

GWK



pecans

PECAN RULES FOR 2023

1. INTRODUCTION

These rules apply to the intake of pecan nuts delivered to GWK Pecans and are valid until it is cancelled or amended by GWK Pecans. These rules are supplementary and should be read in conjunction with the GWK Pecans Trade Agreement. Should any conflict arise between these rules and the Trade Agreement, the terms and conditions of the Trade Agreement will take precedence.

2. INTERPRETATION AND DEFINITIONS

The headings of the clauses in these rules are there for convenience and reference only. All definitions and interpretations as defined in the Trade Agreement will be read as if specifically contained herein. The following definitions will apply in addition to the Trade Agreement:

- 2.1 **"Trade Agreement"** refers to the document entitled "Trade Agreement" signed by the farmer and GWK Pecans.
- 2.2 **"Consignment"** refers to a load of pecan nuts, a portion of a load or a portion of the product(s) as stipulated in the relevant contract form.
- 2.3 **"Depot"** refers to the depots located in Uppington, Douglas or Magogong.
- 2.4 **"Shelled pecan nut"** means the usable kernel or nut meat of the pecan, which remains after the shell has been removed.
- 2.5 **"Unshelled pecan" (NIS)** refers to the pecan consisting of a shell and a kernel - also called a Nut-in-shell (NIS) pecan.
- 2.6 **"Wafer"** refers to an unshelled pecan of which the kernel has only partially developed or not at all, or of which the kernel is unusable.
- 2.7 **"Cracked pecan"** refers to an unshelled pecan of which the kernel is visible with an opening of 1mm and larger when moderate pressure is applied. It also includes germinated/sprouted pecans (of which the kernel is visible)
- 2.8 **"Kernel"** refers to the edible part of the pecan.
- 2.9 **"Shell-out/crack-out percentage"** refers to the percentage of the shelled pecan that comprises the kernel, expressed as a percentage of the mass of the unshelled nut.
- 2.10 **"Usable kernel percentage (SKR)"** refers to the percentage of the shelled pecan that consists of the usable kernel, expressed as a percentage of the mass of the unshelled nut.
- 2.11 **"Kernel defects"** refers to pecan kernels that are not usable and include stink bug infested kernels and fungal infected kernels (scab, mould), darkened kernels, rotten kernels, insect damage and live insects.
- 2.12 **"Foreign material"** refers to items removed by the pre cleaner and more specifically by the "de-sticker" and "de-stoner" (Rocks, glass, leaves, branches, and other grain material)

These include all developed nuts extracted by the air lags and poppers and dust being removed during the cleaning process. The sum of the mass of these foreign matters will then be calculated as a percentage of the total delivery.

