



ZESPRI POOL POLICY MANUAL

Updated June 2022

CONTENTS

1. SCOPE OF MANUAL	3
2. DEFINITIONS.....	3
3. VOLUME	4
4. REPORTING AREAS	5
5. CALCULATION OF FRUIT PRICE	5
6. CALCULATION OF NET SALES.....	5
7. ZGL MARGIN	7
8. PROMOTION COSTS	8
9. DIRECT COSTS.....	9
10. EFFECTIVE RATE	20
11. COLLABORATIVE MARKETING	21
12. LOYALTY PREMIUM	22
13. PAYMENT POLICY	23
14. SERVICE COSTS	29
15. FRUIT INCENTIVES	30
APPENDIX A – TOTAL FRUIT AND SERVICE PAYMENTS	36

1. **SCOPE OF MANUAL**

The scope of this manual is to set out the allocation rules, to allocate revenues and costs to individual pools. The *ZGL 2022 Supply Agreement, Pricing and Payment Manual* (referred to throughout this document as the *Pricing and Payment Manual*) does not specify the allocation of these revenues and costs to individual pools.

The *Pricing and Payments Manual* sets out each season the manner in which prices are set and payments are made both in respect of New Zealand derived fresh kiwifruit supplied to Zespri Group Limited (ZGL), and services carried out in respect of this New Zealand derived fresh kiwifruit.

The *Pricing and Payments Manual* sets out all items, of both a Revenue and Expenditure nature, for inclusion in the calculation of Total Fruit and Service Payments.

The calculation of Total Fruit and Service Payments for the 2021/22 (Final results) season is set out in Appendix A.

2. **DEFINITIONS**

FOBS: Free on Board Stowed

Sales Forecast: The allocation of available NZ sourced kiwifruit to Zespri market (country) by class, variety, growing method. The Sales Forecast is based on a crop estimate.

Supplier: Contractor as per Supply Agreement.

Net Submit: Gross submit less year to date onshore fruit loss. By year end net submit = trays supplied.

Pool: Clause A2.1 of the *Pricing & Payment Manual* sets out the Pools (excluding class 1 non-standard supply kiwifruit procured under SLA):

Pool	Variety	Class	Growing Method
Zespri Green Kiwifruit	HW	Class 1	Conventional, conversion and transition
Zespri Green Organic Kiwifruit	HW	Class 1	Organic: BioGro certified
Zespri Sweet Green Kiwifruit	HE	Class 1	All
Zespri Gold Kiwifruit	GA	Class 1	Conventional, conversion and transition
Zespri Gold Organic Kiwifruit	GA	Class 1	Organic: BioGro certified

Zespri RubyRed Kiwifruit	RS	Class 1	Conventional, conversion and transition
Green Kiwifruit	HW	Class 2	Conventional, conversion and transition
Green Organic Kiwifruit	HW	Class 2	Organic: BioGro certified
Gold Kiwifruit	GA	Class 2	Conventional, conversion and transition
Gold Organic Kiwifruit	GA	Class 2	Organic: BioGro certified

Supply Agreement: Agreement relating to the supply of NZ Kiwifruit and Services between Zespri Group Limited (ZGL) and Suppliers as endorsed by the Industry Advisory Committee (IAC). The agreement for each respective season is developed by sub-committees of the Industry Supply Group (ISG) and consisted of representation from Zespri, Registered Suppliers & NZKGI.

Trays submitted: Trays received into the ZGL inventory system by means of an error free EDI message correctly recording physical volume.

Trays packed = trays submitted = gross submit

Trays supplied: Trays shipped ("volume FOBS") plus trays deemed to be supplied under an insurance claim, plus trays supplied for crop estimate or research fruit purposes and crop managed trays (including quality managed trays) i.e. onshore fruit loss reason codes which are deemed to be a Zespri liability. Trays supplied must have a valid LV (load vessel) record. If applicable, insurance fruit, research fruit and crop managed (including quality managed) fruit are not shipped but "loaded out" to an insurance, research fruit code or separate Purchase Pool.

3. VOLUME

Market allocations of NZ sourced Class 1, Class 2, Non-Standard Supply (NSS) and collaborative marketing volumes by market, product group and size are set out in the Sales Forecast.

Market forecast submissions are prepared and submitted reflecting Sales Forecast volumes.

Non-New Zealand sourced fruit is not included in NZ Sales Forecast/Crop Estimate allocations. Insurance, innovation, crop managed (including quality managed), research and promotional fruit are not included in the NZ Sales Forecast (as they are not available to market) but are included in the definition of 'trays supplied' in the calculation of total fruit and service payments. Research and promotional fruit in this category are not marketed under the Zespri brand or through collaborative marketing programmes but are utilised in the following manner:

- Promotional activity – e.g. sampling at food/trade fairs
- Innovation testing – e.g. storage sampling

All volume supplied including innovation, research, promotional and applicable insurance fruit receive progress payments, fruit incentive payments and service payments in the same manner as fruit volumes marketed through the Zespri brand or via Collaborative marketing programmes.

If applicable crop managed (including quality managed) kiwifruit receive the same payments, however deductions are made for cost not incurred. The amount of these deductions will depend at what stage in the supply chain the Kiwifruit was withdrawn.

Class 3 GOLD processing fruit is outsourced to a 3rd Party.

