

PIPFRUIT NEW ZEALAND INCORPORATED

Annual Report 2015





OFFICERS

as at 31 March 2015

Board of Directors

Grower Directors

Andrew Common, Hawkes Bay
Peter Beaven Hawkes Bay
Stephen Anderson, Hawkes Bay
Stephen Darling, Central Otago

Post Harvest Directors

Nadine Tunley, Freshmax NZ Ltd (Chairman)
Andy Borland, Scales Corporation Ltd
Darren Drury, Turners & Growers Ltd

Senior Management

Chief Executive: Alan Pollard
Technical Manager-Market Access and Regulatory Affairs: Roger Gilbertson
Technical Manager-Crop Protection: Tim Herman
Business Development Manager: Gary Jones
Finance & Administration Manager: Peter Bull

FOREWORD

It is our pleasure to present the annual report for the year ended 31 March 2015. The report covers the 2014 selling season and the 2014/15 growing season to the start of harvest.

This has again been a busy year for Pipfruit NZ. Having launched our strategic plan at the 2013 pipfruit conference in Havelock North, the Board and the Pipfruit NZ team are fully focused on its implementation. We acknowledge that implementing some of the strategic priorities has been more successful timing wise than others. If anything, we underestimated the amount of work and effort that would be required to implement what is an ambitious plan. However, progress during the 2014/2015 year has been good and members will get to see one of the more important pieces of work, our apple story, at the 2015 conference in August in Wellington.

Market access remains our number one priority, closely followed by biosecurity and attracting retaining and developing industry talent.

So far this season, from a market access perspective, our markets are working well. The partnership approach to market access that we have developed with MPI continues to work very well and significant progress has been made here. Add to that a strengthening of our relationship with MFAT and NZTE, and you can see the huge progress that PNZ has made in this critical area.

Later in 2014 Pipfruit NZ signed the GIA Deed with MPI making us the second horticultural sector behind kiwifruit to do so. PNZ continues to show leadership in biosecurity and is actively engaged with MPI to ensure that GIA delivers meaningful and tangible benefits to growers, and that grower interests are well protected.

In the people development and capability space, again PNZ is showing leadership by working on initiatives that will ensure that our industry can access the increased number of permanent and seasonal people that we need to achieve our strategic targets.

We continue to strive for a strong level of communication and engagement with industry. The board and management travel to our growing regions as often as we can, and we will continue to give all our members the opportunities to engage directly with us.

We have thoroughly enjoyed serving the industry this past 12 months. It is a privilege to be able to do so and one that gives us all immense enjoyment and fulfilment. We have achieved a lot but inevitably there remains much to do. The Board and team at Pipfruit NZ are committed to working hard to achieve increasing and sustainable long term returns for all of our growers.

EXECUTIVE REPORT

We are pleased to be able to report on the year ended 31 March 2015.

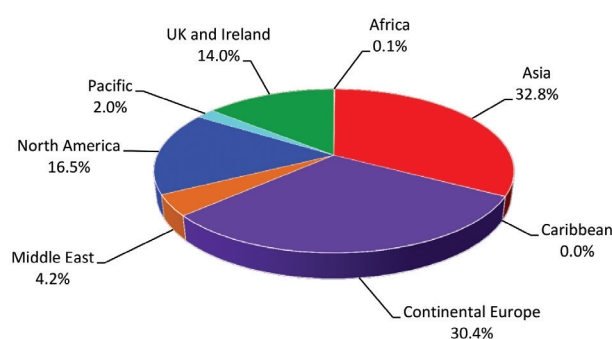
Early indications were that the 2014/15 growing season would be significantly affected by hail events in all of the growing regions in late 2014 and early 2015. However, while some individual orchards were severely affected, overall volumes are much higher than anticipated and quality is again outstanding.

Final figures for the 2014 season were as follows:

NATIONAL EXPORT PRODUCTION (TONNES) BY REGION AND VARIETY 2014

Variety	Hawke's Bay	Nelson	Otago	Rest of NZ	TOTAL	% Mix
Braeburn	40,740	22,277	991	2,877	66,886	21.1%
Cox	110	3,096	1,135	120	4,460	1.4%
Cripps Pink	14,095	6,203	0	934	21,231	6.7%
Envy™	4,896	6,082	0	609	11,586	3.7%
Fuji	20,987	3,367	1,118	644	26,115	8.3%
Granny Smith	5,883	965	662	93	7,603	2.4%
Jazz™	15,783	19,025	1,778	211	36,798	11.6%
Pacific Beauty™	1,837	27	0	45	1,910	0.6%
Pacific Queen™	10,301	144	538	213	11,196	3.5%
Pacific Rose™	8,570	93	457	221	9,342	3.0%
Royal Gala	72,283	19,987	3,187	4,952	100,382	31.7%
Other Apples	4,549	3,457	3,058	2,298	13,362	4.2%
Pears	1,743	3,654	0	14	5,411	1.7%
Total	201,777	88,378	12,925	13,204	316,284	

EXPORT PRODUCTION BY DESTINATION REGION 2014



RESEARCH PROGRAMME

Investment: approximately \$2,182k was invested in the 2014-15 year.

Industry funding and in-kind effort was leveraged for \$682,000 of funding from the Sustainable Farming Fund, Ministry for Science and Innovation, and the Ministry of Business, Innovation and Employment. We have seen increasing international emphasis being placed on food safety and PNZI has commenced greater clarification of the efforts made in New Zealand.

