16 season, and taste contributed 38 percent of the overall Fruit and Service Payment.

**ZESPRI® GOLD Kiwifruit
Fruit & Service Payments 2016/17**

(based on the final result published in May 2017)



Gold

Orchard Gate Return

The final 2016/17 season result published in May shows the Zespri Gold average OGR per hectare at \$98,838, which is up from \$71,080 in the 2015/16 season.

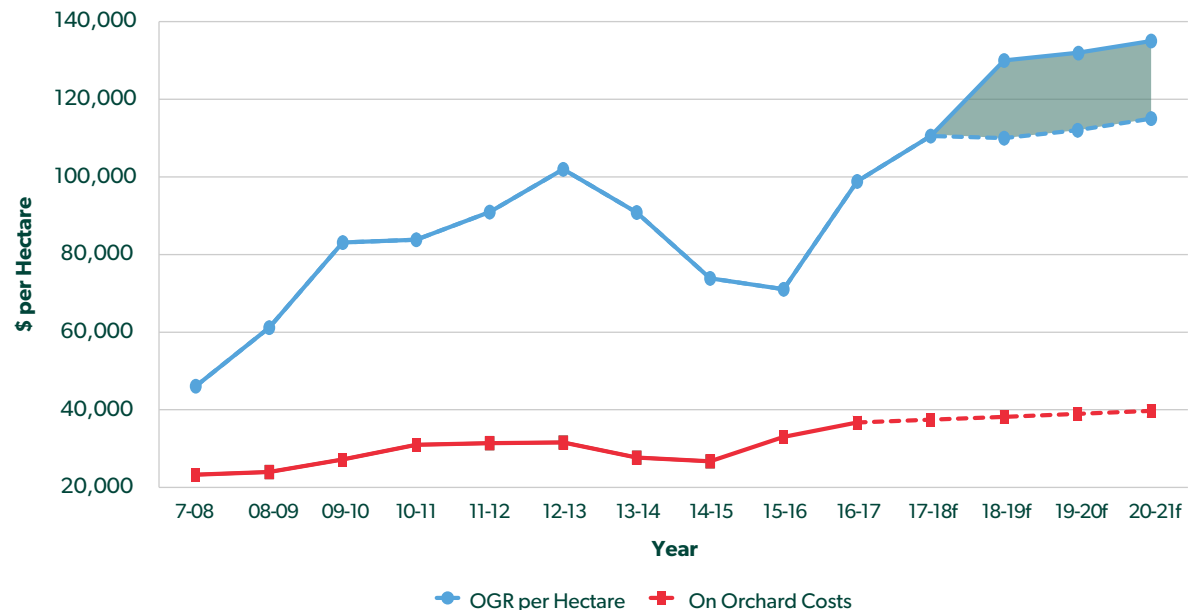
This is explained by strong increase in average yields as SunGold orchards come into full production. The very positive customer and consumer response to SunGold in the markets has also supported pricing despite the substantial increase in supply.

The projected OGR range per hectare, based on Zespri's Five Year Plan, is shown opposite. For planning purposes, this assumes the continued release of additional tranches of SunGold licence, which are subject to annual stop/go decisions.

On-orchard costs per hectare are estimated to have averaged \$36,700 in 2016/17. This is based on Zespri's annual industry survey of growers and orchard managers.

This figure excludes any management fees and debt servicing costs. The inflation in cost is assumed to be greater than for Green during the year 2016/17. This estimate assumes an increase in costs of harvesting, thinning and related costs due to an increase in crop load. The projection includes a 2 percent forecast of inflation year on year, however we note that potential cost increases relating to wage inflation and compliance may increase this factor.

ZESPRI® GOLD OGR / COSTS PER HECTARE



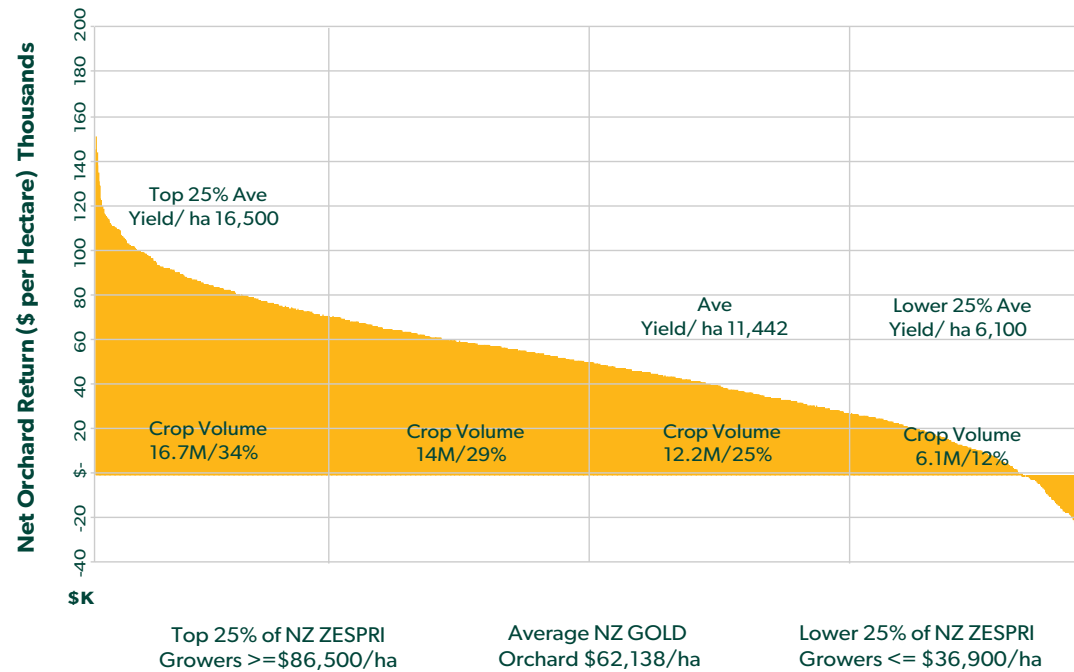
Gold

Net Orchard Return

The graph shows the spread of orchard or part-orchards throughout the country and their expected net orchard returns (NOR) based on the final result for the 2016/17 season published in May 2017.

