



ZESPRI Group Limited 2008 Annual General Meeting Speech Lain Jager – Acting CEO

You've known me for the past nine years in different guises and today I'm speaking to you as Acting Chief Executive. I'm invigorated by the challenge of continuing to see the business move forward in line with our strategy to deliver a sustainable and profitable future for kiwifruit growers.

When my appointment was announced I said to you that I had three priorities and I remain very focused on these to ensure that we deliver the best possible returns this year.

Having said that, each season has its characteristics and the most important one for the 2007/08 season was the low returns for the conventional GREEN business. This is the focus of my presentation today because GREEN remains our most important product by both volume (at 73 percent) and value (at 68 percent of total fruit and service payments).

By-in-large the same themes apply for GOLD and ORGANIC growers, although it must be acknowledged that returns have remained at healthier levels for these categories. Some shareholders may be wondering why I have focused on the GREEN Kiwifruit business rather than on ZESPRI corporate performance.

The reason is that when the GREEN, GOLD and ORGANIC businesses do well then ZESPRI does well. This is it how it should be.

Returns for GREEN growers were unsatisfactory for the 2007/08 season.

The factors that impact how we perform include the global trading environment and how efficiently we develop our business to compete within that environment.

Let's look first at the global trading environment.

A global credit crunch exists and consumers are lowering their discretionary spending.

Costs of food production are increasing worldwide and this, combined with increasing demand for quality food products and demand for productive land, is driving up the price of food.

Fuel rates are increasing and the direct result for our industry is a 20 percent increase in freight costs since last season.

There is an increasing focus on food safety and this is putting additional demands on food suppliers to reduce agrichemical use and adopt more sustainable practices overall. This requirement comes in addition to the demands for high quality.

In some of our developed markets like Europe and Japan, the per-capita fruit consumption and/or pricing is actually declining.

ZESPRI has to compete not only with other kiwifruit, but also other fruit, to increase volumes and pricing with a stronger focus on health and taste.

Despite this challenging environment, we have been very successful in bucking the trend because we have a product range and offering that delivers value to customers and excitement to consumers.

But, as you know, the world is continuing to change around us.

Global production of kiwifruit is increasing from lower-cost producers. They are improving their systems of production and delivery. ZESPRI is continuing to earn premiums of between 40 and 70 percent over the Chilean competition and in some cases even more, and it is critical we continue to do so into the future.

Retailers are consolidating and placing increasing pressure on suppliers.

In order to get the best possible returns from last season's large crop, we focused on optimising profitability – both from our strategic and emerging markets.

The strategy for GREEN has been to continue to develop our top 10 key markets by steadily increasing the volumes, and at the same time to improve year-on-year pricing in local currency terms.

The growth in the top 10 has enabled carefully managed volume development for our other markets. This development of secondary markets is critical in the context of increasing volumes over the last 5 years and into the future, but clearly represents an investment relative to the orchard gate returns achieved from our top 10 markets.

We've faced a 48 percent increase in volumes supplied over the past five years, but we haven't seen a marked degradation in local market pricing. In fact, in most markets our pricing and in-market OGR has increased.

The single most important number in the GREEN business is Net Orchard Return –the amount that growers receive after ZESPRI, post-harvest and on-orchard costs are deducted. Last year our GREEN growers earned approximately 41 million dollars at a net orchard return level, or an average of just over \$4,000 per hectare, or \$0.55 cents a tray.

Averages can be deceptive as growers are impacted by differing yields and fruit sizes, time-related premiums, taste levels, and post-harvest related performance.

Our analysis showed that the highest earning 25 percent of GREEN growers' returned on average at least three times more per hectare than the average grower, that is above \$17,400 per hectare.

Alarmingly, almost 40 percent of GREEN growers had a net orchard return of below zero. Clearly, many of our Green growers did not have a sustainable business in 2007.

Volume aside, the reduction in Net Orchard Return as a percentage of sales is driven by two factors. Average sales price decreasing over the five-year period and costs increasing over the same period.

The decrease in the NZ dollar selling price between 2003/04 and 2004/05 is due to an 11 million (21 percent) increase in crop volumes supplied. The following two year's volumes remained relatively constant as did the sales price.

In 2007/08 the GREEN volume increased by a further 11 million trays (18 percent) but this time the net sales price remained relatively stable. This reflects the investment in market development over several years, combined with outstanding performance by our market teams.

As you know costs are continuing to increase across the board.

On a foreign-exchange-adjusted basis, in New Zealand dollars, ZESPRI's costs over that period have increased by 46 cents per tray, an average of 3 percent per year. This increase is attributable to freight, insurance, vessel discharge, duty and customs.

