



# 2017 ANNUAL REPORT

SHARE NATURE. SHARE LIFE  
- SINCE 1974 -

**COMVITA®** 





“THE COMPANY  
IS VERY WELL  
PLACED TO MEET ITS  
LONG-TERM, STRATEGIC  
OBJECTIVES.”



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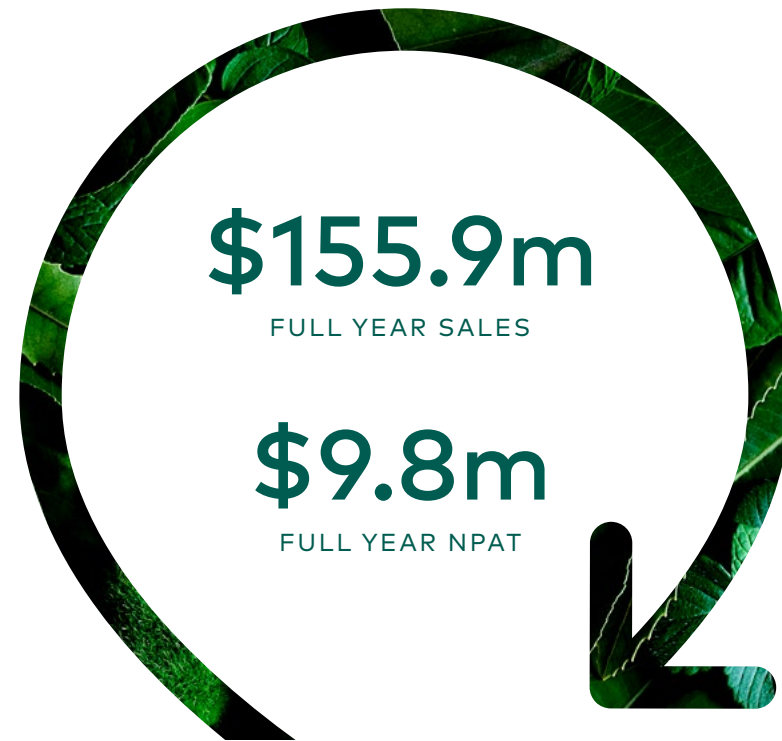
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## YEAR IN REVIEW



### TWO SIGNIFICANT EXTERNAL EVENTS

Changes to China's regulatory environment • Extremely poor honey season

### WE IMPROVED OUR BALANCE SHEET

Medihoney® IP and share sale • China Resources placement

OUR BRAND HEALTH REMAINS VERY STRONG

## FINANCIAL SUMMARY

### 2013-2017

*In thousands of New Zealand dollars*

	30-Jun-17	(15 months) 30-Jun-16	31-Mar-15	31-Mar-14	31-Mar-13
Operating revenue	155,879	230,743	152,702	115,283	103,529
Operating revenue growth rate	-32%	51%	32%	11%	8%
Export revenue %	77%	76%	68%	78%	80%
Gross profit	62,141	117,311	71,552	60,359	57,563
Gross profit %	40%	51%	47%	52%	56%
EBITDA (i)	19,812	39,445	22,950	16,981	14,747
EBITDA % of operating revenue	12.7%	17.1%	15.0%	14.7%	14.2%
Earnings before interest and tax - EBIT	12,984	30,799	17,414	12,839	11,692
Net profit before tax - NPBT	9,352	26,299	14,489	11,101	10,446
NPBT % of operating revenue	6.0%	11.4%	9.5%	9.6%	10.1%
Net profit after tax - NPAT	9,822	18,477	10,244	7,972	7,371
NPAT % of operating revenue	6.3%	8.0%	6.7%	6.9%	7.1%
Total assets	256,692	243,268	199,722	148,746	136,752
Total assets per share	6.11	6.15	5.07	4.69	4.70
Total shareholder funds	163,875	131,839	118,679	92,082	81,858
Shareholder equity ratio	63.8%	54.2%	59.4%	61.9%	59.9%
Net debt	61,928	84,020	26,093	26,489	25,337
Net debt to EBITDA	3.1 x	2.1 x	1.1 x	1.6 x	1.7 x
Net interest cover	3.6 x	6.8 x	6.0 x	7.4 x	9.4 x
Net debt to equity ratio	37.8%	63.7%	22.0%	28.8%	31.0%
Earnings per share NPAT (NZ cents)	23.74	46.91	29.88	26.12	25.71
Dividend per share (NZ cents)	2.00	18.00	13.00	12.00	13.00
Return on Sales - ROS (ii)	8.3%	13.4%	11.4%	11.1%	11.3%
Return on Capital Employed - ROCE (iii)	5.8%	14.3%	12.0%	10.8%	10.9%

<sup>(i)</sup> EBITDA – earnings before interest, tax, depreciation and amortisation

<sup>(ii)</sup> ROS = EBIT / Total Operating Revenue

<sup>(iii)</sup> ROCE = EBIT / (Total Shareholder Funds + Net Debt)



# FROM THE CHAIRMAN

NEIL CRAIG



It has been well communicated that we have had a difficult year with two significant external events that have impacted our business. Firstly, the changes to the regulatory environment for the grey market channel sales from New Zealand and Australia to China and secondly, the extremely poor honey season.

The stronger than expected end to the 2017 financial year now extending into the new year, together with significant permanent cost savings and other initiatives, provides us with a good deal of confidence as we head into 2018. This optimism is of course predicated on a return to a normal honey production season.

Our balance sheet has also been strengthened during the year with two major events; the Medihoney® IP and Derma Sciences Inc. share sale as well as a share placement to China Resources in October 2016. These transactions have enabled us to maintain our longer-term strategy to ensure that we are well placed to deliver on both our FY18 and our FY21 forecasts.

## KEY FINANCIAL RESULTS

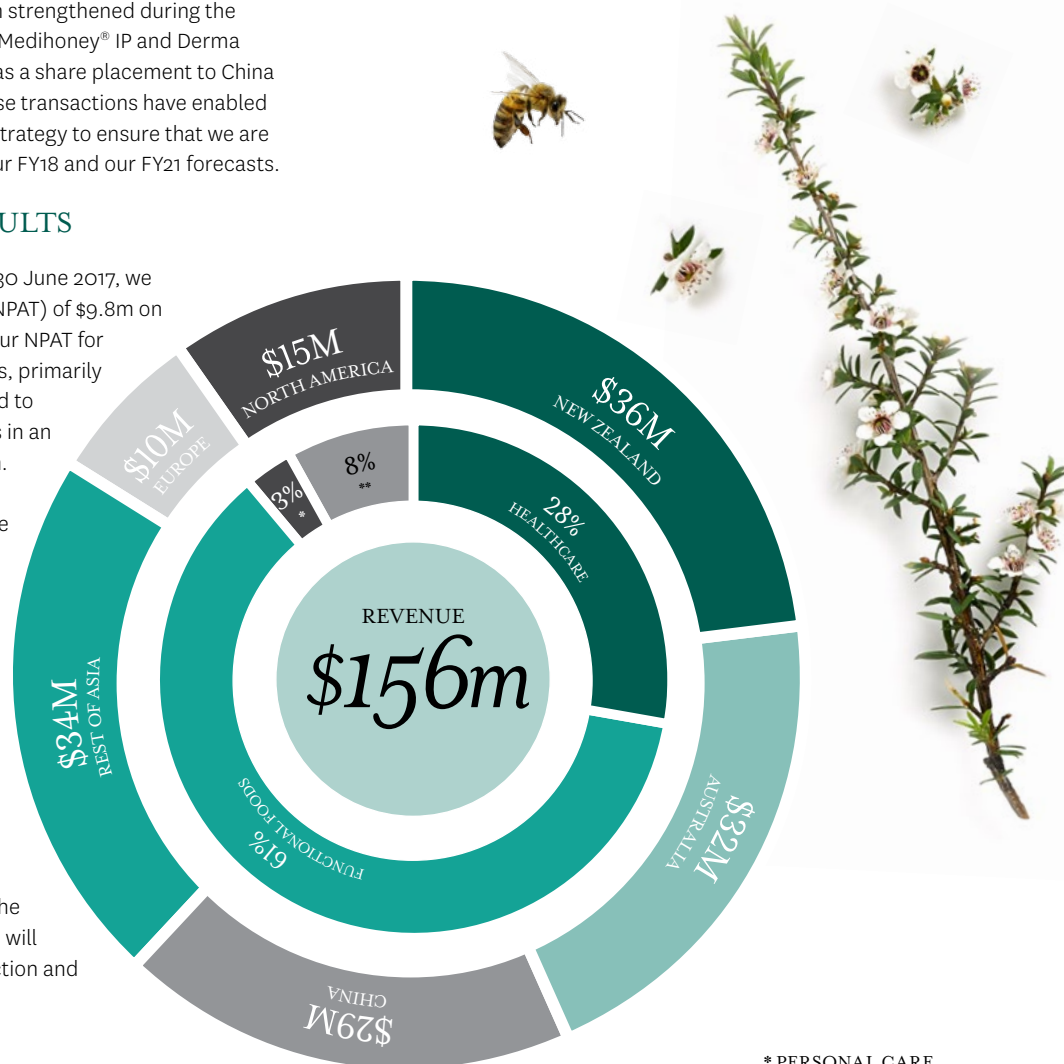
For the 12 month period ending 30 June 2017, we achieved a Net Profit after Tax (NPAT) of \$9.8m on sales of \$156m. After adjusting our NPAT for favorable non-operating impacts, primarily the sale of the Medihoney® brand to Derma Sciences Inc., this results in an after-tax operating loss of \$5.5m. This compares favorably to an after-tax operating loss guidance of \$7m reported to the market on 5 April 2017.