The Pipfruit NZ Fellowship amounting to \$32,000 was awarded to Jing Liu of Lincoln University for research into novel biological control agents for European Canker; while Michelle Taylor of

Massey University received a grant of \$8,000 for her PhD research into bee nutrition.

SOME KEY PROJECTS:

- The first year of the seven year Apple Futures II programme is well under way (\$1.24M pa). The goal of this project is to get further and faster access into the Asian markets. Projects within the programme are based both on-orchard and in post-harvest. Outcomes from individual projects will be integrated into systems-based management programmes for each pest and disease. This programme is jointly funded by PNZI and the Ministry for Business, Innovation and Employment. In total this is an \$8.6m project, leveraged equally between industry and MBIE, over a maximum seven year period.
- The European canker Sustainable Farming Fund (SFF) project successfully completed its second year (\$231,000). A broad spectrum of research investigated aspects of the biology of the European canker pathogen and developed and augmented control strategies. Best practice guidelines were updated and then communicated to growers via the internet, seminars and field days. Surveys are showing we may be beginning to turn the tide on this insidious disease.
- In another SFF funded project (\$196,000), the recovery of *Mastrus ridens*, a parasitoid of codling moth, from sites it had been released at previously demonstrated it had survived the winter. Further releases this season will improve the establishment and spread of this biological control agent.
- Investment in organic research (\$121,000) included a project on a natural insecticide discovered and developed in New Zealand. *Yersinia entomophaga* is showing potential to control the bronze beetle in organic apple orchards.
- The original *Apple Futures* programme continues to deliver ultra-low residue fruit into our export markets supported by documents and databases in the secure section of the PNZI website.

Members can obtain a detailed summary of all projects making up PNZ's research programme on request.

PIPFruit NZ STRATEGIC PRIORITIES

Pipfruit NZ's strategic plan identifies eight key strategic priorities on which the organisation will focus its efforts and investment.

1. Market Access-General

Market access remains PNZ's number one priority. Our aim is to ensure that New Zealand has the highest quality commercially viable market access of any exporting country.

The strategic market access partnership with MPI is working very well. The governance group comprises three industry representatives (Nadine Tunley, Chair; Andy Borland, Director; and Alan Pollard, CEO) and three senior MPI representatives. The role of this governance group is to establish and agree on priority markets, determine the work plan in each market, allocate resources (people and finance), and manage an accountability process to ensure that expected outcomes are achieved.

This group is well supported by a significant number of MPI resources, and by the Market Access Advisory Group (see below).

Under the heading of market access one might also think of biosecurity.

During the year we faced a detection and then incursion of Queensland Fruit Fly in Grey Lynn, Auckland. To date, 14 flies have been found (the last on 6 March 2015) and 6 sets of larvae (the last on 13 March 2015). The response has been scaled back over winter but will ramp up again in spring and is not expected to finish before November 2015.

As a GIA Deed signatory, PNZ has been a member of the response governance group (along with other GIA partners MPI and KVH).

We have been impressed with how the response has gone from an operational perspective. The team on the ground have done an outstanding job. We have also been impressed with the work that the MPI exports team have done to ensure that our markets remain confident of the work that is being done to retain NZ's QFF free status. As a result very few markets reacted negatively to the incursion. For our industry at the time, when we were about to start our export season, this was crucial.

As a GIA partner there is still some work to be done with government to agree on what being a GIA partner means in practice – what our expectations of engagement and influence are compared to those of MPI.

In general there were no major market access issues during the year to 31 March 2015.

Non-Asian Markets

Australia:

During the year, the additional programme requirements imposed by MPI above the negotiated protocol with Australia were removed for those organisations who have demonstrated that they regularly achieve the higher level. New exporters will still have to demonstrate compliance with the additional requirements but will be able to reduce to the negotiated level over a shorter time period.

With this review of the additional inspection requirements, PNZ will support MPI signing off on the outcome of the WTO case, where we need to be able to confirm that meaningful access has been obtained.

PNZ is working on some market development plans to support an increase in apple exports to Australia.

Russia:

Apple trade with Russia has increased steadily over the last five years, however progress with a FTA has stalled due to the escalation of the Ukraine situation.

During the year Russia banned all imports from Europe and North America in the wake of sanctions imposed following the Ukraine conflict.

United Arab Emirates:

The Middle East region continues to be a growing market, largely into the UAE with Chile and South Africa dominating in Saudi Arabia. This market with high GDP that demands high quality represents a significant opportunity for New Zealand exports

United Kingdom / European Union:

These combined markets remain large in volume and significant to New Zealand.

The impact of the Russian ban was widely feared, particularly with respect as to where the significant volume of Polish fruit would end up. Exporters attended Fruit Logistica in Berlin with some trepidation. However most left Berlin feeling slightly more optimistic, and this optimism has transpired to reality in the market.

The impact and influence of commercial standards above regulatory requirements continues to offer challenges but is a 'part of doing business' with this market.

Significant competition from other southern hemisphere producers remains so further growth of market share may pose challenges.

North America

NAM remains an important market for New Zealand.

A central database for USDA pre-clearance is now up and running. All pre-clearance participants are now working through the database in 2015 to assist building USDA confidence in the system. The next step is a New Zealand management programme.

A USA specific variety continues to grow in New Zealand, with extensive development occurring in the South Island.

