



Walnuts New Zealand Co-operative Limited



ANNUAL REPORT 2023

For the year 1st April 2022 to 31st March 2023

Contents

Contents	1
About us	2
Our statement of purpose.....	2
Board of directors.....	2
Report of the Company Chair and General Manager	4
Summary of financial performance.....	7
Shareholding and participation by walnut suppliers	8
Market and brand development.....	9
Other non-financial performance	10

AUDITED FINANCIAL STATEMENTS AS AT 31 MARCH 2023

Company directory (page 3)
Directors' annual report (pages 4–5)
Statement of profit or loss and other comprehensive income (page 6)
Statement of changes in equity (page 7)
Balance sheet (page 8-9)
Statement of cash flows (page 10)
Notes to the financial statements (pages 11-26)
Independent auditor's report (page 27)

OTHER ANNUAL REPORTING DISCLOSURES

Special resolution of the Board regarding co-operative status (page 28)

About us

Walnuts New Zealand Co-operative Limited is a grower-owned co-operative company whose main activities are to purchase, process, market and sell walnuts. We operate a walnut processing factory in West Melton, Canterbury. Our range of products is sold



nation-wide and includes kernel pieces for snacking and baking, in-shell walnuts, ground walnuts for food manufacturers, and specialist items such as oil, and flour. Our retail products carry our new, unified brand, Trickett's Grove, and our ingredients (non-retail) products are sold under the Co-operative's logo.



Walnuts New Zealand Co-operative Limited commenced business on 1 May 2015. On 23 December 2015 we registered a Product Disclosure Statement to offer shareholding to walnut suppliers. Shareholding is based on volume of supply, with the share standard being one share per kilogram of walnuts supplied. As at 31st March 2023, we had 43 shareholders holding a total of 281,132 shares.

This annual report covers our eighth year in business, from 1st April 2022 to 31st March 2023.

Our statement of purpose

The purpose of our co-operative company is to grow the wealth and security of our New Zealand walnut producer-shareholders through our common goals of:

- Reliable supply of premium-value product to our consumers;
- Providing a path to market for our shareholders;
- Efficient and effective processing and cohesive marketing;
- Unity of purpose amongst our suppliers;
- Behaviour that is socially, financially and environmentally responsible.

Board of directors

Our constitution requires a board of seven directors. Generally, directors must be shareholders of the Company, though our constitution allows one Appointed Director who is not a shareholder. To date, other than the Chair, the board members have not been paid for their role as directors. The Company Chair receives a payment for time spent and to help cover expenses. Current directors are:

Andrew Horsbrugh (Company Chair)

Andrew and his wife Jo own and operate Tunlaw Farm Limited, a 45-ha walnut orchard in West Melton. Andrew is an orchardist, a consultant, a director of Donaghys and a member of the Institute of Directors New Zealand. Andrew and Jo are also the New Zealand agent for AMB Rousset walnut harvesting and processing equipment.

Colin Prebble

Colin and his wife Karen have a 20-year-old orchard they developed from scratch. Colin is a Chartered Accountant with experience on various boards and committees. He is also a partner in some Christchurch-based hospitality businesses.

Tim Armitage

Tim and Cherry have a 26-year-old walnut orchard at Eyreton. Tim worked internationally as an Institutional Development consultant. He is a Fellow of Engineering New Zealand and assesses the competence of applicants for infrastructure-related diplomas.

Basil Meyer

Basil farms in partnership with Trudi; they have 1000 walnut trees on their property near Charing Cross, Darfield. Both are originally from Switzerland and settled in New Zealand in 1987. Basil and Trudi are the New Zealand contact for Feucht Obsttechnik, the German manufacturer of walnut harvesting equipment.

Maria Tiede

Maria has a 1300 tree walnut orchard, in partnership with husband Damien and sister Anna, which they planted 15 years ago. Maria works for Wyma Solutions as a design planner and compliance manager.

Mark Wren

Mark and Denise have a 250 tree walnut orchard on Banks Peninsula. Mark works for Synlait as the Lead With Pride Manager.