- 2.13 **"Stick-tights"** are the shucks on the tree which is green and do not open. It can be as result of poor kernel development. These stick tights are normally aspirated during the pre-clean process, it is also known as foreign material. If not aspirated, this material will be de-hulled to remove the shucks.
- 2.14 **"Husks"** are the shells of the pecans and are considered foreign material. It gets removed in the process and is known as foreign matter.
- 2.15 **"Delivery"** takes place when the farmer delivers the agreed product to a depot after the delivery note has been correctly completed and signed by the farmer or his nominated agent. Ownership and risk are transferred to GWK Pecans upon delivery, i.e., after the delivery note has been correctly completed.
- 2.16 **"Delivery period"** refers to the period for delivery of the products as indicated in the contract.
- 2.17 **"Products"** refers pecans.
- 2.18 **"Ton"** refers to metric ton.
- 2.19 Delivery note refers to the pre-printed and numbered document entitled "delivery note" which was printed by GWK Pecans and distributed to farmers. It should be used to identify each load delivered to GWK Pecans and disclose information as requested on the document. The delivery note must be completed correctly and in full for the transaction to be binding.
- 2.20 **"Initial payment"** will be a partial payment (advance) of the estimated value of the harvest, as determined by GWK Pecans.
- 2.21 **"Additional initial payment"** is a further advance payment for the product delivered by the farmer, but it is not a final payment. The amount will be determined by GWK and only applies to fixed price contracts.
- 2.22 **"Days"** refers to calendar days and not working days.
- 2.23 **"Net mass of pecans before moisture content adjustment"** refers to the gross mass of the nuts (determined with a platform scale at delivery) minus foreign matter, minus nuts with kernel defects, minus nuts with insect damage.
- 2.24 **"Insect damage"** is expressed as a percentage of net mass. The insect damage is determined by multiplying the percentage of nuts (mass) with insect damage by the net mass of the delivery before adjustment.
- 2.25 **"Compensation mass"** is the net mass minus the moisture content adjustment. It is the mass for which the farmer is compensated at the agreed price and grade as per the contract.
- 2.26 **"Sample-based compensation"** will apply to deliveries of a maximum of ten tons per season. The process involves the valuation of the delivery by grading a random sample of 220 kg per cultivar.
- 2.27 **"Actual-realisation compensation"** will apply to deliveries of more than ten tons of product per season. The valuation for compensation is done on the actual realisation for the entire delivery, instead of on a sample basis. GWK Pecans reserves the right to charge an additional amount on deliveries of less than 10 tons at a time where the farmer requests to be compensated on actual realisation.
- 2.28 **"Exposed kernel"** refers to pecans of which the kernel is visible.
- 2.29 **"Blemished nuts/stained shell"** refers to pecans of which more than a third of the shell is discoloured.
- 2.30 **"Waste product according to actual realisation"** is sand, stones, sticks, bags, and "pops".
- 2.31 **"Low grade product"** includes "exposed kernel", cracked nuts and "blemished nuts"/"stained shell".
- 2.32 **"Clean product"** is the product that is accepted after all the waste product has been removed and includes the low-grade product as defined above.
- 2.33 **"MRL Testing"** the maximum allowable chemical residue measured in the product.
- 2.34 **"Secondary product"** is the product that is removed during the processing process and does not meet export standards. This includes products such as cracked, exposed, and blemished nuts. Secondary product is only recognised if there is a suitable market for the product for the relevant session. Note that the following are not recognised as secondary products: pre-clean waste, pops and wafers, and processing dust.

2.35 “**Ownership of stock**” from the producer/supplier takes place with the issuance of the consignment note by GWK Pecans to the producer/supplier.

