



Costa Group Holdings Limited

Appendix 4E

Preliminary Final Report to the ASX

For the financial year ended 26 June 2016

ASX Listing Rule 4.3A

ABN 68 151 363 129

Contents

	Page
• Results for announcement to the market	1
• Directors' Report (including remuneration report)	4
• Auditor's Independence Declaration	33
• Financial Statements	34
• Notes to the Consolidated Financial Statements	38
• Directors' Declaration	88
• Auditor's Report	89

Reporting Period

Financial year ended:	Previous corresponding period:
26 June 2016	28 June 2015

1. Results for announcement to the market

Statutory Results

	2016 Statutory Results \$ '000	2015 *Restated Statutory Results \$ '000	% change
Revenue from ordinary activities	821,861	736,231	11.63%
Profit / (loss) from ordinary activities	25,258	4,313	485.62%
Profit / (loss) for the period attributable to members	25,258	4,313	485.62%

Pro forma Results ¹

	2016 Pro forma Results \$ '000	2015 *Restated Pro forma Results \$ '000	% change
Revenue from ordinary activities	821,861	732,658	12.18%
Profit / (loss) from ordinary activities	49,277	37,993	29.70%

1. Pro forma results have been provided for the financial year ended 26 June 2016 to allow shareholders to make a meaningful comparison with the pro forma Prospectus forecast and prior year comparative. Pro forma adjustments have been made on a consistent basis. Further details on the pro forma results have been provided in the Review of operations contained within the Directors' Report.

Explanation of results

Revenue from ordinary activities was up \$85.6 million, or 11.63%, from \$736.2 million to \$821.9 million in FY2016. The increase in revenue was driven by the Produce segment with solid revenue growth reported across all core categories. This was partially offset by the CF&L segment due to depressed banana prices caused by industry oversupply.

Net profit after tax was up \$20.9 million, or 485.62%, from \$4.3 million to \$25.3 million in FY2016. The increase is driven primarily by:

- improved trading performance reported within all three segments;
- increase in the gain on fair value movements in biological assets predominantly due to strong yields and pricing in the citrus category;
- profit on sale of assets of \$2.4 million on the disposal of the St. George grape farm; and
- lower finance costs with the Group refinancing its debt facility upon completion of the initial public offering (IPO) in July 2015.

This was offset by \$21.8 million of costs associated with the IPO (2015: \$5.2 million) and higher depreciation and amortisation expenditure in line with the increased capital expenditure on the berry and tomato growth projects.

Please refer to the Review of operations contained within the Director's Report on page 7 for further information on results for the year.

*Refer to note E3 of the notes to the financial statements for details regarding the restatements as a result of the early adoption of the amendments made to Accounting Standards AASB 116 Property, plant and equipment and AASB 141 Agriculture in relation to bearer plants.

Dividends or dividend distribution plan

	Cents per share	Franking %
Paid to ordinary shareholders		
Final dividend – year ended 26 June 2016 (declared subsequent to balance date) ¹	6.0 cents	100% franked
Interim dividend – half year ended 27 December 2015	3.0 cents	100% franked
Paid to redeemable preference shareholders		
Dividend paid upon completion of the initial public offering on 24 July 2015.	20.94 cents	100% franked

Note:

1. The final dividend was declared subsequent to balance date. The record date for determining an entitlement to receipt of the final dividend is 28 September 2016 and the company expects to pay the dividend on 26 October 2016. This dividend has not been accrued for at year end.

Costa Group Holdings Ltd did not declare any dividends during the prior financial year. There was no dividend reinvestment plan in operation during the financial year ended 26 June 2016 and 28 June 2015.

2. Earnings and Net Tangible Asset per Share

Please refer to Note A3, page 46 of the notes to the financial statements for Earnings per Share information.

	2016	2015
	Cents	*Restated Cents
Net tangible asset backing per ordinary share	69.86	28.56

*Refer to note E3 of the notes to the financial statements for details regarding the restatements as a result of the early adoption of the amendments made to Accounting Standards AASB 116 Property, plant and equipment and AASB 141 Agriculture in relation to bearer plants.

3. Parent Entity and Subsidiaries

(a) Ultimate Parent

The ultimate Australian parent entity and the ultimate parent of the Consolidated Entity is Costa Group Holdings Limited.

b) Subsidiaries

A list of the Group's subsidiaries can be found in Note D2, page 75 of the Financial Statements.

4. Associates and Joint Ventures

The Group's associates and joint ventures are included at Note D1, page 73.

5. Commentary on results for the period

Commentary on results for the period including a discussion on trends in performance and significant features of operating performance are included in the Review of Operations contained in the Directors' Report on page 7.

6. Audit/Review status

The Appendix 4E and accounts have been audited and a copy of the Auditor's Report is included within the Annual Financial Statements which accompany this report.

Costa Group Holdings Ltd
Directors' report
For the year ended 26 June 2016

The directors of Costa Group Holdings Ltd and its controlled entities ("the Group") present their report together with the financial report of the Group for the financial year ended 26 June 2016.

1. DIRECTORS

The directors of the Company at any time during or since the end of the financial year are:

Neil Chatfield M.Bus, FCPA, FAICD

Chairman and Independent Non-Executive Director

Director since 7 October 2011 and Chairman since 24 June 2015. Member of the Audit and Risk Committee, Remuneration Committee and Nomination Committee.

Neil is an established executive and non-executive director with extensive experience across all facets of company management, and with specific expertise in financial management, capital markets, mergers and acquisitions, and risk management.

Neil is currently the Chair and Non-executive director of Seek Limited. Neil is also a Non-executive director of Transurban Ltd, Iron Mountain Inc and Launch Housing, a not for profit organisation. He was previously a Non-executive director of Recall Holdings Ltd (to May 2016), Chair and Non-executive director of Virgin Australia Holdings Ltd (to May 2015) and Non-executive director of Grange Resources Ltd (to April 2014).

Neil previously served as an executive director and Chief Financial Officer of Toll Holdings Ltd (from 1997 to 2008).

Frank Costa AO OAM

Non-Executive Director

Director since 8 June 2011. Member of the Remuneration Committee and Nomination Committee.

Frank has been at the forefront of developing and building the Costa Group into a major horticultural and logistics company for more than 50 years. He has previously served as President of the Geelong Football Club (1998 - 2010) and tirelessly promotes the development of the City of Geelong and surrounding community. Frank has been honoured with an Order of Australia Medal for his services to youth and the community.

During the past three years, Frank has not served as a director of any other listed company.

Harry Debney BAppSc (Hons)

Managing Director and Chief Executive Officer

Director since 5 January 2012 and Managing Director since 24 July 2015.

Since his appointment as CEO in 2010, Harry has overseen the transition of the business from a privately owned company to its listing on the Australian Securities Exchange. Prior to joining Costa, Harry spent 24 years at Visy Industries, including eight years as Chief Executive Officer. During this time, he substantially grew the Visy business, both organically and through acquisitions.

During the reporting period and the previous two years, Harry has not served as a director of any other listed company. Harry was appointed as a Non-executive director of Kogan.com Ltd in May 2016, prior to its listing on the ASX in July 2016.

Costa Group Holdings Ltd

Directors' report

For the year ended 26 June 2016

Kevin Schwartz BSc (Accountancy)

Non-Executive Director

Director since 7 October 2011. Member of the Nomination Committee.

Kevin is the President of Paine & Partners LLC which he cofounded in 2006. He was a Managing Director at the predecessor firm, Fox Paine & Company, which he joined in 2002.

Kevin serves as a director of AgBiTech Pty Ltd, Verdesian Life Sciences and Suba Seeds Company. He is also a member of the Rush Associates Board of the Rush University Medical Center. Kevin has previously served as a director of Advanta, Seminis, Inc., Sunrise Holdings (Delaware), Inc. and on the Board of United American Energy Corp.

During the past three years, Kevin has not served as a director of any other listed company.

Peter Margin BSc (Hons), MBA

Independent Non-Executive Director

Director since 24 June 2015. Chair of the Remuneration Committee and member of the Audit and Risk Committee and Nomination Committee.

Peter has many years of leadership experience in major Australian and international food companies, including Chief Executive of Goodman Fielder Ltd and before that Chief Executive and Chief Operating Officer of National Foods Ltd. Peter has also held senior executive roles in Simplot Australia Pty Ltd, Pacific Brands Ltd, East Asiatic Company and HJ Heinz Company Australia Ltd and is currently Executive Chairman of Asahi Beverages ANZ.

Peter currently serves as a Non-executive director of PACT Group Holdings Ltd, Nufarm Ltd and Bega Cheese Ltd. He has recently announced his resignation from his position as Chairman and Non-executive director of Huon Aquaculture Ltd (effective 30 August 2016) and his position as Non-executive director of PMP Ltd (effective 29 August 2016). Peter was previously a Non-executive director of the NSX listed company Ricegrowers Ltd (to August 2015).

Tiffany Fuller B.Com, GAICD, ACA

Independent Non-Executive Director

Director since 1 October 2015. Chair of the Audit and Risk Committee and member of the Nomination Committee.

Tiffany has held various accounting, corporate finance, financial advisory and management consulting positions with Arthur Anderson in Australia, the United States and in England and subsequently held roles in investment banking and private equity with Rothschild Australia. As a director in the Rothschild private equity group she focused on the management of Microcap Investments and early stage technology venture capital in Australia and New Zealand.

Tiffany currently serves as Non-Executive director of Computershare Ltd and Smart Parking Ltd and is the Chair of the Audit and Risk Committee of both companies.

2. COMPANY SECRETARY

David Thomas LLB, BSc (Hons)

Mr. Thomas joined the Company as General Counsel in July 2012 and was appointed to the position of Company Secretary in October 2012. In addition to being the Company Secretary, Mr. Thomas oversees the Group's legal department and advises the Group on legal, risk and compliance matters. Prior to joining the Company, Mr. Thomas was a Partner of Middletons (now K&L Gates), practising in corporate and commercial law. He has over 23 years' experience in legal practice.

3. OFFICERS WHO WERE PREVIOUSLY PARTNERS OF THE AUDIT FIRM

There are no officers of the Company during the financial year that were previously partners of the current audit firm, KPMG, at a time when KPMG undertook an audit of the Group.

4. DIRECTORS' MEETINGS

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

Director	Board Meetings		Audit and Risk Committee Meetings		Remuneration Committee Meetings		Nomination Committee Meetings	
	<i>Held</i>	<i>Attended</i>	<i>Held</i>	<i>Attended</i>	<i>Held</i>	<i>Attended</i>	<i>Held</i>	<i>Attended</i>
Neil Chatfield	9	9	3	3	1	1	2	2
Frank Costa	9	8	-	-	1	1	2	2
Harry Debney	9	9	-	-	-	-	-	-
Kevin Schwartz	9	9	-	-	-	-	2	1
Peter Margin	9	9	3	3	1	1	2	2
Tiffany Fuller	5	4	3	3	-	-	2	1

5. PRINCIPAL ACTIVITIES

Costa Group is Australia's largest horticulture group and is the largest fresh produce supplier to the major Australian food retailers. The Group's principal activities during the year were:

- the growing of mushrooms, blueberries, raspberries, glasshouse grown tomatoes, citrus and other selected fruits within Australia;
- the packing, marketing and distribution of fruit and vegetables within Australia and to export markets;
- provision of chilled logistics warehousing and services within Australia; and
- licensing of proprietary blueberry varieties and berry farming in international markets.

No significant change in the nature of these activities occurred during the year.

