



ZESPRI Group Limited

2008 Annual General Meeting Speech

Craig Greenlees - Chairman

I have had the experience of being part of the ZESPRI Team since 1998 and have seen firsthand a period of growth and prosperity which has led ZESPRI to become the world leader in kiwifruit.

Adapting to our increasingly challenging operating environment has been a key factor behind the past 10 years of growth, and this applies even more greatly today. With rising fuel and labour costs, foreign exchange challenges and increasing competition, we are now operating in an extremely different environment to the one we faced when I joined as a Director.

Last year highlighted how challenging the environment is for us today.

In the future, and particularly over the next few years, it will be more essential than ever before, that we focus only in areas that will build on our core revenue strengths, build our competitive advantage and open up new markets for kiwifruit.

Before I talk about where these opportunities lie, I would like to outline the financial results and market performance for the past season and discuss the contributing factors.

Total sales volumes and revenues for the year ended 31 March 2008 were up in each of our key markets, a significant accomplishment with New Zealand crop volumes increasing by 15 percent over the prior period, to 92.4 million trays. The Japanese and East Asian markets performed particularly well for both GREEN and GOLD. Global kiwifruit sales increased 3percent to \$1.164 billion.

Fruit and service payments including the loyalty premium, were up 1percent to \$660.5 million, but when spread over the larger crop this calculates to a 14percent decrease to \$6.93 per tray equivalent. Orchard Gate Return per hectare was down for each category, but most significantly for GREEN with a 17 percent reduction.

ZESPRI's net profit after tax reduced 11 percent to \$19.7 million, reflecting both the difficult operating conditions and ZESPRI's lower margin structure, but also boosted by income of \$4.7 million from the issue of GOLD licences. Consistent with this, the loyalty premium to growers is lower this year at 10 cents, reflecting lower corporate income.

Dividends stayed at a similar level to the prior year with next month's final dividend bringing the total to 80.67 cents, compared with 82 cents in 2007. The 2008 figure included a special dividend paid in March 2008, representing the company's 50 percent share of the after-tax cash proceeds from the sale of GOLD licences in 2007.

I'm very conscious that growers felt the pain of reduced returns this past year. As a grower-owned company, we recognise our role in looking after growers' best interests. To help reduce the pain, the ZESPRI Board again chose to pay out 100 percent of available profits, and increased the loyalty premium from 7 cents to 10 cents per tray.

Focusing for a moment on our markets, ZESPRI continues to place strong emphasis on our mature markets, for example Japan as our key revenue generator and Europe as our key volume generator, alongside our strategic markets for future growth. Our successful advertising and

promotional programmes, targeted for each market and backed by a quality product, continue to be the foundation on which our price premium is built.

In Japan, we increased revenue by 14 percent and returns by 17 percent. Japan remains an important market for ZESPRI, generating 25 percent of our annual sales from 17 percent of our volume.

In Europe, we sold 54 percent of our volume and generated 50 percent of our annual sales. Sales volumes were up 11 percent with returns up 7 percent, lower than we would have liked, and largely due to increased competition from Chile in the smaller fruit sizes.

Record revenue growth of 25 percent was achieved in Korea, despite increased volumes and lower prices for other fruit.

China presents an exciting opportunity and our 36 percent year-on-year sales revenue growth continued in 2007/08. The signing of the Free Trade Agreement with a reduction in our 20 percent tariff over the next nine years, improves future revenue opportunities from this market.

Record sales volumes and revenue were also achieved in North America, Taiwan, Hong Kong, Singapore and Malaysia.

Although we delivered a highly credible market return, it just didn't translate into what went into growers' pockets. The bottom line is that the numbers did not work for GREEN growers in 2007, with many breaking even or worse. Lain will provide a strategic review of the GREEN business in his comments shortly.

The three main drivers of unsatisfactory grower returns were the high New Zealand dollar, price pressure in some markets due to the higher volume and smaller size profile, and increased costs, particularly fuel and labour.

Our first season forecast will be released next month, however it was with some relief that we were able to announce indicative returns in May which are significantly up on last season. Bearing in mind that it is still relatively early days, we remain confident that we can deliver returns towards the midpoint of these ranges (that's about a 65-cent improvement for GREEN), even with further negative impacts from fuel prices over the past six weeks.

The drivers of this improvement over last season are improvements in foreign exchange rates and our forecast average market return, due to the combination of a slower, although still high, rate of volume growth, and the increased size of GREEN Kiwifruit.

In Europe this year we saw an opportunity for an early and strong start to displace what would be a later and smaller profile crop from Chile. The biggest Chilean shipping weeks were timed to coincide with our early arrivals and it was critical to our sales strategy that we secured customers and shelf space from the beginning.

Since we commenced sales this year, we have increased our European prices twice, the first time before the end of May and the second time before the end of June. Our pricing is now above the same time last year. Size for size this is a 40 to 70 percent premium above current Chilean prices.

Even better, as a result of this strategy we have sold 4 million (or 37 percent) more GREEN trays in Europe than at this same time last year.

May I emphasise that if we are successful in increasing average per-tray returns as estimated in May, on an 8 percent increase in volume of GREEN Kiwifruit, then that truly will be an excellent result.

Also, although it is far too early to be certain, I would be optimistic that growers and post-harvest operators can reduce their onshore fruit loss, particularly for GREEN Kiwifruit, which should further enhance growers' returns versus last year.