3. TYPES OF CONTRACTS

- 3.1 “**Fixed price contract**” (FPC) means the farmer agrees to deliver the agreed tonnage at the fixed price to the depot as agreed in the contract.
- 3.2 “**Special contracts**” means that GWK Pecans may also enter other types of contracts with farmers from time to time. In such instances, the additional conditions will be specified in the contract. An example of a special contract is the marketing plan contract and/or pool contracts.
- 3.3 “**Deferred price contract**” (DPC) means that the farmer agrees to deliver the tonnage to the depot as agreed in the contract. The purpose of a DPC is to enable the farmer to manage his exchange rate properly and not for speculation purposes.
- 3.3.1 The price of the contract consists of three components, namely dollar price for the product per grade, mass of the product and the Rand/Dollar exchange rate.
- 3.3.2 The dollar price for the product is disclosed by GWK Pecans from time to time. It is determined according to external market conditions. Pricing should be done in groups of ten tons where possible.
- 3.3.3 GWK Pecans will pay an advance to the farmer after delivery has taken place.
- 3.3.4 A uniform advance price per ton will be determined by GWK Pecans from time to time and is therefore not guaranteed for the entire season. The farmer is compensated at the advance price for all tons to be delivered.
- 3.3.5 If the farmer's realised price falls below the advance price, he must repay the difference to GWK Pecans.
- 3.3.6 Producers will have to fix the dollar price as follows from the 2023 season:
- By 31 May 2023, 10% of their total harvest must be fixed in dollar price.
 - By 30 June 2023, 30% cumulative of their total harvest must be fixed in dollar price.
 - By 31 July 2023, 50% cumulative of their total harvest must be fixed in dollar price.
 - By 31 August 2023, 100% cumulative of their total harvest must be fixed in dollar price.
- Producers, therefore, still have the opportunity to fix 50% during August.
- If the producer fails to do the pricing, GWK Pecans will determine the price.
- 3.3.7 The producer has until 31 August of the harvest year to fix their rand/dollar exchange rate. Within five days after that, GWK Pecans will set the exchange rate for growers who still need to set their exchange rate themselves. This will be done at the exchange rate prevailing on the day and time when GWK Pecans does it (in other words, the spot price on that day). GWK Pecans will not accept any liability for any damages of any kind that may be suffered because GWK Pecans fixed the rand/dollar exchange rate after the producer failed to do so.
- 3.3.8 The farmer has until 31 August of the harvest year to fix their dollar price. Within five days after this date has passed, GWK Pecans will confirm the dollar price on behalf of those farmers who failed to do so themselves. GWK Pecans will not accept liability for any damages that may be incurred because of GWK Pecans confirming the dollar price after the farmer has failed to do so.
- 3.3.9 The farmer has until **31 October of the harvest year** to confirm their Rand/Dollar exchange rate. Within five days after this, GWK Pecans will confirm the exchange rate of farmers who have failed to do so themselves. This will be done at the exchange rate on the day and time when GWK Pecans performs this action (i.e., the spot price on that day). GWK Pecans will not accept liability for any damages that may be incurred because of GWK Pecans confirming the Rand/Dollar exchange rate after the farmer has failed to do so.
- 3.3.10 In the case of a short delivery, the additional dollars will be repurchased within five days after 31 October of the relevant harvest year. All exchange rate gains and losses are for the account of the farmer, after recovery of any costs.

4. EXCHANGE RATE AND EXCHANGE RATE HEDGING

- 4.1 Farmers can hedge up to **50%** of their expected harvest from **1 September to 31 December of the year preceding the harvest year**. Hedging can only take place if the farmer has entered a delivery contract.
- 4.2 From **1 January to 31 March** of the relevant harvesting year, farmers can hedge up to a **cumulative maximum of 75% of their expected harvest** (an additional 25% if 50% has already been hedged as mentioned in 4.1 above).
- 4.3 Exchange rate hedging is done at an estimated fixed dollar amount per ton in the case of DPCs. The estimated amount per ton is determined by GWK Pecans. Pricing should be done in groups of ten tons where possible.
- 4.4 The profit or loss on the total unutilised South African rand value (more hedged than delivered) of exchange rate hedging will be for the account of the farmer. The unutilised value will amount to the difference between the total South African rand value hedged against the total rand value of actual deliveries. The calculation of the profit or loss will be done at the end of the season. Profits will be paid out to farmers and losses will be recovered from farmers.
- 4.5 GWK Pecans charges a fee of R0.11 per dollar on the purchasing tons.
- 4.6 GWK Pecans harvest estimate is used for these calculations.
- 4.7 GWK Pecans reserves the right to adjust the hedging rules from time to time as required by the market and business conditions.

5. DELIVERY SEQUENCE

Pecans are delivered in order of date contracted.

6. CULTIVARS

The farmer is expected to deliver the different cultivars separately, which will then be taken in separately. It is the farmer's responsibility to indicate the cultivars on the delivery note and to clearly mark the bags. Regardless of the cultivar indication, GWK Pecans decision regarding cultivar classification will apply.

If the purity of the intake is not **90% or more** according to GWK Pecans **assessment**, the bags will be taken in as "Mixed". The compensation value of "Mixed" deliveries will be determined by the market and communicated to farmers from time to time.