6. SIGNIFICANT CHANGES IN STATE OF AFFAIRS DURING THE YEAR

On 24 July 2015, the Group undertook an Initial Public Offering (IPO) on the Australian Securities Exchange. The purpose of the IPO was to:

- provide Costa with access to capital markets to pursue further growth opportunities;
- pay down the Group's existing debt; and
- allow existing shareholders to realise part of their investment.

As a result of the IPO, the Group:

- Issued new shares for \$173.3 million;
- Repaid the existing debt facility of \$238.0 million and drew down \$142.0 million under a new banking facility;
- Disposed of existing options issued to management and Directors under the legacy LTI plan, which resulted in a cash payment of \$11.9 million and acceleration of share-based payments expense \$0.7 million;
- Paid a dividend of \$9.4 million in relation to the Redeemable Preference Shares (RPS). The RPS were subsequently converted to ordinary shares; and
- Write-off of capitalised borrowing costs of \$7.9 million.

7. REVIEW OF OPERATIONS

RESULTS FOR THE FINANCIAL YEAR ENDED 26 JUNE 2016

PRO FORMA RESULTS

Pro forma results are provided for the financial year ended 26 June 2016 to allow shareholders to make a meaningful comparison with the pro forma Prospectus forecast. Pro forma adjustments have been made on a consistent basis with those made in the Prospectus. A reconciliation of the pro forma results to the statutory results is provided in Tables 7 and 8 below.

Pro forma	vs FY2016 Prospectus	vs FY2015 Actual
Revenue	▲ 9.6%	▲ 11.8%
EBITDA BEFORE SGARA	▲ 0.8%	▲ 27.6%
NET PROFIT AFTER TAX	▲ 3.6%	▲ 29.7%

- Pro forma revenue, EBITDA before SGARA and NPAT have exceeded Prospectus forecast.
- Favourable performance within the portfolio has offset challenging market conditions in the tomato category
- Continued earnings growth contribution from the International segment from both African Blue and royalty income.

Table 1: Pro forma results for FY2016 actual compared to Prospectus forecast¹ and prior year

Consolidated income statement A\$m	Pro forma FY2016			Pro forma FY2015 Restated ³	
	Prospectus Forecast		Change	Actual	Change
	Actual	Forecast			
Transacted sales ²	1,042.5	978.8	63.7	922.0	120.5
Revenue	809.0	738.0	71.0	723.5	85.5
Other revenue	12.7	7.9	4.8	9.0	3.7
Total Revenue	821.7	745.9	75.8	732.4	89.3
Raw materials, consumables & third party purchases	(309.8)	(246.0)	(63.7)	(279.2)	(30.5)
Employee benefits expense	(276.4)	(262.7)	(13.6)	(243.8)	(32.6)
Other operating expense	(159.0)	(158.3)	(0.7)	(147.6)	(11.4)
Share of associates profit	14.4	11.5	2.9	9.5	4.9
EBITDA before SGARA	91.1	90.4	0.7	71.4	19.7
Fair value movements in biological assets	4.3	2.3	2.0	3.4	1.0
EBITDA	95.4	92.8	2.6	74.7	20.7
Depreciation & amortisation	(22.5)	(21.8)	(0.7)	(19.0)	(3.5)
Profit/(loss) on sale of assets	(1.0)	-	(1.0)	0.5	(1.5)
Impairment losses	-	-	-	(1.6)	1.6
EBIT	71.9	70.9	1.0	54.6	17.4
Net interest expense	(5.2)	(6.4)	1.1	(5.6)	0.3
Net profit/(loss) before tax	66.7	64.5	2.1	49.0	17.7
Income tax expense	(17.4)	(17.0)	(0.4)	(11.0)	(6.4)
NPAT	49.3	47.6	1.7	38.0	11.3

Notes:

1. FY2016 forecast as per Costa's Prospectus dated 25 June 2015.
2. Transacted Sales is a non-IFRS operating measure. See Table 2 for a reconciliation of Transacted Sales to statutory and pro forma revenue. Further details on Transacted Sales are provided in Table 12.
3. FY2015 results have been restated as a result of the early adoption of the amendments made to Accounting Standards AASB 116 Property, plant and equipment and AASB 141 Agriculture in relation to bearer plants.

Costa Group Holdings Ltd

Directors' report

For the year ended 26 June 2016

Pro forma results vs FY2015 actual

Pro forma revenue increased by \$85.5 million from the prior year due to stronger results in the Produce segment with solid revenue growth achieved across all core categories. This was slightly offset by the CF&L segment due to depressed banana prices caused by industry oversupply.

Pro forma EBITDA before SGARA increased by \$19.7 million from prior year with all three segments recording an increase in underlying earnings. The Produce and International segments, in particular, reported strong earnings growth of 24% and 78%, respectively, from prior year.

Pro forma results vs FY2016 Prospectus forecast

Pro forma revenue was \$71.0 million above Prospectus forecast with uplift across all Produce categories except tomatoes which was impacted by weaker pricing.

Pro forma EBITDA before SGARA was \$0.7 million above Prospectus forecast, with solid performance throughout the Group, offset by negative pricing impact for tomatoes in the Produce segment.

Table 2: Reconciliation of Transacted Sales to pro forma revenue

Reconciliation of Transacted Sales		
A\$m		FY2016
	Note	Actual
Transacted Sales		1,042.5
Agency revenue adjustments	1	(31.9)
Joint venture adjustments	2	(27.6)
Driscoll's Australia Partnership consolidation adjustments	3	(169.7)
Royalty income	4	(4.2)
Statutory and pro forma revenue		809.0

Notes:

1. Under AAS, the invoiced value of agency sales is excluded from revenue with only the commission associated with the agency sales recognised.
2. Costa's proportionate share of joint venture sales relating to the African Blue and Polar Fresh joint venture, of 49% and 50% respectively. Under AAS, joint ventures are accounted for under the equity method, with only Costa's share of joint venture NPAT recognised in profit or loss.
3. Costa owns 50% of the equity of Driscoll's JV. Transacted Sales includes 100% of Driscoll's JV sales, after eliminating Costa produce sales to the Driscoll's JV.
4. Costa earns royalty income on the licensing of Costa blueberry varieties in Australia, the Americas and Africa. Royalty income is classified as other income in the statement of profit or loss.

STATUTORY RESULTS

Highlights of full year statutory results:

	vs FY2016 Prospectus	vs FY2015 Actual
Revenue	▲ 9.3%	▲ 11.3%
EBITDA BEFORE SGARA	▲ 5.8%	▲ 11.4%
NET PROFIT AFTER TAX	▲ 14.0%	▲ 488.4%

- Strong earnings growth reported across the Group despite the negative impact of IPO costs of \$21.8 million and start-up costs for Costa Asia of \$2.0 million recognised during the year.

Table 3: Statutory results for FY2016 actual compared to Prospectus forecast and prior year

Consolidated income statement A\$m	Statutory FY2016			Statutory FY2015 Restated ¹	
	Actual	Prospectus Forecast	Change	Actual	Change
Revenue	809.0	740.2	68.8	727.0	82.0
Other revenue	12.7	7.9	4.8	9.0	3.7
Total Revenue	821.7	748.1	73.6	736.0	85.7
Raw materials, consumables & third party purchases	(311.8)	(251.3)	(60.4)	(283.7)	(28.0)
Employee benefits expense	(276.4)	(262.7)	(13.6)	(243.8)	(32.6)
Other operating expense	(180.8)	(182.1)	1.3	(157.7)	(23.1)
Share of associates profit	14.4	11.5	2.9	9.5	4.9
EBITDA before SGARA	67.2	63.5	3.7	60.3	6.9
Fair value movements in biological assets	4.3	2.3	2.0	3.4	1.0
EBITDA	71.6	65.9	5.7	63.7	7.9
Depreciation & amortisation	(22.5)	(21.8)	(0.7)	(19.6)	(3.0)
Profit/(loss) on sale of assets	1.4	-	1.4	0.5	0.9
Impairment losses	-	-	-	(18.9)	18.9
EBIT	50.5	44.0	6.5	25.6	24.8
Net interest expense	(14.8)	(14.5)	(0.3)	(20.7)	5.9
Net profit/(loss) before tax	35.7	29.5	6.2	5.0	30.7
Income tax expense	(10.4)	(7.4)	(3.1)	(0.6)	(9.8)
Net profit after tax	25.3	22.2	3.1	4.3	21.0
Non-controlling interest	0.0	0.9	(0.9)	-	0.0
NPAT attributable to shareholders	25.3	23.1	2.2	4.3	21.0

Notes:

1. See note 3 in Table 1.

Statutory results vs FY2015 actual

Statutory revenue increased by \$82.0 million from the prior year, driven by the Produce segment as outlined above in the pro forma results. Additionally, the FY2015 statutory results include revenues of \$3.7 million from the Menindee and St. George grape farms which were closed in January 2015.

Statutory EBITDA before SGARA increased by \$6.9 million compared to prior year. The statutory results were impacted significantly by \$21.8 million of transaction costs incurred associated with the Initial Public Offering (2015: \$5.2 million).

Fair value movements in biological assets increased by \$1.0 million, predominantly due to stronger pricing in the citrus category.

Costa Group Holdings Ltd

Directors' report

For the year ended 26 June 2016

Depreciation and amortisation increased by \$3.0 million in line with the increased capital expenditure on the berry growth projects as well as the commencement of depreciation on the new tomato glasshouse. Profit on sale of assets includes \$2.4 million gain on the sale of the St. George grape farm.

The FY2015 result also includes significant impairment costs resulting from the downsizing of the grape category and closure of two sites during the year.

Net interest expense includes all-in net cost of debt (including guarantee fees and amortisation of facility establishment fees). The Group refinanced its debt facility upon completion of the IPO in July 2015 which resulted in write-off of \$7.9 million of borrowing costs on the pre-existing facility. Despite this, net finance costs were \$5.9 million lower than prior year due to a combination of lower prevailing interest rates and lower average debt throughout the year.

Income tax expense increased to \$10.4 million in line with a higher PBT compared to prior year. The prior year also benefited from an overprovision of \$1.8 million as a result of R&D credits received. FY2016 income tax expense also includes \$1.7 million of deferred tax asset not recognised on capital losses associated with site closures during the year. As a result, the effective tax rate increased to 29%.

SEGMENT INFORMATION

PRODUCE

Highlights of pro forma results:

	vs FY2016 Prospectus	vs FY2015 Actual
Transacted Sales	▲ 5.6%	▲ 16.1%
Revenue	▲ 12.5%	▲ 18.7%
EBITDA before SGARA	▼ 6.1%	▲ 24.2%

- Transacted Sales and revenue growth on FY2015 achieved across all four categories.
- Revenue growth led by citrus, berry and mushroom volume growth.
- EBITDA before SGARA growth of 24.2% against FY2015, but below Prospectus forecast due to tomato pricing impact.

