

Independent Audit
of
Direct and Indirect Pool Costs
for 2016-17

Completed by
Pricewaterhouse Coopers
for
New Zealand Kiwifruit Growers Inc


November 2017

Zespri Group Limited
 Financial Statement of Direct and Indirect pool cost for 2016/17
 For the year ended 31 March 2017

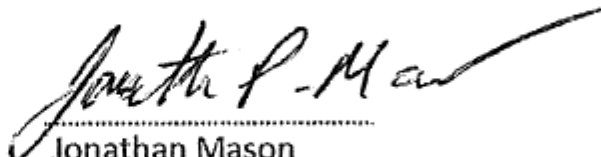
Zespri Group Limited
Financial Statement of Direct and Indirect pool cost for 2016/17
For the year ended 31 March 2017

NZD ('m)	Green	Green Organic	Gold*	Sweet Green
Direct Cost				
Freight	80.8	4.0	48.0	1.4
Insurance	1.9	0.1	4.5	0.1
Offshore direct cost				
Duty & Customs	41.7	2.0	34.9	0.6
Vessel Discharge	18.3	0.9	12.5	0.6
Other offshore direct cost	24.9	1.2	17.8	0.4
Onshore direct Cost	19.2	0.9	39.1	1.1
	186.8	9.1	156.9	4.2
Indirect cost				
Promotion	58.9	2.5	85.8	2.4
KNZ/NZKGI cost	1.1	0.0	0.6	0.0
	60.0	2.5	86.4	2.4
Interest (income)	(0.5)	(0.0)	(0.3)	(0.0)
	246.3	11.6	243.0	6.6

* Gold includes Hort16A, SunGold and SunGold Organic



 Peter McBride
 Chairman



 Jonathan Mason
 Director

1. Statement of compliance

The Financial Statement is a consolidation of Zespri Group Limited ('the Company') and its subsidiaries (collectively 'Zespri Group'). The Company is domiciled in New Zealand and is a profit-oriented entity incorporated under the Companies Act 1993 of New Zealand. Zespri Group's primary activity is the purchase, export and marketing of fresh kiwifruit.

The Financial Statement was authorised for approval by the Board of Directors on 8 November 2017.

The Financial Statement has been prepared in accordance with:

- The Supply Agreement 2016 which defines the costs that can be charged to the pools; and
- The Pool Policy Manual 2016 which defines the allocation of costs to the pools.

2. Basis of preparation

These special purpose financial statement has been prepared specifically for the pool audit relating to the 2016 season, initiated by New Zealand Kiwifruit Growers Inc.

The Financial Statement only shows the cost charged to the class 1 pools as defined in the Supply Agreement 2016 specifically the Zespri Green, Zespri Green Organic, Zespri Gold (including SunGold and Hort16A conventional and organic) and Zespri Sweet Green class 1 pools.

The following accounting principles have been followed in the preparation of the Financial Statement:

- Historical cost basis; and
- Accrual accounting.

The Directors and management have reviewed the Zespri Group current business plans, financial forecasts and related assumptions for the next 12 months and beyond, and are satisfied that it is appropriate for reliance to be placed on the fact that Zespri Group is a going concern.

3. Use of estimates and judgements

The preparation of the Financial Statement requires management to make estimates and assumptions that affect the reported amounts of expenditure at the date of the Financial Statement. Judgement is applied in determining estimates and the application of accounting standards, Supply Agreement and the Pool Policy Manual.

4. Critical accounting estimates in applying significant accounting policies

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom exactly equal the related actual results.

Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Because judgement is applied, actual results could differ from estimates made. Estimates and assumptions are reviewed periodically and the effects of any changes are reflected immediately in the Financial Statement.

All amounts are in New Zealand dollars.

5. Accounting policies

(a) Basis of consolidation

The Financial Statement includes the results and balances of all entities of the Company and its subsidiary companies. All companies in Zespri Group are wholly owned by companies within the Zespri Group and, therefore, are ultimately fully controlled by Zespri Group Limited.

All subsidiaries have been incorporated and consolidated at inception by Zespri Group companies. No subsidiaries have been obtained by acquisition. The results and balances of subsidiaries are included in the Financial Statement.

All inter-company transactions are eliminated on consolidation.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by Zespri Group Limited.

(b) Indirect tax

The Financial Statement has been presented so that all components are stated net of indirect tax (such as Goods and Services Tax (GST) and Value Added Tax (VAT)) where such taxes can be reclaimed from the relevant authorities.

(c) Foreign currency translation

(i) Functional and presentational currency:

Transactions in each of Zespri Group's companies are measured using the currency of the primary economic environment in which the entity operates. The functional currency of foreign operations is also considered in light of its dependence on the Zespri Group limited. All Zespri Group companies are currently deemed to have New Zealand Dollars as both their functional and presentational currencies.

(ii) Transactions and balances in functional currency:

Foreign currency transactions are translated into the functional currency of each entity using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of transactions during the year and from the translation of monetary assets and liabilities at balance date are recognised and allocated to each line item and pool using an effective exchange rate methodology.