With an after-tax operating loss being generated this year, no final dividend will be made for the 2017 year. This is consistent with our existing dividend policy of a 40-45% payout ratio of after-tax operating profits. We also announced on 12 January 2017 that the capital proceeds from the Derma Sciences Inc. transaction will initially be applied to debt reduction and

then for funding strategic initiatives and potential acquisitions currently under consideration by Comvita\*. We expect a recommencement to dividends after our six month result to 31 December 2017.

Comvita Founder, Alan Bougen, retires from the Board at the Annual Shareholder Meeting in October this year. Alan's retirement marks a very significant change in the life of Comvita. Alan will remain close to the Company in a founder ambassador role where we can retain his energy and vision.

Finally, the Board would like to acknowledge CEO Scott Coulter, the Leadership Team and all staff for their commitment and dedication during what has been a difficult year.



\*Comvita is a registered trade mark of Comvita Ltd.

# FROM THE CEO

SCOTT COULTER



The natural health market we operate in is dynamic and growing. Consumers are taking a more proactive approach towards managing their health, and information on how to do so is readily available. Digital information as well as e-commerce are driving this market and healthy foods are becoming mainstream consumer products. Comvita's vision positions the Company at the centre of these global trends.

Our 'up-stream' positioning through our retail and retailer networks in our key markets is unique, differentiated and highly leverageable. We optimise the value chain and can offer our consumers something that matters to them; highly efficacious products which will make a difference to their health.

We reshaped the business on several fronts during FY17 and this has given us all a sense of confidence moving into FY18. Our focus is to continue building on our strength in Asia and also leverage our respected brand position in the UK and North America as we balance our East-West growth.

E-commerce is an essential route to consumers and the acquisition of Whole Foods by Amazon underpins this trend. In other markets, partnerships with Tmall, Taobao and JD.com in China and Rakuten in Japan are starting to be a real growth driver for Comvita.

We're building capability in innovation to expand our bee products range so we can create more value from our core strength. We're also meeting a broader spectrum of consumer needs like eye health by introducing new ingredients into our mix, such as New Zealand-sourced blackcurrants.

Revenue from new, innovative products was \$2.2m, and we expect this to grow considerably in FY18. Among the highlights was the success of our Bilberry and Blackcurrant Eye Health product launch in Hong Kong, our launch of an Apple Cider Drinking Vinegar with Manuka honey in the UK and the launch of 'less sugar' lozenges globally.

We've completed a significant amount of work in preparation for commercialisation of a New Zealand-sourced fish oil range, which we believe holds strong consumer appeal and market opportunity in our Asian markets.

Our first, large 'market side' investment has been made, with the acquisition of a 51% share in our China distribution business which commenced on 1 July 2017. This is an important stepping stone to getting closer to our consumers in China, and to have more influence over our brand.

We also reshaped and broadened our Leadership Team this year, with a focus on commercial execution, building a high performing culture and increasing our capability in e-commerce.

Comvita is well known as a premium brand in all of our markets, and in our core Asian (Chinese and Hong Kong) markets our key brand health metrics are very solid\*. Among our key competitors within the Manuka honey category, Comvita remains the clear number one brand with more than twice the brand equity of our closest competitors.

**“OUR STRATEGY IS AT THE HEART OF OUR POINT OF DIFFERENCE: TO BUILD DIRECT, GENUINE AND TRACEABLE CONNECTIONS TO THE SOURCE OF OUR RAW MATERIAL, AND DEVELOP DIRECT, CLOSE RELATIONSHIPS WITH OUR CONSUMERS.”**

CEO - SCOTT COULTER

Employee Health and Safety is a priority at Comvita, as we operate in a relatively high-risk environment, primarily because of the remoteness of our apiary businesses. It was pleasing to see them attain the highest level of achievement under ACC's Workplace Safety Management Programme of Tertiary as well as maintain Tertiary Status at our New Zealand operational sites.

We are very pleased our strategic initiatives are coming to fruition, after a lot of hard work from the business. The Company is well placed to meet its long-term objectives.

\*Source: Fiftyfive5 Biannual Market Monitor survey



**“COMVITA SUPPORTS  
THE INTRODUCTION  
OF REGULATORY  
STANDARDS AND  
IS COMMITTED TO  
WORKING ALONGSIDE  
INDUSTRY AND  
GOVERNMENT.”**

CHIEF SUPPLY CHAIN OFFICER - COLIN BASKIN

# MANUKA HONEY

*Industry leaders*

In August 2017, Comvita published research led by Dr Jonathan Stephens, describing how unique signature compounds can be identified and used to profile genuine Manuka honey. The research paper was peer reviewed and published in the Journal of Food Chemistry. Researchers examined a range of nectar and honey samples, identifying and measuring several potential honey marker compounds. The compounds were evaluated based on their uniqueness to Manuka, relative abundance, stability, and potential for adulteration. The most significant signature compounds of Manuka honey were found to be Leptosperin, Lepterdine and 2-Methoxyacetophenone.

The discovery of Leptosperin was first published by a Japanese researcher, Professor Yoji Kato, in 2012\*. His research showed this compound to be stable and abundant in Manuka honey. The Comvita-led research has reinforced the findings of Professor Kato and has clearly demonstrated Leptosperin is the best compound upon which to base a definition.

In April 2017, the Ministry for Primary Industries (MPI) released to industry their proposed Manuka honey definition and invited submissions. While Comvita supports efforts to introduce regulatory standards, the definition proposed by MPI does

not yet deliver the level of confidence needed by the industry. Since the announcement in April, Comvita has worked closely with Apiculture New Zealand to prepare a submission on behalf of the industry to MPI, outlining the concerns in the proposal and the changes required. Comvita has also been represented in numerous meetings with MPI and industry representatives. Those discussions resulted in an updated definition proposed by the industry, which is under consideration by MPI.