4. REPORTING AREAS

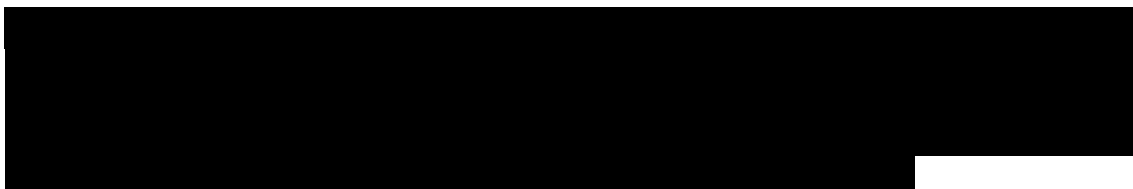
Zespri markets prepare financial forecasts based on the Sales Forecast at a country level.

Results are then consolidated in New Zealand to produce the forecast Total Fruit and Service Payments which are approved by the ZGL Board prior to publication.

5. CALCULATION OF FRUIT PRICE

The *Pricing and Payments Manual* Clause A2.2 defines the Fruit Return for each pool as:

	Component - NZD
(a)	Net Sales <i>Less</i>
(b)	Promotion costs
(c)	Direct costs
(d)	ZGL Margin
Equals	Total Fruit and Service Payments <i>Less</i>
(e)	Service costs
(f)	Fruit Incentives
Equals	Fruit Return



6. CALCULATION OF NET SALES

Revenue is reported at a Net Sales level. Net Sales is defined as follows in the *Pricing and Payment Manual*:

A2.3 Net Sales

“Net Sales” means gross revenue recognised by ZGL from the sale of the Kiwifruit in each Pool:

- (a) *Less discounts, quality claims, credits, rebates, brokerage, or commissions paid or provided to customers or agents, or, as the case may be, incurred by ZGL in relation to the sales of Kiwifruit in the Pool;*
- (b) *Plus the revenue less costs for Kiwifruit in that Pool sold under a Collaborative Marketing Arrangement. The costs include a per tray fee for logistics/procurement and a fixed sum for administration, both of which are negotiated with IAC and paid to ZGL;*
- (c) *Plus amounts recovered from insurers or other third parties for losses in relation to Kiwifruit post FOBS; and*
- (d) *Excluding other non-pool trading income of ZGL and interest received on financial products.*

Recognition of claims, discounts and incentive items below within net sales will be dictated by International Financial Reporting Standards (“IFRS”) rules. The following line items are contained within the Gross Sales to Net Sales lines. While this list is extensive, it does not capture every possible type of claim, discount or incentive. For clarity, if an item meets the definition of net sales under IFRS it will be included within the net sales figure calculated by Zespri.

ITEM	ITEM DEFINITION
GROSS SALES	List Price
Discounts	This is a reduction to the gross sales price and is given at the time of sale to a direct customer/distributor. The discount could be for Quality, Volume, or Competitive market response.
Fruit Quality Claims	Credit issued to customer following assessment and acceptance of a formal quality claim. Claim can include the fruit value as well as 3rd party costs.
Market Support	Discount that is given to the end seller for promotional support to drive product movement through the market.
Customer Commission	Commission and/or service fee that is paid to the Bill to Party for handling and distributing fruit on behalf of a customer or retailer.
Incentives	Used to encourage customers to agree on time-based goal, both quantitative and qualitative (e.g. volume or service level).
Rebates	Contractual payment requested in order to make sales to a retailer.
Handling Fees/Allowance	Allowance that is given to a Zespri customer to collect fruit from a Zespri storage location.
NET2 SALES	Revised price following deduction of above items.

Sales volumes and sales revenues are allocated by way of the material master code to the actual pool of sale.

All line items between gross and net sales are allocated based on actual pool where possible, either at a sales volume level or a sales value level.

7. ZGL MARGIN

In accordance with the Supply Agreement, Zespri earns a margin on the sale of all fresh NZ derived kiwifruit. Margins and commissions earned for sales of kiwifruit sourced outside NZ are captured under agreements managed by Non-NZ supply and are not covered in the scope of this document.

The *Pricing and Payments* Manual Clause A3.1 defines the Calculation of ZGL Margin as follows:

“ZGL’s Margin for each Pool will be in New Zealand Dollars and consist of:

- a) 5% of Net Sales as defined in clause A2.3 for the Pool but excluding the net revenue of non-ZGL sponsored Collaborative Marketing Arrangements as defined in clause A2.3(b) and excluding items in clause A2.3(c), plus*
- b) the Fruit Return Margin Percentage of Net Sales less the items in clauses A2.2(b), A2.2(c), A3.1(a), B1.1(a) and B1.1(b).”*

The Fruit Return Margin Percentage is determined via the resetting mechanism described in the *Enduring Funding Agreement* (“EFA”).