Clive Marsh

Clive has a 17Ha orchard that is over 24 years old. Off farm work includes self-employed consultant Process Engineer specialising in Food, Medical Device and Pharmaceutical manufacture. Clive has skills in Process & product development, quality systems and regulatory affairs (ISO & GMP compliance). Clive has a PhD in engineering and many years working in research roles.

Report of the Company Chair and General Manager

Report of the Chair and GM - FINAL 20 Aug 2023

Overview

Your Co-op continues to go from strength to strength with each year building on the last. We were pleased our financial result enabled us to include an additional 5% payment to you over the pricing set at the start of the year as it has been a year with many business improvements. We have continued to grow the Trickett's Grove brand, increase our market presence, and improve our operations. My thanks to Kevin and the team in the factory for another successful year.

Supply / Sales

The year-end FY2023 volumes (from the 2022 harvest) were 239MT. We have carried 47 MT of this forward into this financial year meaning 192MT processed and sold in FY2023, a 6.7% increase over the previous year's 180MT.

With the 2023 harvest growing to 260MT, developing markets for the carry-over and our growing supply, is our key challenge.

As I mentioned last year, most orchards supplying the Co-op have yet to reach full maturity. If we have no new plantings, we still have the potential to triple our volumes over the next 10 years. This extra volume will require much planning but should materially increase our performance and grower payout as we put extra volume over our relatively fixed cost structure. It would also require additional investment into new markets/channels, processing, and material handling equipment which should be funded by the increased shares associated with this volume.

Results

The financial result for FY2023 was a surplus of \$23k. This does not seem like a lot, but it is a significant improvement on last year's loss and will always be low as we seek to pay out growers any surplus before closing our accounts. Our cash reserves have been impacted by the investment in the concrete pad, additional costs required for a FY2022 Tier 1 audit and for paying shareholders for walnuts that we have yet to sell but these should wash through this coming year. This year's result included several factory improvements and the 5% additional grower payout, so overall is a good result and a credit to Kevin and the team.

Grower Payout

While our 5% extra payout is positive, it is still only a small step in the improvements we must ultimately make in the payment to our growers. Increased volume over our fixed cost structure will help this and we know increasing our yield is what we are all personally focussing on. At the Co-op, our strategy, new product development, factory improvements, customer development and new grading system are all initiatives to help us improve grower payout. We are focused and working hard on this.

Grading

A new grading system was introduced in April this year based on feedback from our growers. The new system will pay for A and B grade kernel that is supplied, as determined by the

Buhler vision sorter. This should provide a fairer grading system and better feedback for us individually on the quality of walnuts we supply.

Audit

We are pleased to report that we have received an exemption from Tier 1 audit reporting. This took a huge amount of work and some additional cost to remove this impractical and excessive burden on our small business. Thank you specifically to Colin Prebble and our advisers for the hours of work and persistence to achieve this outcome. An annual audit is important to us and will still occur, but it will now be appropriate for the size of our business, and without the disproportionate cost and resource drain previously required.

Team

There have been some key changes to the team over the past year in production, administration, and marketing. As a rural based business, we need to create a positive culture to attract the right people and retain these people in a competitive labour environment. In addition to the permanent team, we have also recruited a group of enthusiastic casuals to support the business as and when required. Special thanks to Heather Thompson who has been an integral part of the business over many years and moved on in March.

Customers

We have a group of loyal customers who love our products, and we are grateful for their support.

Managing price increases, liaising with our customers, and developing new markets has been a key focus for Kevin. There has been a lot of hard work put into this and often with new customers we must invest upfront with items like market support and in-store tastings to justify any shelf space given to us until there is a regular demand through that outlet. The costs will initially offset any new margin but will have payback down the track. In FY2023 we have established a stronger retail presence in the South Island in partnership with Foodstuffs. This has already yielded results with 287% increase in sales from the previous year. Although this increase is from a small base it's a strategic choice to diversify some business away from the North Island and mitigate increasing freight costs. Thanks to Kevin for the many hours you have spent on this.