Comvita has a long history of honey research, resulting in many publications in scientific journals. We prefer to work collaboratively and in addition to our own in-house research programme, we have a long-standing research relationship with UMFHA and their Manuka ID project. The benefit of this collaboration is a large body of scientific evidence that has been provided to MPI in our own submission calling for improvements to the proposed Manuka definition. Comvita will continue to work with MPI, UMFHA and the wider industry to ensure we get the best outcome.



\*The abstract is available at: <http://www.sciencedirect.com/science/article/pii/S0308814617312098>





# MANUKA HONEY

*Category leadership and building our brand*

The last financial year has been particularly challenging for the Manuka honey industry; from changing Official Assurances in China and a new cross-border tax slowing the grey channel, through to an extremely poor honey season. However despite this challenging environment, consumer demand for Manuka honey continues to grow and Comvita has strengthened its brand position in the key Asian markets of China and Hong Kong. Our key brand metric, the 'Net Adoration Score' for Comvita versus our Manuka honey competitors, has strengthened over the last year.

Over the last 12 months we have developed and rolled out a new brand campaign, 'Manuka Drop', across retail, traditional and digital media in all eight core markets. The campaign included Comvita's key brand pillars of heritage, provenance, quality and science.

We have worked closely with the UMF<sup>®</sup> Honey Association (UMFHA) to develop a communications toolkit which all members can use to explain the UMF<sup>®</sup> mark and ensure a consistent message. In the UK, we have rolled out a public relations campaign in conjunction with UMFHA. We recruited Dr. Adrian Charlton of Food and Environment Research Agency (FERA) and UK celebrity nutritionist Amanda Ursell to communicate the UMF<sup>®</sup> mark's proposition, as the only impartial and independently tested grading system to use when looking for authentic New Zealand Manuka honey.

From a value-add perspective, Comvita has launched both a new range of Manuka Honey Lozenges with added active ingredients such as Propolis, menthol and blackcurrant, and lozenges with less sugar. We have also launched a new range of 100ml Manuka honey elixirs, which will allow us to be competitive in the pharmacy channel across all key Western markets. This range has been listed by Boots, and Holland & Barrett in the UK and initial sales are encouraging.

We have continued to work closely with our US medical honey partner Integra LifeSciences (which acquired Derma Sciences, Inc.) and from October, we will be launching a range of Adhesive Dressings as part of the Medihoney<sup>®</sup> range. The product launch will begin in New Zealand, Australia, Hong Kong and the UK.

Next year, we will increase investment levels again to extend our position in core Asian markets as well as capitalise on the current momentum Manuka honey has in North America and the UK. Key initiatives include refreshing the packaging of our Manuka honey and Propolis ranges to remain contemporary, cement our premium price positioning and aid consumer navigation of these ranges.

“EYE HEALTH,  
PROBIOTICS,  
DIGESTION AND  
FUNCTIONAL BEVERAGES  
ARE FRONT AND CENTRE  
OF KEY GLOBAL  
TRENDS.”

CHIEF INNOVATION OFFICER - SHARON HOLLENSTEIN



# INNOVATION

*The future is bright*

“NEW PRODUCTS  
CREATED A BUZZ IN RETAIL  
AND ALLOWED US TO  
SUCCESSFULLY INTRODUCE  
NON-HONEY PRODUCTS TO  
EXISTING CUSTOMERS.  
THIS GREW OUR AVERAGE  
RETAIL BASKET SIZE.”

HONG KONG GENERAL MANAGER  
- YAN CHU

Our products are underpinned by science and offer the benefits, convenience, format and taste consumers desire, while providing a strong source story.

Our innovation strategy has been developed with a focus on extending our bee-based products while expanding into new health benefits and ingredient propositions.

To scientifically support and advance our products, and to build on Comvita's trusted brand status, we have begun partnering with scientific and clinical key opinion leaders who provide expert advice and advance the science behind our products.

Olive Leaf Extract (OLE) is supported by both Professor Ian Rowland<sup>1</sup>, Head of the Hugh Sinclair Human Nutrition Group at the University of Reading, UK and Professor Matthew Budoff<sup>2</sup>, a world-leading cardiologist and Professor of Medicine at the David Geffen School of Medicine, UCLA, USA. Our therapeutic skincare range, Medihoney®, is supported by Associate Professor Marius Rademaker<sup>3</sup>, a New Zealand dermatologist highly regarded within the international medical community. We are also actively recruiting additional, specialised key opinion leaders to support other product ranges.

In addition, we are continuing to grow our new health benefit strategy, focussing on eye health, probiotics, digestion and functional beverages. These areas are front and centre of key global trends, and consumer feedback from test markets indicates that Comvita consumers are enthusiastic about the expanding product range.

Hong Kong consumers reacted very positively to our new Eye Health product, with sales continuing to exceed expectations at triple the original forecast over the first 12 months. The science behind Bilberry and New Zealand Blackcurrant extract for supporting eye health has allowed us to leverage our New Zealand source story and deliver a unique product from a new ingredient platform. This complements our consumer's modern, digital lifestyle and connects us to a wider audience.

Our new Kiwifruit range of supplements and snacks is an exciting move into the global digestive health category. Using feedback from our earlier prototype launches, the product and packaging designs will be optimised to roll out globally.

We have entered into a new consumer category with our 'Apple Cider Drinking Vinegar with Manuka honey' beverage. We look forward to seeing this successfully launched in UK, Australia and New Zealand.

We believe probiotics, with their smart science and ability to work with our body's natural processes, are a natural fit with the Comvita brand. We are looking to extend our current offering and to create new ranges built around world-leading probiotic strains.

<sup>1</sup> <https://www.reading.ac.uk/nutrition/Staff/AcademicStaff/ntr-i-rowland.aspx>

<sup>2</sup> <http://www.cardiometabolichealth.org/matthew-budoff.html>

<sup>3</sup> <http://www.tristramclinic.co.nz/rademakers.html>





“THE SCIENTIFIC EVIDENCE FOR THE BENEFITS OF FRESH-PICKED™ OLIVE LEAF EXTRACT FOR CARDIOVASCULAR HEALTH, PROVIDES US WITH A GREAT PLATFORM TO GROW OUTSIDE OF OUR CORE AUSTRALIAN MARKET.”

CHIEF MARKETING OFFICER - BEN SHAW



# OLIVE LEAF EXTRACT

*Solid sales performance this year*

## OLIVE LEAF EXTRACT DEVELOPMENTS

We have seen solid sales performance of Fresh-Picked™ Olive Leaf Extract (OLE) this year, driven by strong marketing investment and distribution growth within pharmacy in our key market, Australia. Comvita's share of OLE in pharmacy continues to grow and is now at 64% in the latest quarter<sup>1</sup>.

<sup>1</sup>Source: IRI Aztec Pharmacy Natural Cold & Flu database, data to 30/04/17

## CLINICAL RESEARCH

Cardiovascular diseases, such as heart attack and strokes, are the number one cause of mortality world wide, accounting for one third of all adult deaths. Metabolic diseases, including type 2 diabetes, affect approximately 25% of the world's population. The incidence of these diseases is growing rapidly in response to an increasingly obesogenic environment and an aging population. Our previously published research demonstrates that Comvita OLE offers a natural way to deliver high levels of beneficial polyphenols into the diet, lowering cardiovascular disease risk by reducing blood pressure, cholesterol and lipids<sup>2</sup> and improving blood sugar control<sup>3</sup>.

We are investing in further clinical research and publications supporting OLE's benefits to cardiovascular and metabolic diseases. We are working in partnership with world-leading clinical and scientific key opinion leaders.