Our 12-month supply strategy has been, and continues to be, successful, and is adding in-market strength and profit to the benefit of New Zealand growers and shareholders.

However, we did face some challenges in the past season with adverse weather in Italy and Korea reducing overall supply volumes by 8 percent. In addition, we're currently conducting research to find a treatment for the prevention of vine deaths in Chile, where a disease has affected around 50 to 60 percent of our GOLD production there. In California, poor yields and fruit profile have resulted in a number of growers switching to other crops.

Some of our GOLD supply sources have proved unsuccessful or problematic, but fortunately the vast majority of them by area, being Italy, France and Japan, have been successful in terms of supplying a satisfactory product. GREEN supply remains focused on Italy and, to a lesser degree, France and Chile.

In 2008 we made good progress towards lifting production standards and increasing planted areas for GOLD, and faced increasing demand from our customers for full category management for 12 months of the year.

Going forward, our experience to date only reinforces the desirability of a successful 12-month supply strategy. The lessons we have learned encourage us to focus on fewer supply points.

The ZESPRI™ Brand, now just over 10 years old, has been a huge success by anyone's standards. It has a high degree of recognition and is now more than just a stamp of quality. However, we cannot take it for granted and we must exploit its full potential. We must continue to grow the brand value by delivering high quality, backed by verifiable information as to the product's attributes, characteristics and selling points.

Further, we must utilise the brand by expanding our brand architecture to allow us to not only sell lower grade fruit successfully, but also fill gaps in the marketplace that now exist given the huge premiums that ZESPRI Kiwifruit is obtaining over other product. We must act quickly before somebody else seizes that vacant space. To ignore such opportunity would be negligent.

Continued market-focused expenditure on innovation is imperative to the survival, growth and success of our New Zealand kiwifruit industry. Over the past five years we have been increasing our expenditure on innovation, to reflect the importance it plays in the future of our industry.

New varieties, in addition to Hort16A, will be a substantial platform and contributor to the growth and financial success of the New Zealand kiwifruit industry, as will broader innovation opportunities like KiwiStart GREEN Kiwifruit and early-harvest GOLD protocols. These components allow us to get our fantastic fruit to the market two to four weeks earlier than we otherwise would, and therefore increase market presence, distribution and of course consumption.

We need to get smarter about the way we do things and this past season the industry has introduced a number of initiatives to enhance efficiencies, improve transparency and reduce costs across the industry. The Industry War on Costs group, involving ZESPRI, New Zealand Kiwifruit Growers Incorporated and post-harvest suppliers, continues to make progress towards initiatives that together, could provide significant savings across the supply chain.

In 2008 progress was made towards improving picking quality, largely by NZKGI through improved communication, and we expect to see value gains from this initiative for the 2008 season. Better analysis and communication has helped improve the size profile, and we are confident that we will deliver on the \$20 million target gain in value for the 2008 season.

It's important this focus on adding value and reducing costs continues to be a pan-industry approach, as no one single element – orchard, post-harvest or ZESPRI – can deliver the savings needed. It must be a combined effort.

For some time, ZESPRI has contemplated greater integration between ZESPRI and post-harvest suppliers. This does not mean post-harvest owning ZESPRI, nor does it mean ZESPRI owning post-harvest. But what it does mean is that the competitive post-harvest sector, which should provide the best performance and service to kiwifruit growers, works hand-in-hand with ZESPRI to ensure the most efficient supply chain, from orchard to customer.

How this can be done is a subject presently being discussed within the industry and I am confident we can make improvements here. Suppliers have indicated a willingness to work toward this greater integration. With strong support for the SPE and its benefits, I believe it has never been more important than now, to consider this opportunity.

In terms of looking forward, I believe more strongly than ever, we as the New Zealand kiwifruit industry will only continue to succeed and survive by being market driven.

We are still a long way from the marketplace which adds costs and, increasingly of interest to consumers, carbon emissions, to our supply chain. New Zealand cost structures are a larger disadvantage now than they were then, and the global supermarket chains only get stronger.

As you will be aware Tony Nowell resigned as Chief Executive of ZESPRI at the end of June. In the short time Tony was with the business he added to the core of the business more discipline, process and systems, and got some new capable key people on board. Although Tony's time with the business was relatively brief I would like to thank him for the contribution he has made.

It is also my pleasure to recognise the five-year contribution by Graham Drury, as a Director of ZESPRI Group Limited. Although Graham was appointed as an industry director, he brought to the Board experience and skills from outside the industry which were most valuable. Latterly Graham chaired the Audit and Risk Committee and his focus on legal detail was important in ensuring the business did not take unnecessary risks. As there is no formal dinner function this year I would like to take this opportunity to wish Graham and Gloria all the best for their future.

Finally, I would like to add a few comments about the ZESPRI team. We have 250 employees that are brought into the company due to their experience and ability to deliver on our goals of creating wealth for our growers and shareholders. Our employees are led by a very capable Executive Management Team which contains a huge amount of depth in terms of industry and global expertise.

We are in the process of recruiting a permanent CEO and expect this will take at least six months. During that time the company is in the capable hands of Lain Jager as Acting Chief Executive, with the full support of the ZESPRI Team behind him.

On that note, it is now my pleasure to introduce Lain Jager, to lead the management presentation to the meeting.

Thank you.