Figure 1: Pro forma revenue, Transacted Sales and EBITDA before SGARA results from FY2014 to FY2016

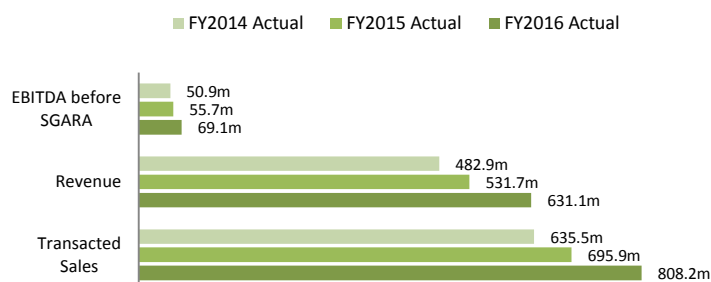


Table 4: Selected pro forma financial information for the Produce segment

Produce A\$m	Pro forma FY2016			Pro forma FY2015	
	Prospectus FY2016		Change	Actual	Change
	Actual	Forecast			
Transacted Sales	808.2	765.0	43.2	695.9	112.3
Revenue	631.1	560.8	70.3	531.7	99.4
EBITDA before SGARA	69.1	73.6	(4.5)	55.7	13.4
EBITDA before SGARA margin	10.9%	13.1%	(220 bps)	10.5%	50 bps

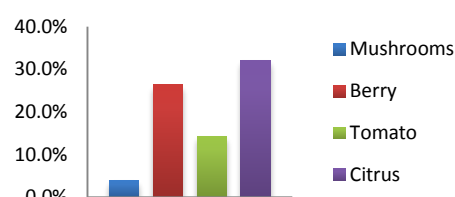
Produce pro forma revenue increased by \$99.4 million on FY2015. The drivers for the increase include:

- continued expansion of the berry category with 76 hectares of new plantings during the year;
- solid year in mushroom driven by production yield improvement;
- exceptional year in citrus due to a combination of strong yields, good quality, favourable exchange rates and contribution from the new Amaroo citrus farm; and
- revenue growth from additional production of sweet snacking tomatoes from the new glasshouse.

However this was offset by price deflation across the tomato category which experienced cyclical lows due to high levels of supply combined with sluggish supermarket sales over the summer period.

Pro forma EBITDA before SGARA increased by \$13.4 million against FY2015. This was predominantly driven by the revenue growth in the citrus, berry and mushroom categories, partially offset by weaker tomato pricing.

Figure 2: Produce pro forma revenue growth % on FY2015



COSTA FARMS & LOGISTICS

Highlights of pro forma results:

	vs FY2016 Prospectus	vs FY2015 Actual
Transacted Sales	▲ 3.4%	▼ 1.6%
Revenue	▼ 1.3%	▼ 5.9%
EBITDA before SGARA	▲ 16.7%	▲ 12.9%

- Revenue down on FY2015 primarily due to lower banana pricing.
- EBITDA before SGARA growth of \$1.5 million on FY2015 due to improved logistics earnings through cost control and service volumes.

Figure 3: Pro forma revenue, Transacted Sales and EBITDA before SGARA results from FY2014 to FY2016

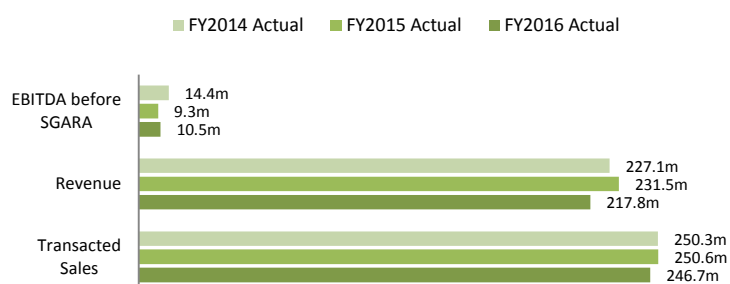


Table 5: Selected pro forma financial information for the CF&L segment

Costa Farms and Logistics A\$m	Pro forma FY2016			Pro forma FY2015	
	Prospectus		Change	Actual	Change
	Actual	Forecast			
Transacted Sales	246.7	238.7	8.0	250.6	(3.9)
Revenue	217.8	220.7	(2.9)	231.5	(13.7)
EBITDA before SGARA	10.5	9.0	1.5	9.3	1.2
EBITDA before SGARA margin	4.8%	4.1%	80 bps	4.0%	80 bps

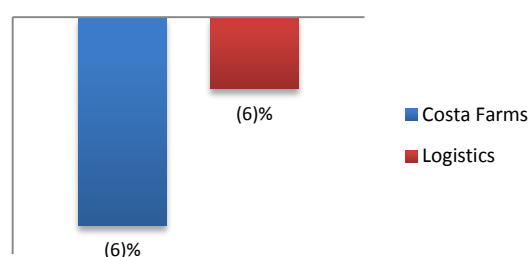
Pro forma revenue decreased by \$13.7 million against FY2015. This was mainly driven by price deflation on bananas caused by industry oversupply and a higher proportion of marketed produce being undertaken on an agency basis.

Pro forma EBITDA before SGARA increased by \$1.2 million against FY2015 driven by:

- improved earnings from the distribution centres through increased throughput and strong cost management; and
- strong performance from the Polar Fresh joint venture through enhanced gain share outcomes.

This was partially offset by the negative impact from banana price deflation.

Figure 4: CF&L pro forma revenue growth % on FY2015



INTERNATIONAL

Highlights of pro forma results:

	vs FY2016 Prospectus	vs FY2015 Actual
Transacted Sales	▲ 46.5%	▲ 79.1%
EBITDA before SGARA	▲ 46.2%	▲ 78.1%

- Strong Transacted Sales growth on both FY2015 and Prospectus forecast with increase in both African Blue and royalty income.
- EBITDA \$5.0 million above FY2015, and \$3.6 million above Prospectus forecast.

Figure 5: Pro forma revenue, Transacted Sales and EBITDA before SGARA results from FY2014 to FY2016

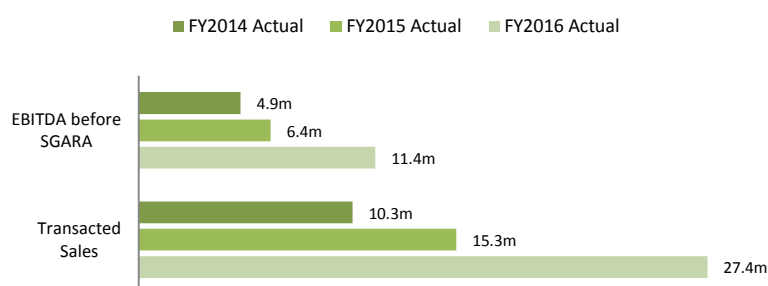


Table 6: Selected pro forma financial information for the International segment

International A\$m	Pro forma FY2016			Pro forma FY2015	
	Actual	Prospectus Forecast	Change	Actual	Change
Transacted Sales	27.4	18.7	8.7	15.3	12.1
Revenue	-	-	-	-	-
EBITDA before SGARA	11.4	7.8	3.6	6.4	5.0
EBITDA before SGARA margin	nm	nm	nm	nm	nm

Pro forma International segment results are comprised of the African Blue JV and royalty income from the licensing of Costa's blueberry genetics. African Blue is accounted for as an associate and therefore no revenue is recognised. Royalty income is recognised as other income in profit or loss, as opposed to revenue.

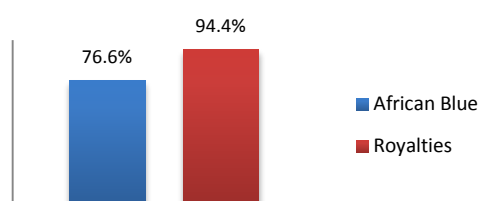
Transacted sales increased by \$12.1 million, or 79.1%, on FY2015. This was primarily driven by:

- African Blue FY2016 season exceeding expectations with favourable growing conditions enabling a longer growing season. Consistent high quality has continued to position African Blue as a premium brand attracting strong pricing in target markets of UK and Europe, even in the most competitive parts of the season; and

- Royalty income through increased fruit based sales with farm expansion in existing regions as well as from plantings in newer regions.

Pro forma EBITDA before SGARA growth was \$5.0 million, or 78.1%, against FY2015,

Figure 6: International Transacted Sales growth % on FY2015



Reconciliation of pro forma results to statutory results

The pro forma financial information has been derived from the statutory financial information adjusted for certain items as detailed below. Pro forma results are provided to allow shareholders to make a meaningful comparison with the pro forma Prospectus forecast and to make an assessment of the group's performance as a listed company.

The table below shows the reconciliation of Costa's pro forma financial information to the statutory financial information as presented in the Financial Statements.

Table 7: Reconciliation of pro forma EBITDA before SGARA to statutory EBITDA before SGARA

Consolidated EBITDA before SGARA A\$m		FY2016		FY2015
	Note	Actual	Prospectus Forecast	Actual
Statutory EBITDA before SGARA		67.2	63.5	60.3
Site closures/exits	1	-	-	3.7
Historical transaction costs	2	-	-	0.3
IPO transaction costs	3	21.8	23.8	5.2
Historical governance structure costs	4	-	-	2.6
Listed company costs	5	-	-	(2.0)
Costa Asia	6	2.0	3.1	1.3
Pro forma EBITDA before SGARA		91.1	90.4	71.4

Refer Table 8 below for notes.

Table 8: Reconciliation of pro forma net profit after tax to statutory net profit after tax

Consolidated net profit after tax A\$m		FY2016	
	Note	Actual	Prospectus Forecast
Statutory net profit after tax		25.3	22.2
Site closures/exits	1	0.1	-
IPO transaction costs	3	15.3	16.7
Costa Asia	6	2.0	3.1
Interest expense adjustment	7	6.7	5.6
Pro forma NPAT		49.3	47.6

Note:

- These adjustments represent the removal of results and impairment losses from closed sites and divested businesses, including:
 - Menindee and St. George grape farms which were closed in FY2015 as part of the downsizing of the grape category.
The closures of these sites and divestment of businesses have not impacted the financial performance of the remaining Costa operations.
- Removal of historical transaction costs paid in relation to previous acquisitions.
- An adjustment has been made to remove the costs associated with the IPO process, including adviser fees, break costs associated with the Existing Banking Facilities and share-based payment expense relating to the exercise of share options held by Costa directors and management.
- An adjustment has been made in FY2015 to remove Board related costs and management share-based payments under the pre-IPO governance structure.
- An adjustment has been made in FY2015 for estimated costs associated with being a listed public company. Costs include estimated Board costs, management share-based payments and incremental compliance related costs.
- An adjustment has been made to remove the forecast results from the China operation. Due to the expected start-up of this operation in FY2015 and FY2016, the China operation is forecast to report an operating loss in these years.
- Pro forma interest expense has been adjusted to reflect the terms of the New Banking Facility post completion of the IPO.

BALANCE SHEET

Table 9: Selected consolidated balance sheet for the year ended 26 June 2016

Selected Balance Sheet				
A\$m				
As at 26 June 2016	Note	2016	2015	Change
Current assets		137.5	130.5	6.9
Non-current assets		431.1	397.1	34.0
Total assets		568.5	527.6	40.9
Current liabilities		101.0	94.4	6.6
Non-current liabilities		107.9	235.8	(127.8)
Total liabilities		208.9	330.2	(121.3)
Net assets		359.6	197.4	162.2

NET ASSETS

Net assets increased by \$162.2 million. This increase was primarily driven by:

- reduction in borrowings of \$129.1 million as the Group refinanced its finance facility post completion of the IPO;
- a net increase in property, plant and equipment of \$29.3 million in line with the berry and tomato capital expenditure; and
- an increase of \$5.8 million in biological assets due to strong yields and pricing from the citrus category and berry footprint expansion.