<sup>2</sup> Lockyer, S, Rowland, I, Spencer, JPE. et al. Eur J Nutr (2017) 56: 1421. <https://doi.org/10.1007/s00394-016-1188-y>

<sup>3</sup> de Bock M, Derraik JG, Brennan CM. et al. PLoS One. (2013) 8(3):e57622. <https://doi.org/10.1371/journal.pone.0057622>

This work will position us for stronger on-pack health claims for OLE in regulated markets, enabling us to raise awareness of its health benefits, boost sales and aggressively drive growth, including in the USA and China.

“THE EVIDENCE FOR OLE IMPROVING CARDIOVASCULAR HEALTH IS COMPELLING. I AM EXCITED ABOUT WORKING WITH COMVITA ON NEW RESEARCH TO FURTHER EXPLORE THE BENEFITS OF OLE AND TO ENABLE MORE PATIENTS TO SUPPORT THEIR CARDIOVASCULAR HEALTH IN A NATURAL WAY.”

PROFESSOR OF MEDICINE AT UCLA IN LOS ANGELES, USA.  
- PROFESSOR MATTHEW BUDOFF, CARDIOLOGIST



# CHINA JOINT VENTURE

*An exciting milestone*

Our Joint Venture (JV) company, Comvita Food (China) Limited, was formed on 1 July 2017. This was an evolution of our long term relationship with our distribution partner in China, Mr Zhu Guangping. Comvita holds a 51% stake in the JV and has issued 2.830m shares in consideration for our equity in the newly formed entity.

Strategically, this is a very exciting milestone for our company. We estimate that Asian consumers ultimately consume approximately 60% of our total sales, whether sold in mainland China, or via tourists in Australasia, Hong Kong or other parts of the world. We believe we need to be as close as possible to these customers so we can provide an increasing range of innovative products to meet their health needs. This JV will allow Comvita to capture an increased margin on sales within mainland China as well as allowing us to build a pipeline of new Comvita branded products well into the future. Being on the ground inside mainland China is a key building block to our future growth strategy.

In the first year we will focus heavily on transition, integration and increasing our capability in the JV. We have begun to form a management team which will be led by our new General Manager of the JV, Mr Victor Chen. Within the coming months, Victor's team will be in place, and will have a heavy bias towards sales and marketing as we look to extend our current brand leadership position in Manuka honey. We have seen some significant growth through e-commerce in mainland China and we will also look to develop our capability in this space to ensure the Company is well positioned to continue expanding the business through this important channel.

From a governance perspective, a newly formed Board of Directors comprising three representatives from each JV shareholder, will provide Victor and his team strategic guidance and assistance and will be led by the Chairman of this Board, Scott Coulter.

**“I AM VERY PROUD TO BE PART OF THE CONTINUED JOURNEY WITH COMVITA, TO BUILD ON OUR PREMIUM BRAND POSITION IN CHINA.”**

PARTNER IN COMVITA JOINT VENTURE.  
COMVITA FOOD (CHINA) LTD - MR. ZHU GUANGPING

From an operational perspective, we will look to leverage this capability, and along with our strong brand advantage, broaden our product offering, expand our cross-border e-commerce and open up additional sales channels that are available to the company during the coming year. In the longer term, we are looking to further invest in our brand and transform our opportunity beyond honey and bee products alone, into a more significant health products offering.

China has been, and is anticipated to continue being, a significant market for Comvita. We are very excited about the possibilities available to the business through the formation of this JV. Although challenges also exist when operating within this dynamic part of the world, we believe this provides us with a significant springboard to not only grow our business, but to enable us to deliver long-term, sustainable earnings to Comvita shareholders.





**“WE LEARN FROM OUR HISTORY TO LEAD INTO THE FUTURE.”**

COMVITA CO-FOUNDER - ALAN BOUGEN



# REFLECTIONS

*‘Comvita – still a force for good’*

*“The honey bee is quietly productive, providing benefit to many. It is also intensely cooperative and blessed with a collective intelligence that far outstrips the sum of its individual intelligence.”*

‘THE FABLE OF THE BEES’  
BY BERNARD MANDEVILLE

Comvita began its business journey 43 years ago driven by a simple vision: help people to live healthier lives while learning to care more deeply for nature.

In 1974 when Claude Stratford first registered Comvita Laboratories Limited he knew there was something of significance he still had to achieve in his life. At 64 years ‘young’, he was convinced there was a growing societal need to promote the principles and practices of living a holistic lifestyle.

Claude and I met the following year and immediately discovered common values and ideals. Despite arriving from completely different generational backgrounds, we were bound together through mutual interests in natural health, herbal medicine and above all, a love of honeybees.

We had embraced the principle first espoused by Hippocrates to “let food be thy medicine and medicine be thy food” and were independently following the works of pioneering nutritionists Doctor’s Bernard Jensen and Paul Bragg. We kicked off a business partnership believing it was simply ‘the right thing’ to do.

The early Comvita years saw the arrival of naturopaths, hippies, yogis and alternative lifestyle seekers, and with them, our first ‘worker bee’ community was formed.

Over these ten years Comvita established a significant beekeeping operation, herb growing and processing facility, and manufactured a wide range of health food and natural skincare products. Burgeoning health food stores throughout New Zealand became our sales outlets.

By 1988 our trading environment had rapidly changed. High interest rates, ongoing market uncertainty and thin profits demanded that Comvita either change its fundamental business model or risk failure. The latter was clearly not an option. We called on the bees exclusively to provide our raw materials and evolved a uniquely ‘bee focused’ product range. Our innovation immediately gained customer acceptance in New Zealand with opportunities soon developing in Australia, the UK and Japan.

On reflection, those challenging times during the 1980’s taught us important lessons around being resilient and staying on purpose despite tough outward circumstances. By 1990 Comvita was in much better shape to take advantage of the many new opportunities coming its way.

Changing trends saw customers demanding better product science and proof of efficacy. This led Comvita to set up partnerships with Industrial Research and the University of Waikato where Dr. Peter Molan was carrying out groundbreaking research on various New Zealand honey types. In late 1991, a significant breakthrough came for Comvita with the release of Dr. Molan’s research results, which revealed certain New Zealand Manuka honey types exhibited unique antibacterial properties not found in any other honey worldwide.

Immediately our existing Manuka ‘functional food’ range put on steady growth while we added medical products at the top end, incorporating a new UMF® mark to define active antibacterial levels. To support the development of high quality industry standards for this new ‘medical honey’, Comvita helped to establish the UMF® Honey Association (now known as UMFHA), a national, independent testing and regulations body.

In 1998, we had commissioned a GMP licensed manufacturing facility which opened up new export opportunities. Converting the original beer tanks over to honey tanks in our ‘renovated pub’ provided some great stories as we confidently pushed out into the new millennium. By the year 2000, sales had soared, with growth averaging 25% year-on-year.

Continuing strong growth and major plant expansion saw a need for new capital to specifically assist with international market developments. We had previously taken new shareholders aboard in 1999, which had signalled a significant change away from the closely held family interests of the founders and opened the way for a more ‘public’ register. In 2003, Comvita achieved a public listing on the newly created NZAX Board.

The following decade saw Comvita revenues continuing to grow strongly. Nine strategic acquisitions were successfully completed ranging from technology and IP around Manuka honey, to beekeeping businesses specialising in producing high grade medical honey. These were aggregated under the Kiwi Bee subsidiary to form the largest beekeeping group in New Zealand. This provided the opportunity for Comvita to successfully enter the US medical market with innovative Manuka-infused wound dressing products cleared for clinical use by the US Food and Drug Administration (FDA).

In 2007, Comvita also acquired Olive Products Australia, a high growth, family owned company producing efficacious extracts from the leaves of selected Olive plant cultivars. Today the Comvita OLE range dominates the category in pharmacies throughout Australia and continues to create opportunities for Comvita globally. Much of this ongoing success has come about due to outstanding results achieved through three clinical trials conducted by Comvita targeting blood sugar levels and cardiovascular health.