The below table illustrates how the ZGL Margin is calculated based on a Fruit Return Margin Percentage of 6.75% for the 2022-23 season:

TOTAL MARGIN:			
5% of Net Sales, plus (Calculation A)	(A)	$\$650,000k \times 5.0\% = \$32,500k$	
the Fruit Return Margin Percentage: 6.75% ¹ of Net sales	(B)	$(\$385,000k - \$32,500k) \times 6.75\% = \$23,794k$	
less 5% of Net Sales, less Promotion, less Direct Costs, less Service Costs (Calculation B)			
Market submission translated into NZD	NZD (000)		NZD (000)
Trays Shipped	50,000		
Fruit Loss	500		
Trays Sold	49,500		
Net Sales	650,000	← 5% taken on this NZD value	(A) 32,500
Freight	(70,000)		
Vessel Discharge	(10,000)		
Duty & Customs	(35,000)		
Other Offshore Direct Costs	(50,000)		
Offshore Direct Costs	(165,000)		
Promotion	(30,000)		
Market Return	455,000		
Onshore Cost (including Royalty)	(30,000)		
Service Costs	(40,000)		
Onshore Direct Costs	(70,000)		
Net Sales less Promotion, Direct Costs, Service Costs	385,000	← 6.75% ¹ on this value less (A) above (B)	23,794
			56,294
		As a percentage of net sales	8.7%
Note 1 As defined each season in the <i>Enduring Funding Agreement</i>			

The margin calculation is performed following the translation of all transactions into New Zealand dollars at effective rates. ZGL Margin is calculated at country return level by pool and by size.

Class 2 kiwifruit procured under SLA may be subject to a different margin structure.

8. **PROMOTION COSTS**

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

9. DIRECT COSTS

9.1 FREIGHT COSTS

Allocation of Actual Freight costs incurred:

Actual freight costs are charged to pools based on the actual number of freight pallets for each pool shipped:

- Container invoices are automatically allocated and posted to the General Ledger in their respective pools.

- Charter, Airfreight and Offshore Stevedoring invoices are initially posted to the General Ledger as “ALL” pools. These costs are then split out to each of their appropriate pools by the shipping team based on actual pallets on each shipment (charter or airfreight).

This allows for pack efficiency to benefit the appropriate pool. For container markets an effective rate is used across varieties based on the mix of pack types shipped to each market.

Freight rates are calculated on a per TE basis by pool in transaction currency which for the majority of invoices are issued in USD.

Forecasting of Freight costs within a Season

Freight costs for charter and containers for each market are forecast centrally and freight rates are supplied to each of the markets at each forecast round.

- Actual freight costs allocated by pool (as discussed above) are used for the year-to-date portion of the year.
- For the year-to-go forecast portion of the year a forecast by pool by ISO week is used.

Forecast freight charges are calculated based on forecast shipments, the freight contract rate and the actual bunker spot rate at time of forecasting.

For forecasting purposes, the bunker portion for all future vessels is set at the spot fuel price at the time of forecasting plus outstanding hedges in place, if any.

As freight rates are calculated in USD in the first instance, these per TE rates are then translated into applicable local currency equivalent rates for each market using current effective cross-rates calculated by Treasury.

The converted rates are then supplied to markets for inclusion in their forecast submission.

Treatment of Bunker Costs

Bunker portion: For charter vessels Zespri negotiates the contract rate with each shipping company prior to the commencement of each season. At the time a “bunker portion” is included in the contract rate, estimating the bunker cost based on a traded fuel price at the time of negotiation. When the vessel is invoiced, (for payment the day prior to arrival in the overseas port) Zespri is charged the bunker based on the actual traded fuel price on the Tuesday of the week the vessel was scheduled to load in New Zealand. This means changes in fuel prices impact directly on total fruit and service payments, unless Zespri’s exposure to fuel prices is hedged.

Any gain/loss (realised or unrealised) on fuel hedging will be allocated to the markets based on each markets’ percentage of the total freight charge.

Treatment of Dead Freight Costs.

Dead freight is allocated to the pool which incurred it or for which it was planned.

9.2 INSURANCE COSTS

Per clause A2.5 (b) – (h) of the *Pricing and Payments Manual*, insurance costs included in total fruit and service payments incorporate:

Insurance premiums comprising:

- 95% of Marine Cargo Insurance premiums;
- 100% Marine Cargo (Cyber) Insurance premiums;
- Charterer's Liability premiums;

- 50% of product/public liability premiums;
- 75% of Contaminated Products Insurance premiums; and
- 75% of Trade Credit Insurance premiums.

Uninsured losses and costs which are less than the policy deductible or excess which are paid by ZGL include:

- Claims paid by ZGL to contractors for losses under the Marine Cargo Insurance policy deductibles;
- The balance of Contaminated Products Insurance deductibles where these are not met by the contractor (in accordance with *2022 Supply Agreement* clause C3.4 in Schedule 10); and
- The Pool Earthquake Contribution (in accordance with *2022 Supply Agreement* clause B3.4a in Schedule 10).

Non-fruit loss costs which relate to the Marine Cargo Insurance policy such as survey and customs fees.

The costs of arranging and managing insurances including:

- ZGL policy administration and related costs;
- Consultancy/brokerage fees;
- Legal costs incurred as a result of policy interpretation; and
- Costs of any experts or external insurance assessors; and
- The bank guarantee fee for bank guarantee required for security of the Marine Cargo insurer for under deductible claims.

Costs incurred in attempting to make recoveries on losses, whether the recovery is successful or not;

Other related costs under insurance policies procured or provided under clause A6 of the *2022 Supply Agreement* and Product and General Liability Insurance in so far as it relates to liability arising in respect of Kiwifruit subject to Supply Agreements; and

Losses and costs of providing cover for the peril of hail whilst the Kiwifruit is on the vine under clause A6.3(a) of the *2022 Supply Agreement*.