"Wichita type" will be accepted as a pure cultivar if the mixture consists of the following cultivars:

- Wichita
- Navaho
- Pawnee
- Western
- Western Schley

"Choctaw type" will be accepted as a pure cultivar if the mixture consists of the following cultivars:

- Choctaw
- Barton
- Mohawk

If there is more than 5% Ukalinga or Shoshoni in a delivery, a penalty will be applied as set out in the table below:

➤ 5%	R 11,00/kg
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If the product contains more than 15% of these two cultivars, the delivery will be treated

as Ukalinga or Shoshoni mixture and taken in according to kernel percentage up to a maximum of 54%.

7. CLEANING FACILITIES

The Douglas and Magogong depots have cleaning equipment that removes foreign material. Product with an excess of foreign material (at the discretion of the plant manager) will first be cleaned by these depots before being taken in and graded.

Note that a cleaning cost of R400/tonne will be charged for the 2023 season.

8. HANDLING OF SECONDARY PRODUCT

From the 2023 season, the company will attach a value to secondary product. The following options are available for handling secondary product:

8.1 Upon delivery, the producer had a choice whether to deliver the secondary product to GWK Pecans or to take the product back. **The decision must be made upon delivery.**

8.2 If the producer chooses to take back the secondary product, a processing cost of R20/kg will be charged. The product then becomes the property of the producer. The producer must also remove the product from GWK Pecans premises within seven working days.

8.3 If the producer does wish to deliver the secondary product to GWK Pecans, GWK Pecans will purchase the product from the producer at R15/kg. The product then becomes the property of GWK Pecans. Payment of the purchase price will only occur after GWK Pecans sells the product to a buyer. The last date of payment will be 31 December 2023.

9. MOISTURE CONTENT AND MOULD

If the farmer delivers ten tons and more per cultivar at the Douglas depot, the moisture content may not exceed 8%. If the moisture content is higher than 5%, the product will be dried at the rates indicated in the table below. If the farmer delivers less than 15 tons, but the moisture content is higher than 5%, the drying cost will be calculated as if the farmer had delivered fifteen tons of product. For all deliveries to Upington and Magogong the maximum allowed moisture content is 5%, while a moisture content adjustment will be made on all nuts of which moisture content is higher than 3%.

Moisture content adjustment is calculated as follows:

Net mass of pecans on a load x $\{(100\% - \text{actual moisture}\%) / (100\% - 3\%)\}$

The following rates will apply to the drying of the product.

Moisture content percentage	Rate per kg
Four percent to six%	R0,60
Six percent to eight%	R1,30

Products where mould is present will be rejected in its entirety.

10. REGISTERED PEST AND HERBICIDES AS WELL AS GROWTH REGULATORS

10.1 The Agricultural Product Standard Act (1990) applies with regards to the use of certain herbicides, insecticides and various other agricultural chemicals and the residue levels

of the substances that may be present in the product.

- 10.2 The farmer may only use pesticides and herbicides registered in terms of the Fertilizers, Farm Feeds, Agricultural Remedies and Stock Remedies Act, Act 36 of 1947, or any regulations issued thereunder.
- 10.3 GWK Pecans reserves the right to refuse any delivery and may reject it if the products concerned or a part thereof have been treated with unregistered pesticides and herbicides or if it has been treated with dosages exceeding the maximum as prescribed by Act 36 of 1947.
- 10.4 Accurate records must be kept by the farmer with the lot number and the manufacturing date of the containers. If problems are suspected, no official sample will be taken from a container of which the seal has been broken.

11. PRICE

The product prices are determined from time to time by GWK Pecans and are agreed upon as per size and shell-out/crack - out percentage. The two relevant categories are unshelled nuts with a kernel percentage of $\geq 55\%$ and unshelled nuts with a kernel percentage of $<55\%$.