2. Market Access-Asia

Asia (collectively) continues to be our largest export destination, nearing 40% of all exports.

The inevitable shift from West to East reflects significant economic and population growth, and a very large shift from low to middle class. These consumers want fresh, high quality, tasty and safe fruit.

As more of our trade shifts to Asia, phytosanitary barriers to access become more complex. Political forces whose aim is to protect their domestic pipfruit industries become more prevalent.

Pipfruit NZ works hard with government agencies to break down these barriers. The great relationships we have with MPI, MFAT and NZTE go a long way toward putting in place strategies to do this.

In addition, PNZ has defined the role that it can and should play to break down the barriers in market. On the one hand it involves telling the apple story to differentiate NZ products from any other. On the other it requires us to think of market access not as a transaction of trade but as a strategic opportunity. We look for opportunities to work with other domestic industries to help them with some of their challenges without compromising our competitive advantages or intellectual property rights.

China:

The China market developed very rapidly over recent seasons, and continues to be a very important market for our future growth.

The 2013/14 season was affected by our voluntary suspension due to a post-harvest rot being detected in apples from New Zealand by China's CIQ, following its detection in fruit exported to China by Chile.

The subsequent season has seen volumes restored and exceptional quality fruit exported.

PNZ sponsored and organised a NZ pavilion at the China Fruit and Vegetable Trade Show in Beijing in November 2014. A number of our exporters, supported by NZ Avocados, Plant & Food and BBC Technologies, attended the pavilion. As a result of this investment NZ was granted partner country status for the show, participating in the opening ceremony and having an official ribbon cutting ceremony. The NZ delegation participated in a seminar with 30 AQSIQ and CIQ officials where we discussed matters of mutual interest. Nadine and I, along with MPI and NZTE, met with the Director, AQSIQ who expressed his support of the efforts that we had made to address the rot issue and commented positively on how things had improved.

India:

Progress with the NZ – India Free Trade Agreement is slow.

PNZ, assisted by PFR, is leading a World Bank project to help Himachal Pradesh transform its horticulture industry. The \$US160m project is currently in the project plan formulation stage. If it is approved the opportunity for NZ Inc. to contribute to the project is substantial. Moreover our future ability to deliver on the project will be tied to the success of agreeing on a more welcoming trade environment under a reduced tariff environment.

PNZ is working closely with MFAT and NZTE on this initiative.

Growers will have an opportunity to see first-hand the growing environment in India with a grower visit being planned for the coming months.

Indonesia:

NZ has joined the US in a WTO action against Indonesia over its trade preventative barriers i.e. quotas.

PNZ continues to monitor trade flows and trade challenges with Indonesia

Japan:

Japan continues to be seen as an important and developing premium market.

PNZ met with Japan MAFF in November 2014 following a number of in-market failures. Half were to do with non-compliant packaging, and half due to ALCM detections. Japan-MAFF put us on notice that continued failures would be unacceptable. This was poor timing given our push to recognise a systems approach to phytosanitary management rather than methyl bromide.

Japan is one of the countries negotiating the Trans Pacific Partnership and trade in apples is part of those discussions.

PNZ is looking to work with the Aomori Apple Growers Association on a plan for mutual grower exchanges.

Republic of Korea (South Korea):

New Zealand is in the process of finalising the Free Trade Agreement (FTA) with the Republic of Korea. Unfortunately, apples have been excluded. PNZ is disappointed in this outcome and believe that a more strategic approach may have produced a different outcome.

As Korea will wish to join the TPP if it is agreed, that may open the opportunity to revisit this. To that end the Korean government, with MPI, will continue to conduct an Import Risk Assessment of NZ apples into Korea.

Taiwan:

The benefit of the removal of a tariff is never better demonstrated than with Taiwan.

Following the removal of the 20% tariff in December 2013, volumes exported to Taiwan increased from 8,000 tonnes in 2012/13 to 20,000 tonnes in 2013/14.

Taiwan is now in our top five individual export destinations.

3. Improved Relationships with MPI, MFAT, and Hort NZ

PNZ's relationships with key Ministers and officials has improved notably over the past 12 months, through increased involvement and communication.

During the year we met with Ministers Guy (frequently), Bennett, Woodhouse, Tolley, and Groser. Our sense is that Ministers now have a better understanding of the importance and success of our industry, of our growth aspirations, and of the partnership that we need with government to achieve our goals.

Alan met with the National Agricultural caucus and Nadine and Alan with then members of the opposition.

Likewise PNZ is now engaging regularly at a senior level with MBIE, MPI, MFAT and NZTE. They are very interested in our story and very keen to work with us.

More work needs to be done to engage effectively with MSD. Engagement takes the commitment of both parties, and we are constantly working to improve that. PNZ, along with kiwifruit, has agreed to establish a quarterly meeting with a senior MSD official to consider matters of strategic nature and to try and improve relationships.

At the time of preparing this annual report, Horticulture NZ is in the process of recruiting a new CEO. PNZ is committed to continuing to looking at how we can better engage in working together in the best interests of our mutual growers, to ensure we remove any possible duplication and aim to get better outcomes through improved co-ordination and co-operation.

We will discuss this further with the new CEO.

4. Defining and telling the Apple story.

The "look and feel" of the apple story will be launched at the 2015 conference. This "look and feel" will set the style and format of all material that we produce to support the apple story.

The story itself is based on the fundamental question – why would

a consumer anywhere in the world choose a New Zealand apple over those from any other country.