9.2.1 GENERAL INSURANCE ALLOCATION PRINCIPLES:

Insurance costs that are directly attributable to a pool will be allocated to that pool. Non-pool specific insurance costs (e.g. insurance premium expense) will be apportioned to those pools evenly based upon gross sales. Where the allocation method outlined above differs for a particular insurance category, the allocation will be specified in the relevant sections below.

9.2.2 ALLOCATION OF HAIL COSTS

Costs incurred and actual costs through the settlement of claims are allocated directly to the relevant pool.

The costs associated with assessing the hail damage and calculating potential yields and claim values are carried out by an external assessor. These costs are allocated directly to the applicable pool.

9.2.3 ALLOCATION OF MARINE CARGO INSURANCE COSTS

Marine Cargo insurance premium is allocated across all product groups based on the general insurance allocation principles outlined above.

9.2.4 ONSHORE CLAIMS

The basis of valuation for trays subject to an onshore insurance claim is based on the forecast FOBS value at the time of loss as reported in the monthly Kiwiflier less unincurred costs. These insurance trays are treated as trays supplied in order that the grower receives payments in the same way he/she would have been if the claim did not happen. A manual adjustment is made on the insurance trays to bring the total fruit and service paid on that fruit in line with the Declared Value at the time of loss. The Kiwiflier records that trays supplied equals trays shipped plus onshore insurance trays plus innovation fruit plus crop managed fruit including quality managed (if applicable).

9.2.5 OFFSHORE CLAIMS

The basis of valuing claims a) prior to entry to overseas cool storage or, b) during the period fruit is contained in overseas cool stores (including sales ex cool store), will be the 'Arrived Sound Market Value' applicable to the Zespri variety at the week of arrival less costs not incurred. Any additional processing costs of the claims process are included in the insurance line to the pool in which the claim arises.

9.2.6 ALLOCATION OF INSURANCE CLAIMS AND RECOVERIES BETWEEN THE POOL AND ZGL

The value of insurance claims is made up of two components, the first component is the loss to Pool on the value of the kiwifruit and the second is the loss to ZGL the Corporate for the value of the commission. Hence when an insurance claim is paid by the insurer (comprised of the insured loss value less the deductible) the Pool and ZGL share of the net insurance receipt is apportioned based on the insured loss value split between the Pool and ZGL per the below example:

DEDUCTIBLE PORTION ACCORDING TO SHARE OF LOSS							
	Full Insurance Claim	Portion of Insurance Claim	Deductible amount	Final Insurance Claim	Net Insurance Receipts	Portion of Receipts	Portion of Loss Covered
Pool (FOBS Value)	\$2,812,548	88%	\$881,125	\$1,931,423	\$1,931,423	88%	69%
Corporate (Standing Charges)	\$379,449	12%	\$118,875	\$260,574	\$260,574	12%	69%
TOTAL	\$3,191,997	100%	\$1,000,000	\$2,191,997	\$2,191,997	100%	69%
Note: Recoveries should be apportion according to proportion of loss							

For any insurance recoveries the same apportionment will be used that occurred for the original claim. For those claims under the \$1million deductible ZGL will charge normal commission rates on the recovery (to mirror if the kiwifruit had actually been sold).

9.3 OFFSHORE DIRECT COSTS

Offshore direct costs are charged to the Pools based on the *Pricing and Payment Manual* clause A2.5 (i).

Offshore Direct Costs currently include the following expense items:

- Cool storage and Handling
- Repacking
- In-market packing
- In-market condition checking
- Transport and Distribution
- Vessel discharge
- Fumigation
- Duty and Customs
- DOLE Commission (Japan only & debt factoring portion only)
- Bank Guarantee fees
- Bad debts and doubtful debts
- Other direct costs incurred offshore

9.3.1 ALLOCATION OF OFFSHORE DIRECT COSTS TO POOL *

Cost Element	Cost Allocation method
Cool storage and Handling	
Repacking	
In-market packing	
In-market condition checking	

Cost Element	Cost Allocation method
Transport & Distribution	
Vessel Discharge	
Fumigation	
Duty and Customs	
DOLE Commission	
Bank Guarantee Fees	
Bad Debts and doubtful debts	

9.4 ONSHORE DIRECT COSTS

Clause A2.5. (j) to (s) of the *Pricing & Payment Manual* sets out the cost items to be included in the calculation of Onshore Direct Costs.

9.4.1 ALLOCATION BASIS OF ONSHORE DIRECT COSTS TO EACH PRODUCT POOL:

Cost Element	Cost allocation method to each product group
Fruit Labels	[REDACTED]
Specialty Labels	[REDACTED]
Sub Branding Japan	[REDACTED]
Sub Branding Korea	[REDACTED]
Packaging Graphics	[REDACTED]
Organics Operational costs	[REDACTED]
Residue Testing	[REDACTED]

Cost Element	Cost allocation method to each product group
Fumigation, Agriculture Inspection and Pest Lab Costs.	
Export Documentation	
Fruit Maturity Fruit Clearance	
Crop Estimation	
Smart Monitoring	
Funding Facility ⁽ⁱ⁾ Costs (incl. Legal fees)	
Other Class 1 Costs	
Post-Harvest Cost Survey	
CA Compensation (Cool Storage Pre-Loading)	
Port Charges – Port Fees	
Fruit Maturity Monitoring	
GLOBALG.A.P, Food Act and BRC costs including the costs of auditing and managing the GLOBAL G.A.P, Food Act and BRC programme	

[REDACTED]

[REDACTED]

