



19 October 2022

Dear Growers and Shareholders,

I am standing in for Bruce Cameron for the Board meeting this week as he recovers from recent minor surgery and am writing to update you on the following items following today's Board Meeting.

- Indicative Frost Impact
- 2023 Licence Release Update
- ZGS Crop Update
- A focus on Fruit Quality

Indicative Frost Impact

The Zespri Board of Directors today received an indicative update on the potential impact of recent frosts, including the major frost event which took place overnight on Thursday 6 October. The Board acknowledges this frost comes after what has been a challenging year for the industry and we extend our sympathy to all affected growers.

This event impacted most growing regions, with orchards across the Bay of Plenty and Waikato regions the most heavily affected. While our assessment continues and the full impact of this season's frost is still likely some weeks away from being understood, our provisional view from discussions with affected growers is that this is likely to have contributed to a 10-15% reduction in our planned Green and SunGold Kiwifruit crops for the 2023 season, and a 15-25% reduction in our planned RubyRed Kiwifruit crop. These figures have been calculated based on a weighted average by region and will be revised as we gather more information before our first official crop estimate for the 2023 season is released to industry in early December.

Zespri is continuing to work closely with NZKGI to ensure pastoral care is available for all affected growers. A series of Frost Field Days are currently underway and details on these events are available on Canopy, where growers can also find a number of resources on how to best manage frost-damaged vines and remain vigilant to the threat of Psa.

2023 Licence Release Update

The Board discussed the 2023 licence release programme following an independent review and significant grower feedback on what a future licence release may look like. We would like to pass on our appreciation to the more than 400 growers who have participated in licence discussions, including throughout our recent Shed Talks.

In reviewing licence arrangements for 2023, consideration was given not only to market demand and our ongoing desire to ensure demand exceeds supply, but to the challenges the industry is facing with supply capacity constraints and the need to focus on improving fruit quality.

Having considered these issues and grower feedback, the Board has approved the release of 350 hectares of SunGold Kiwifruit and 150 hectares of RubyRed Kiwifruit licence in 2023. The decision to release 350 hectares of SunGold Kiwifruit is at the bottom end of the previously advised range of licence release which was 350-700 hectares. This newly licensed area is for supply in 2-4 years' time.

The Board has also approved a number of changes to the 2023 Licence Release Programme. This includes the decision to ring fence 200 hectares of SunGold Kiwifruit licence in 2023 to a Hayward and Green14 cutover pool, which reinforces Zespri's focus on strengthening Hayward profitability. Optimising market performance of Green continues to be a key priority for our market teams, and managing supply volumes will help us focus on providing high quality fruit and returning more value to help offset the rising costs we are seeing throughout the supply chain.

More details on the 2023 licence release and future plans are covered in the summary below, and in the supplementary information found at the bottom of this email.

2023 Licence Release Summary:

- Zespri will again release SunGold and RubyRed Kiwifruit licence in 2023
- 350 hectares of SunGold Kiwifruit and 150 hectares of RubyRed Kiwifruit will be available in 2023
- The current supply predictions for Organic SunGold Kiwifruit will satisfy target market demand therefore there will be no release of Organic SunGold Kiwifruit licence in 2023
- For SunGold Kiwifruit, a separate licence pool of 200 hectares will be available exclusively for cutover of producing Hayward and Green14 in 2023, with the balance of the remaining 150 hectares available via an open pool.
- Zespri intends to change from the current closed tender bid mechanism, to a new open ascending-price auction. Every effort will be made to implement this for the 2023 licence release, and arrangements for this will be confirmed in December following further discussions with our technical platform provider.
- The Board's confirmation of future licence release has been extended out to 2027, to give growers the ability to better plan for future-years.
 - The intention is to release 500 hectares of SunGold Kiwifruit licence each year in 2024 & 2025, of which 200 hectares will be available in the Hayward and Green14 cutover pool, subject to annual review
 - The indication for SunGold Kiwifruit licence release in 2026-27 is in the range of 350 – 500 hectares per annum, including a portion of Hayward and Green14 cutover, subject to annual review
 - The indication for Red19 licence release is 150 hectares each year in 2024 and 2025, and a range of 100-300 hectares per annum in 2026-27, subject to annual review.
- Licence for Finishing Off Blocks will be available during the year for SunGold Kiwifruit and RubyRed Kiwifruit (rather than just for a limited window, as was the case in 2022)
- Some of the key rules are listed in the supplementary information below, while further details on the rules of the licence release mechanism, including a reserve price for each auction, will be announced in December.

ZGS Update

The Board also received an update on this season's Northern Hemisphere harvest where the Gold harvest is progressing well and the Hayward procurement programme will commence in the next month.

Volumes of both Hayward and SunGold Kiwifruit are expected to be similar to last year at around 27 million total trays in total. The early and hot summer experienced in both Asia and Europe has impacted Gold fruit size and yields. The expected increase in SunGold Kiwifruit volume in Europe from more orchards coming into production has also been affected by the impact of the warmer temperatures on overall fruit production.

A Focus on Fruit Quality

The industry continues to focus on initiatives to improve the quality of our fruit in market for 2023. The Industry Advisory Council (IAC) will be discussing this further on Friday, and our recent in-market visits have emphasised the critical importance of improving quality so that we can maintain our premium price position and brand strength. Further quality updates will follow, while the latest update on the financial impact of this season's quality and on Zespri's financial performance will be provided in November with the release of our next forecast.

Best regards,

Paul Jones
Acting Chairman

Supplementary Information: Licence Release Mechanism

In principle, we have taken on grower feedback about reducing complexity, while trying to ensure a spread of licence is available across our grower base.

200 ha SunGold Kiwifruit Pool for Hayward and Green14 cutover

- Maximum bid area 3 hectares per KPIN
- Must be producing canopy and have supplied Hayward/Green 14 to Zespri in 2021 and 2022
- 2 year grafting deadline
- Bidder must be the landowner or lessee (7 years) of the orchard at the time of bidding
- In the event of this pool not being fully allocated, any unallocated licence volume will be transferred to the SunGold Kiwifruit Open Pool
- Hayward/Green14 cutover Bidders can also bid in the Open pool

150 ha SunGold Kiwifruit Open Pool

- Maximum bid per bidder: 10 hectares
- 3 year grafting deadline
- Must provide a KPIN at the time of bidding

- Bidder must be the landowner or lessee (7 years) of the orchard at the time of bidding
- The Open Pool auction will be held after the cutover pool auction has been completed, with eligible Green growers able to bid in either or both pools.

150 ha Red19 Open Pool

- Maximum bid per bidder and KPIN: 10 hectares
- 3 year grafting deadline
- No KPIN required on application

After reviewing the 2022 rules and the outcomes from the 2022 process, it has been agreed that the 50% plantable area rule for SunGold Kiwifruit will not be applied in 2023. Additionally, the rules will contain an 'anti-circumvention' restriction that means bids will be deemed invalid if they are structured in such a way to get around the maximum bid rule. This means the Associated Parties rule as it was applied in 2022 will be removed.

Further detail on the 2023 licence release programme will be included in the October and December Kiwifliers.