The chapters of the story explain why that decision is made:

- Provenance – nature has given New Zealand a gift of the best growing conditions in the world geographically and climatically;
- Natural balance – New Zealand orchardists have a unique relationship with the land using the world's most sustainable farming practices;
- Future thinking – controlling pests and diseases through the use of biological rather than chemical intervention, and using NZ developed post-harvest technology to ensure that only the best fruit gets to the over 70 export markets around the world.
- Socially responsible and ethical labour – New Zealand uses socially responsible employment practices supplemented by the most ethical migratory labour scheme in the world to ensure that fruit is harvested at the optimum time for optimum quality.
- Cultivating careers – the worlds number one apple industry offers a broad range of rewarding career opportunities supported by comprehensive training and development programmes to ensure that only the best and most motivated people deliver the highest quality fruit to consumers.
- Global journeys – because of all that has gone before, consumers anywhere in the world can be confident that the NZ apples they buy are fresh, tasty and safe.

PNZ is working on having available to members material that will tell the apple story and support their individual brand messages.

5. Grow and improve the way Pipfruit NZ generate and provides information to industry.

As part of the project to develop the apple story, we are also looking at how we present the various important pieces of information to growers in real time.

The database contains various important information, including decision tools, that must be easy to find and easy to access (for example accessible to hand held devices in the orchard)

We are looking at how we can make it easier to find information via the menu structure. We are also working on making the documents much more user friendly. For example, the IFP manual is a cumbersome PDF document. It is currently being rewritten to allow for a user to access the part that they are looking for and to have access to links to other related information at the click of a mouse.

6. Recognised Seasonal Employer (RSE) scheme

The RSE scheme has been one of the main factors that has transformed our industry. It is also one of the primary reasons that organisations have the confidence in the industry to invest in its future and growth.

During 2014 the RSE cap was lifted from 8,000 to 9,000. However none of that increase was allocated to the Hawkes Bay. Instead then Minister of Social Development, Paula Bennett, introduced a NZ Seasonal Workers Scheme (where unemployed

New Zealanders were to be transported from various parts of the country under similar pastoral care arrangements as those which apply to RSE workers). No thought had been given to how this may work in practical terms.

In 2015 the Hawkes Bay experienced a serious labour shortage which led to sacrificing lower value for higher value fruit during harvest at a cost of millions of dollars to the industry. MSD refused to declare a labour shortage, and failed to deliver any meaningful numbers of people under the NZ scheme.

The 2015 harvest in the Hawkes Bay only proceeded by organisations utilising their RSE workers for 6 or 7 days per week and 10 plus hour shifts per day. This is unsustainable.

With significant growth in our industry, kiwifruit and wine, the demand side for seasonal workers is growing at a very fast rate. As the NZ economy improves, the supply side of NZ workers is falling. So the gap is widening and it can only be filled by supplementing the labour force with RSE workers.

Our industry is very successful at creating opportunities for New Zealanders. It is inconceivable that the future of our industry could be jeopardised by a reluctance to accept the fundamental drivers for our industry's success. 2015 will be a watershed year for seasonal labour. PNZ will do whatever it takes to protect the industry's access to reliable labour and provide for our future.

Gary Jones chairs the Hawkes Bay Regional Labour Governance Group, and is a member of the national labour Governance Group. PNZ will continue to demonstrate, provide data and education to MSD in regards to all labour requirements of our industry.

7. Attract, grow and retain talent

Providing for succession and attracting and retaining talent in the industry is one of PNZ's priority strategies.

Pipfruit NZ, under the leadership of Gary Jones, is concentrating a significant amount of time and resources in a number of initiatives to support this strategic priority:

- Telling the apple story to help promote the industry as a viable career opportunity.
- Identifying the roles that the industry will need over the next few decades, the skills that each role will require, the curriculum to deliver those skills, and who is best placed to deliver that curriculum.
- Measuring the many ways that the industry creates opportunities (permanent and seasonal) for New Zealanders
- Measuring the flow on impact to the wider community of growing job opportunities in our industry
- Reviewing the basis upon which PNZ invests in scholarships for further education and research.
- Working with the kiwifruit sector to make better use of the opportunities that trade shows and career events create to promote our respective industries.

Gary Jones chairs the Pipfruit Industry Partnership Group under the Primary Industry Training Organisation (Prito)

8. Access to new varieties

Funding for Prevar for the 2015 to 2017 period has been agreed in principle by the Prevar shareholders. That agreement provided for a reduction in shareholder contributions from \$1,150,000 per annum to \$900,000 per annum for the 3 year period. A variation to the Shareholder's Agreement is yet to be signed due to the need to accommodate a change in structure in Australia from Horticulture Australia Limited to Horticulture Innovation Australia.

The Prevar Advisory Group, established by the PNZ Board, is working through the implications of the review that was completed in 2013 and on a structure for the NZ shareholding in Prevar going forward.

The NZ appointed Directors on the Prevar Board are Tim Goodacre and Snow Hardy.

PIPFruit NZ OPERATIONAL MATTERS

Office

Pipfruit NZ's offices are located at 507 Eastbourne Street West, Hastings.

Prevar Ltd leases an office within the premises, and Pipfruit NZ provides administrative services to Prevar in return for a fee for service.

In addition a further single office has been sub-let (an arrangement that finished subsequent to balance date).

The former premises at 207 St Aubyn Street, which were deemed to be unsafe at less than 10% of the earthquake code, were sold in May 2014.