9.4.2 SUNGOLD, SUNGOLD ORGANIC, RUBYRED and SWEET GREEN
ROYALTY COSTS

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

9.4.3 INTEREST COSTS

The Interest Income/Expense reported in Total Fruit and Service payments comprises the following elements (outlined in clause A2.5 (m) of the *Pricing & Payment Manual*):

- Internal interest income from ZGL when the NZ Pool has undistributed net positive cash. Calculated monthly using a balance sheet approach, segregating NZ pool transactions by business areas. The internal interest income rate is the 30-day BKBM (Bank Bill Market) applicable at the end of that month.
- External Interest paid (including interest cost charged by customers for early payment as agreed by Zespri prior to season start).
- The internal interest charge from ZGL for the use of ZGL's funds where the NZ Pool borrows money from ZGL. The loan required by the NZ Pool is calculated

monthly using a balance sheet approach (described above) and the interest rate charge is the Official Cash Rate (OCR) applicable at the end of that month.

All interest costs/revenue are allocated to pools on a flat per tray supplied basis as a percentage of total trays supplied.

9.4.4 OVERHEADS INCLUDED IN FRUIT AND SERVICE PAYMENTS

In the normal course of business, costs of an overhead nature are borne by Zespri the Corporate. Unless otherwise specified in the Supply Agreement, the Pools will not wear overheads without approval of the relevant Industry Bodies involved (e.g. Industry Supply Group or Industry Advisory Council).

Any overhead costs included in the calculation of Total Fruit and Service Payments are allocated to the appropriate pool, flat across all sizes as a percentage of total trays supplied.

9.4.5 KNZ REGULATORY BOARD



9.4.6 NZKGI KIWIFRUIT GROWERS COMMODITY LEVY

Based on clause A2.5. (r), of the *Pricing and Payment Manual*, NZKGI Kiwifruit Growers Commodity Levy applied will be \$0.011 per TE against all commercial varieties of Class 1 and Class 2 FOBS volumes excluding sales to Australia, New Zealand and Crop Management (including quality managed) trays.

9.4.7 KIWIFRUIT VINE HEALTH (KVH) LEVIES

NATIONAL PATHWAY MANAGEMENT PLAN LEVY RATE

Based on clause A2.5. (s), of the *Pricing and Payment Manual*, a levy per all FOBS volume (excluding exports to Australia and New Zealand and Crop Management (including quality managed trays)) of all commercial varieties will be charged to the Pools to fund national pathway management plan in New Zealand. This levy will be paid to KVH. The levy for the 2022 season is \$0.004 per FOBS tray.

READINESS and RESPONSE BIOSECURITY LEVY RATE

Based on clause A2.5. (s), of the *Pricing and Payment Manual*, a levy per all FOBS volume (excluding exports to Australia and New Zealand and Crop Management (including quality managed trays)) of all commercial varieties will be charged to the Pools pursuant to the Biosecurity Act to fund KVH's wider biosecurity activities. The levy for the 2022 season is \$0.01 per FOBS tray.

9.5 TAX PAYABLE

Based on clause 2.5(n) of the *Pricing and Payment Manual*, tax payable in relation to the sale of Kiwifruit which is not recoverable and is an outright cost to ZGL, and direct and withholding taxation in relation to the sale of Kiwifruit, to the extent that it is an unexpected tax liability not recoverable from any tax authority in either an offshore tax jurisdiction or in New Zealand, is a direct pool cost.

Tax payable in accordance with the above, will be allocated to each pool where an objective method is available otherwise allocation based on percentage of total trays supplied will be used.

10. EFFECTIVE RATE

Zespri Treasury operate under a Board approved *Treasury Management Policy* to hedge the net exposure of all major currencies for each season with the objective to mitigate some of the volatility of New Zealand dollar returns to growers. Currencies include, but are not limited to, EUR, JPY, USD, CNY, KRW and SGD. Each season is taken individually, and hedges are always designated to a specific season and origin of fruit.

All reporting of Total Fruit and Service Payments is done using the effective rate, and supplier/grower payments are calculated using the effective rate. The *Pricing and Payment Manual* specifies the following (clause A2.13):

“Foreign exchange losses and gains will be included in the calculation of each or any of the component items of cost and revenue that form part of the determination of Fruit Returns under this Manual”.

An effective rate per currency per season is calculated and used for all transactions in that currency, so the same FX rate is used across all pools and for New Zealand supply income and costs. This effective rate is calculated as part of the forecast process.

EFFECTIVE RATE CALCULATION



[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

11. COLLABORATIVE MARKETING

Collaborative marketing programmes are approved by KNZ annually. Zespri provides pre-FOBS operational and administrative support to these programmes including the consolidation and reporting of net returns by product type for inclusion in Total Fruit and Service Payments. Zespri also provides benchmark reporting to OGR for KNZ to fulfil their regulatory obligation to publish these results after each season.

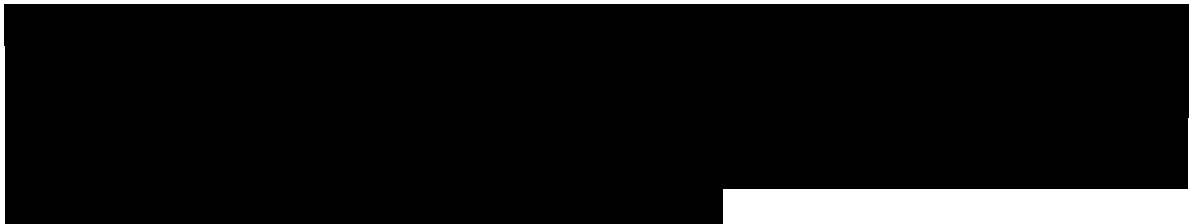

Zespri receives a fee for provision of all services provided to support successful collaborative marketing. This fee is charged to the grower pools and is reviewed every 3 years. An increase in the fee from \$200K to \$370K was approved by IAC in December 2019.