The increase in post-harvest costs was largely due to rising labour, transport and energy costs, but is also a consequence of much higher fruit loss and repack levels than was the case in previous years.

In summary the unsatisfactory Net Orchard Return of approximately \$4,223 per hectare is a consequence of increasing volumes, unfavorable exchange rates and increasing costs.

Compared with our competitors, we are a high cost producer which creates strategic vulnerabilities in the areas of both market share and profitability. While we continue to extract a price premium over competitors, the potential for increased pricing in key markets is limited.

While we are expecting some relief from a falling New Zealand dollar relative to the Euro this season, the underlying strategic challenges of volume pressure, increasing costs and limited upside in in-market pricing remain.

This, combined with increasingly challenging global economic conditions mean the GREEN business is not getting any easier.

So how can we succeed in this environment?

Firstly, we can continue to build on our historical recipe for prosperity. This is about a combination of scale and marketing that delivers value to our customers and underpins our ability to innovate faster than our competitors.

Our historical recipe has never been more important but I think we all know that new direction and urgency is required to deliver prosperity into the future. Success will require both courage and determination – in the markets and onshore.

It has never been more important that we demand and deliver performance along the length of the supply chain from ZESPRI in the markets to growers on their orchards.

For ZESPRI this will mean a renewed focus on market contribution to orchard gate return at market level and on global optimisation of the national inventory. It will also mean taking another look at our brand architecture with a view to making stronger returns from Non-Class 1 product. This is still work in progress but if all goes well we expect to have this initiative in place for the 2009 season.

Continued rapid innovation on both the supply and marketing sides of the business are mandatory for us to stay ahead of the competition.

This will also mean challenging ourselves to do things better and differently including working in an even more integrated way with our supplier partners in the sales and operations planning area - by this I mean maximising Class 1 yield and minimising fruit loss and repack.

Our post-harvest colleagues are focusing strongly on costs with some pursuing lean manufacturing disciplines to reduce costs in their operations. At ZESPRI we have begun a small trial looking at shipping fruit straight off the orchard in New Zealand in bins to be packed in China. Depending on trial results we expect to carry out a commercial scale trial next year.

The Industry War on Costs is challenging but proving rewarding with the focus on picking practices, fruit profile and pack efficiencies delivering real value. More initiatives are underway.

The common themes here are a relentless focus on performance and transparency and further integration of systems and processes. There is no room for complacency, only excellence and ever-increasing productivity will deliver sustainable prosperity.

In addition to these initiatives which are about doing our current business better, most growers also know that we're making good progress with the ZESPRI breeding programme.

Let's reflect on the great success that ZESPRI™ GOLD has been for growers, ZESPRI and the global kiwifruit category. We have further to go with GOLD and see opportunities both in bringing the fruit to market earlier and in late storage.

We've certainly faced challenges with the commercialisation of GOLD but this hasn't stopped it being a huge success for our industry. We've tried to commercialise other cultivars without success, for example Tomua. From these experiences we've accumulated a huge amount of knowledge that others cannot easily replicate.

We have a very robust process for evaluating new cultivars that is based on New Zealand orchard trials and consumer-based research.

Over the past five years our industry has invested \$8.1 million in new cultivars and our programme with HortResearch is now the world's largest, with over 50,000 seedlings currently under evaluation.

Yesterday the ZESPRI Board agreed that four very promising new varieties will be placed in grower block trials, with a total trial area of 30 hectares in New Zealand. Given the size of our programme, we expect to be in a position to release further world-leading cultivars for ZESPRI grower trials every few years.

We are confident that our varieties are best in class and if they perform as expected, one or more could be commercially released to the New Zealand industry as early as 2010.

Despite the challenges we face, we can be positive about the future of the GREEN business, but relying on our old formula is not enough. We must get better at our core business and continually innovate.

This will require an absolute focus on driving yields and quality. It will also require a strong focus on the integration of supply chain processes and efficiency. We must seize opportunities to

change the way we do the business, whether that is through new cultivars or changing where and how we pack.

To make progress we must be prepared to have an unrelenting commercial and market-focused approach. Grower control is not negotiable because growers wear the risk in this supply chain and ZESPRI's second role after being the marketer/seller is to be the mechanism which growers use to control their own supply chain.

But we do need to have the courage to focus more on performance and accountability and less on grower equity, if this is what is required to deliver incremental efficiency in the business. Delivery performance, eating attributes and out-turn quality must not be unduly cross subsidised through the pools.

ZESPRI is a strong business with an outstanding brand, a great product and excellent people, but our true strength is distributed along our supply chain – starting with our growers and shareholders, operating day-to-day in our strategic relationship with the post-harvest sector, and captured in our long-term relationships with our customers and consumers in the market.

I look forward to working with you to take this business to the next level.

Thank you.