In 2011, Comvita found itself fighting a hostile takeover bid from Singapore-listed Cerebos Pacific. A sustained Board effort and a timely profit upgrade successfully fended off the aggressor and provided another great story for the Comvita history books.

Comvita migrated to the main NZX Board in 2006 once sales had topped \$50m. This provided the company with increased public visibility and new investors and was further enhanced with entry into the NZX 50 Index in March 2016.

Today a solid portion of Comvita’s business revolves around the China market, while growth in other key markets continues to increase steadily. Our most ambitious China project to date is the recent formation of a joint venture company inside China with our long-standing distribution partner. We believe this will be a game changer by giving us marketing control and a far closer interface with customers.

Further, the company is moving rapidly in its product innovation, playing off new, ‘non-bee’ ingredient platforms with products that address major health and lifestyle challenges. Looking back, I believe that Comvita started life as a revolutionary business and brand community. From inception, we were on a path to create value and collaborative advantage for both people and nature herself from within a healthy and thriving ecosystem. Could it be that we have taken our inspiration from the bees themselves?

As to the future, it is my sincere hope and dream that Comvita will continue to demonstrate this new model of enterprise in today’s world, delivering sustained performance and outstanding shareholder value. Key to achieving this success will be our team of passionate and skillful individuals, as has been our hallmark from the very beginning.

We are still committed to acting in a manner that preserves and helps improve the quality of life and our environment for generations to come.

**ALAN BOUGEN**  
*Comvita Co-founder*





# SUSTAINABILITY

*Future Fit, For Good*

Our founders, Claude Statford and Alan Bougen, committed to bringing their fledgling business to life by ‘doing good’. They were convinced if they concentrated on doing the right things first, then wider business success would follow. In the early years, Comvita was a community of hardworking, enthusiastic individuals committed to acting in a manner that preserved and helped improve the quality of life and our environment for generations to come. Today, this sentiment remains at the heart of the business.

Over the last year, the Comvita ‘Future Fit, For Good’ team has continued to make further progress on Comvita’s sustainability programme, focussing on areas of waste, energy, emissions, community engagement and environmental restoration.

Other Comvita projects that will have far reaching effects are the mass planting of special Manuka cultivars to support our growing honey business. This is a long-term strategy that ultimately will see many thousands of hectares of marginal land returned to its former native forest glory. As part of the programme, carbon is sequestered at the rate of eight tonnes per hectare.

• *The Comvita Values* •



**Caring**

Nature restoration  
Community engagement  
Education



**Courageous**

Waste reduction  
Carbon emissions  
reduction



**Curious**

Healthy, empowered people  
Relationships of trust



**Beekeeping Cadet Programme**

Ten cadets have successfully completed the NZ Certificate in Apiculture (Level 3). All the graduating cadets are continuing in their employment with Comvita.



**Manuka Plantation Programme**

We are making great progress towards achieving our five year target of planting 11,500 hectares of Manuka by 2021. Where Manuka planting takes place, marginal and soil eroded land is restored, and in riparian areas, waterways become cleaner.



**Olive Leaf Australia**

We have an integrated pest management (IPM) programme to aid protection of our trees. For example, we let weeds and grasses flower to provide habitat for Lacewing larva which helps control pests.



**Fruit for the Future**

In Paengaroa, the ‘Future Fit, for Good’ team has launched ‘Fruit for the Future’, a three year programme to provide staff onsite with a sustainable supply of fruit. In June, the first of many fruit trees was planted at head office, with more plantings scheduled to take place.



**Manuka Seedlings**

978,000 planted  
throughout FY17.  
[www.treesthatcount.co.nz](http://www.treesthatcount.co.nz)

# LEADERSHIP TEAM

*Meet the team*



**SCOTT COULTER** | CHIEF EXECUTIVE OFFICER

We have without doubt had a very challenging year. It has made me immensely proud of the resilience and determination of our team at Comvita to not just work through a difficult time, but to maintain focus on the strategic initiatives that will deliver our longer-term strategy.



**SIMON POTHECARY** | CHIEF SALES OFFICER

The sales environment has been subject to significant external challenges and our teams have shown an ability to manage and adapt to change. The Comvita brand remains strong and is well placed to benefit from improved market conditions. An invigorated new product development process and new market opportunities in both channel and geography mean we can look forward to 2017/18 with confidence.



**MARK SADD** | CHIEF COMMERCIAL OFFICER

When I reflect on the past 12 months, it has been a year of challenges for Comvita. The company has reshaped itself as a result of these challenges and I am very excited about what this means for both the future, and the part I can play, to make this company truly outstanding.



**SHARON HOLLENSTEIN** | CHIEF INNOVATION OFFICER

In the last year, we have focussed on innovating around our current range while implementing new health needs delivered via new ingredients. We have a number of new initiatives underway, have tested them in our markets with our consumers and are very excited about the opportunities in front of us.



**BEN SHAW** | CHIEF MARKETING OFFICER

Over the last 12 months, our brand and people have shown true resilience and character. Despite strong headwinds from external factors we have continued to invest in brand marketing and consumer insights and we have dramatically increased our speed to market for new product development. Comvita is well placed heading into the next financial year.



**JULIANNE KEAST** | CHIEF FINANCIAL OFFICER - ACTING

Over the past seven years at Comvita I have seen significant changes in the business and this year was no exception. We were driven in FY17 to deliver sustainable efficiencies, explore new market opportunities and restructure the balance sheet, which will enable us to hit the ground running in FY18. I am enthusiastic about the opportunity to be involved at the Leadership level at Comvita.



**COLIN BASKIN** | CHIEF SUPPLY CHAIN OFFICER

Summer 2016/17 was reportedly the poorest honey crop on record. Thankfully our inventory strategy allowed us to continue without impacting our ability to meet customer requirements. We are managing developments around the MPI Manuka Definition which we expect to navigate with minimal disruption to our Supply Chain.



**KATE SELWAY** | CHIEF PEOPLE & CULTURE OFFICER - ACTING

Our people continue to underpin a strong and diverse, values-based culture. Collectively, our global team has shown true commitment and passion for our purpose and future. Our focus remains on improving our safety leadership, supporting our internal engagement and developing an environment that fosters a high performing team.



# BOARD OF DIRECTORS

*The Board's reflections on 2017 include the importance of resilience in challenging times and the continued focus on strategy and vision. They also comment on the commitment by management and staff to the brand, our values and culture.*



**NEIL  
CRAIG** | NON-EXECUTIVE  
CHAIRMAN

From a shareholder perspective, this has been a very difficult year with a number of outside forces impacting heavily on our financial result. I am proud of the way management and staff have stepped up to the extra demands put on them and the way the Board has responded and supported the many changes we have made to the operations of the business in response to these demands.

*Joined the Comvita Board in September 2005.*



**ALAN  
BOUGEN** | NON-EXECUTIVE DIRECTOR  
AND DEPUTY CHAIRMAN

A poor honey season only serves to remind us that Mother Nature always has the final say. Traditionally, beekeepers plan for one poor season every 10 years on average and clearly 2017 has been one of those. We have used this opportunity to sharpen our strategic focus. Time now to move forward, encouraged that our hives are well prepared and our team is optimistic for a great season in 2018.

*Foundation Director since 1976, Alan is stepping down from the Board in October 2017.*



**SARAH  
OTTREY** | INDEPENDENT  
DIRECTOR

The resilience of a brand is severely tested when material external factors such as climate, international trade regulations and biological threats manifest in one year. The Comvita brand and its custodians have withstood this test and emerge, still, the most preferred brand in its category in Asia. Admirable.