For specific collaborative marketing programs Zespri may operate a shared commission arrangement which is negotiated for each program separately. Returns from collaborative marketing programmes are calculated by size and product type and reported separately in the revenue section of total fruit and service payments as 'Collaborative Marketers' Net Return.

Direct programme operating expenses are borne by the collaborative marketing entities. No 3rd party variety programmes and non-Zespri branded fruit programmes exist at present as Zespri has provided its support for the use for Zespri branding for all KNZ approved volumes.. Collaborative marketers contribute to the cost of promotion in their market region. Promotion costs are on charged to the collaborative marketer. In addition, depending on arrangements with shipping lines, most programmes operate with the benefit of Zespri freight rates, with freight charges being paid directly by the collaborative marketer. Freight and promotional costs are included in the collaborative Marketers' Net Return, e.g. they are paid from revenue from the collaborative marketer's sales programmes.

12. LOYALTY PREMIUM

For the 2022 season, growers who have signed a Three Year Rolling Grower Contract will be paid a loyalty premium



13. PAYMENT POLICY

Fruit Incentives allow for a differentiated payment over and above the fruit price.

Service Costs are payments made for services provided in relation to fruit supplied to Zespri.

Payment Timing for Class 1

A payments timetable is included in the *Pricing and Payment Manual* in Section C. The table below includes a more detailed breakdown of Kiwifruit payments.

Payment	Frequency	Cut-off	Payment Timing	Description
Fruit Payments				
Submit Payments <i>(also called Standard Advance Payments)</i> \$2.45 – Green (sizes 18 – 39) / Green Organic (all sizes) \$2.25 – Green (size 42) \$3.30 – SunGold / SunGold Organic \$2.80 - Green14 \$3.30 - RubyRed	Weekly during harvest (until harvest completed) Monthly after harvest (e.g. CA or bin stored Kiwifruit that is packed)	Sunday midnight Last Sunday of the month	Friday (5 days after cut off) By 15 th of the month following cut off	Paid on receipt of EDI record of fruit submitted into inventory Submit Payments are reversed on receipt of EDI fruit loss record Pricing and Payment Manual C2
Progress Payments	Monthly, or as determined by ZGL Board, from July until June the following year provided cashflow and covenants requirements are met	Last Sunday of month	By 15 th of the month following cut off	Discretionary Payments on Gross submit based on cash availability and Exec approval All Progress Payments made are reversed on receipt of EDI fruit loss record Pricing and Payment Manual C4

Payment	Frequency	Cut-off	Payment Timing	Description
Final Progress Payment	Once	June	By the end of the first full week in June of the following year	The Final Pool Return less payments made to date Pricing and Payment Manual C5
Fruit Incentive Payments				
Taste Zespri	Monthly, from July onwards. For all Pools, 30% in July and August and 20% in September and November	Last Sunday of month	By 15 th of the month following cut off	Incentive payment made based on specified fruit characteristics Paid based on trays loaded out Pricing and Payment Manual C3 and Appendix 6
KiwiStart <i>(also called Period 1 Payments)</i>	Twice a year - first payment August, final payment in October.	Refer to specific KiwiStart cut-offs.	By 15 th of the month in August and October	Pricing and Payment Manual C3 and Appendix 3
Supplier accountability				
Service Payments				
Pack Differential	Weekly until end of end of harvest Monthly following end of harvest	Sunday midnight Last Sunday of the month	Friday (12 days after cut off) By 15th of the month following cut off	Paid based on trays loaded out Pricing and Payment Manual C6 and Appendix 2

Payment	Frequency	Cut-off	Payment Timing	Description
Time Payments	Weekly until end of end of harvest	Sunday midnight	Friday (12 days after cut off)	As per Standard Cost Model, or as part of a Service Level Agreement
	Monthly following end of harvest	Last Sunday of the month	By 15th of the month following cut off Time payment adjustment (to reflect Final rates following August forecast) made prior to 30 November (usually in September)	Pricing and Payment Manual C6 and Appendix 4
Loyalty				
Loyalty	[REDACTED]	[REDACTED]	Paid by the end of January and by the end of June in the year following harvest.	[REDACTED]

Progress Payments for Class 1

Payment Protocol

Progress payments are discretionary, are paid only on Management approval, and are subject to Zespri meeting bank covenants. Progress Payments relate to two separately considered periods, the first within the duration of the seasonal funding loan, and the second, after the repayment of the seasonal funding loan. They are discussed separately.

1. Prior to Repayment of funding facilities (if applicable)

Progress payments are discretionary, and are made having considered the following:

A. Cash Availability

Zespri forecasts full year revenue and costs on a regular basis to generate a forecast cashflow. This cashflow is used to assess cash availability when calculating monthly progress payments.