Society Governance

The Pipfruit NZ Board comprises four grower directors and three post-harvest directors. As noted above the ability to appoint an independent director has not been exercised.

The Board elected at the 2014 Annual General Meeting was:

Nadine Tunley, Post- Harvest, Nelson (Chairman)

Stephen Anderson, Grower, Hawkes Bay

Peter Beaven, Grower, Hawkes Bay

Andy Borland, Post-Harvest, Christchurch

Andrew Common, Grower, Hawkes Bay

Stephen Darling, Grower, Central Otago

Darren Drury, Post-Harvest, Christchurch.

Industry committees

The board delegates some industry responsibilities to four committees.

1. Research Consultative Group

The Research Consultative Group (RCG) is constituted under our rules and is responsible for approving the research projects for the year and for reviewing the progress research undertaken on behalf of members. RCG reports to the Board via the Technical Manager – Crop Protection and the Board appointed member.

The RCG is constituted to meet at least quarterly to review research progress. The 2014/15 RCG comprised:

Industry representative: David Easton, Wayne Hall, Stella McLeod, and Heidi Stiefel.

PNZ representatives: Tim Herman (Chair), Roger Gilbertson, Gary Jones (ex officio)

PNZ Board Representative: Stephen Anderson

2. Prevar Advisory Group

The Prevar Advisory Group provides advice to the PNZ Board on a range of matters that affect the NZ shareholding in Prevar. They act as a sounding board for the PNZ Board to test ideas and look at the practical implications of Prevar activities.

The current members of the Prevar Advisory Committee are: Tim Goodacre (Chair), Snow Hardy, Paul Paynter, Lesley Wilson, Morgan Rogers and Evan Hayward.

3. Market Panel

Exporters continue to share export information in order to make informed export decisions. This group represents a majority of all Pipfruit exports from New Zealand.

4. Market Access Advisory Group

During the year, the former Market Access Committee was restructured and re-mandated to ensure that it provided the important technical link between the Market Access Governance Group (PNZ and MPI) and our member businesses.

The current Committee members, with industry representatives elected at the market panel AGM in November 2014, are:

Duncan Park, Turners & Growers; Hans Doevendans, Qmac Systems/Crasborn's; Simon Thursfield, Apollo Apples; Karen Morrish, Mr Apple; Stephen Butcher, MPI; Roger Gilbertson, PNZ (Chair).

Communication

Pipfruit Newz, weekly emails, the Society's website (www.pipfruitnz.co.nz), and grower workshops and seminars continue to be the main communication methods with the industry. Pipfruit Newz is published monthly except for January. The industry also holds its annual conference in early August.

Many workshops, training programmes, technical field days and seminars are held for growers and packers in all major districts to upskill and discuss various topics such as market access programmes, pest and disease management, research and development, seasonal labour and orchard management.

Finance

The financial result for the year was a deficit of \$728,000 after allowing \$867,000 for PNZ's share of the Prevar deficit. The new

Prevar shareholders agreement dealing with funding to 2017 has yet to be signed however PNZ advanced \$450k to Prevar during the year in anticipation of the agreement being signed. PNZ is committed to paying a further \$450k when the agreement is signed.

The operating surplus is \$1.67m less than in 2014. The decision taken at the 2013 AGM to reduce the levy rate from 1.25c per kilo to 1c per kilo has impacted on commodity levy revenue which fell by \$1.18m. Total spending increased \$775k during the year as we continued to implement our strategic objectives.

Some year on year operating expenditure comparatives are difficult this year as we restructured our chart of accounts to allow us to report spending in line with our strategic priorities. Research and market access spending have increased considerably from last year and this will continue under apple futures 2. Work is currently being done on the apple story with more expected in the coming financial year. We have spent more on representation, biosecurity and capability development this year as well.

Members' equity decreased by \$728k to \$4397k at 31 March 2015.

While there was a deficit this financial year the finances of the society are still sound and the cash position remains good.

The PNZI team and Board are acutely aware of their fiduciary duties to manage the Society's finances prudently and effectively. This responsibility is greatly supported by PNZI's strategic plan and the associated budgetary process.

Staff

Dr Mike Butcher retired in December 2014. Mike's contribution to the industry is immeasurable and his legacy enduring. The industry would not be where it is today if it were not for Mike's capability, professionalism, and passion. We wish him well for his well-earned retirement in the far North.


Early in 2015 the second part of Mike's former role, Market Access and Regulatory Affairs, was filled by Roger Gilbertson. This position is currently part-time and will be subject to review in mid-2015.

At balance date Pipfruit NZ members of staff were:

Alan Pollard	Chief Executive
Gary Jones	Business Development Manager
Tim Herman	Technical Manager (Crop Protection)
Roger Gilbertson	Technical Manager (Market Access and Regulatory Affairs)
Peter Bull	Finance and Administration Manager
Catherine Scott	Operations Coordinator
Christine McRae	Information Coordinator
Jill Morley	Administration.