*Joined the Comvita Board in November 2012.*



**LUKE  
BUNT** | INDEPENDENT  
DIRECTOR

This has been an extraordinarily challenging year for the management team. However, in looking through the most significant issues impacting earnings in the short term - policy changes in key markets and poor harvest conditions, for example - the company has demonstrated its resilience. We've been well-served by effective strategic and operational risk management, the ability to take advantage of opportunities that emerge in difficult times and, most importantly, the resolve to remain focussed on our long-term growth objectives despite major distractions.

*Joined the Comvita Board in July 2014.*



**SARAH  
KENNEDY** | INDEPENDENT  
DIRECTOR

It has been a difficult year for Comvita, but I continue to be impressed by the decisiveness and decision making by management and staff, coupled with the strength of the culture across the company over a challenging period.

*Joined the Comvita Board in July 2015.*



**MURRAY  
DENYER** | INDEPENDENT  
DIRECTOR

Despite the last year being a tough one for the company, I believe the fundamentals of the business remain very strong. Conclusion of the China Joint Venture, significant advances in new product and new market development, and substantial overhead cost reductions set the foundations for a return to high performance in 2017/18 and beyond.

*Joined the Comvita Board in April 2016.*



**PAUL  
REID** | INDEPENDENT  
DIRECTOR

Having recently joined the Board, I am impressed with the company's ability to adapt to a rapidly changing market. I see a strong future with a diversified product set that will continually evolve to meet our customers' expectations, and I am privileged to be part of the Comvita team.

*Joined the Comvita Board in May 2017.*



**BRETT  
HEWLETT** | INDEPENDENT  
DIRECTOR

Comvita's growth potential today is greater than it has ever been. We are, however, operating in a highly dynamic and complex world. Board and management's review of business model and strategies must also be a dynamic process to ensure resilience through challenging times. A shared vision and values guide us in this endeavour.

*Joined the Comvita Board in May 2017.*



# FINANCIAL COMMENTARY



JULIANNE KEAST  
*Chief Financial Officer*  
– Acting

“SUSTAINABLE EFFICIENCY  
GAINS, GROWTH OPPORTUNITIES  
AND BALANCE SHEET  
STRENGTH TO DELIVER  
IN FY18 AND BEYOND.”

Comvita’s Net Profit After Tax (NPAT) for the 12 month period to 30 June 2017 was \$9.8m compared to the prior 15 month period of \$18.5m, while EBITDA was \$19.8m compared to the prior period of \$39.4m. Operating NPAT was a loss of \$5.5m compared to a \$17.1m profit in 2016.

### REVENUE

Our revenue was challenged by changes to the regulatory environment for the grey market channel sales from New Zealand and Australia to China. Revenue for the year was \$156m, compared to \$192m for the comparable 12 month period to 30 June 2016 (unaudited). Our strategy to grow our non-honey range has started well and the company has launched a number of new products this year. We remain on track to deliver our long-term revenue forecast.

### GROSS MARGIN

Gross margin has decreased from 51% to 40%. This was impacted by the poor honey season resulting in the inability to recover costs over our annual harvest. It is expected that gross margin will return to normal levels in the coming year.

### OPERATING EXPENSES

Operating expenses for the 12 month comparable period reduced by 14% from \$72m to \$62m. The savings were made due to dedicated efforts to remove inefficiencies and streamline the business as a result of a challenging year. Of the \$10m of savings, \$7m are sustainable savings, however it is intended that \$4m will be reinvested during FY18.

Forecasted growth in revenue and a continued focus on gross margin will see a return of operating and sales leverage, similar to that achieved in FY16. Operating expenses were 39% of revenue, remaining consistent with the previous two years.

### OTHER INCOME

Other income of \$14.3m (2016: \$0.8m) was primarily for capital proceeds from Derma Sciences, Inc.(Derma), for the sale of intellectual property from the Medihoney® brand of \$13.2m and \$0.4m for the fair value movement of biological assets (bees).

### FINANCIAL INCOME AND EXPENSES

Financial income of \$6.5m (2016: \$5.4m) includes \$4.7m (2016: nil) gain on sale of shares in Derma and \$1.3m (2016: \$0.5m) foreign exchange gains. Financial expenses of \$9.5m (2016: \$7.3m) includes interest of \$4.1m (2016: \$4.5m) and \$5.4m (2016: \$4.6m gain) related to investments and options in SeaDragon Limited (NZX: SEA).

### NET DEBT AND CASH FLOW

Net debt has decreased by \$22.1m to \$61.9m. \$23.0m cash was received from issuing share capital, \$30.0m from receipts related to the sale of Medihoney® intellectual property and sale of Derma shares. Net outflow on operating activities was \$10.7m and \$14.5m on cash paid to related parties (investing activities), which included \$6.2m, for our China investment. The Group continues to operate within its agreed funding covenants.

### FINANCIAL POSITION

Inventory has decreased by \$7.4m driven by a focussed view on finished goods inventory. Total inventory remains strong at \$87.9m. This puts the company in a strong position to meet its current sales opportunities. Trade receivables increased by \$25.2m to \$44.0m, due to timing of sales towards year-end.

Non-current assets decreased by \$6.5m due to the decrease in intellectual property and goodwill from the sale of Medihoney® and the sale of Derma shares. Investment in equity accounted investees increased by net \$7.6m, primarily due to share capital in China of \$6.3m and investment in Putake Group Holdings Ltd of \$5.2m, offset by a net loss of equity accounted investee earnings of \$2.2m and \$1.9m of other downsides.

Trade and other payables have increased by \$7.6m, primarily due to the timing of purchases towards the end of the year. Employee benefits increased by \$1.3m, which was timing, related to our change in balance date in FY16. This resulted in bonuses being paid before the end of the 15 month period to 30 June 2016. Deferred revenue is nil at year-end, due to disposal of Medihoney® intellectual property.

# FINANCIAL COMMENTARY

### EQUITY

Equity has increased by \$32.0m, as a result of NPAT of \$9.8m and \$23.0m increase in share capital, primarily from a private placement to China Resources, offset by dividend payments of \$1.7m.

### DIVIDEND

The full year dividend was 2 cents per share, paid at interim. No further dividend was paid.

### CONCLUSION

Although the FY17 financial year has been challenging, it has driven our focus to deliver sustainable efficiency gains, growth opportunities and balance sheet strength to deliver in FY18 and beyond.

### Financial Performance For the period ended 30 June

*In thousands of New Zealand dollars*

	2017 12 months	2016 15 months
Revenue	155,879	230,743
Cost of sales	(93,738)	(113,432)
Gross profit	62,141	117,311
Selling and marketing expenses	(35,481)	(51,282)
Administrative expenses	(16,955)	(26,189)
Distribution expenses	(5,838)	(9,127)
Research and development expense	(3,498)	(4,027)
Subtotal operating expenses	(61,772)	(90,625)
Other income	14,251	766
Operating profit before financing costs	14,620	27,452
Finance income	6,461	5,408
Finance expenses	(9,492)	(7,294)
Net finance costs	(3,031)	(1,886)
Share of (loss)/profit of equity accounted investees	(2,237)	733
Profit before income tax	9,352	26,299
Income tax benefit/(expense)	470	(7,822)
Profit for the period	9,822	18,477