NOR is the average amount received for each orchard or part orchard after Zespri, post-harvest and on-orchard costs are deducted. In this case, an average of \$3.93 per tray for post-harvest costs and an average of \$36,700 per hectare for on-orchard costs were used.

**ZESPRI® GOLD Kiwifruit
Net Orchard Return (NOR) 2016/17 per Hectare**
(based on final result published in May 2017)



Organic

Situation and challenges

Organic Green and Organic SunGold are an intrinsic part of Zespri's overall portfolio offer.

There are a number of positive general factors for the category. Organic sales around the world are growing strongly underpinned by broad consumer desire for healthy, nutritious, safe and good tasting foods.

The core markets for Zespri organic kiwifruit remain North America, Europe and Japan, which account for over 80 percent of global sales by volume. We expect organic sales in China, Korea, Taiwan and South East Asia will grow rapidly but off a low base.

We expect Organic supply of Green will continue to fluctuate, however, demand is exceeding supply with stronger demand signals being seen in market than previously. The challenge will be to unlock the value associated with this strengthening demand to support a requirement for more supply. Organic SunGold is expected to continue to grow through to over 1 million trays by the end of this planning window.

Organic SunGold is expected to continue to grow through to over one million trays by the end of this planning window. Zespri has announced it plans to release 250 hectares of licence for greenfield Organic SunGold plantings over the next five years. This will be subject to annual review.

Organics have moved beyond historic norms, to a position where demand now significantly exceeds supply, with a growth trend that is forecast to continue.



Organic

Marketing and market development

Zespri's market and onshore teams are seeking to maximise the returns for organic supply through:

- Developing organic market opportunities in high value markets.
- Optimising specialist organic distribution and targeted marketing to pursue growth in organic sales in Japan and optimise value captured in Europe.
- Taking a lead role with organics within the product portfolio in North America.
- Developing a customer base at premium pricing for Organic SunGold.
- Expand consumer research to improve the understanding of the needs and value of organics to our consumers.

Organic SunGold is an exciting new product for the organic business, with supply increasing from 450,000 trays in 2015/16 to over 700,000 trays in 2016/17.



Organic

Points ahead

A very positive aspect of the Zespri Organic category is the active engagement of Organic growers in the management of the category through the Certified Organic Kiwifruit Association. This enables an open dialogue between Zespri and Organic growers and a healthy level of challenge. An on-going challenge from Organic Growers focuses on how Zespri can optimise the positioning of the Organic category as a marketer of mainly conventional products. From Zespri's perspective this dialogue is healthy and we look forward to continuing to explore the related aspects with Organic growers.

For guidance, Zespri is modelling OGR per hectare for Green Organic within a range of \$53,000 to \$61,000 in 2021/22, on volumes stable at around 3.7 million trays.

Over the same period, we expect to see continuing growth in SunGold Organic, from 750,000 trays to around one million trays and expect we can maintain the organic premium through this planning horizon. One point for consideration is whether to have a separate Organic Gold Pool and we remain open to dialogue around the issue.

Our yield assumptions are that Green Organic will reduce from exceptional highs in 2015/16 and 2016/17 to around 7,500 trays per hectare on average, while SunGold Organic yield will increase as existing hectares come into full production. The 2017/18 season has seen a sharp fall in supply of Green Organic as average yields decreased sharply to around 7,000 trays per hectare, with total supply of just 2.7 million trays.



Organic

Distribution of performance across orchards

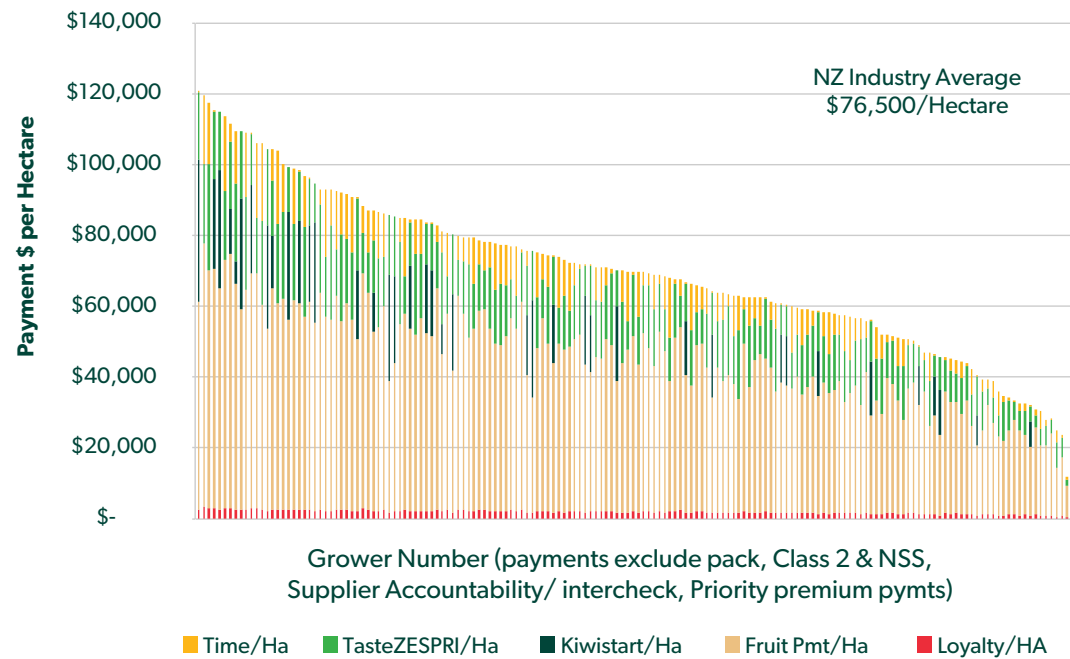
Based on the final 2016/17 season result published in May 2017, the average Fruit and Service Payment for Organic Green, including loyalty, paid per hectare is \$76,500.

The average yield is 7,933 trays per hectare which is up from 7,373 trays per hectare in 2015/16.