(iii) Effective rate

"Zespri Treasury operate under a Board approved Treasury Management Policy to hedge the net exposure of all major currencies for each season with the objective to mitigate some of the volatility of New Zealand dollar returns to growers. Major currencies include EUR, JPY, USD, CNY and KRW. Each season is taken individually, and hedges are always designated to a specific season and origin of fruit.

All reporting of Total Fruit and Service Payments is done using the effective rate, and supplier/grower payments are calculated using the effective rate. The Pricing and Payments manual specifies the following (section A2.16):

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

An effective rate per currency per season is calculated and used for all transactions in that currency, so the same FX rate is used across all pools. This effective rate is calculated as part of the forecast and year end reconciliation process.

(d) Provisions and insurance cover offered

Provisions

Zespri Group records provisions when: it has a legal or constructive obligation to satisfy a claim as the result of a past event; it is more likely than not that an outflow of resources will be required to satisfy the obligation; and a reliable estimate of the amount can be made. The amount recognised as a provision is the net present value of the best estimate of the outflows required to settle the obligation.

Insurance cover offered

(i) Marine cargo insurance:

The Company insures New Zealand contractors to the New Zealand Supply Agreement for loss of kiwifruit resulting from specific risks between picking and 'Free on board stowed' (FOBS). The annual period of cover is from 1 April to 31 March the following year. Zespri Group purchases marine cargo insurance as reinsurance of this risk. The terms of cover are contained in the annual New Zealand Supply Agreement issued every year to New Zealand contracted suppliers.

An insurance liability is recognised to the extent of the estimated future cash flows that may be required to settle claims from New Zealand-contracted suppliers and related costs. An expense is recognised for known liabilities under the terms of insurance, and estimated for claims made but not yet settled. Claims are expected to be settled within one year. There is no discounting or inflation adjustment in measuring the liability because of the short settlement period.

An insurance asset and resultant revenue, relating to claims made pre-FOBS, are recognised to the extent of the estimated future cash flows that may be receivable from Zespri Group's insurer as a result of known claims made against the reinsurance policy.

(ii) Hail insurance:

The Company insures New Zealand contractors to the New Zealand Supply Agreement annually for kiwifruit lost as a result of hail during the New Zealand growing period. The period of cover is from 1 August to 30 June the following year. The terms of cover are contained in the annual New Zealand Supply Agreement.

An insurance liability is recognised to the extent of the estimated future cash flows that may be required to settle claims and related costs. An expense is recognised for known liabilities under the terms of insurance, and estimated for claims made but not yet settled. Claims are settled at the end of the insurance period. There is no discounting or inflation adjustment in measuring the liability because of the short settlement period.



Independent auditor's report

to the members of New Zealand Kiwifruit Growers Incorporated (NZKGI)

Opinion

We have audited the special purpose financial statement of direct and indirect pool cost for the Zespri Green, Zespri Green Organic, Zespri Gold (including SunGold and Hort16A conventional and organic) and Zespri Sweet Green class 1 pools for the year ended 31 March 2017 (the Financial Statement) prepared by Zespri Group Limited ("Zespri"). In our opinion, the Financial Statement prepared by Zespri for the year ended 31 March 2017 is prepared, in all material respects, in accordance with the basis of preparation disclosed in note 2.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Statement* section of our report.

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

We are independent of NZKGI and Zespri in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for Zespri in the areas of tax and accounting advice, internal audit and other ad-hoc advisory services. The provision of these other services has not impaired our independence as auditor of Zespri. Our firm does not carry out any other services for NZKGI.

Emphasis of Matter – Basis of accounting

We draw attention to note 2 to the Financial Statement, which describes the basis of preparation. The Financial Statement is prepared to assist Zespri to meet the requirements of its grower suppliers under the Zespri Supply Agreement 2016 and the Zespri Pool Policy Manual 2016. As a result, the Financial Statement may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Responsibilities of the directors for the Financial Statement

The directors of Zespri Group Limited are responsible for the preparation of the Financial Statement in accordance with the basis of preparation disclosed in note 2, and for such internal control as the directors determine is necessary to enable the preparation of the Financial Statement that is free from material misstatement, whether due to fraud or error.

In preparing the Financial Statement, the directors are responsible for assessing Zespri's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate Zespri or to cease operations, or have no realistic alternative but to do so.



Independent auditor's report

New Zealand Kiwifruit Growers Incorporated (NZKGI)

Auditor's responsibilities for the audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the Financial Statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statement.

A further description of our responsibilities for the audit of the Financial Statement is located at the External Reporting Board's website at:

<https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-8/>

Who we report to

This report is made solely to the members of NZKGI, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of NZKGI, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Sharon Cresswell.

For and on behalf of:

A handwritten signature in black ink, appearing to read 'Sharon Cresswell', written over a faint, illegible background.

Chartered Accountants
15 November 2017

Hamilton