# FINANCIAL HIGHLIGHTS

Financial Position

As at 30 June

*In thousands of New Zealand dollars*

	2017	2016
<b>Assets</b>		
Property, plant and equipment	46,206	47,895
Biological assets	4,245	3,844
Intangible assets and goodwill	34,051	41,629
Investments in equity accounted investees	14,155	6,531
Other investments	8	6,098
Deferred tax asset	2,149	1,361
<b>Total non-current assets</b>	<b>100,814</b>	<b>107,358</b>
Inventory	87,856	95,299
Trade receivables	44,013	18,792
Sundry receivables	15,708	12,015
Cash and cash equivalents	4,572	2,780
Derivatives	2,331	6,948
Tax receivable	1,398	76
<b>Total current assets</b>	<b>155,878</b>	<b>135,910</b>
<b>Total assets</b>	<b>256,692</b>	<b>243,268</b>
<b>Equity</b>		
Issued capital	120,155	97,181
Retained earnings	48,701	39,659
Reserves	(4,981)	(5,001)
<b>Total equity</b>	<b>163,875</b>	<b>131,839</b>
<b>Liabilities</b>		
Loans and borrowings	66,500	86,800
Deferred revenue	-	2,810
Employee benefits	356	354
<b>Total non-current liabilities</b>	<b>66,856</b>	<b>89,964</b>
Trade and other payables	19,088	11,525
Employee benefits	4,002	2,749
Deferred revenue	-	1,057
Tax payable	246	2,096
Derivatives	2,625	4,038
<b>Total current liabilities</b>	<b>25,961</b>	<b>21,465</b>
<b>Total liabilities</b>	<b>92,817</b>	<b>111,429</b>
<b>Total equity and liabilities</b>	<b>256,692</b>	<b>243,268</b>

Cash Flows

For the period ended 30 June

*In thousands of New Zealand dollars*

	2017	2016
	12 months	15 months
Cash inflows from operating activities	130,162	235,663
Cash outflows from operating activities	(140,884)	(267,280)
Net cash flows from operating activities	(10,722)	(31,617)
Net cash flows from investing activities	11,675	(17,919)
Net cash flows from financing activities	939	32,626
Net increase/(decrease) in cash and cash equivalents	1,892	(16,910)
Cash and cash equivalents at the beginning of the period	2,780	19,420
Effect of exchange rate fluctuations on cash held	(100)	270
<b>Cash and cash equivalents at the end of the period</b>	<b>4,572</b>	<b>2,780</b>

*The summary financial information has been derived from, and should be read in conjunction with, the Comvita Limited Group annual financial statements (the "full financial statements"). The full financial statements, approved by the Board of Directors on 21 August 2017 are available at [www.comvita.co.nz](http://www.comvita.co.nz). The accounting policies used in these financial statements are included in the notes to the full financial statements. The full financial statements have been prepared in accordance with and comply with IFRS, as appropriate for profit-orientated entities. The full financial statements have been audited by KPMG and an unqualified opinion given. The summary financial information cannot be expected to provide as complete an understanding as provided by the full financial statements.*

# GOVERNANCE

THE PRIMARY OBJECTIVE OF THE BOARD IS TO BUILD LONG-TERM SHAREHOLDER VALUE WITH DUE REGARD TO OTHER STAKEHOLDER INTERESTS. IT DOES THIS BY GUIDING STRATEGIC DIRECTION AND CONTEXT AND FOCUSING ON ISSUES CRITICAL FOR ITS SUCCESSFUL EXECUTION.

The Board’s Charter sets out the governance principles, authority, responsibilities, membership and operation of the Board of Directors. This governance statement outlines the main corporate governance practices as at 21 August 2017. A full statement is available to view at [www.comvita.co.nz](http://www.comvita.co.nz).

Compliance

The best practice principles which the Company considers in its governance approach are the New Zealand Exchange (NZX) Listing Rules relating to corporate governance, the NZX Corporate Governance Best Practice Code, and the New Zealand Securities Commission Corporate Governance Principles and Guidelines (collectively the “Principles”). The Board’s view is that the Company’s corporate governance principles, policies, and practices do not materially differ from best practice ‘Principles’. The Company’s constitution, the Board and committee charters and roles, codes and policies referred to in this section are available to view at [www.comvita.co.nz](http://www.comvita.co.nz).

Governance Principles And Guidelines

PRINCIPLE 1 – ETHICAL STANDARDS

Directors observe and foster high ethical standards. The Company expects its Directors, Officers, and Employees to act legally, to maintain high ethical standards, and to act with integrity consistent with Comvita’s policies, guiding principles and values. A Code of Ethics sets out these standards for Directors. The Company has adopted policies to ensure it maintains high standards of performance and behaviour when dealing with the Company’s customers, suppliers, shareholders and staff. Specific policies are in place relating to the environment, Privacy Act requirements, confidentiality of Company information, conflicts of interest, complaints from stakeholders, and trading in Company securities.

Trading in Comvita Securities

On a continuing basis, the Board considers whether any matters under consideration are likely to materially influence the present or future market expectations of the Company, including the share value. It then determines whether or not

there continues to be an ‘open window’ for share trading by Directors or Officers of the Company. The policy is for a specific declaration in respect of this matter to be made as appropriate. All proposed transactions by Directors or Officers require specific prior approval by the Board Chair and the Chair requires approval from the Chair of the Audit & Risk Committee.

PRINCIPLE 2 – BOARD COMPOSITION AND PERFORMANCE

There is a balance of independence, skills, knowledge, experience and perspective among Directors that allows the Board to work effectively.

Board Size and Composition

The Board is comprised of Directors with a mix of qualifications, skills and experience appropriate to the Company’s business. The Constitution provides for the Directors annually to elect one of their number as Chairperson of the Board.

Gender Composition of Directors and Officers

The Company is committed to diversity in its employment of individuals at all levels in the organisation. As at 30 June 2017, the Board had two female Directors in a total of eight Directors and one female Officer (2016: two female Directors and one female Officer). There are nine women in Senior Executive roles in the Company (2016: six).

Independence of Directors

For a Director to be considered to be independent, the fundamental consideration in the opinion of the Board is that the Director be independent of the Executive and not have any relationship that could, or could be perceived, to interfere materially with the Director’s exercise of his/her unfettered and independent judgement.

Having considered these matters and the composition of the Board, the Company considers the Directors hold an appropriate mix of skills, expertise and independence. The Comvita Board has reviewed which of its Directors are



# GOVERNANCE

deemed to be independent in terms of NZX Listing Rules and has determined that all directors are independent. The Board therefore determines that the majority of Directors in Comvita are Independent Directors, including the Chairs of the Audit & Risk, and Remuneration & Human Resources Committees.

**Responsibilities of the Board and Executive**

The business and affairs of the Company are managed under the direction of the Board of Directors on behalf of shareholders. The Board’s responsibilities are outlined on the Company’s website [www.comvita.co.nz](http://www.comvita.co.nz). Responsibility for the day-to-day operations and administration is delegated by the Board to the Chief Executive, and the Leadership team.

**Appointment and Retirement of Directors**

At each Annual Shareholders Meeting two of the Directors retire by rotation and are eligible to apply for re-election, along with any appointments made since the previous Annual Shareholders Meeting. The Company does not pay retirement benefits to any Director on retirement.

**Board Processes**

The Board has a regular onsite meeting schedule complemented by teleconference meetings. There were 10 Board meetings and 12 teleconference special meetings for the year ending 30 June 2017.

**Board Composition and Performance Review**

The Board regularly reviews its composition and as a result has introduced three new Directors in the last two and a half years. During the previous period, the Board initiated a performance review by external consultants. This was completed in July 2016.

**PRINCIPLE 3 – BOARD COMMITTEES**

The Board uses Committees where this enhances the effectiveness in key areas while retaining Board responsibility.

The Board operates two Committees to assist in the execution of the Board’s duties: the Remuneration & Human Resources Committee and the Audit & Risk Committee. Each Committee has a specific Charter which can be viewed at the Company’s website [www.comvita.co.nz](http://www.comvita.co.nz). Committee members are appointed from members of the Board and membership is reviewed on an annual basis. All matters determined by Committees are submitted to the full Board as recommendations for Board decision.