- i. The first full forecast is published in August of any year. Progress Payments may be made prior to this published forecast.
- ii. Funding facilities includes some restrictions to payments to growers. Zespri will therefore consider the following before payment:
 - Quantum of proposed payment
 - Quantum of proposed payment versus projected payments
 - Actual sales against forecast sales
 - Compliance with bank covenants

Zespri will consider the predicted loan level and bank confidence before recommending a payment.

B. Market Confidence

Progress Payments made within the duration of the seasonal funding loan are affected by Zespri's confidence in the season, based on sales volumes and prices.

C. Cashflow To Date

- Total cashflow paid to date by pool is considered when determining the quantum to be paid.
- Zespri will review the percentage paid of one pool versus other pools.
- The percentage paid is the total payments made (including Submit Payments, Service Costs, Fruit Incentives and any Progress Payments already made) over the forecast fruit and service payments.

D. Net Grower Cashflow by Pool

Progress payment decisions may take account of the timing of grower on orchard costs. This benchmark recognises the different post-harvest and on orchard costs and the timing of those costs, applicable to each pool, and payable by the grower.

E. Other Considerations

- Progress payments made within the duration of the funding facility may differ significantly from year to year.
- Traditionally, though not always, progress payments are made monthly from July. Zespri should manage any expectation based on previous years' payments.

2. Progress Payments made after the funding facility (if applicable) has been repaid.

Progress Payments should take consideration of:

A. Cash Availability

- i. Progress payments are based on net cash available from sales of NZ sourced product.
- ii. The quantum month by month or pool by pool is not required to be consistent.
- iii. Zespri Executive to make a judgement based on their level of confidence in the forecast and the sensitivities of the forecasted components.
- iv. The calculation resulting in a recommendation for a 15th of the month payment will be made in the first two weeks of the month prior to the payment month and are based on the most up to date net submit volumes and sales information available.

B. Rate of Sales and Rate of Collection

- By pool, the total amount paid, (including the recommended payment) as a percentage of that pool's total forecast fruit and service payments (including fruit incentives and service costs) is close to the percentage sold one month prior to the payment. This month lag allows for collection of sales.
- Consideration of outstanding risk from debtor collection.

C. Cashflow to Date

- Total cashflow paid to date by pool is a consideration when determining the quantum to be paid.
- The percentage paid is the total payments made (including Submit Payments, Service Costs, Fruit Incentives and any Progress Payments already made) over the forecast fruit and service payments excluding loyalty premium.

D. Net Grower Cashflow by Pool

Progress Payments decisions may take account of timing of grower on orchard costs.

E. Historic Cashflows

The total percentage paid out over time in the previous season is also used as a benchmark.

F. Percentage Benchmark

The goal at the end of each season is to have all payments 97.5% paid by the end of March

Fruit Incentives

Fruit Incentives include:

- Taste Zespri
 - KiwiStart
 - Supplier Accountability
- 

The definition and payment timing of fruit incentives is set out in the Supply Agreement. They are reported on a per tray, per pool level in Kiwiflier.

Taste Zespri Payment Policy

The rules for payment of Taste Zespri as set out in the Supply Agreement refer to the Taste Zespri payment policy, as approved by ZGL and set out in the Fruit Incentives section above.

Class II and Non-Standard Supply

Class II and non-standard supply are contracted via service level agreements (SLA). These SLA's set out generic payment terms and supply conditions and are agreed on an annual basis.

14. SERVICE COSTS

'Service Costs' are defined in the *Pricing and Payment Manual* Section B and refer to payments undertaken by ZGL to contractors for the provision of services relating to Kiwifruit in the Pool. Calculation of Service Costs is set out in the same Section.

The following table sets out service costs undertaken:

Generic Rate	Criteria	Methodology	Payments	Pool allocation
Pack	A standard cost model calculates the pack differential being the compensation required to cover additional costs over and above the cost of the base variety pack.	Pack differential rates are set by ISG and approved by IAC and the Zespri Board as part of the Supply Agreement.	Pack differential payments are made on loadout at the payment terms within the Supply Agreement, being weekly payments until end of the harvest and monthly payments thereafter.	Actual costs and forecast costs follow the pool in which the cost arises.
Time	A standard cost model calculates the compensation required, by pool, for supplying fruit at times other than during main pack.	These rates are agreed as per the pack differential.	Time payments are made on loadout at the payment terms within the Supply Agreement, being weekly payments until end of the harvest and monthly payments thereafter.	Actual costs and forecast costs follow the pool in which the cost arises.
Service Level Agreements (SLA)	Zespri and Registered Suppliers enter into SLA's for various goods and services	The SLA sets the payment terms.	Based on agreed payment terms.	Actual costs and forecast costs follow the pool in which the cost arises. Any costs unable to be directly allocated are allocated over the trays supplied under the agreement.

Generic Rate	Criteria	Methodology	Payments	Pool allocation
KiwiStart outside Period 1	KiwiStart fruit supplied based on contracted volumes	These rates are agreed as per the pack differential.	Paid to registered suppliers based on fruit supplied but constrained by contracted volumes. Payment terms and timing set out in Pricing and Payment Manual.	Actual costs and forecast costs follow the pool in which the cost arises.