The average size per tray is 35.0, compared with 34.5 for the previous season. The largest portion of the Fruit and Service Payment is fruit payments (62 percent), which comprises a submit payment of \$2.25 per tray and progress payments of \$3.72 per tray. The Taste Zespri Grade contributed \$1.87 per tray on average, down on the 2015/16 season, and taste contributed 20 percent of the overall Fruit and Service Payment.

ZESPRI® ORGANIC GREEN Kiwifruit Fruit & Service Payments 2016/17

(based on final result published in May 2017)



Organic

Orchard Gate Return

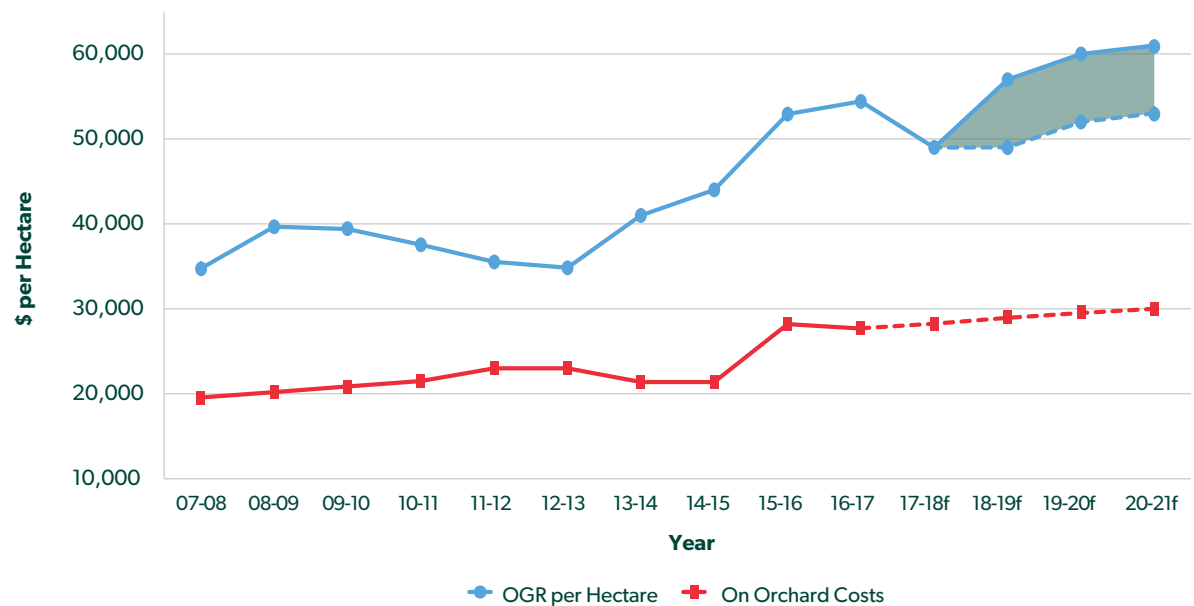
The final result for 2016/17 published in May shows the Zespri Organic Green average OGR per hectare at \$54,427, which compares \$52,917 in the 2015/16 season.

As with conventional Green, the strong average per-hectare returns have been driven by yield. The total volume of trays supplied was 3.9 million trays – the same as the previous season. The projected OGR range per hectare, based on Zespri’s Five Year Plan, is shown opposite.

On-orchard costs per hectare are estimated to have averaged \$27,700 in 2016/17. This is based on Zespri’s annual industry survey of growers and orchard managers. The increase reflects costs associated with a very large increase in average yields this season. This figure excludes any management fees and debt servicing costs.

The projection assumes a two percent inflationary increase year-on-year, however we note that potential cost increases relating to wage inflation and compliance may increase this factor.

ZESPRI® GREEN ORGANIC OGR / COSTS PER HECTARE



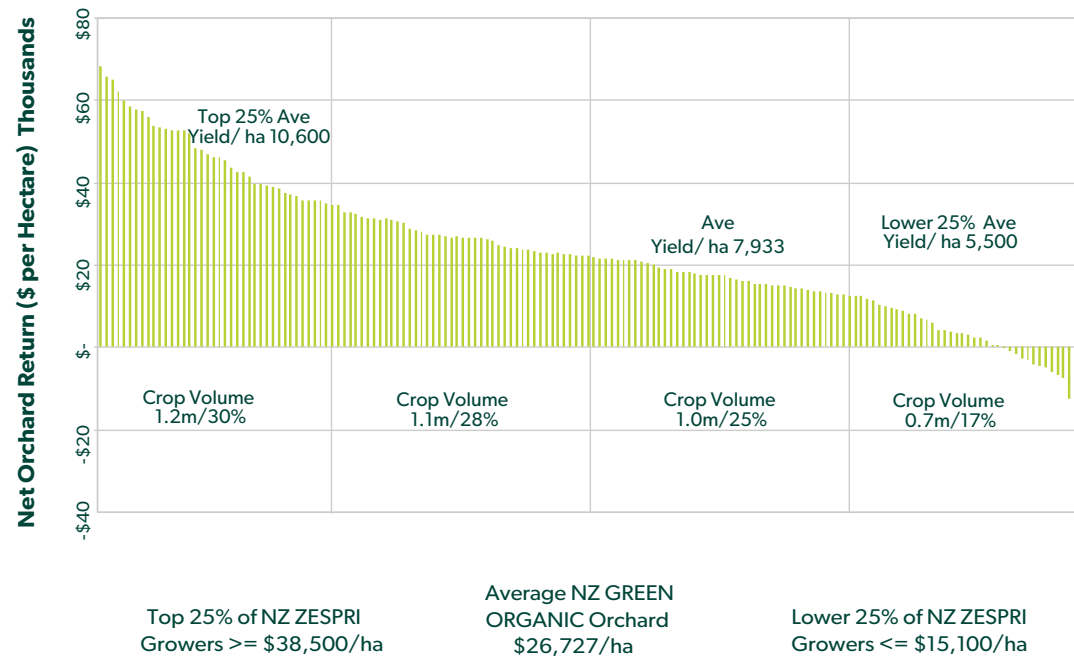
Organic

Net Orchard Return

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NOR is the average amount received for each orchard or part orchard after Zespri, post-harvest and on-orchard costs are deducted. In this case, an average of \$3.05 per tray for post-harvest costs and an average of \$27,700 for on-orchard costs were used.