**Remuneration & Human Resources Committee**

The Remuneration & HR Committee comprises of Murray Denyer (Chair), Alan Bougen, Sarah Ottrey, Neil Craig and Brett Hewlett and met four times during the period. The Committee recommends the remuneration policies and packages, including performance incentives for the Chief Executive Officer and the Leadership team. Additionally it reviews: the performance of the Chief Executive Officer; succession planning for the Senior Executive team and the Board; risk and compliance monitoring in relation to the Company’s human resources and operational health and safety oversight; the Company’s performance in respect of responsible governance, and remuneration policies and guidelines for Directors.

**Audit & Risk Committee**

The Audit & Risk Committee comprises Luke Bunt (Chair), Alan Bougen, Sarah Kennedy, Neil Craig and Paul Reid and met three times during the period. The Committee reviews the annual audit process, the financial and operational information provided to the stakeholders and others, the management of business risk to the organisation, and the framework of internal control and governance which the Leadership team and the Board have established. The Chief Executive Officer, Chief Financial Officer and General Manager Finance regularly attend meetings. The Company’s external auditors attend Committee meetings as deemed necessary by the Committee.

Board Member	Board		Conference Calls & Special Meetings		Audit & Risk		Remuneration & HR	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
Neil Craig	10	10	12	12	3	3	4	4
Alan Bougen	10	10	12	9	3	2	4	3
Luke Bunt	10	9	12	8	3	3	-	-
David Cullwick *	3	3	6	5	1	1	-	-
Murray Denyer	10	10	12	11	-	-	4	4
Brett Hewlett **	2	2	1	1	-	-	1	1
Sarah Kennedy	10	9	12	7	3	1	-	-
Sarah Ottrey	10	9	12	10	-	-	4	4
Paul Reid **	2	2	1	1	1	1	-	-

\* David Cullwick retired from the Board at the 26 October 2016 Annual Shareholder Meeting  
\*\* Brett Hewlett and Paul Reid joined the Board on 18 October 2017 (to be formally elected by shareholders at the October 2017 ASM)

# GOVERNANCE

**PRINCIPLE 4 – REPORTING AND DISCLOSURE**

The Board demands integrity both in financial reporting and in the timeliness and balance of disclosure on entity affairs. The Company is committed to ensuring integrity and timeliness in its financial reporting and in providing information to the market and shareholders which reflects a considered view on the present and future prospects of the Company.

**Financial Reporting**

The Audit & Risk Committee oversees the quality and integrity of external financial reporting including the accuracy, completeness and timeliness of financial statements. It reviews half-year and annual financial statements and makes recommendations to the Board concerning accounting policies, areas of judgement, compliance with accounting standards, stock exchange and legal requirements, and the results of the external audit. Management accountability for the integrity of the Company’s financial reporting is reinforced by the certification from the Chief Executive Officer and Chief Financial Officer in writing that the Company’s financial report presents a true and fair view in all material aspects.

**Timely and Balanced Disclosure**

Continuous disclosure obligations of NZX require all listed companies to advise the market about any material events and developments as soon as the Company becomes aware of them. The Company has policies and monitoring in place to ensure that it complies with these obligations.

**PRINCIPLE 5 – REMUNERATION**

The remuneration of Directors and Senior Executives is transparent, fair and reasonable. Making sure team members and Directors get the rewards they deserve is the responsibility of the Remuneration & Human Resources Committee, a committee of the Board.

**Non-Executive Directors Remuneration**

The fees payable to the Non-Executive Directors are determined by the Board within the aggregate amount approved by shareholders. The Board considers external information of peer companies in terms of scale and complexity when setting remuneration levels. The current Directors’ fee pool limit is \$610,000 approved at the 2016 annual shareholders meeting.

**Senior Executive Remuneration**

Senior Executives remuneration is made up of: base or fixed remuneration; an ‘at-risk’ component based around individual ‘balanced scorecard’ performance in the year; and a share of a bonus pool if shareholder value targets are achieved, subject to Board approval. In addition, 64 executives qualify to participate in a long term executive share scheme plan.

**Staff Remuneration**

All staff participate in a bonus pool based on the Company attaining the agreed budget. In addition all staff have the opportunity to participate in a share purchase scheme. The Company provides a non-interest bearing loan of up to \$2,340 to assist staff to purchase Comvita shares.

**PRINCIPLE 6 – RISK MANAGEMENT**

The Board regularly verifies that the entity has appropriate processes that identify and manage potential and relevant risks through monthly board reporting of the Strategic Risk Register and Operational Risk Register.

**Business Risks**

The Chief Executive Officer and Leadership team are required to regularly identify the major risks affecting the business into a risk management register and to develop strategies to mitigate these risks. Significant risks are discussed at each Board meeting, or as required. The Company maintains insurance policies that it considers adequate to meet the insurable risks of the Group. Exposure to any foreign exchange risk is managed in accordance with policies laid down by the Directors.

**Health and Safety**

The Company employs a Global Health and Safety Manager and operates a Health and Safety Committee to identify workplace hazards, and monitor and review compliance with the Company’s documented occupational Health and Safety policies and procedures. Health and Safety review reports are a priority agenda item at all Board meetings and specific reviews are sought as required. The Board undertakes ongoing Health and Safety education and visits key operational sites on a regular schedule.

**Chief Executive Officer and Chief Financial Officer Assurance**

The Chief Executive Officer and Chief Financial Officer have provided the Board with written confirmation that the Company’s 2017 financial statements are founded on a sound system of risk management and internal compliance and control; and that all such systems are operating efficiently and effectively in all material respects.

**Risk Monitoring**

The Audit & Risk Committee reviews the Company’s risk management policies and processes and the Leadership team provides an updated risk assessment profile to each meeting of the Board. The Remuneration & Human Resources Committee reviews human resource management risks.



# GOVERNANCE

PRINCIPLE 7 – AUDITORS

The Board ensures the quality and independence of the external audit process.

Independence

To ensure the independence of the Company’s external auditor is maintained, the Board has agreed the external auditor should not provide any services not permitted under International Federation of Accountants regulations. This is monitored by the Audit & Risk Committee.

External Auditor

Comvita’s external auditor is KPMG. KPMG was re-appointed by shareholders at the 2016 Annual Shareholders Meeting in accordance with the provisions of the Companies Act 1993. KPMG were first appointed as auditors in 1998. KPMG has been invited to attend this year’s Annual Shareholders Meeting and will be available to answer questions about the audit process, Comvita’s accounting policies and the independence of the auditor.

PRINCIPLE 8 – SHAREHOLDER RELATIONS

The Board fosters constructive relationships with shareholders which encourages them to engage with the Company. The Board aims to ensure shareholders are provided with all information necessary to assess the Company’s strategic direction and performance.

They do this through a communication strategy which includes:

- Periodic and continuous disclosure to NZX;
- Information provided to media and briefings to major shareholders;
- Half-year and annual reports;
- Chief Executive’s Report to shareholders approximately every six months;
- The Company’s website with an investor relations section;
- Future direction presentation at the Annual Shareholders Meeting which is conducted in a very open manner, and a range of questions are considered.

PRINCIPLE 9 – STAKEHOLDER INTERESTS

The Board respects the interests of stakeholders within the context of the Company’s ownership type and its fundamental purpose. Comvita aims to manage its business in a way that will produce positive outcomes for all stakeholders including the public, customers, employees, shareholders and suppliers. The Company is strongly committed to acting in a socially responsible manner with all stakeholders, including the wider community.

# DIRECTORY

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DIRECTORS

COMVITA BOARD OF DIRECTORS

Neil Craig  
Alan Bougen  
Sarah Ottrey  
Lucas (Luke) Bunt  
Sarah Kennedy  
Murray Denyer  
Brett Hewlett (appt 1 May 2017)  
Paul Reid (appt 1 May 2017)

REGISTERED OFFICE

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