- 11.1 If a farmer delivers less than 5 tons, he can only contract it on a "Fixed price contract", for which the contracting needs to be done before delivery takes place. If the farmer does not contract before delivery, GWK Pecans' prices will apply as on the day of physical delivery and signing of the delivery note.
- 11.2 Size categories for pricing:

Size	Number of nuts per kg
Oversize one	110 nuts and less
Oversize two	111 to 120 nuts per kg
Extra Large	121 to 140 nuts per kg
Large	141 to 170 nuts per kg
Medium	171 to 210 nuts per kg
Small	211 nuts and more per kg

- 11.3 Unshelled nuts with a kernel percentage $\geq 55\%$: The price of unshelled nuts with a kernel percentage of $\geq 55\%$ per size is indicated on the contract.
- 11.4 Unshelled nuts with a kernel percentage $<55\%$: The price for unshelled nuts with a kernel percentage of $<55\%$ will be contracted on a 50% shell-out/crack - out percentage basis. If the actual shell-out/crack - out percentage differs from 50%, the price will be adjusted according to the following formula:

$$\text{Compensation price} = \text{Price for 50\% shell-out/crack - out} \div 50\% \times \text{actual shell-out/crack - out\%}$$

The price as determined by the formula will be multiplied by the mass to determine the valuation for pay out.

- 11.5 Distinction between nuts with an SKR of $\geq 50\%$ and $<50\%$:
Nuts with an SKR of $\geq 50\%$ will be taken in against **FPC** and **DPC**.
Unshelled nuts with a shell-out/crack - out percentage of $<45\%$ will be accepted and will be classified as a low-value product for compensation.
- 11.6 Unshelled nuts with a kernel percentage between 45% and 50%:
Nuts with a SKR of between 45% and 50% will be accepted at a specific **FPC**.

12. DELIVERY

- 12.1 From time to time, GWK Pecans will communicate its delivery rules, relevant to the various delivery points, in writing to farmers and farmers are requested to adhere to these rules.
- 12.2 The delivery time for pecans is from 1 April to 31 August of the relevant harvest year.

- 12.3 The daily intake times are the same as the normal business hours of the respective delivery points. Bulk deliveries must be scheduled in advance with the depot manager.
- 12.4 GWK Pecans reserves the right to refuse product if it does not comply with the rules as previously agreed with the farmer.
- 12.5 For delivery of nuts in bags, clean polypropylene, jute, or bulk bags should be used. A weight adjustment is made on each load for the weight of the bags. The cost of bulk bags not returned to GWK Pecans will be recovered from the farmer.
- 12.6 No mechanically harvested deliveries of less than 5 tons will be accepted.

13. SHORT DELIVERIES

No Force Majeure Provisions apply to shortfalls on delivery contracts to GWK Pecans. GWK Pecans may purchase the deficit after the delivery period has expired.

All costs incurred by GWK Pecans because of the deficit will be recovered from the farmer, including transport costs. The farmer's account will be debited with the difference between the contract value, the purchase cost and transport cost. GWK Pecans will, within 14 days after 30 September (or as otherwise communicated) of the harvest year, make the purchase and inform the farmer of the associated costs.

14. PAYMENT

- 14.1 All deliveries received up to and including a Tuesday, will be paid the following Tuesday (seven days later). If payments are not made within these seven days, they will be made no later than ten working days after the initial Tuesday cut-off.
- 14.2 All producers pricing their DPC at 17:00 on Thursday will receive their payments by the next Tuesday. If pricing takes place after 17:00 on Thursday, producers will only receive their payments on the following Tuesday, eight working days later.
- 14.3 Producers delivering less than 10 tons will receive a 100% payment on FPC.
- 14.4 Subject to clause 13.6 below, 80% of the payment will be made for deliveries of more than ten tons. The remaining 20% will be paid in full by 31 December of the harvest year and will include interest for the period at Prima -2.5% per annum (std).
- 14.5 The farmer is paid an advance in the event of a DPC delivery. The advance price will be announced on 1 May. Subject to clause 13.6 below, 80% of the payment of the total value can be made, minus the advance payment if applicable when a DPC changes to an FPC. The 20% balance will be paid out by 31 December of the harvest year (std). Refer to clause 13.6 below.
- 14.6 GWK Pecans reserves the right to enter into alternative pay out agreements depending on market conditions and other economic factors that may result in contributing role(s).