Nadine Tunley
Chairman



Alan Pollard
Chief Executive



FINANCIAL REPORT

Year ended 31 March 2015

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Statement of Financial Position

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Audit Report

STATEMENT OF FINANCIAL PERFORMANCE*for the year ended 31 March 2015*

	<i>Note</i>	2015	2014
Operating revenue	(1)	\$4,334,715	\$5,340,978
Operating expenses	(2)	(\$4,154,510)	(\$3,485,984)
Operating surplus/(deficit)		\$180,205	\$1,854,994
Share of deficit/impairment in associate	(7)	(\$866,889)	(\$916,714)
Surplus/(deficit) before income tax		(\$686,684)	\$938,280
Income tax (expense)/credit	(3)	(\$41,226)	(\$32,309)
Surplus/(deficit) for the year		(\$727,910)	\$905,971

STATEMENT OF MOVEMENTS IN EQUITY*for the year ended 31 March 2015*

	2015	2014
Equity at beginning of period	\$5,124,531	\$4,218,560
Surplus/(deficit) for the period	(727,910)	\$905,971
Total recognised revenue and expenditure for the period	(727,910)	\$905,971
Equity at end of period	\$4,396,621	\$5,124,531

The Statement of Accounting Policies and the accompanying notes form part of the financial statements

as at 31 March 2015

	Note	2015	2014
EQUITY			
Net Equity		<u>\$4,396,621</u>	<u>\$5,124,531</u>
<i>This equity is represented by:</i>			
CURRENT ASSETS			
Cash and Deposits	(4)	\$3,345,445	\$3,269,283
Accounts Receivable		\$312,628	\$74,129
Accrued Revenue	(5)	\$341,618	\$374,392
Income Tax Refundable	(3)	\$3,770	\$2,013
GST Receivable		\$78,063	\$53,323
Prepayments	(6)	\$134,589	\$42,229
Advance to Prevar	(7)	\$450,000	-
Property intended for sale	(18)	-	\$120,000
Total Current Assets		<u>\$4,666,112</u>	<u>\$3,935,369</u>
NON-CURRENT ASSETS			
Contingency Reserve Fund Investment	(4)	\$600,000	\$600,000
Investment in Prevar Ltd	(7)	\$595,095	\$1,461,984
Fixed Assets	(8)	\$110,517	\$89,991
Total Non-Current Assets		<u>\$1,305,612</u>	<u>\$2,151,975</u>
TOTAL ASSETS		<u>\$5,971,724</u>	<u>\$6,087,344</u>
<i>Less</i>			
CURRENT LIABILITIES			
Accounts Payable		\$627,224	\$437,318
Sundry Creditors and Accruals	(9)	\$947,879	\$525,495
Total Current Liabilities		<u>\$1,575,103</u>	<u>\$962,813</u>
TOTAL LIABILITIES		<u>\$1,575,103</u>	<u>\$962,813</u>
TOTAL ASSETS LESS TOTAL LIABILITIES		<u>\$4,396,621</u>	<u>\$5,124,531</u>



Nadine Tunley, Chairman
17 June 2015



Director
17 June 2015

The Statement of Accounting Policies and the accompanying notes form part of the financial statements

PIPFruit NEW ZEALAND INCORPORATED
STATEMENT OF ACCOUNTING POLICIES
for the year ended 31 March 2015

BASIS OF PREPARATION

Reporting Entity

Pipfruit New Zealand Incorporated (PNZI) is an Incorporated Society registered under the Incorporated Societies Act 1908. It is the national body representing the New Zealand pipfruit industry.

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice and in accordance with Clause 25 of the Commodity Levies Act 1990.

Reporting Period

The reporting period is the financial year ended 31 March 2015

Measurement Base

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and the financial position on a historical basis are followed by the Society.

PNZI qualifies for differential reporting as it is not publicly accountable and is not large. All differential reporting exemptions have been applied except for FRS-19-Accounting for Goods and Services Tax.

Accounting Policies

The following specific accounting policies that materially affect the measurement of financial performance and the financial position are applied.

Accrued Revenue and Expenses: Financial benefits and obligations that relate to the period ended 31 March but not invoiced at balance date, are recognised as accrued revenue and accrued expenses.

Commodity levies: Income includes levies from Pipfruit sales up to 31 March that are included in commodity levy returns to April 30 each year. Late levy returns filed after 30 April are reported as income in the following year.

Research: The society contracts external firms to undertake research on behalf of the pipfruit industry. These costs are expensed as incurred as there is no direct economic benefit to the society. Invoiced but unpaid research costs are recorded as a payable at balance date. An accrual is made at year end for estimated research work that has been performed but not yet reported on or invoiced at balance date.

Accounts Receivable: Accounts receivable are valued at estimated net realisable value. Bad debts are written off as and when incurred.

Goods and Services Tax: These financial statements have been prepared on a GST exclusive basis except for accounts payable and accounts receivable.

Fixed Assets: Fixed assets are valued at cost less accumulated depreciation.

Straight line rates based on the estimated useful life of the asset have been adopted.

The estimated useful lives of fixed assets are as follows:

Buildings and Fitout	10 to 40 years
Motor Vehicles	4 to 6 years
Computer Equipment	3 to 5 years
Furniture and Fittings	10 to 15 years
Library	20 years
Office Equipment	3 to 5 years
Software Development & Website	4 years

Leased Assets: Payments made under operating leases are recognised in the Statement of Financial Performance. No finance leases are in existence.

Accounting for Associate: Prevar Limited, with the principal activity of development and commercialisation of innovative apple and pear products, falls within the definition of an associate entity under FRS-38, Accounting for Investments in Associates and as a consequence equity accounting has been adopted.

Taxation: PNZI is not liable for income tax relating to members' activities. Income tax is payable on interest revenue and revenue from non-member activities. Provision for taxation is based on the taxable profit and not the accounting profit, with no provision being made for deferred taxation.