NET DEBT

Table 10: Consolidated net debt as at 26 June 2016

Net debt			
A\$m			
As at 26 June 2016	Note	2016	2015
Bank loans		104.5	241.0
Capitalised loan establishment fees included in borrowings		(0.7)	(8.1)
Gross debt		103.8	232.9
Less: Cash and cash equivalents		(4.0)	(9.5)
Net debt		99.8	223.4

Net debt as at 26 June 2016 was \$99.8m and consisted of \$4.0 million in cash and \$103.8 million of borrowings. Net debt decreased by \$123.6 million during the year as the Group refinanced its finance facility upon completion of the IPO.

Under the new banking facilities in place at 26 June 2016, the Group was required to meet set covenant compliance ratios which included total leverage ratio (TLR) and interest coverage ratio (ICR). Both said covenants were comfortably met during the year.

CASH FLOW

Table 11: Pro forma cash flow before financing, tax and dividends

Consolidated cash flow A\$m	Pro forma FY2016			Pro forma FY2015	
	Prospectus			Actual	Change
	Actual	Forecast	Change		
EBITDA before SGARA	91.1	90.4	0.6	71.4	19.7
Less: Share of profit of JVs	(14.4)	(11.5)	(2.9)	(9.5)	(4.9)
Dividends from JVs	8.1	7.8	0.3	6.1	2.0
Non-cash items in EBITDAS	0.7	-	0.7	-	0.7
Change in working capital	(5.3)	(2.9)	(2.5)	(5.9)	0.5
Net cash flow from operating activities before interest and tax	80.1	83.8	(3.7)	62.1	18.0
Maintenance capital expenditure	(12.1)	(12.2)	0.1	(9.8)	(2.3)
Free cash flow	68.0	71.6	(3.6)	52.3	15.7
Productivity and growth capital expenditure	(36.6)	(27.1)	(9.5)	(73.6)	37.0
Payments for business acquisitions	(5.3)	-	(5.3)	-	(5.3)
Repayment of loans from investments	1.9	-	1.9	-	1.9
Proceeds from sale of investments	-	-	-	-	-
Disposal of property, plant and equipment	0.3	-	0.3	0.3	0.0
Net cash flow before financing, tax and dividends	28.3	44.5	(16.1)	(21.0)	49.3
Cash conversion ratio ¹	75%	79%		73%	

Notes:

1. Defined as free cash flow divided by EBITDA before SGARA.

Dividends from Joint venture

Dividends from JVs increased by \$2.0 million on FY2015 resulting from strong financial performance by all three joint ventures.

Working capital

Working capital increased by \$5.3 million in FY2016 primarily as a result of additional exports due to a strong start to the citrus export season.

Capital expenditure

Operating capital expenditure increased by \$2.3 million against FY2015 to \$12.1 million in line with Prospectus forecast. This was mainly due to the relocation of Costa Farms Melbourne to Epping and an upgrade to the packing line at the banana farm at Tully.

Growth capital expenditure includes tomato glasshouse (completed) and berries expansion. This expenditure was higher than prospectus forecast due to some expenditure planned for FY2015 being spent in FY2016, and initial expenditure on the second Berry expansion program.

Productivity and growth capital expenditure was higher than prospectus forecast due to some timing into Q1 FY2016 on the tomato glasshouse project.

STRATEGY AND GROWTH

Costa's current position, operating platform and world class practices provide it with multiple growth drivers in the Australian domestic market and in highly attractive international markets.

Costa's corporate strategy involves a number of initiatives aimed at sustaining long-term growth, which include:

- Continuing to build Costa's market position and expansion of farming footprints;
- Expanding globally licensing of Costa's blueberry varieties;
- Continuing to invest in and expand research and development (R&D) capabilities; and
- Developing new channels to market through product innovation, new customer development and expansion of export markets.

Costa maintains a prudent and disciplined approach to capital deployment and continues to invest in growth opportunities in the medium to long term that generate shareholder value.

MATERIAL BUSINESS RISKS

The material business risks faced by the company that are likely to have an effect on the financial prospects of the company are:

- **Production risks:** Changes in weather, climate or water availability can cause price and yield volatility for Costa. Prices can also be negatively impacted by excess supply. Costa partially mitigates against weather risk by investing in weather protective growing environments and equipment. Approximately 75% of Costa's produce related EBITDA before SGARA is derived from crops currently grown under cover indoors or under permanent tunnels. While protected cropping reduces the risk of disease, this risk is still apparent. If Costa's existing water rights are reduced by regulatory changes or if Costa is unable to secure sufficient water for the implementation of its growth projects, this could negatively impact on Costa's operational and financial performance.
- **Brand risk:** Quality issues, product recall, contamination, public health issues, disputes or adverse media coverage could damage Costa's brands or their image which could adversely impact Costa's financial performance.
- **Customer risk:** Costa's top three customers comprised approximately 70% of FY2016 produce sales. Most customer arrangements are uncontracted and supplied at market prices which are subject to fluctuation. Any contractual agreements have supply periods typically for 1 season or 1 to 2 years.
- **Regulatory changes:** Costa is a significant beneficiary of the import restrictions in place for fresh fruits and vegetables including mushrooms, bananas, tomatoes and berries. Any changes to these import restrictions could have an adverse impact on margins and volumes. However the perishable nature of certain produce also acts as a natural barrier against imports. As Costa operates in the food sector, it is also required to comply with a wide range of other laws and regulations which include food standards, labelling and packaging, fair trading and consumer protection, environment, quarantine rules, customs, etc. Any change to the rules could adversely impact Costa's operations in the form of higher costs and lower margins for the business.
- **Competition from new market entrants:** While Costa's operations currently benefit from scale and access to superior genetics, this competitive landscape may change over time. If one or more competitors or new market entrants obtained access to favourable genetic varieties which compete in the same categories as those of Costa, or if they achieve greater scale, this could have a material adverse impact on the financial performance and prospects of Costa.
- **Foreign exchange risk:** Costa is exposed to foreign exchange risk from a number of sources, namely from the export of produce to various countries including Japan and the United States, and through the earnings it generates from its international operations, including the African Blue and Costa Asia joint ventures. Unfavourable movements in the foreign exchange rates between the Australian dollar and other currencies such as the US dollar, Japanese yen and Moroccan dirham can have a material adverse impact on the overall financial performance of Costa.
- **Sovereign risk associated with foreign operations:** Costa has a significant interest in the African Blue joint venture in Morocco and is in the process of finalising a joint venture with Driscoll's Strawberry Associates Inc. in China. A change in the laws, regulations, policies, government or political and legal system in Morocco or China could materially and adversely impact Costa's net assets or profitability.

Non-IFRS measures

Throughout this report, Costa has included certain non-IFRS financial information, including EBITDA before SGARA and Transacted Sales. Costa believes that these non-IFRS measures provide useful information to recipients for measuring the underlying operating performance of Costa's business. Non-IFRS measures have not been subject to audit.

The table below provides details of the operating and financial Non-IFRS measures used in this report.

Table 12: Non-IFRS measures

Non-IFRS Financial measures	
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EBITDA before SGARA	EBITDA adjusted for fair value movements in biological assets. For horticultural companies, EBITDA is typically adjusted for fair value movements in biological assets due to the growing and harvesting cycles for fruit and vegetables, and the accounting treatment of live produce and picked produce. The fair value movement in self-generating or regenerating assets (SGARA) is non-cash; therefore, EBITDA before SGARA is used in preference to EBITDA for Costa.
Non-IFRS operating measures	
Transacted Sales	<p>Transacted Sales are used by management as a key measure to assess Costa's sales and marketing performance and market share. Transacted Sales represent the aggregate volume of sales in which Costa is involved in various capacities (including sales of third party-grown produce marketed by Costa under agency arrangements), as well as royalty income. Transacted Sales are not considered by Costa to be a revenue measure. There are material differences between the calculation of Transacted Sales and the way in which revenue is determined under AAS.</p> <p>Transacted Sales comprise:</p> <ul style="list-style-type: none"> • statutory revenue; • gross invoiced value of agency sales of third party produce; • Costa's proportionate share of joint venture sales relating to the African Blue and Polar Fresh joint ventures; • royalty income from the licensing of Costa blueberry varieties in Australia, the Americas and Africa; and • 100% of Driscoll's JV sales after eliminating Costa produce sales to the Driscoll's JV. <p>Prior to the formation of Driscoll's JV in 2010, all of Costa's domestic sales and marketing activities for the berry category were managed by Costa.</p>

8. DIVIDENDS

Costa Group Holdings Ltd declared and paid an interim dividend of \$0.03 per share during the year ended 26 June 2016.

The Board has approved a final dividend of 6.0 cents per share with a record date of 28 September 2016 and a payment date of 26 October 2016. This dividend will be fully franked. As this dividend was approved after year end, it has not been accrued as at 26 June 2016.

This brings the total dividend payment for FY2016 to 9.0 cents per share, in line with Prospectus forecast of approximately 60% of pro forma NPAT.

FY2017 dividends will be balanced against the company's need to fund growth objectives, but indicatively will be in the range of 50-70% of NPAT (pre-SGARA).

9. LIKELY DEVELOPMENTS

The Group will continue to explore opportunities that meet the Group's long term growth and development goals. The goal is to provide a superior sustainable increase in profits.

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

10. ENVIRONMENTAL REGULATION

The Group is committed to conducting business activities and having due respect for the environment while continuing to meet expectations of shareholders, employees, customers and suppliers.

The Group is subject to environmental regulations under various federal, state and local laws relating predominately to air, noise and water emission levels.

The Group is committed to achieving a level of environmental performance that meets or exceeds Federal, State and local requirements, and improves its use of natural resources and minimises waste.

11. DIRECTORS' INTERESTS

The relevant interest of each director in the shares and options issued by Costa Group Holdings Ltd, as notified by the directors to the ASX in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	Ordinary shares	Options over ordinary shares
Neil Chatfield	22,222	400,000
Frank Costa ¹	10,432,099	-
Harry Debney	1,032,078	1,891,944
Kevin Schwartz ²	29,242	-
Peter Margin	14,350	-
Tiffany Fuller	10,000	-

Notes:

1. Frank Costa's interests represent an indirect interest in approximately 31.67% of the ordinary shares held by Costa AFR Pty Ltd as trustee for the Costa AFR Unit Trust as a result of his shareholding in a series of other entities.
2. Kevin Schwartz's interests represent an indirect interest in approximately 0.1% of the ordinary shares held by P&P COS Holdings B.V. as a result of his shareholding in a series of other entities.

12. SHARE OPTIONS

Unissued ordinary shares under options

Unissued ordinary shares of Costa Group Holdings Ltd under option at the date of this report are as follows:

Number of unissued ordinary shares under option	Issue price of shares	Expiry date of the options
400,000	\$1.45	October 2019
50,000	\$1.45	October 2024
1,621,428 ¹	\$2.25	June 2020
1,891,944	\$2.81	August 2019

Notes:

1. These options represent options granted to management under the FY16 LTI plan, including 282,738 options issued to Linda Kow and 407,738 options issued to George Haggard, as KMP of the Company, and 61,905 options issued to David Thomas, the company secretary of the Company.

All unissued shares are ordinary shares in the Company, or will be converted into ordinary shares immediately after exercise of the relevant option.

No option holder has any right under the options to participate in any other share issue of the group.

Shares issued on exercise of options

During the financial year, the Company did not issue any ordinary shares as a result of the exercise of options. The Company issued 2,263,649 fully paid ordinary shares in consideration for the disposal of 6,366,531 options, as described in section 6.3.3.2 of the Company's prospectus dated 25 June 2015.

13. INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

Pursuant to its constitution, the Company may indemnify directors and officers, past and present, against liabilities that arise from their position as a director or officer allowed under law. The Company has entered into deeds of indemnity, insurance and access with its existing and past directors, its company secretary and the directors of the Company's subsidiaries. Under the deeds of indemnity, insurance and access, the Company indemnifies each director or officer against all liabilities to another person that may arise from their position as a director or officer of the Company or its subsidiaries, to the extent permitted by law. The deeds stipulate that the Company will meet the full amount of any such liabilities, including reasonable legal costs and expenses.

During the financial year, the Group paid premiums to insure all directors and officers against certain liabilities as contemplated under the Company's constitution. Disclosure of the total amount of the premiums paid under this insurance policy is not permitted under the provisions of the insurance contract.

Further disclosure required under section 300(9) of the *Corporations Act 2001* is prohibited under the terms of the contract.

14. INDEMNIFICATION AND INSURANCE OF AUDITORS

No indemnities have been given or insurance premiums paid, during or since the end of the year, for any person who is or has been an auditor of the group.

15. NON-AUDIT SERVICES

During the year KPMG, the Group's auditors, has performed certain other services in addition to the audit and review of the financial statements.

The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the Audit and Risk Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Group, KPMG, and its network firms for audit and non-audit services provided during the year are set out below.

	2016	2015	2014
Other services provided by KPMG			
Taxation compliance and other taxation advisory services (including R&D)	175,000	277,030	109,160
Other assurance services (including IPO services)	-	785,000	60,000
Other services (including IPO services)	21,000	575,230	14,500
	196,000	1,637,260	183,660

16. ROUNDING OFF

The financial report is presented in Australian dollars with all values rounded to the nearest thousand unless otherwise stated, in accordance with ASIC Corporations Instrument 2016/191.

17. LEAD AUDITOR'S INDEPENDENCE DECLARATION

The Lead auditor's independence declaration is set out on page 33 and forms part of the directors' report for the financial year ended 26 June 2016.

Costa Group Holdings Ltd

Directors' report

For the year ended 26 June 2016

Remuneration report (audited)

1 Introduction

The directors are pleased to present the FY2016 Remuneration Report, outlining the Board's approach to the remuneration for key management personnel (KMP).

KMP are individuals who have authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, and comprise the directors and the senior executives of the Group, as listed below.

Name	Position Held
Directors	
Neil Chatfield	Chairman Non-executive director
Frank Costa	Non-executive director
Kevin Schwartz	Non-executive director
Peter Margin	Non-executive director
Tiffany Fuller	Non-executive director (Appointed 1 st October 2015)
Harry Debney	Chief Executive Officer, Managing Director
Executives	
Linda Kow	Chief Financial Officer
George Haggard	Chief Operating Officer

The information in this report has been audited as required by section 308(3C) of the *Corporations Act 2001* (Cth).

2 Corporate Governance

2.1 Remuneration Committee

The Group has established a Remuneration Committee that is comprised of non-executive directors, the majority of whom are independent in accordance with the Remuneration Committee Charter.

The Remuneration Committee is responsible for assisting and advising the Board on:

- Remuneration policies and practices for executives, and employees of the Group;
- Incentive schemes and equity-based remuneration plans; and
- Shareholder and other stakeholder engagement in relation to the Group's remuneration policies and practices.

A full charter outlining the Remuneration Committee's responsibilities is available at: <http://investors.costagroup.com.au/investor-centre/?page=corporate-governance>.

2.2 Use of Remuneration Consultants

The Remuneration Committee can engage remuneration consultants to provide it with information on current market practice, and other matters to assist the Committee in the performance of its duties. The Board did not use any remuneration consultants for the purposes of remuneration for FY2016. The Remuneration Committee has engaged Ernst and Young to undertake a review of the Long Term Incentive Plan ('LTIP') for FY2017. The objectives in the review include benchmark material and market positioning of the LTIP to align participant performance with the long term growth and business strategy delivering shareholder value.

2.3 Associated Policies

The Group has established a number of policies to support a strong governance framework, including a Diversity Policy, Disclosure Policy and Securities Trading Policy. These policies and procedures have been implemented to uphold ethical behaviour and responsible decision making. Further information on the Group's policies is available at: <http://investors.costagroup.com.au/investor-centre/?page=corporate-governance>.

3 Executive Remuneration

3.1 Remuneration Framework

The remuneration framework adopted by the Board is designed to attract and retain key talent, reward the achievement of strategic objectives and align reward with the creation of shareholder wealth. The key principles supporting the Group's remuneration framework are:

Principle	Objective	Application
Competitive Remuneration	Reward employees fairly and competitively for their contributions to the Group's success.	<ul style="list-style-type: none">• Total remuneration is set having regard to the individual's capabilities and experience.• Remuneration is set with regard to an appropriate comparator group of companies within the consumer discretionary and consumer staples sectors of the S&P/ASX Small Ordinaries Index.• The Board obtains independent advice on the appropriateness of total remuneration package.
Performance Driven	Executives are rewarded for achieving strategic goals that create sustainable growth in shareholder wealth.	<ul style="list-style-type: none">• Significant 'at risk' reward ensures executive's interests remain aligned with creation of shareholder value. Equity is used as a key element of the variable remuneration to align executives and shareholders.• At risk rewards are driven by the Group's short and long-term performance incentives. Performance measures are designed to ensure a focus on long term sustainable growth.• Equity is used as a key element of the variable remuneration to align executives and shareholders.

3.1.1 Remuneration overview for FY2016

The FY2016 remuneration for the CEO, CFO and COO ("Executive KMP") includes a combination of fixed remuneration, short-term incentives and long-term incentives in the form of options over shares.

Costa Group Holdings Ltd

Directors' report

For the year ended 26 June 2016

Remuneration report (audited)

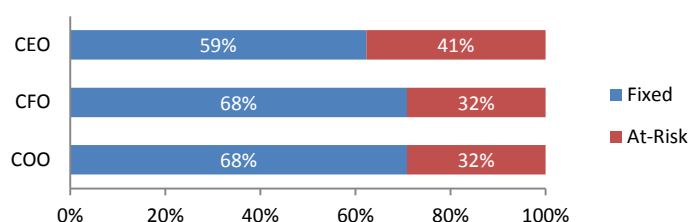
3.1.2 Remuneration mix for FY2016

Total remuneration for the Executive KMP includes both fixed and 'at risk' reward components. 'At risk' reward includes short and long term incentives, which are based on individual and group performance outcomes. In FY2016, the Executive KMP received fixed remuneration, together with the following 'at risk' components:

- short term incentives, as outlined in section 3.2.2; and
- long term incentives, as outlined in sections 3.3 and 3.4,

as outlined in *Section 7 – Directors' and Executive Officers' Remuneration*.

The mix of fixed versus variable 'at risk'¹ remuneration payable for FY2016 for the Executive KMP was as follows:



Notes:

1. Includes cash and deferred equity component of FY2016 STI plan (section 3.2.2) and share-based payments associated with the FY2016 LTI arrangements (sections 3.3 and 3.4).

3.2 Remuneration Components

3.2.1 Fixed remuneration

Total fixed remuneration ("TFR") is comprised of cash salary, superannuation contributions, and other non-monetary benefits such as car leasing arrangements and additional superannuation contributions. TFR is reviewed annually by the Remuneration Committee with regard to individual and Group performance. The Committee's review of TFR has consideration for the Executive KMP's total remuneration package.

3.2.2 Short Term Incentive ("STI") Plan

FY2016 STI Plan overview

The STI Plan enables Executive KMP and other members of senior management to receive an incentive payment calculated as a percentage of total fixed remuneration ("TFR") conditional on achieving EBIT hurdles as set out below. Solely for the purposes of this section 3.2.2 all references to "EBIT" mean management EBIT-S.

- If the Group achieves less than 90% of budget EBIT for the year, no STI will be paid.
- Target STI is paid to a participant on the Group achieving 100% of budget EBIT and the participant satisfying their other STI performance measures, with pro rata payments if EBIT is between 90% and 100% of budget EBIT.
- Stretch STI is payable if the Group achieves over 100% of budget EBIT, with the maximum STI being payable at 110% of budget EBIT (and the participant satisfying their other STI performance measures). The stretch STI component is measured solely on EBIT and is calculated on a straight line basis between 100% and 110% of budget EBIT.

The EBIT hurdle was selected on the basis that it has a direct correlation to the financial performance of the Group.

Costa Group Holdings Ltd

Directors' report

For the year ended 26 June 2016

Remuneration report (audited)

2016 Short Term Incentive Plan features

The table below outlines the key features of the FY2016 STI Plan, as it applied to the Executive KMP and other members of senior management:

Objective	To reward participants for achieving goals directly linked with the Group's business strategy								
Participants	All Executives and selected senior management								
Performance Period	Financial year ending 26 June 2016								
Opportunity	<ul style="list-style-type: none"> CEO – Target STI is 40% of TFR, with a maximum opportunity of 60% TFR for exceeding stretch targets. CFO, COO – Target STI is 30% of TFR, with a maximum opportunity of 50% TFR for exceeding stretch targets. 								
Performance Measures	<p>STI will be assessed against both financial and non-financial measures, and will be weighted as follows:</p> <table border="1"> <thead> <tr> <th>Measure</th><th>Weighting</th></tr> </thead> <tbody> <tr> <td>EBIT</td><td>50%</td></tr> <tr> <td>Cash Flow</td><td>30%</td></tr> <tr> <td>Individual Performance</td><td>20%</td></tr> </tbody> </table> <p>Individual Performance will be measured against KPIs appropriate for the Executive's role and will include key business measures such as market share, innovation, safety, quality and people.</p>	Measure	Weighting	EBIT	50%	Cash Flow	30%	Individual Performance	20%
Measure	Weighting								
EBIT	50%								
Cash Flow	30%								
Individual Performance	20%								
Payment Method	<ul style="list-style-type: none"> <u>Cash</u> - Two thirds will be paid in cash following the end of the performance year; and <u>Deferred</u> - One third will be deferred for 12 months and settled in equity, if the participant remains employed by the Group at that time (or has ceased employment in circumstances where they are regarded as a 'good leaver'). 								

The performance against the key targets identified under the STI Plan resulted in each KMP receiving an incentive as follows:

KMP	Target STI	% of target STI achieved in the year
CEO	\$380,000	123%
CFO	\$142,500	131%
COO	\$205,500	131%

Costa Group Holdings Ltd

Directors' report

For the year ended 26 June 2016

Remuneration report (audited)

3.3 LTIP – Legacy arrangements for CEO implemented prior to Listing

In July 2015, the CEO was granted 1,891,944 options as part of his LTIP. The Options included an exercise price that was set at a 25% premium to the Listing Price. The key terms of this grant are outlined below.

Term	Description
Consideration for grant	Nil
Instrument	Option to acquire ordinary shares in Costa Group Holdings Ltd
Number of options granted	1,891,944
Exercise price	\$2.81 This is a 25% premium to the share price on Listing
Performance and vesting period	July 2015 to August 2017 Options will vest following the announcement of the Group's FY2017 results. Fifty percent (50%) of the Options (or shares acquired by exercising the Options) will remain in escrow until the announcement of the Group's FY2018 results.
Vesting condition	Successful Listing of the Group's shares on the ASX within a specified time period and the CEO's continued employment at the date of vesting.
Entitlements	Options will not carry rights to dividends or voting rights prior to vesting.
Service conditions	The options will be subject to tenure conditions and will be forfeited where the CEO resigns or is dismissed prior to the vesting date, except that the options will not be forfeited where the CEO is deemed a 'good leaver', unless otherwise determined by the Board.