ZESPRI® GREEN ORGANIC Kiwifruit Net Orchard Return (NOR) 2016/17 per Hectare (based on final result published in May 2017)



Sweet Green (Green 14)

Situation and challenges

Sweet Green volumes increased from 1.4 million trays in 2015/16 to 1.5 million trays in 2016/17, but have reduced to 1.2 million trays in the 2017/18 season.

The key proposition for Sweet Green has been early supply of sweet tasting kiwifruit, which customers and consumers are able to differentiate from Green. We have struggled to differentiate Sweet Green from Hayward and subsequently have struggled to deliver a sustainable price premium in market.

While growers worked hard to deliver an early programme in the 2016/17 season we had a very challenging year with the product compromised by fruit drop, a small profile, lower than desired average taste characteristics, and alternaria fruit rot.

This resulted in an active dialogue between Zespri and Sweet Green growers with many growers believing the best way forward was for Zespri to decommercialise the product.

Through this dialogue Zespri clarified that SunGold licence would not be made available in the case of decommercialisation and also that we are confident that we can successfully market this product by:

- Marketing the variety as both a Kiwistart offering and also as an early main season offering. This will allow growers to optimise the quality and profile of the crop depending on their location and orchard management practices;

- Keeping market allocation specific to offer selected retailers a preferred profile and sales window that we can deliver to without disappointment. We plan to do this in selected markets where we can hold stock in market to deliver programme requirements;
- Line pricing the Sweet Green offer with Green, at least until there is trade confidence in the product.
- Supplying early to Japan (at the same time or earlier than Hayward) and in a continuous volume to sustain programmes.
- Balancing supply to Europe to facilitate market access and shipping options.

When Sweet Green quality is good, it has strong consumer liking with no detrimental impact on the brand and this, combined with its early attributes, means it still can deliver value to consumers in the market.

During 2016, Zespri consulted with Sweet Green growers and recommended moving it into a combined Green pool. Sweet Green growers opted, by majority, to remain in a stand-alone pool, and Zespri's focus has been to maximise the value of the crop within its own pool for the 2017/18 season.

Sweet Green (Green 14)

Marketing and market development

The market opportunity for Sweet Green continues to be based on a proposition of early supply and sweeter taste.

Zespri is committed to continuing to work with the product to establish successful programmes across a number of markets. Our ability to successfully execute will depend on being able to deliver reliably good quality, good tasting Sweet Green kiwifruit to our markets.



Sweet Green (Green 14)

Points ahead

We are committed to continuing to work with Sweet Green growers to build growing knowledge, and address issues such as fruit drop, as well as work hard in-market to maximise the value to consumers and the value we can extract from the variety in the future.



Sweet Green (Green 14)

Distribution of performance across orchards

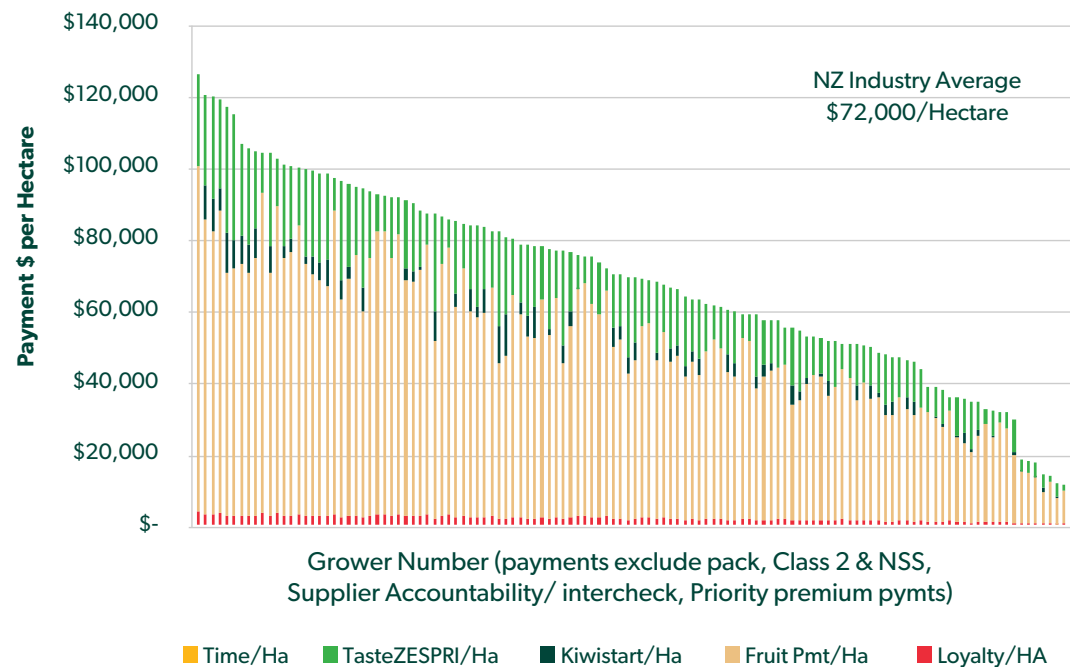
Based on the final 2016/17 season result published in May 2017, the average Fruit and Service Payment, including loyalty, paid per hectare is \$72,000.

The average yield is 7,921 trays per hectare which is up from 6,135 trays per hectare in 2015/16. The average size per tray is 36.1, compared with 35.9 for the previous season.

The largest portion of the Fruit and Service Payment is fruit payments (71 percent), which comprises a submit payment of \$2.80 per tray and progress payments of \$3.88 per tray. The Taste Zespri Grade contributed \$1.85 per tray on average, which is down on the 2015/16 season. Taste contributed 21 percent of the overall Fruit and Service Payment.