We continue to work on ways we can present a higher value proposition to consumers and are currently working with a few research organisations to identify any unique properties that we can use to differentiate our New Zealand walnuts. Walnuts are a genuine superfood and work continues to determine what products we should focus on and how we choose to message the cognitive and cardiovascular health benefits to our consumers.

Factory

Steady and ongoing improvements continue to occur in the factory which helps our efficiencies, help the people working in the factory, and helps us as suppliers. The new hopper to bulk load walnuts and the new concrete loading area are examples of this. The factory can now process the current harvest volumes, however as this continues to grow, we will need to see further investment in operations.

We have held a couple of shareholder open days and information exchanges during the year, and it has been super to see the level of attendance at these events. We have also received

positive feedback that the current level of communication with shareholders is good but as always are open to improving, so please contact us if you have any suggestions.

Acknowledgments

Kevin has now been with us for over a year and the improvements made under his leadership have been significant. I would like to thank Kevin and his team for all the hard work they do to help make our business successful. We are extremely lucky to have a team with their skills and dedication.

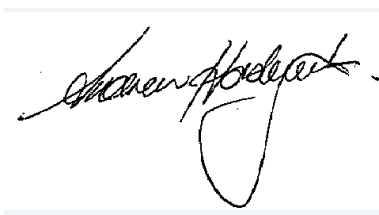
I would like to acknowledge and thank the many other individuals and companies that continue to support the team in building the Walnuts New Zealand Co-op business.

Our Co-op is only as strong as our growers and our orchards' success, so it is important when reflecting on the year to acknowledge the work done by the Walnut Industry Group (WIG). The research and advice they provide to help us manage our orchards and increase our yields is impressive. On behalf of the Walnuts New Zealand Co-op thank you to everyone involved with WIG for the important work you do.

I would like to acknowledge the board's commitment, dedication and time that they have contributed throughout the year to support the business and shareholders' interests.

Finally, I would like to thank you, our shareholders, for entrusting us to support you and your business and help develop this industry. Your support of our co-operative is important and really appreciated as we collectively strive to be the trusted producer of high quality, high value, safe, nutritious, climate-positive food.

Ngā Mihi



Andrew Horsbrugh
Chair



Kevin Parish
General Manager

Summary of financial performance

Here we review some of the key financial results for the year; for details please see the full audited accounts included in this Annual Report.

Selected financial information for 2023 financial year compared to previous years

For details please see the Financial Statements section of this Annual Report, including the auditor's report. Financial Statements from previous years can be found on the Product Disclosure Statement Offer Register at <https://disclose-register.companiesoffice.govt.nz> offer number OFR10376.

SELECTED FINANCIAL INFORMATION	For the Year Ending 31 March 2017 (\$)	For the Year Ending 31 March 2018 (\$)	For the Year Ending 31 March 2019 (\$)	For the Year Ending 31 March 2020 (\$)	For the Year Ending 31 March 2021 (\$)	For the Year Ending 31 March 2022 (\$)	For the Year Ending 31 March 2023 (\$)
Revenues – Sales	1,215,261	1,237,484	1,137,610	1,326,568	1,502,860	1,530,793	1,678,575
Earnings before interest, tax, depreciation and amortisation (EBITDA)	(4,572)	42,652	53,609	85,434	117,585	(36,374)	123,333
Net profit after tax	(26,300)	5,437	15,717	16,032	28,966	(120,467)	23,002
Total assets	822,375	630,803	932,021	868,652	1,245,737	949,930	1,101,087
Cash and cash equivalents	202,524	85,557	266,136	130,281	394,480	299,930	58,435
Total liabilities	489,074	204,856	451,226	365,702	670,230	432,058	461,918
Total interest-bearing liabilities	79,786	16,277	0	225,377	272,084	243,099	366,938
Net cash flows from operating activities	70,611	(123,359)	195,958	(87,064)	257,998	(5,764)	(206,177)
'Current value' of share as at end of financial year <i>(total assets minus total liabilities divided by number of shares on issue)</i>	\$2.12	\$2.24	\$2.35	\$2.43	\$2.59	\$2.11	\$2.27

One indicator of the financial strength of the Company is the 'current value' (the underlying net asset position per share) as shown in the table above. In FY2022 this declined as a result of the Goodwill and Branding investments being written off against earnings. Except for FY2022, the current value of the share has been moving steadily upwards.