PIPFruit NEW ZEALAND INCORPORATED
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for the year ended 31 March 2015

Changes in Accounting Policies

There have been no changes in accounting policies. All policies have been applied on a consistent basis throughout the period

1 Operating Revenue	<u>2015</u>	<u>2014</u>
<i>Operating revenue comprises:</i>		
Commodity Levy (a)	\$3,413,942	\$4,595,032
Interest	\$157,475	\$126,621
Shared Research	\$190,975	\$291,075
MBIE Funding	\$230,691	-
Residue Testing	\$126,060	\$119,765
Orchard /IFP Registration Fees	\$25,460	\$25,110
Membership Fees	\$34,500	\$33,186
Annual conference	\$79,941	\$60,015
Rent & Administration Services	\$59,114	\$58,952
Miscellaneous	\$16,557	\$31,222
	<u>\$4,334,715</u>	<u>\$5,340,978</u>

(a) Net income from commodity levies of \$3,279,391 was received after allowing for commission, collection costs and bad or doubtful debts. Commodity levy income has been applied to advancing various industry interests and the administrative support of PNZI as detailed in (2)

2 Operating Expenditure	<i>Note</i>	<u>2015</u>	<u>2014</u>
<i>Operating expenses comprise:</i>			
Commodity Levy Collection Fees & Expenses		\$134,552	\$203,937
Research and Technology Transfer		\$1,951,672	\$1,617,345
Research Apple Futures II		\$230,691	-
Relationships		\$33,027	\$51,063
Market Access		\$241,344	\$114,234
Representation		\$102,658	-
Apple Story		\$22,528	-
Biosecurity		\$46,837	-
Knowledge Management & communications		\$169,254	\$261,355
RSE scheme		\$9,377	-
Capability Development		\$46,187	\$18,033
New Varieties		\$16,683	-
Personnel		\$762,231	\$795,497
Premises & Office costs		\$387,470	\$424,520
		<u>\$4,154,510</u>	<u>\$3,485,984</u>

Operating expenses have been reclassified to align with the society's strategic objectives. This has resulted in the restatement of the comparative figures.

The following expenses are included in the expense lines above.

	<u>2015</u>	<u>2014</u>
Lease Expenses	\$10,410	\$10,972
Directors Fees	\$122,000	\$110,000
Rental Expenses	\$64,565	\$59,832
Fees Paid to Auditors		
- Financial statements	\$10,739	\$9,382
- Tax services	\$1,427	\$2,000
Depreciation	\$28,591	\$43,741
Impairment of Assets	-	\$51,705
Bad Debts	\$314	-

PIPFruit NEW ZEALAND INCORPORATED
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3 Income Tax	<u>2015</u>	<u>2014</u>
Taxable Income	\$216,823	\$185,976
Less Deductible expenses	(\$69,589)	(\$70,585)
Taxable profit for year	<u>\$147,234</u>	<u>\$115,391</u>
Tax payable @ 28%	<u>\$41,226</u>	<u>\$32,309</u>
Tax expense as per Statement of Financial Performance	<u>\$41,226</u>	<u>\$32,309</u>

Prior year refund outstanding	(\$2,013)	\$1,900
Current year tax payable	\$41,226	\$32,309
Resident withholding tax deductions	(\$40,573)	(\$35,598)
Imputation credits held	(\$66)	(\$188)
Tax Paid	(\$1,900)	-
Tax payable/(refundable) on behalf of Administered funds	(\$444)	(\$437)
Tax payable/(refundable) as per Statement of Financial Position	<u>(\$3,770)</u>	<u>(\$2,013)</u>

4 Bank Balances	<u>2015</u>	<u>2014</u>
Current Assets (a)	\$3,345,445	\$3,269,283
Contingency Reserve Fund Investment (b)	<u>\$600,000</u>	<u>\$600,000</u>
	<u>\$3,945,445</u>	<u>\$3,869,283</u>

(a) Current assets held in the form of current accounts, call accounts and short-term bank deposits to meet on-going funding requirements. The bank balances do not include funds administered on behalf of industry groups.

(b) The reserve fund was created between 2002 and 2005 to provide for a shortfall in Commodity Levy income which may seriously impact on the ability of PNZI to meet its objectives and obligations. In 2010, Directors decided to increase the fund to \$600,000 over the next 5 years.

5 Accrued Revenue	<u>2015</u>	<u>2014</u>
<i>Revenue accrued comprises</i>		
Research Funds	\$310,786	-
Commodity Levy	\$595	\$254,542
Other Accruals	-	\$95,675
Accrued Interest	<u>\$30,237</u>	<u>\$24,175</u>
	<u>\$341,618</u>	<u>\$374,392</u>

6 Prepayments	<u>2015</u>	<u>2014</u>
<i>Prepayments comprise</i>		
Insurance	\$14,260	\$15,253
Research Prepaid	\$99,584	\$24,396
Expenses to be recovered (net)	<u>\$20,745</u>	<u>\$2,579</u>
	<u>\$134,589</u>	<u>\$42,228</u>