ZESPRI® GREEN 14 Kiwifruit Fruit & Service Payments 2016/17

(based on final result published in May 2017)



Sweet Green (Green 14)

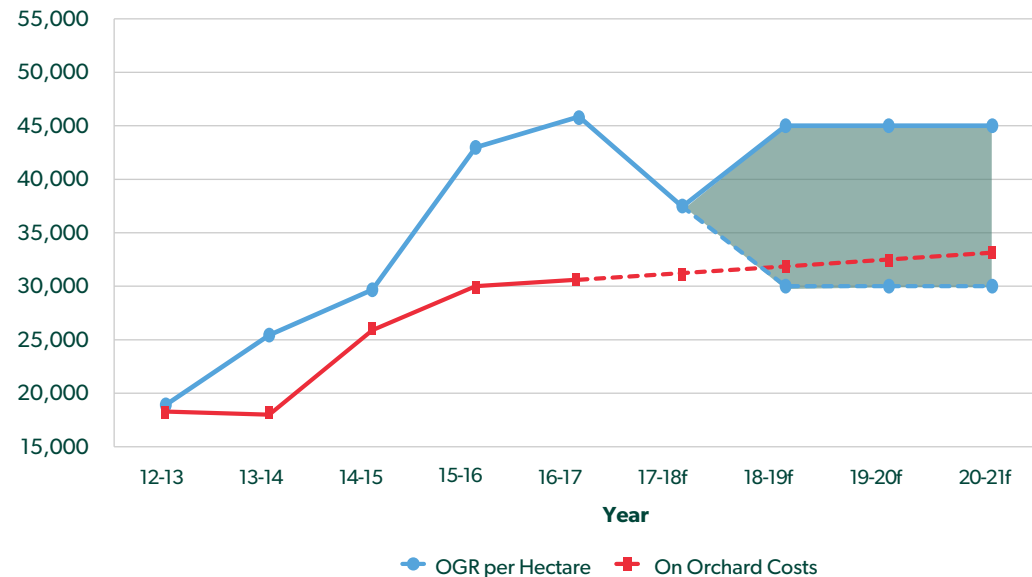
Orchard Gate Return

The final result for 2016/17 published in May shows the Zespri Sweet Green average OGR per hectare at \$45,853, which is up slightly from \$42,995 in the 2015/16 season.

On-orchard costs per hectare are estimated to have averaged \$30,620 for the 2016/17 season. This figure excludes any management fees and debt servicing costs. The projection assumes a two percent inflationary increase year-on-year, however we note that potential cost increases relating to wage inflation and compliance may increase this factor.

A change was made in the 2017/18 season in market mix, with Zespri Sweet Green exported to Japan and Europe, but not to China. One reason for this is to mitigate risk to the entire China programme for all varieties in light of the Neofabraea fungus find in 2016. During 2017, around 1.2 million trays of Sweet Green were exported, with over 500,000 trays shipped to Japan and the balance to Europe.

ZESPRI® GREEN14 OGR / COSTS PER HECTARE



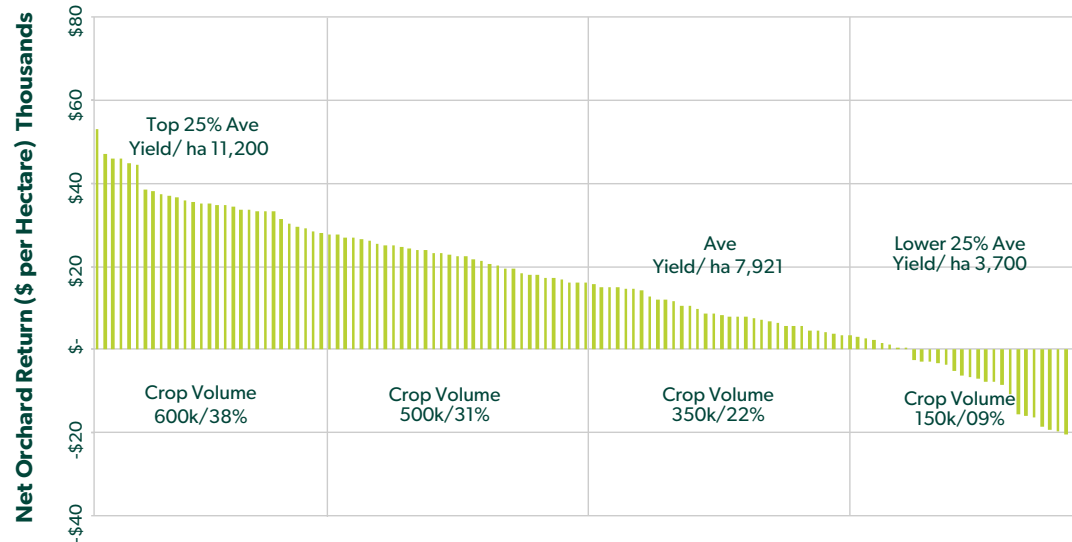
Sweet Green (Green 14)

Net Orchard Return

The graph shows the spread of orchard or part-orchards throughout the country and their expected net orchard returns (NOR) based on the final 2016/17 season result published in May 2017.

NOR is the average amount received for each orchard or part orchard after Zespri, post-harvest and on-orchard costs are deducted. In this case, an average of \$3.64 per tray for post-harvest costs and an average of \$30,620 per hectare for on-orchard costs were used.

ZESPRI® GREEN 14 Kiwifruit Net Orchard Return (NOR) 2016/17 per Hectare (based on final result published in May 2017)



Top 25% of NZ ZESPRI Growers \geq \$30,200/ha

Average NZ GREEN 14 Orchard \$15,833/ha

Lower 25% of NZ ZESPRI Growers \leq \$4,700/ha



**CORPORATE
OUTLOOK**

Overview

A good way to think about Zespri from a corporate perspective is to conceptualise it as a number of related businesses or revenue streams:

- Revenue from exporting and marketing New Zealand Kiwifruit globally.
- Revenue from sourcing and marketing kiwifruit from outside of New Zealand.
- Revenue from licencing proprietary cultivars to growers.
- Revenue from the royalties coming from proprietary cultivars.

This section provides an overview of our outlook for each of these revenue streams.