Since the 2020/21 year the Company's financial position has allowed for an interim payment to suppliers in August, followed by a second in December, with final payment at the end of the financial year. Prior to this there was only one interim payment in Oct/Nov with final payment at the end of the financial year.

By March 2023, it was clear that a profit was expected for the year. As a result, the board made the decision to increase the payout to growers in FY2023 by 5%.

Walnut quality from the 2022 harvest was of a similar high standard to that of the 2021 harvest. Processing is more efficient when walnut quality is good, which in turn benefits overall profitability. However, to achieve further significant gains in efficiency, the Co-operative needs to be processing greater volumes of product. Orchard production has not increased at the rate originally predicted, and this is currently a limiting factor for financial performance.

No dividends were paid to shareholders in respect of the 2022/23 financial year.

Shareholding and participation by walnut suppliers

As at the end of March 2023, the Co-operative had 43 shareholders, holding a total of 281,132 shares. This is an increase of 35,744 shares during the financial year. With a nominal share price of \$2.75, the total (gross) capital investment by walnut growers at 31st March 2023 was \$773,113.

As at 31st March 2023, substantial shareholders (holding 5% or more of the issued shares) were those listed in the table below.

Substantial shareholders (holding 5% or more of the issued shares)	Number and percentage of shares as at 31 March 2021
Tunlaw Farm Limited	57,156 shares (20.3%)
Clive Marsh & Heather North	44,144 shares (15.7%)
Aylesbury Walnuts Limited	39,314 shares (14.0%)
Wilhelmina Hubber	15,756 shares (5.6%)
Stephen Thomas & Sonya Olykan	14,691 shares (5.2%)

Shareholders are continuing to make use of their ability to transfer shares between one another.

Growers supplying under 2 tonnes of walnuts per year do not have to own shares under the Company's constitution, though many do. In recent years, our supply figures show that over 98% of our supply comes from growers who are shareholders.

Market and brand development



Trickett's Grove brand has now been established across our two retail ranges (premium and organic) for the last four years. In the 'Dried Fruit and Baking Nuts' category Trickett's Grove sits 13th by value in New Zealand based on a recent Nielsen report. The re-launch of the walnut flour (a by-product of the oil press operation) into retail has shown promise with many gluten free consumers looking for local cost effective alternatives.

We have put more focus throughout the year into developing a stronger retail presence in the South Island with our partners Foodstuffs South Island. We have new listings in 8 New World supermarkets, 4 Pak n Save stores and two Raeward Fresh stores (Harewood and Queenstown). We continue to have strong sales in the specialty retailers including Moore Wilson in Wellington. We are delighted to be continuing to supply our ingredient customers, 180 Degrees (now Arnott's), Original Foods and numerous smaller bakery, chocolatier and FMCG customers.

Walnuts NZ featured on Country Calendar in September, and this gave the business a significant boost in sales (through our online store www.trickettsgrove.nz) and also raised awareness for the brand with target consumers. Participation at the Christchurch Food Show in August also built on this awareness with Canterbury consumers.

In the past six months we have also developed a social media campaign which has a presence on Facebook and Instagram. This allows us to engage directly with our loyal consumer base and promote the attributes and benefits of walnut consumption.

Scan here to follow on:

FaceBook Instagram



Other non-financial performance



The board would like to thank our dedicated General Manager and team at the plant for their hard work and commitment. During the year we have seen several improvements made at the plant to improve efficiency, capacity and health and safety. The opening of the new concrete apron in December was one of these and has enabled the plant to receive larger consignments of walnuts, dispatch pallets easily, safely operate the forklift outside and store empty bins.