The CEO did not participate in the FY2016 LTIP disclosed in section 3.4. The CEO will participate in future LTIPs beyond FY2016.

3.4 LTIP for FY2016

The Board introduced an LTIP in FY2016 for the Executive KMP (other than the CEO) and other senior executives.

Term	Description
Eligibility	CFO, COO and selected members of the senior management team The CEO will not be entitled to participate in the LTIP due to the options that were issued to the CEO in FY2016 prior to the Company's Listing (as described in section 3.3 above).
Consideration for grant	Nil
Instrument	Options to acquire ordinary shares in Costa Group Holdings Limited
Number of options granted	The number of options was determined based on a set percentage of the participant's TFR ("LTI Incentive Amount"). The options were valued by an independent external valuer, using a Monte Carlo simulation model. The number of options issued to each participant was determined by dividing that participant's LTI Incentive Amount by the value per Option as determined by the independent valuer.
Exercise price	\$2.25 per share This was the market value of Costa Group Holdings shares at date of Listing
Performance Period	The FY2016 LTI performance period will be from the date of Listing to June 2017. Fifty percent (50%) of options (or shares acquired by exercising options) will be subject to an additional sale restriction until August 2018 (following release of the FY2018 results). For all future grants, it is intended that the performance period will be 3 years.

Costa Group Holdings Ltd

Directors' report

For the year ended 26 June 2016

Remuneration report (audited)

Performance Measure	50% - Earnings Per Share ("EPS") (basic) compound annual growth rate ("CAGR") over the performance period. 50% - Relative total shareholder return ("TSR")																				
Performance Assessment	<p>The LTI will be tested at the end of the vesting period, and will vest in line with the below schedule:</p> <p>50% EPS</p> <table><tr><th></th><th>% of options that vest</th></tr><tr><td>Less than 15% CAGR</td><td>Nil</td></tr><tr><td>15% CAGR</td><td>50%</td></tr><tr><td>Between 15% and 18% CAGR</td><td>50% - 100% on a straight line sliding scale</td></tr><tr><td>Above 18% CAGR</td><td>100%</td></tr></table> <p>50% Relative TSR</p> <table><tr><th></th><th>% of options that vest</th></tr><tr><td>Less than 50th percentile</td><td>Nil</td></tr><tr><td>50th percentile</td><td>50%</td></tr><tr><td>Between 50th percentile and 75th percentile</td><td>50% - 100% on a straight line sliding scale</td></tr><tr><td>75th percentile and above</td><td>100%</td></tr></table> <p>The comparator group for relative TSR is comprised of companies in the consumer discretionary and consumer staples sectors of the S&P/ASX Small Ordinaries Index. Each company's (and Costa's) share price will be measured using the average closing price over 60 days up to (but excluding) the first day of the performance period, and the average closing price over 60 days up to and including the last day of the performance period.</p>		% of options that vest	Less than 15% CAGR	Nil	15% CAGR	50%	Between 15% and 18% CAGR	50% - 100% on a straight line sliding scale	Above 18% CAGR	100%		% of options that vest	Less than 50 th percentile	Nil	50 th percentile	50%	Between 50 th percentile and 75 th percentile	50% - 100% on a straight line sliding scale	75 th percentile and above	100%
	% of options that vest																				
Less than 15% CAGR	Nil																				
15% CAGR	50%																				
Between 15% and 18% CAGR	50% - 100% on a straight line sliding scale																				
Above 18% CAGR	100%																				
	% of options that vest																				
Less than 50 th percentile	Nil																				
50 th percentile	50%																				
Between 50 th percentile and 75 th percentile	50% - 100% on a straight line sliding scale																				
75 th percentile and above	100%																				
Entitlements	Options will not carry rights to dividends or voting rights prior to vesting.																				
Restrictions on Dealing	<p>Participants must not sell, transfer, encumber, hedge or otherwise deal with their options granted under the LTIP.</p> <p>Participants will be free to deal with the Shares allocated on exercise of the options, following payment of the exercise price, subject to the requirements of the Company's securities trading policy and the escrow on the FY2016 options until August 2018 (as outlined above).</p>																				
Service conditions	Any unvested options granted under the LTIP will be forfeited where the participant is dismissed during the performance period, or resigns in circumstances where they are not considered to be a 'good leaver'. Where the participant is considered a 'good leaver' (which includes death, disability or redundancy), the unvested options and/or performance rights will remain on foot subject to Board discretion.																				

Costa Group Holdings Ltd

Directors' report

For the year ended 26 June 2016

Remuneration report (audited)

4 Executive Remuneration Disclosure

4.1 Executives' Contract Terms

A summary of the key terms of employment for executives as at 30 June 2016 is presented in the below table:

Executive	Role	Notice by the Group	Notice on Resignation
Harry Debney	Chief Executive Officer	6 Months	6 Months
Linda Kow	Chief Financial Officer	3 Months	3 Months
George Haggard	Chief Operating Officer	3 Months	3 Months

5 Non-executive Directors

The details of fees paid to non-executive directors in FY2016 are included in Section 7 of this report. Non-executive directors' fees were fixed and they did not receive any performance based remuneration.

The table below outlines the fee structure for non-executive directors in FY2016. The annual aggregate fee pool for non-executive directors is \$1,200,000. Board and committee fees, which are inclusive of statutory superannuation contributions, are included in this aggregate fee pool.

Table 5.1

Board/Committee	Chairman Fee (\$)	Member Fee (\$)
Board base fee	230,000 (inclusive of Committee fees)	100,000
Audit and Risk Committee	20,000	10,000
Remuneration Committee	15,000	7,500
Nomination Committee	-	-

6 Relationship between remuneration policy and Group performance

Key performance indicator	FY2016	FY2016	FY2015	FY2015	FY 2014	FY2014
'000	Actual	Pro forma ¹	Restated ²	Restated ²	Actual	Pro forma ¹
Revenue	809,027	809,027	727,029	723,500	699,075	662,300
EBITDA before SGARA	67,248	91,059	60,226	71,000	64,536	70,200
EBIT	50,477	71,915	25,551	54,900	31,142	59,700
Dividend paid for the year (cents per ordinary share)	3.00	3.00	Nil	Nil	Nil	Nil

Notes in relation to KMP transactions:

1. The pro forma information presented above is unaudited.

2. FY2015 has been restated as a result of the early adoption of the amendments made to Accounting Standards AASB 116 Property, plant and equipment and AASB 141 Agriculture in relation to bearer plants.

Costa Group Holdings Ltd

Directors' report

For the year ended 26 June 2016

Remuneration report (audited)

7 Directors' and Executive Officers' Remuneration

Details of the nature and amount of each major element of remuneration of each director of the Company, and other KMP of the consolidated entity are:

		Short-term			Post-employment	Long-term benefits	Termination	Share-based payments	Total
		Salary & fees	STI (cash)	Non-monetary benefits	Superannuation benefits	Long service leave	Termination benefits		
		\$	\$	\$	\$	\$	\$	\$	\$
Non-executive Directors^{4,5}									
Neil Chatfield ³	2016	210,321	-	-	210,231	19,679	-	-	230,000
	2015	104,423	-	-	104,423	-	-	68,800	173,223
Frank Costa ¹	2016	98,173	-	167	98,340	9,327	-	-	107,667
	2015	-	-	201,063	201,063	-	-	-	201,063
Kevin Schwartz ²	2016	100,000	-	-	100,000	-	-	-	100,000
	2015	-	-	-	-	-	-	-	-
Peter Margin	2016	108,947	-	-	108,947	11,053	-	-	120,000
	2015	7,403	-	-	7,403	-	-	-	7,403
Tiffany Fuller	2016	82,192	-	-	82,192	7,808	-	-	90,000
	2015	-	-	-	-	-	-	-	-
Managing Director and Executive Officers									
Harry Debney	2016	931,217	312,770	-	1,243,987	19,308	15,547	-	1,551,117
	2015	931,217	399,691	7,592	1,338,500	18,783	24,939	-	1,739,416
Linda Kow	2016	455,692	124,718	-	580,410	19,308	11,295	-	686,084
	2015	406,217	143,047	-	549,264	18,783	8,154	-	710,960
George Haggard	2016	665,692	179,857	-	845,549	19,308	15,990	-	989,107
	2015	616,217	212,047	-	828,264	18,783	13,044	-	1,033,151

Notes in relation to the table of directors' and Executive officers' remuneration:

1. In FY2015, the aggregate directors' fees paid to Frank Costa and Robert Costa was \$500,000. By agreement between those directors, this amount was paid to State Logistics Pty Ltd (2016: nil) and then distributed between the two directors. The Group is unable to confirm the individual amounts paid to Frank Costa.
2. In FY2015, the aggregate directors' fees paid to Kevin Schwartz, Bruno Ferrari Garcia de Alba, Greg Hunt and Angelos Dassios were \$400,000 (2016: nil). By agreement between those directors, this amount was paid to Paine & Partners LLC, and then distributed between the three directors. The Group is unable to confirm the individual amounts paid to these directors.
3. In FY2015, \$100,000 of the directors' fees paid to Neil Chatfield were paid through State Logistics Pty Ltd. In FY2016, the amounts were paid directly to Neil Chatfield.
4. Bruno Ferrari Garcia De Alba, Robert Costa, Greg Hunt and Angelos Dassios were non-executive directors in the prior year but resigned as non-executive directors effective 24 June 2015.
5. Reasonable travel, accommodation and other costs incurred by Directors in the course of their duties are reimbursed to Directors, in addition to the remuneration noted above.

8 Equity Instruments

8.1 Movements in shares

The movement during the reporting period in the number of ordinary shares in Costa Group Holdings Ltd held, directly, indirectly or beneficially, by each key management person, together with shares held by their close family members, is set out below:

	Held at 28 June 2015	Other shares converted to ordinary shares	Shares acquired	Shares sold	Other changes ⁵	Held at 26 June 2016
Neil Chatfield (directly & indirectly held)	-	-	22,222	-	-	22,222
Neil Chatfield (close family members)	-	-	29,222	15,222	-	14,000
Peter Margin (indirectly held)	-	-	14,350	-	-	14,350
Tiffany Fuller (directly held)	-	-	10,000	-	-	10,000
Frank Costa ^{1,2}	-	10,432,099	-	-	-	10,432,099
Kevin Schwartz ^{3,4}	-	38,990	-	9,748	-	29,242
Harry Debney (directly & indirectly held)	-	-	23,041	-	1,009,037	1,032,078
Linda Kow (directly held)	-	-	-	-	213,404	213,404
George Haggard (directly held)	-	-	-	-	327,336	327,336

Notes in relation to Table 8.1 (Movement in shares)

1. At 28 June 2015 (prior to the Company's Listing on the ASX), Frank Costa held an indirect interest in Class B shares and redeemable preference shares in the Company.
2. Frank Costa's interests represent an indirect interest in approximately 31.67% of the ordinary shares held by Costa AFR Pty Ltd as trustee for the Costa AFR Unit Trust as a result of his shareholding in a series of other entities.
3. At 28 June 2015 (prior to the Company's Listing on the ASX), Kevin Schwartz held an indirect interest in Class A shares and redeemable preference shares in the Company.
4. Kevin Schwartz's interests represent an indirect interest in approximately 0.1% of the ordinary shares held by P&P COS Holdings B.V. as a result of his shareholding in a series of other entities.
5. Other changes represent shares that were issued in consideration for disposal of legacy LTI options, as described in section 6.3.3.2 of the Company's prospectus dated 25 June 2015.