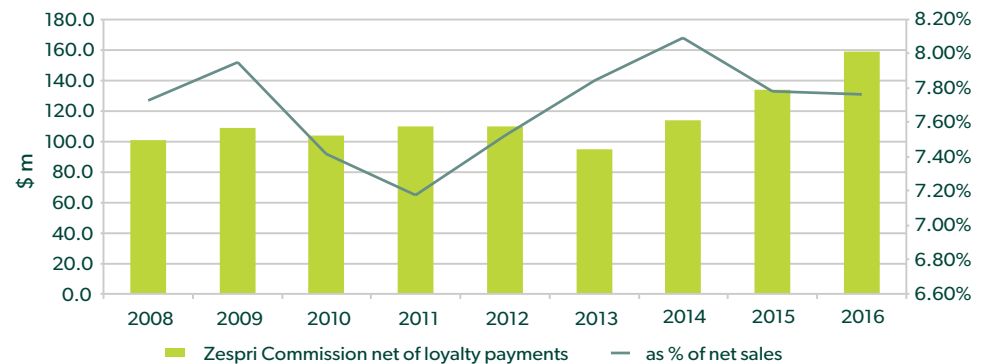
Exporting and marketing New Zealand Kiwifruit globally

The chart opposite shows Zespri's corporate revenue from selling New Zealand Kiwifruit from 2008/9 to 2016/17 (excluding royalties), together with Zespri's net commission (post loyalty) as a percentage of net sales over this time. On average, this has resulted in a net commission of \$0.87 per tray for every tray of Green sold and \$1.64 per tray for every tray of Gold sold for the same period.

Importantly from a shareholder perspective, Zespri is currently finalising a new enduring funding model with the industry for the sale of New Zealand kiwifruit. (See further details over page). The objective of the funding model is to maintain Zespri New Zealand Supply earnings before interest and taxes (EBIT) at around one percent of net sales. The New Zealand funding model is intended to be enduring and reflects Zespri's New Zealand business as a high volume, relatively low-risk business (with the grower pools wearing much of the risk), with the model design intended to share the benefit of economies of scale between New Zealand kiwifruit growers and Zespri shareholders. In 2016/17, the New Zealand kiwifruit EBIT was approximately \$22 million.

We expect to see Zespri's net commission as a percentage of net sales remain in the range of 7.5 percent to 8.0 percent over the course of the five year plan. This should allow Zespri to grow its EBIT from New Zealand kiwifruit from approximately \$22 million in 2017/18 towards \$30 million over the next five years.

Zespri Commission net of loyalty payments in \$ and as percentage of net sales of New Zealand supplied kiwifruit



The enduring funding model

On 2 November the Industry Advisory Council endorsed the implementation of an enduring funding mechanism, which was called for by growers in the Kiwifruit Industry Strategy Project referendum. The enduring funding model will amend the calculation of the NZ Supply Zespri margin from the 2018/19 season, and the calculation of the NZ grower loyalty payments from the 2017/18 season. Although, industry-wide endorsement of the new model has been achieved, the formal execution of all the documents to implement the new model is not expected to be completed until mid-December 2017.

The principles underpinning the enduring funding mechanism are as follows:

- ZGL is a commercial business and should act accordingly;
- ZGL is funded and remunerated appropriately to ensure it can deliver the full scope of its responsibilities;
- The funding mechanism should be enduring, so that three yearly negotiation is not required;
- ZGL must act in the best interests of New Zealand growers and shareholders, having a long-term value creation perspective balanced against the need for appropriate cost control to ensure that the benefits of economies of scale are shared between growers and shareholders; and
- The various segments of the Zespri Group must be allocated their fair share of ZGL costs.

The successful implementation of the enduring funding mechanism will mean that Zespri's NZ Supply margin in 2018/19 will be approximately \$3.5 million to \$4.0 million lower compared to 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, so that the margin decreases by approximately \$7.0m to \$8.0m, or 5.0 cents a tray on average, compared to the current calculation.

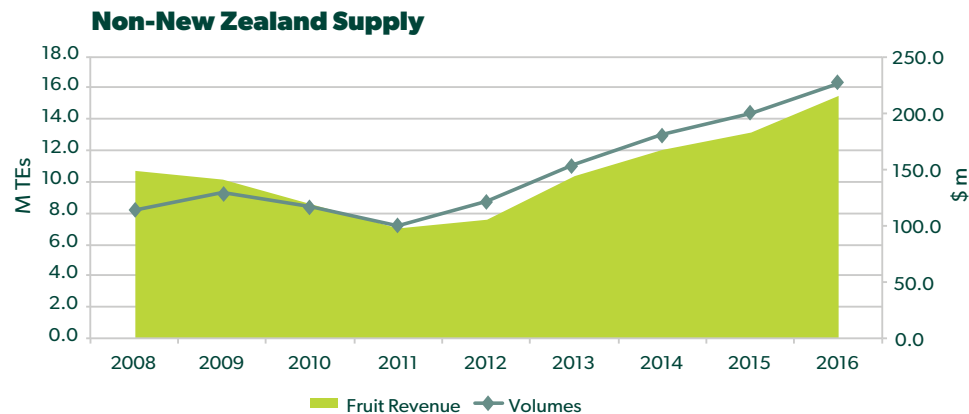
From the 2020/21 season an automatic resetting mechanism will apply, based on NZ Supply EBIT performance in previous seasons. The industry has agreed in principle to use this mechanism for the setting of the NZ Supply Zespri margin and loyalty until the end of the 2027/28 season, subject to a review following the 2022/23 season. Certain events can trigger an immediate re-negotiation.

The loyalty payment to growers from this season, which is currently 25 cents per tray, will include a mechanism to equally share (if applicable) any earnings before interest and tax from NZ Supply over one percent of net NZ kiwifruit sales.

The business of sourcing and selling kiwifruit from outside of New Zealand

Zespri sources Kiwifruit from Italy, France, Japan, and Korea in order to provide customers and consumers with premium Zespri Kiwifruit 12 months of the year.

Historical volumes and revenues from ZGS is shown below.



We expect ZGS volumes will grow strongly over the course of this 5 year plan as depicted in the chart to the right. This growth will be underpinned by the licencing of another 1,800 hectares of SunGold in Europe bringing the total SunGold volume licenced offshore to 3,900 hectares which should produce around 38 million trays.