15. FRUIT INCENTIVES

Generic Rate	Criteria	Methodology	Payments	Pool Allocation
Taste Zespri	Zespri requires higher dry matter fruit (as an indicator of higher tasting fruit) for some markets. A generic payment is set to encourage production of high tasting fruit.	A sample of all fruit is tested for dry matter prior to being harvested, at a maturity area level. Volumes taken from SAP. Fruit value calculated using forecast data, with average TZG being extracted from SAP.	The Taste Zespri payment policy is approved annually. The policy is set out below.	Actual costs and forecast costs allocated at a pool level.
KiwiStart period 1	To compensate growers who pick fruit prior to full maturity date, to meet early season market demand.	KiwiStart rates are calculated in a KiwiStart compensation models set out in Pricing and Payment Manual.	Payment terms and timing set out in Pricing and Payment Manual.	Actual costs and forecast costs allocated at a pool level.
Supplier Accountability	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

We calculate TZG based on a 90 fruit orchard sample for all varieties, and an additional 60 fruit small size targeted sample for Gold3 and Organic Gold3. TZG for Gold3 and Organic Gold3 is calculated and reported by maturity area and fruit size, whereas other varieties are reported on maturity area level only. TZG forms the basis of grower taste payments.

How is TZG calculated?

See Green Conventional example below for how TZG is calculated using a 90 fruit sample. Each fruit has dry matter measured and assigned to a dry matter grade.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

depending on the variability within each maturity area. For a full explanation of the calculations please refer to Canopy.

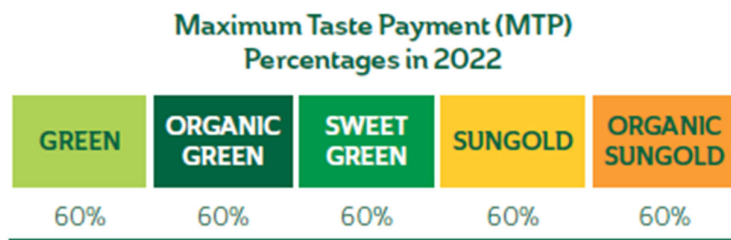
What TZG is used for Taste Zespri Payments?

If more than one sample is collected for a maturity area, the best sample will be used for Taste Zespri Payments. For non-Gold3 varieties the best sample is the sample with the highest TZG. For Gold3 and Organic Gold3, Zespri calculates which of a Grower's clearance samples gives the Grower the most money when overlaid with their actual submit profile.

The submit weighted TZG uses the same calculation, but using the actual size profile of the Grower's crop at packing. Zespri calculates a submit weighted TZG for each of a Grower's clearance tests, and pays the Grower based on the highest value, even if it's not the most recent. This also may not be the sample with the highest estimated sample average TZG.

Taste Zespri Payments and Maximum Taste Payment (MTP) Percentages in 2022

Taste Zespri Payments are paid against trays supplied when fruit is shipped. The Maximum Taste Payment (MTP) for SunGold and Organic SunGold is 60 percent of combined fruit plus taste payment. What this means in practice is that for SunGold, 60 percent of total fruit value is linked to taste, so there is a strong incentive to provide great tasting fruit. The MTP for Green and SweetGreen is also 60 percent. Zespri RubyRed Kiwifruit is naturally a high dry matter variety and there will be no taste payments for the 2022 season.



Calculation of the Maximum Taste Payment (MTP)

Zespri calculates a MTP which is then multiplied by a Grower's TZG to calculate their individual Taste Zespri payment. Note for Gold 3 Conventional as the TZG has been capped at 0.86 (versus 1.00 in the other Pools) a Gold 3 conventional Grower cannot achieve 100% of the MTP but instead 86% of the MTP. For example based on the below table the MTP for Gold 3 conventional is \$7.89 but the higher taste payment is $\$7.89 \times 0.86$ (86%) = \$6.79/TE.

Indicative MTP rates for the 2022 season, based on the November 2021 forecast are set out below.

How Zespri calculates the Maximum Taste Payment (MTP)

	GREEN	ORGANIC GREEN	SWEET GREEN	SUNGOLD	ORGANIC SUNGOLD
	\$ per TE	\$ per TE	\$ per TE	\$ per TE	\$ per TE
Total Fruit Payment	\$4.54	\$6.02	\$6.65	\$7.34	\$6.83
+	+	+	+	+	+
Average Taste Payment	\$3.17	\$4.58	\$3.81	\$5.81	\$7.51
=	=	=	=	=	=
Total Fruit Payment including Taste*	\$7.71	\$10.61	\$10.46	\$13.15	\$14.34
x	x	x	x	x	x
Maximum Taste Payment Percentage	60%	60%	60%	60%	60%
= Maximum Taste Payment (MTP)	\$4.63	\$6.36	\$6.28	\$7.89	\$8.60

Taste Payment timing

Taste Zespri Payments are paid at FOBS (once fruit is loaded on board a ship). While we're waiting for a final MTP rate to be set for the season (based on the August 2022 forecast), we use an indicative MTP rate based on the November 2021 forecast, which is generally used until August 2022. Taste Zespri Payments are made based on the following schedule:

Month	Payment Details
July	Trays loaded to last Sunday of June x indicative rate x 30 percent
August	Trays loaded to last Sunday of July x indicative rate x 60 percent, less July payment
September	Trays loaded to last Sunday of August x final rate x 80 percent, less July and August payments
October	Trays loaded post the last Sunday of August to last Sunday in September x final rate x 80 percent
November	Trays loaded to last Sunday of October x final rate, less July to October payments
December	Trays loaded post the last Sunday of October to last Sunday in November x final rate

Fruit Incentive payment terms are set out in the Supply Agreement.

APPENDIX A – Total Fruit and Service Payments