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7 Investment in Prevar Limited	2015	2014
Equity Accounted Investment at cost	\$10,250,000	\$10,250,000
Accumulated Share of deficit	(\$8,885,955)	(\$8,019,066)
Accumulated Impairments	(\$768,950)	(\$768,950)
Net carrying value	<u>\$595,095</u>	<u>\$1,461,984</u>
Movements in carrying amounts		
Carrying value at the beginning of the period	\$1,461,984	\$1,228,698
Share capital introduced during the year	-	\$1,150,000
Share of (deficit)/profit for the year	(\$866,889)	(\$776,714)
Impairment for the year	-	(\$140,000)
	<u>(\$866,889)</u>	<u>(\$916,714)</u>
Carrying value at the end of the period	<u>\$595,095</u>	<u>\$1,461,984</u>

Prevar Limited balances on 31 May 2015. Equity accounting has been adopted on the basis of management reports to 31 March 2015 and the share of the deficit reflects the Society's 45% shareholding. The new Prevar shareholders agreement dealing with funding to 2017 has yet to be signed. PNZI has advanced \$450,000 to Prevar during the year in anticipation of the agreement being signed. The Advance is repayable on demand.

8 Fixed Assets

2015	Annual Depreciation	Cost	Accumulated Depreciation	Book Value
Motor Vehicles	\$8,890	\$69,344	\$37,746	\$31,598
Computer Equipment	\$13,448	\$169,956	\$158,755	\$11,202
Furniture and Fittings	\$2,464	\$42,109	\$27,372	\$14,736
Office Equipment	\$3,789	\$37,907	\$30,521	\$7,385
USDA database software WIP	-	\$45,596	-	\$45,596
	<u>\$28,591</u>	<u>\$364,912</u>	<u>\$254,395</u>	<u>\$110,517</u>
2014	Annual Depreciation	Cost	Accumulated Depreciation	Book Value
Motor Vehicles	\$10,864	\$68,996	\$53,968	\$15,028
Computer Equipment	\$16,728	\$168,429	\$145,305	\$23,124
Furniture and Fittings	\$3,208	\$41,494	\$24,910	\$16,584
Office Equipment	\$4,647	\$37,907	\$26,733	\$11,174
USDA database software WIP	-	\$24,081	-	\$24,081
	<u>\$35,446</u>	<u>\$340,906</u>	<u>\$250,915</u>	<u>\$89,991</u>

9 Sundry Creditors and Accruals

	2015	2014
<i>Sundry creditors and accruals comprises</i>		
PAYE/WT & Kiwisaver	\$16,106	\$18,219
Staff leave	\$47,906	\$45,852
Research contracts	\$696,287	\$321,914
General	\$26,425	\$60,990
Income received in advance	\$161,155	\$78,520
	<u>\$947,879</u>	<u>\$525,496</u>

10 Related Party Transactions

Pipfruit New Zealand has a 45% shareholding in Prevar Limited the joint venture company formed to undertake the development of new varieties. The Society appoints two directors to the board of Prevar. Directors of PNZI are owners or employees of member entities which pay levies to PNZI as part of normal business activities.

**PIPFruit NEW ZEALAND INCORPORATED
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for the year ended 31 March 2015**

11 Lease and Rental Obligations	<u>2015</u>	<u>2014</u>
<p>PNZI has obligations payable after balance date for office rental and its photocopier</p>		
No later than one year	\$74,795	\$68,725
Later than one year and not later than two years	\$74,795	\$68,725
Later than two years and not later than five years	\$69,770	\$128,953
	<u>\$219,360</u>	<u>\$266,403</u>

12 Capital Expenditure Commitments

There are no capital expenditure commitments outstanding as at 31 March 2015. (2014: \$nil).

13 Investment Commitments

The society is close to signing a shareholders agreement which creates a commitment to an ongoing investment in Prevar of \$900,000 per annum for a 3 year period to 31st May 2017.

14 Research Commitments

At 31 March 2015, PNZI had ongoing research commitments of \$1,360,141 (2014 \$634,275)

PNZI has entered into a partnership with MBIE to manage the Apple Futures II research program. The expected cost of the program is approximately \$8.6m which will be funded by MBIE and the industry. MBIE is contracted to contribute \$621,571 p.a for the seven years of the program.

15 Contingent Liabilities

There are no known contingent liabilities at 31 March 2015. (2014: \$nil).

17 Subsequent Events

There have been no events subsequent to 31 March 2015 that materially affect these financial statements. (2014: \$nil).

18 Property Intended for sale

The building which PNZI owned in St Auybn Street was sold in May 2014. The property was reclassified from Fixed assets to Property Intended for sale and was written down to the price realised when sold.

INDEPENDENT AUDITOR'S REPORT



To the Members of Pipfruit New Zealand Incorporated

Report on the Financial Statements

We have audited the financial statements of Pipfruit New Zealand Incorporated on pages 9 to 15, which comprise the statement of financial position as at 31 March 2015, and the statement of financial performance and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting practice in New Zealand and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our firm has, using staff independent of the audit engagement team, provided taxation administration and advisory services during the year. Other than this and our role as auditors, we have no relationship with, or interests in Pipfruit New Zealand Incorporated.

Opinion

In our opinion, the financial statements on pages 9 to 15 present fairly, in all material aspects, the financial position of Pipfruit New Zealand Incorporated as at 31 March 2015 and its financial performance for the year then ended in accordance with generally accepted accounting practice in New Zealand.

A handwritten signature in blue ink, appearing to read 'Staples Rodway', written over a large, stylized blue ink scribble or signature.

Staples Rodway Hawkes Bay Partnership

17 June 2015

Hastings, New Zealand



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