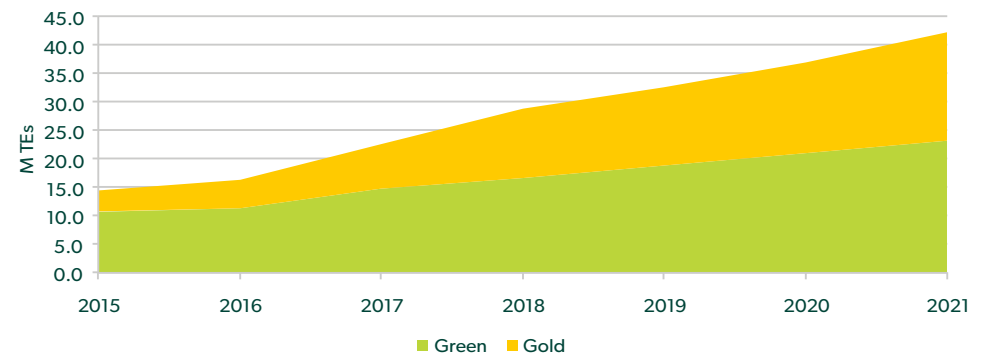
To meet supply growth targets, Zespri is looking at options to increase the number of growing locations, such as potentially in China and North America, and to expand production in existing locations, such as Japan and South Korea.

Historically, Zespri Global Supply (ZGS) has proven to be challenging as Zespri has developed the capability to source fruit internationally

over the last 20 years, and so the earnings guidance we provide for the ZGS business is tentative. In 2016/17, the ZGS segment EBIT was approximately \$12 million. Provided SunGold continues to perform well in all growing locations, and there is no guarantee of this, we expect revenues to increase broadly in line with volumes from approximately \$280 million in 2017/18 to over \$500 million by 2021/22, and correspondingly we expect to see the EBIT from this business to grow towards \$30 million through the life of this plan.

The ZGS business is inherently higher risk and more complex than the New Zealand business with each growing location bringing with it all of the complexity of growing and doing business in foreign jurisdictions. There is potential for some economies of scale to be captured as we grow this business (representing potential upside) but we recognise that we will need to invest strongly in order to ensure this business is robust and quality is consistent with our Brand promise. We also note the existence of strong competition in the Northern Hemisphere Gold business and this could act to constrain Zespri pricing and thereby impact negatively on corporate revenue.

Non-New Zealand Supply 5-year Plan Volumes



The business of licencing proprietary products to growers

Zespri owns the plant variety rights for SunGold. Zespri has announced it expects to licence around 750 hectares of this variety in New Zealand each year from 2018 through 2022 with the volume to be licenced confirmed at the end of each New Zealand season based on demand growth during that season.

Constraining supply growth is necessary to ensure we can grow demand ahead of supply in order to maintain the premium positioning of SunGold. There is strong demand from growers for SunGold licence. The industry has accepted a tender system for the fair allocation of licence between growers in preference to ballot or pro rate models. This is on the basis that the tender system is a sensible commercial approach to manage the allocation of scarce SunGold licence. It is important to note that the licencing model for SunGold is subject to change as the model is reviewed at the end of each licencing round.

The scarcity of licence and the use of the tender model for the allocation of licence in New Zealand has resulted in high values being bid by growers for SunGold licence.

We have had two 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 meaning that these revenues will be collected between 2018 and 2020. The 2017 licence sale did not offer deferred terms.

Revenues for future licence rounds will depend on the performance of SunGold in each successive season, hectares actually licenced, and the value bid for the licence by growers. Shareholders should note that this revenue stream is potentially lumpy over time as SunGold licensing in New Zealand inevitably slows, the licensing model is subject to change, and the commercialisation timeframe of new cultivars is uncertain.

We are also licencing 1,800 hectares of SunGold in Europe through the course of this five year plan but the licence mechanism is different in Europe with licences being allocated to growers by Zespri's European post-harvest partners and the licence value being captured through a higher commission rate paid by European growers (and reflected in the non-NZ business revenue) reflecting the value of both the proprietary cultivar and the Zespri brand. This means that currently the SunGold licence revenue stream is a New Zealand-only stream.

Zespri together with Plant & Food Research continues to invest in a new varieties breeding programme to develop differentiated cultivars which will attract new consumers to the kiwifruit category. Two cultivars - a red and a green - are already in pre-commercial trials. Our assessment work continues on both varieties in support of potential commercialisation decisions in the future.

Royalty income

Zespri charges a royalty of 3 percent for SunGold with 1.35 percent being paid to Plant & Food Research and 1.65 percent being an income stream for Zespri.

Zespri's global SunGold net sales are forecast to grow from \$1.2 billion to \$2.1 billion through the life of this plan with Zespri's royalty from SunGold growing correspondingly from \$20 million in 2017 to over \$30 million through the life of the plan.



Summary

Even excluding earnings from licence sales (which can be seen as extraordinary income), Zespri expects strong corporate earnings growth over this five year planning horizon and, importantly, a rebalancing between revenue streams with non-New Zealand Supply and SunGold royalties becoming increasingly important.

We note that Zespri has committed to undertake a share issue and buy-back in an effort to support alignment between production and shareholding and we expect this to happen in 2018. At this stage no money is currently being sought and shares cannot be applied for any future offer. When that offer is made, it will be made in accordance with the Financial Markets Conduct Act 2013. In addition, the Board intends to indicate at that time its view of fair value for Zespri shares based on an independent valuation. This will be a natural juncture for the industry to take stock of Zespri share value.