Costa Group Holdings Ltd
Directors' report
For the year ended 26 June 2016
Remuneration report (audited)

8.2 Options over equity instruments granted as compensation

The movement during the reporting period, in the number of options over ordinary shares granted as compensation to KMP, is as follows:

	Number of options granted during 2016	Grant date	Fair Value per option \$	Exercise price per option \$	Expiry date	Number of options vested during 2016
Harry Debney	1,891,944	15 July 2015	0.230	2.81	31 August 2019	-
Linda Kow	282,738	26 October 2015	0.390	2.25	30 June 2020	-
George Hagggar	407,738	26 October 2015	0.390	2.25	30 June 2020	-

8.3 Details of equity incentives affecting current and future remuneration

The table below outlines each KMP's unvested options at the end of the reporting period. Details of vesting profiles of the options held by each KMP are detailed below:

	Instrument	Number	Grant date	% vested in year	% forfeited in year	Financial year in which grant vests
Harry Debney	Options	1,891,944	15 July 2015	-	-	2018
Linda Kow	Options	282,738	26 October 2015	-	-	2018
George Hagggar	Options	407,738	26 October 2015	-	-	2018

8.4 LTI grants and movement during the year

The movement during the reporting period, of options over ordinary shares held, directly, indirectly or beneficially, by each KMP, including their related parties, is as follows:

	Held at 26 June 2015	Granted as compensation	Exercised	Other changes*	Held at 26 June 2016	Vested during the year	Vested and exercised or disposed of at 26 June 2016	Vested and Exercisable 26 June 2016
Neil Chatfield	400,000	-	-	-	400,000	400,000	-	400,000
Harry Debney	9,459,722	1,891,944	-	(9,459,722)	1,891,944	9,459,722	9,459,722	-
Linda Kow	2,000,677	282,738	-	(2,000,677)	282,738	2,000,677	2,000,677	-
George Hagggar	3,068,778	407,738	-	(3,068,778)	407,738	3,068,778	3,068,778	-

*Other changes represent options that were disposed of in July 2015 in consideration for a cash payment (30%) and shares (70%), as described in section 6.3.3.2 of the Company's prospectus dated 25 June 2015.

Costa Group Holdings Ltd

Directors' report

For the year ended 26 June 2016

Remuneration report (audited)

8.5 Key Management personnel transactions

Mr Frank Costa (Director)

- Payment of rent by Costa's Pty Ltd to Frank Costa for the lease of 1111 Aviation Road, Werribee of AUD \$1 (2015: AUD \$1).
- Costa Asset Management Pty Ltd as trustee for Costa Asset Management Unit Trust provided advisory services to the Group in relation to the Company's ASX Listing, for which an advisory fee was paid totalling \$5,374,474 GST inclusive (2015: Nil). Although Costa Asset Management Unit Trust is not a related party of Frank Costa, it is understood that Costa Asset Management Unit Trust subsequently paid part of that advisory fee to entities associated with Frank Costa. The Group is unable to determine how much was paid to Frank Costa.

Mr Kevin Schwartz (Director)

- An employee of Paine and Partners, LLC, an entity associated with P&P COS Holdings B.V. P&P COS Holdings B.V. is a 9.16% shareholder in Costa Group Holdings Ltd. Paine and Partners, LLC provided advisory services to the Group in relation to the Company's ASX Listing, for which advisory fees of AUD \$6,433,312 (2015: AUD \$Nil) were paid.

This Directors' Report is made in accordance with a resolution of the directors.



Neil Chatfield
Chairman
Melbourne
24 August 2016



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the Directors of Costa Group Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 26 June 2016 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Paul J McDonald

Partner

Melbourne

24 August 2016

Costa Group Holdings Ltd
Consolidated Statement of Profit and Loss and Other Comprehensive Income
For the year ended 26 June 2016

		2016	2015
	Notes	\$ '000	*Restated \$ '000
Revenue			
Sales revenue	A2	809,027	727,029
Other revenue	A2	12,834	9,202
		<u>821,861</u>	<u>736,231</u>
Less: expenses			
Raw materials, consumables and third party purchases		(311,761)	(283,728)
Depreciation and amortisation expenses		(22,507)	(19,554)
Employee benefits expenses	A2	(276,376)	(243,755)
Occupancy expenses		(52,716)	(49,852)
Finance costs	A2	(14,283)	(20,895)
Profit on sale of assets		1,387	470
Impairment losses	A2	-	(18,941)
Leasing expenses		(9,117)	(8,095)
Freight and cartage		(49,346)	(44,731)
Gain on fair value adjustments - biological assets		4,349	3,350
Gain / (loss) on fair value of derivatives		(870)	58
Other expenses	A2	(69,382)	(55,120)
		<u>(800,622)</u>	<u>(740,793)</u>
Share of net profits of associates and joint ventures accounted for using the equity method	D1	14,442	9,515
Profit before income tax		<u>35,681</u>	<u>4,953</u>
Income tax expense	E2	(10,423)	(640)
Profit for the year		<u>25,258</u>	<u>4,313</u>
Total comprehensive income for the year		<u>25,258</u>	<u>4,313</u>
Profit attributable to owners of Costa Group Holdings Ltd		25,258	4,313
Total comprehensive income attributable to owners of Costa Group Holdings Ltd		<u>25,258</u>	<u>4,313</u>
		2016	2015
		Cents	Cents
Earnings per share for profit attributable to ordinary equity holders:			
Basic earnings per share	A3	8.04	0.11
Diluted earnings per share	A3	7.96	0.11

The above Consolidated Statement of Profit and Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

*Refer to note E3 for details regarding the restatements as a result of the early adoption of the amendments made to Accounting Standards AASB 116 Property, plant and equipment and AASB 141 Agriculture in relation to bearer plants.

Costa Group Holdings Ltd
Consolidated Statement of Financial Position
As at 26 June 2016

		2016	2015
	Notes	\$ '000	*Restated \$ '000
ASSETS			
Current assets			
Cash and cash equivalents	B1	4,002	9,504
Receivables	B2	72,807	62,551
Inventories	B3	17,904	16,124
Biological assets	B6	37,408	31,571
Other assets	B5	5,333	6,517
Assets classified as held for sale	E5	-	4,242
Total current assets		137,454	130,509
Non-current assets			
Receivables	B2	-	125
Other financial assets	E6	327	2,036
Equity accounted investments	D1(b)	33,665	27,587
Intangible assets	B8	142,782	141,865
Deferred tax assets	E2	4,957	5,504
Property, plant and equipment	B7	249,324	219,987
Total non-current assets		431,055	397,104
Total assets		568,509	527,613
LIABILITIES			
Current liabilities			
Payables	B4	81,638	74,495
Borrowings	C1	-	4,885
Provisions	B9	13,217	13,483
Derivative financial liabilities	C8	242	-
Current tax liabilities	E2	5,879	1,563
Total current liabilities		100,976	94,426
Non-current liabilities			
Borrowings	C1	103,766	228,004
Redeemable preference shares	C2	-	1,119
Provisions	B9	4,172	3,290
Derivative financial liabilities	C8	-	3,337
Total non-current liabilities		107,938	235,750
Total liabilities		208,914	330,176
NET ASSETS		359,595	197,437
EQUITY			
Share capital	C3	395,688	238,564
Profit reserve	C4	20,005	4,313
Share based payment reserve	E1	523	1,759
Accumulated losses		(56,621)	(47,199)
TOTAL EQUITY		359,595	197,437

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

*Refer to note E3 for details regarding the restatements as a result of the early adoption of the amendments made to Accounting Standards AASB 116 Property, plant and equipment and AASB 141 Agriculture in relation to bearer plants.

Costa Group Holdings Ltd
Consolidated Statement of Changes in Equity
As at 26 June 2016

	Share capital	Share based payment reserve	Accumulated losses	Profit reserve	Total equity
Consolidated	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
Balance as at 30 June 2014	238,564	449	(47,199)	-	191,814
Profit for the year	-	-	4,313	-	4,313
Transfer to profit reserve	-	-	(4,313)	4,313	-
Total comprehensive income for the year *	-	-	-	4,313	4,313
Transactions with owners in their capacity as owners:					
Options granted / vested during the year	-	1,310	-	-	1,310
Balance restated as at 28 June 2015 *	238,564	1,759	(47,199)	4,313	197,437
Balance as at 29 June 2015	238,564	1,759	(47,199)	4,313	197,437
Profit for year	-	-	25,258	-	25,258
Transfer to profit reserve			(25,258)	25,258	-
Total comprehensive income for the year	-	-	-	25,258	25,258
Transactions with owners in their capacity as owners:					
Options granted / vested during the year	-	446	-	-	446
Conversion of Redeemable Preference Shares	1,126	-	-	-	1,126
Issue of ordinary shares net of transaction costs	166,200	-	-	-	166,200
Dividend paid on Redeemable Preference Shares	-	-	(9,422)	-	(9,422)
Dividend paid on Ordinary Shares	-	-	-	(9,566)	(9,566)
Disposal of share options	(11,884)	-	-	-	(11,884)
Settlement of share based payment	1,682	(1,682)	-	-	-
Balance as at 26 June 2016	395,688	523	(56,621)	20,005	359,595

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

*Refer to note E3 for details regarding the restatements as a result of the early adoption of the amendments made to Accounting Standards AASB 116 Property, plant and equipment and AASB 141 Agriculture in relation to bearer plants.

Costa Group Holdings Ltd
Consolidated Statement of Cash Flows
For the year ended 26 June 2016

	Notes	2016 \$ '000	2015 \$ '000
Cash flow from operating activities			
Receipts from customers		815,709	746,337
Payments to suppliers and employees		(743,863)	(698,330)
Interest received		115	209
Interest paid		(6,774)	(18,218)
Dividends received		113	42
Income taxes paid		(2,523)	(2,064)
Net cash provided by operating activities	B1(a)	62,777	27,976
Cash flow from investing activities			
Payments for property, plant and equipment		(48,433)	(80,762)
Proceeds from sale of investments		150	4,034
Dividends from equity accounted investments		8,109	6,099
Acquisition of investments		-	(4)
Payment for intangible assets		(249)	(2,217)
Acquisition of business (net of cash acquired)		(5,272)	-
Proceeds from sale of intangible assets		3,772	4,855
Proceeds from sale of property, plant and equipment		2,725	298
Net cash used in investing activities		(39,198)	(67,697)
Cash flow from financing activities			
Settlement of derivatives		(3,957)	-
Proceeds from share issue, net of transaction costs		518,730	-
Acquisition of shares		(377,370)	-
Dividend payments on ordinary shares		(9,566)	-
Dividend payments on redeemable preference shares		(9,422)	-
Redemption of options		(11,884)	-
Proceeds from loans from related party associates		1,884	-
Repayment of borrowings		(676,502)	-
Proceeds from borrowings		539,006	22,994
Net cash provided by / used in financing activities		(29,081)	22,994
Reconciliation of cash			
Cash at beginning of the financial year		9,504	26,231
Net decrease in cash held		(5,502)	(16,727)
Cash at end of financial year	B1	4,002	9,504

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Index to Notes

OVERVIEW

Reporting entity
Basis of preparation
Critical accounting estimates and judgements
Amended standards adopted by the Group

NOTE INDEX

A. Group Performance

A1. Segment performance
A2. Revenue and expenses
A3. Earnings per share
A4. Subsequent events

B. Operating assets and liabilities

B1. Cash and cash equivalents
B2. Receivables
B3. Inventories
B4. Payables
B5. Other assets
B6. Biological assets
B7. Property, plant and equipment
B8. Intangible assets
B9. Provisions
B10. Contingent liabilities

C. Capital structure and financing

C1. Borrowings
C2. Redeemable preference shares
C3. Share capital
C4. Reserves
C5. Dividends
C6. Capital and risk management
C7. Capital and leasing commitments
C8. Derivative financial instruments

D. Group Structure

D1. Joint ventures and associates
D2. List of subsidiaries
D3. Related party disclosures
D4. Parent entity disclosures
D5. Deed of cross guarantee

E. Other

E1. Share-based payments
E2. Taxation
E3. New accounting standards
E4. Auditor's remuneration
E5. Assets classified as held for sale
E6. Other financial assets
E7. Other accounting policies

OVERVIEW

Reporting entity

The financial report is for Costa Group Holdings Ltd and its controlled entities (the "Group"). Costa Group Holdings Ltd (the "Company") is a company limited by shares, incorporated and domiciled in Australia. Costa Group Holdings Ltd is a for profit entity for the purpose of preparing the financial statements.