15. GRADING

15.1 GENERAL

- 15.1.1 Each load offered for delivery must be accompanied by a fully completed delivery note, and no loads will be accepted without it. **This form must be completed and signed by the farmer or the person to whom he/she has given power of attorney. It may under no circumstances be completed by a GWK Pecans employee.**
- 15.1.2 A combination vehicle that weighs in as a unit, must move through the entire system as a unit – from weigh-in to weigh-out. The same registration number, preferably of the first container, must be used consistently on all documentation.
- 15.1.3 GWK Pecans' mass certificate for a particular delivery (bulk) is sufficient proof of its mass. If the delivered product does not meet the agreed quality or grade requirements, the product's price per kilogram can be adjusted after new requirements have been agreed upon.

15.2 GRADING

A change in the valuation methodology was implemented in the 2020 harvest year. A distinction is made between **sample-based valuation** and **actual-realisation valuation**. Sample-based valuation will be applicable to deliveries of less than 10 tons per season. Actual-realisation valuation will only apply to deliveries exceeding ten tons per season.

15.2.1 Sample-based valuation:

A sample of 220 kg per cultivar is randomly drawn from delivery of which 20 kg is kept for control purposes.

The following steps are followed during this process:

- Intake of product
- Weigh-in of product
- Sampling per cultivar (220 kg sample)
- A 20 kg sample is kept for control, in case a second grading is required
- Grading for Pop & Size is done on the 200 kg sample
- Take a 500 g random sample across all sizes to determine the shell-out%
- At least four continuously random samples (total of 500 g) must be taken to confirm accuracy
- The random sample of 500 g is used to determine kernel defects at less than 55% (<55%)
- Data is captured on the system and documentation
- Valuation is done by GWK Pecans
- Farmers are only compensated for a clean/usable product delivered

15.2.2 Actual-realisation valuation applies from the 2020 season for all farmers who deliver more than ten tons for the season.

The following steps are followed during this process:

- Weigh-in on mass scale/weighbridge at Douglas and Magogong (Upington excluded)
- Intake per cultivar
- Pre-clean after offloading
- Product moves through the pre-cleaning line where foreign material is removed
- Picking belt where exposed kernels and split ends (pre-germinated nuts) are removed (waste product)
- Scanner where oily nuts, exposed kernels and split ends are removed (waste product)
- Sizer
- Poppers, unfilled nuts, and wafers are removed by size
- Random 500 g sample across all sizes to determine shell-out/crack - out%
- At least four continuously random samples (total of 500 g) must be taken to confirm accuracy
- The 500 g random sample is used to determine kernel defects on a kernel percentage of less than 55% (<55%)
- Count per kg and size is determined continuously
- Weighing of clean product by size; the size is determined by count as per the table
- All data and information are captured on documents and the system
- Valuation for the farmer
- The farmer is compensated for a clean/usable product delivered and waste product remains the property of GWK Pecans
- Larger and smaller than 55 (> and < than 55)

16. PROVISIONS REGARDING WAFERS

Wafers are only considered in the case of sample-based valuation. Wafers are determined on a specific weight by an aspirator that removes it. These wafers in the sample are expressed as a percentage of the sample. Foreign material removed with the wafers is graded as wafers. The mass of the wafers is obtained by multiplying the percentage of wafers in the sample by the net mass of the delivery.

17. DISPUTE WITH REGARDS TO GRADING RESULTS

A farmer may declare a dispute in the case where the sample-based valuation and actual realisation methods have been applied. In the actual realisation, producers can only dispute the sizing of their product. The 20 kg control sample will be used to do the grading. The dispute must be lodged within 48 hours of the original grading. The result of the second grading will be the final grading and the farmer will be compensated accordingly.