BEYOND 2025

A 10-year overview of demand and supply

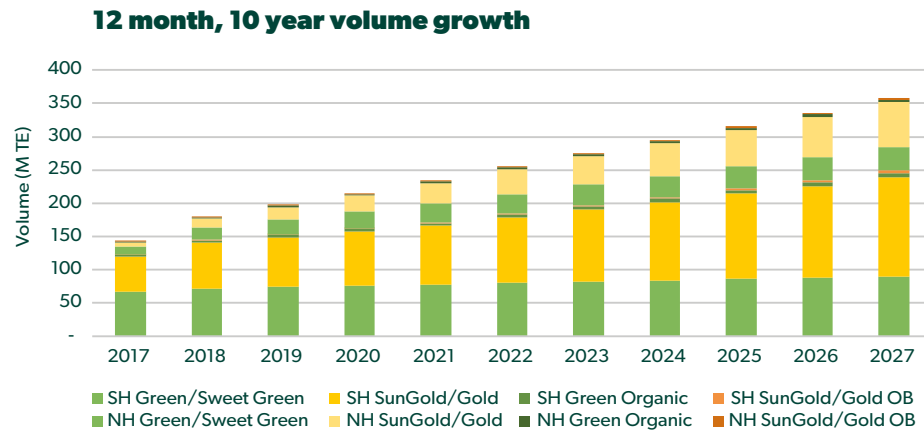
In addition to the five year outlook for the industry, Zespri has been developing a 10-year view of supply and demand. The purpose is to set out an optimal view of sustainable growth over the very long term, balancing volume growth with preserving value.

The information provided in the 10-year plan is directional only and provides a view of how strong demand could be and potential implications for the supply side of the industry.

The key points from the 10-year plan include the following:

- Zespri's mission is to grow global sales revenue to \$4.5 billion by 2025. This equates approximately to total sales of around 260 million trays, including 12-month supply.
- However, our current view is that further investment could support demand by 2027 of over 350 million trays, at sustainable returns.
- Zespri's sales and marketing investment has created demand significantly ahead of forecast supply.
- Kiwifruit remains an under-developed category, which means there is space to occupy and advantage to be gained through scale. This space also creates competitor risk.
- Strong and sustained market returns are essential for all fruit groups to support and encourage the supply investment required to meet demand.
- Steady market development enables sustainable growth in grower and shareholder returns.
- The plan assumes around 70 percent will be supplied from NZ and 30 percent from non-NZ locations.
- The plan does not consider new varieties which could be either additive or substitutinal.
- Growth over the next 10 years will be driven by SunGold, with an increase in supply from New Zealand sustainable at around 10 million trays per year.
- Supply of Green from New Zealand needs to be sustained at a minimum of 65 million trays and an increase in supply of two million trays year on year, from a base of 70 million trays, is considered sustainable.
- Demand for Organic is a significant opportunity, with headspace to grow in most markets.

The demand outlook



consumer preference; failing to supply Zespri customers with sufficient volumes, meaning they might need to seek alternative supply; and losing share within the fruit bowl so that it is then more costly to build mental and physical availability of our brand.

From a position of strong overall demand creation and strong consumer acceptance of SunGold, Zespri is looking to continue to develop its position in China – a vitally important market. Zespri is also investing to build its position in the USA as another major market.

The strength of demand is such that hard market choices sometimes have to be taken, supported through a market development framework. Each market is categorised according to its stage of development, with investment planned accordingly and performance measured against targets.

Ultimately, Zespri’s sales and marketing strategy is focused on ensuring consumers are at the heart of the strategy; making harder choices prioritising markets; strengthening relationships with key customers; going deeper before going wider; balancing short term and long term goals; and focus on performance in the prioritised markets.

Kiwifruit is still an underdeveloped category within the fruit bowl but with huge growth potential. This creates potential for disproportionate advantages of scale in relation to costs within the next 10 years.

Zespri has developed good quality demand through market development, brand and category growth – underpinned by the popularity of SunGold, strong marketing and high quality supply.

Competition is dynamic however, and if we do not accelerate growth we risk falling behind. Risks include: forfeiting the opportunity to bring further value back to New Zealand growers and the broader industry; giving other developing fruit items the opportunity to strengthen

Risks to demand

There are several demand risks that could impact the plan, including:

- Markets cannot develop at the expected rates, lowering return on investment and potentially delivering lower profitability than planned;
- Market access is lost to a significant market;
- A significant new competitive gold variety emerges to compete with Zespri;
- A new competitive fruit takes market share from all other fruits
- Green supply declines below 65 million trays, impacting Zespri's ability to offer a full portfolio of kiwifruit products in order to hold shelf space;
- Organic supply cannot be increased, leaving a gap in Zespri's product offering;
- There is a crop increase in excess of market capability
- Supply is unable to meet the quality and delivery requirements of markets

These factors present a diversity of risk and Zespri's risk management involves building conservatism into the plan. That means ensuring headspace and reallocation options between markets. Steady supply development and progressive market development are expected to better prepare markets to absorb volume increases, however there could always be a year where crop management is required as a mechanism to support longer term value growth. Zespri needs to continue to lead innovation to develop new kiwifruit products that meet consumer needs. Green returns need to be sustained in order to secure sufficient supply for the long term.

Implications on the supply side

Meeting the 10 year demand projection 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 meeting over 350 million trays of demand in 2027 are 7,000 more hectares of plantings in New Zealand and around \$1 billion of investment by the post-harvest sector to keep pace with volume growth. It also requires significant new plantings in ZGS locations.

Other considerations in this context include:

- Improving supply chain systems and processes: one improvement project underway is the Industry Collaboration Project addressing integrated planning, grower payments, global inventory and traceability;
- Investigating more offshore packing and cooling: ensuring we have the optimal infrastructure in place in New Zealand;
- Increased focus on supporting and rewarding innovation in the supply chain;
- Innovation to try to extend the harvest window of SunGold;
- Learning to optimise SunGold in terms of yield versus taste versus storage, coupled with post-harvest handling and management.
- Meeting the supply gap for Organic SunGold and Organic Green.

Zespri's long-term estimate of potential average returns over the period of the 10-year plan is as follows:

- Green: \$5.00 to \$6.50 per tray
- Organic Green: \$7.00 to \$8.70 per tray
- SunGold: \$7.00 to \$9.00 per tray
- Organic SunGold: \$9.00 to \$11.00 per tray

These ranges are provided to translate Zespri's long term demand plan into what it might mean for your business. It is important to note they are not a forecast, are subject to change, and the ranges are wide, recognising a number of factors.

For example, Green in the short term is still potentially subject to swings in volume which will impact OGR outcomes. Returns for SunGold in the short-term are expected to remain strong as demand outstrips supply, but expected to moderate in the longer term as volumes come on.

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