Health and safety –

- Fortnightly staff meetings at the factory include discussion of health & safety and food safety, as well as quality/process improvements.
- The board undertook an internal health & safety audit in November. The key findings included slippery floors, forklift operation zones, repetitive machine operation, stabilising the clipper machine, repetitive heavy lifting required and relevant SOP's to be updated. Subsequently the main floor areas have been commercially cleaned, a hydraulic box lifter purchased, clipper legs attached, the rotation of team on repetitive tasks and SOP's refreshed.
- For the full year, one injury was recorded, with one near-miss incident. Staff identified 16 potential hazards during the year, enabling mitigation actions to be planned and monitored.

- The impacts of Covid dissipated during the year although its presence was still felt with three of the team coming down with it during the year including the General Manager. With a small admin/production team, the impacts were more pronounced, however the agile nature of the team meant production was able to continue to meet customer demand.

Food safety and accreditation programmes –

- In 2018, the Ministry of Primary Industries (MPI) brought nut and seed producers and processors in under the new Food Act 2014. The Co-operative is operating under a custom food control plan to meet the requirements of the Act. In 2022 we renewed this plan to enable continued operations.
- The Food Act also requires growers to meet standards, with regular verification. To ease this process for growers, the Co-operative developed a set of recording and verification forms within the Safe Food Pro mobile app. Implementation of this programme began in September 2020. The Co-operative and MPI then carry out audits remotely using the data that growers submit.
- We have again also been successful in passing the BioGro audit which allows us to use the certification in the marketing and selling of our organic nuts.
- We have a part-time staff member covering roles in Quality & Assurance and Health & Safety, which allows for dedicated attention to these important areas.
- In 2022 we commenced an application with MPI to obtain registration from the relevant Chinese authority to export oil to that market.

Equipment and premises –

- In 2022 we negotiated a new lease arrangement for 6 years with 2 X 2-year rights of renewal. We are committed to fitting our processing operation within the footprint of the current premises on Tricketts Road for the foreseeable future.
- The addition of the concrete apron and the removal of obsolete equipment / reorganization of our storage containers has meant we have more space for finished products and raw material.
- During the year we removed the diesel air compressor and replaced the air supply required with an existing electric piston compressor. This has both saved money and enhanced our carbon footprint.
- The new processing line includes a bulk tipping into the hopper which then conveys into the cracker which has reduced the labour requirement and mitigated health and safety concerns with manually loading the cracker. This has also increased our daily production capacity.
- A review and trial of the walnut grading system was undertaken, and as a result a new system was implemented in April 2023. This system utilizes the Buhler to help the business determine the quality of kernel received which links directly to the grower payout.



AUDITED FINANCIAL STATEMENTS AS AT 31 MARCH 2023

Company directory (page 3)

Directors' annual report (pages 4-5)

Statement of profit or loss and other comprehensive income (page 6)

Statement of changes in equity (page 7)

Statement of financial position (page 8-9)

Statement of cash flows (page 10)

Notes to the financial statements (pages 11-26)

Independent auditor's report (page 27)

INSERT BDO FINANCIAL STATEMENT / REPORT HERE

SPECIAL RESOLUTION OF CO-OPERATIVE STATUS

Special resolution of the Board regarding co-operative status (page 28)

WALNUTS NEW ZEALAND CO-OPERATIVE LIMITED (Company)

SPECIAL RESOLUTION OF THE BOARD REGARDING CO-OPERATIVE STATUS


It is resolved that:

In the opinion of the Board, the Company has operated through the year ended 31 March 2023 as a co-operative company within the meaning of the Co-operative Companies Act 1996.

The grounds for this opinion are:

- The Company is operating under a constitution in accordance with the Co-operative Companies Act 1996; and
- The Company is trading in the processing of walnuts where walnut suppliers to the Company are shareholders in the co-operative.

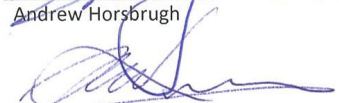
DATED: 23 May 2023




Andrew Horsbrugh



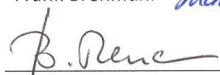
Colin Prebble



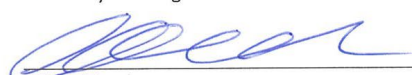
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