The Group's registered office is Unit 1, 275 Robinsons Road, Ravenhall, VIC, Australia, 3023.

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial report complies with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The financial report was authorised for issue by the directors as at 24 August 2016.

Basis of preparation of the financial report

The notes to the financial report include additional information required to understand the Group's financial statements that is material and relevant to its operations, financial position and performance. Information is considered material and relevant if, the amount in question is significant because of its size or nature or it helps to explain the impact of significant changes in the business, for example, acquisitions and asset write-downs.

The notes are organised into the following sections:

Group Performance: focuses on the Group's financial results and performance. It provides disclosures relating to income, expenses, segment information, material items and earnings per share.

Operating assets and liabilities: provides information regarding the physical assets and non-physical assets used by the Group to generate revenues and profits. This section also explains the accounting policies applied and specific judgements and estimates made by management in arriving at the value of these assets and liabilities.

Capital structure and financing: provides information about capital management practices. Particularly, how much capital is raised from shareholders (equity) and how much is borrowed from financial institutions (debt) in order to finance our activities both now and in the future.

Group structure: explains aspects of the Group's structure.

Other: provides information on other items relevant to the Financial Report.

Historical Cost Convention

The financial report has been prepared under the historical cost convention, except for revaluations to fair value for certain classes of assets and liabilities as described in the accounting policies.

Rounding

The financial report is presented in Australian dollars with all values rounded to the nearest thousand unless otherwise stated, in accordance with ASIC Corporations Instrument 2016/191.

Going concern

The financial report has been prepared on a going concern basis.

Goods and services tax (GST)

Revenues, expenses, liabilities and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis.

Costa Group Holdings Ltd

Notes to the Consolidated Financial Statements

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the financial report from the date that control commences until the date that control ceases.

Investments in associates and joint ventures (equity accounted investments)

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Joint ventures are those entities over whose activities the Group has joint control established by contractual agreement and requiring unanimous consent for strategic, financial and operating activities.

Investments in associates and joint ventures are accounted for under the equity method and are initially recognised at cost. The cost of the investment includes transaction costs. The financial report includes the Group's share of the profit or loss and other comprehensive income of equity accounted investments after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealised income and expenses arising from intercompany transactions, are eliminated in preparing the financial report. Unrealised gains arising from transactions with equity accounted investments are eliminated against the investment to the extent of the Group's interest in the investments. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currency translations and balances

Functional and presentation currency

The financial statements of each entity within the Group are measured using the currency of the primary economic environment in which that entity operates (the functional currency). The financial report is presented in Australian dollars which is the Group's functional and presentation currency.

Transactions and balances

Transactions in foreign currencies of entities within the consolidated Group are translated into functional currency at the applicable exchange rate at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the reporting period.

All resulting exchange differences arising on settlement or restatement are recognised as revenues and expenses for the reporting period.

Entities that have a functional currency different from the presentation currency are translated as follows:

- Assets and liabilities are translated at reporting period end exchange rates prevailing at that reporting date;
- Income and expenses are translated at actual exchange rates or average exchange rates for the reporting period, where appropriate; and
- All resulting exchange differences are recognised as a separate component of equity.

Costa Group Holdings Ltd

Notes to the Consolidated Financial Statements

Critical accounting estimates and judgements

The preparation of the financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year can be found in the following notes:

Accounting estimates and judgements	Note	Page
Revenue recognition (agency commission)	A2 - Revenue and expenses	44
Valuation of biological assets	B6 - Biological assets	52
Recoverability of goodwill	B8 – Intangible assets	58
Recoverability of non-financial assets other than goodwill	C6 - Capital and risk management	70
Fair value measurement	C6 - Capital and risk management	70
Income tax	E2 - Taxation	83

New accounting standards adopted by the Group

The Group has elected to early adopt the amendments made to AASB 116 Property, Plant and Equipment and AASB 141 Agriculture in relation to bearer plants. The resulting changes to the accounting policies and retrospective adjustments made to the financial statements are explained in Note E3.

A. GROUP PERFORMANCE

A1. Segment performance

Segment information is reported in a manner consistent with internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, is the Chief Executive Officer (CEO).

(a) Basis for segmentation

The reportable segments are based on the aggregation of operating segments determined by the similarity of the nature of products, the production process, types of customers and the method used to distribute the products.

The Group has three reportable segments, as described below, based on the internal reports that are reviewed and used by the CEO in assessing performance and in determining the allocation of resources. The following summary describes the operations in each of the Group's reportable segments:

Produce

The Produce segment operates in four core categories: berries, mushrooms, glasshouse grown tomatoes and citrus. These operations are vertically integrated in terms of farming, packing and marketing, with the primary domestic sales channel being the major Australian food retailers.

Costa Farms & Logistics ("CF&L")

The CF&L segment incorporates interrelated logistics, wholesale avocado marketing and banana farming and marketing operations within Australia. These categories share common infrastructure, such as warehousing and ripening facilities, and are predominantly trading and services focused.

International

The International segment comprises royalty income from licensing of Costa's blueberry varieties in Australia, the Americas and Africa, and international berry farming operations in Morocco and China.

(b) Information about reportable segments

Performance is measured based on segment EBITDA before SGARA, as included in the internal management reports that are reviewed by the CEO. Group financing costs and income taxes are managed at the group level and are not allocated to operating segments. The information presented to the CEO does not report on segment assets and liabilities and as such is not presented in this report. It is the Group's policy that business support costs that are not directly attributable to a specific segment are allocated to the Produce segment, which is the Group's largest reportable segment, on the basis that it utilises the majority of these resources. Inter-segment revenue is eliminated on consolidation, however, is shown within the segment revenue to reflect segment level performance. Inter-segment transactions are on commercial terms. Information regarding the results of each reportable segment is included below.

2016				Adjustments and eliminations	Total
	Produce	CF&L	International		
Revenue					
External customers	593,215	215,812	-	-	809,027
Inter-segment	37,842	1,975	-	(39,817)	-
Total revenue	631,057	217,787	-	(39,817)	809,027
 EBITDA before SGARA	 69,103	 10,547	 9,401	 -	 89,051

Costa Group Holdings Ltd
Notes to the Consolidated Financial Statements

2015 *Restated	Produce *Restated	CF&L *Restated	International	Adjustments and eliminations	Total
Revenue					
External customers	498,155	228,874	-	-	727,029
Inter-segment	37,129	2,651	-	(39,780)	-
Total revenue	535,284	231,525	-	(39,780)	727,029
EBITDA before SGARA	51,268	9,345	5,060	-	65,673

The Group principally supplies fresh produce to the major supermarkets in Australia, including Coles, Woolworths and ALDI, which collectively comprise approximately 70% of the Group's Australian based produce sales in the 2016 financial year (2015: 70%).

(c) Reconciliation of segment EBITDA before SGARA to profit before tax

		2016 \$ '000	2015 *Restated \$ '000
EBITDA before SGARA for reportable segments		89,051	65,673
IPO and other transaction costs	(i)	(21,803)	(5,447)
FV movements in biological assets		4,349	3,350
Depreciation and amortisation		(22,507)	(19,554)
Impairment losses		-	(18,941)
Profit on sale of assets		1,387	470
Interest income		115	239
Finance costs		(14,283)	(20,895)
Gain / (loss) on fair value of derivatives	(ii)	(628)	58
Income tax expense		(10,423)	(640)
Profit after tax		25,258	4,313

(i) IPO and other transaction costs have not been allocated to reportable segments.

(ii) Fair value movements on derivatives relating to the pre-IPO finance facility.

*Refer to note E3 for details regarding the restatements as a result of the early adoption of the amendments made to Accounting Standards AASB 116 Property, plant and equipment and AASB 141 Agriculture in relation to bearer plants.

A2. Revenue and expenses

REVENUE

	2016 \$ '000	2015 \$ '000
<i>Sales revenue</i>		
Sale of goods and commissions received	781,477	701,677
Rebates and discounts provided	(13,308)	(12,379)
Rendering of services	40,858	37,731
Total sales revenue	809,027	727,029
Total other revenue	12,834	9,202
Total revenue	821,861	736,231

Costa Group Holdings Ltd

Notes to the Consolidated Financial Statements

Recognition and measurement

Sale of goods

Revenue from sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenue is usually recognised when goods are despatched or at the time of delivery of the goods to the customer when the title is transferred.

Rendering of services

Revenue from the rendering of services is recognised upon the delivery of the service to the customers.

Dividends

Dividend income is recognised when the right to receive a dividend has been established. Dividends received from associates and joint ventures are accounted for in accordance with the equity method of accounting.

Interest income

Interest income is recognised when it becomes receivable on a proportional basis taking into account the interest rates applicable to the financial assets.

Rental income

Rental income is recognised on a straight line basis over the rental term.

Royalty income

Royalty income is recognised on an accrual basis in accordance with the substance of the relevant agreements. Royalty income is recognised in relation to rights provided to entities external to the Group to sell plants and produce that arise from the Group's operations.

Commission income

Commission income is recognised by the Group for sale of goods undertaken by the Group in its capacity as an agent of the transaction. In respect of commissions, management considers that the following factor indicates that the Group acts as an agent:

- the Group neither takes title to nor is exposed to inventory risk related to the goods, and has no significant responsibility in respect of the goods sold;

All revenue is stated net of the amount of goods and services tax (GST).

Critical accounting estimate and judgement

Revenue recognition (agency commission)

Certain sales undertaken by the Group are performed in their capacity as an agent, and not merchant relationship. The Group identifies these agency relationships when the Group pays the grower any proceeds that are received for the sale of the produce, after deduction of the commission and expenses applicable to the produce sold (and, if elected by the Group, after deducting any amounts owing by the grower under any other agreement.) The Group acknowledges that the deduction of commission or expenses constitutes payment of these amounts by the grower.

Costa Group Holdings Ltd

Notes to the Consolidated Financial Statements

EXPENSES

	2016 \$ '000	2015 \$ '000
Finance costs		
Bank charges	92	89
Interest expense on borrowings	5,642	18,275
Amortisation / write off of borrowing costs*	8,542	2,448
Interest expense on redeemable preference shares	7	83
	<u>14,283</u>	<u>20,895</u>
Impairment losses**		
Property, plant and equipment	-	11,992
Goodwill	-	6,949
	<u>-</u>	<u>18,941</u>

*The Group refinanced its borrowings during the year under a new banking facility and wrote off its loan establishment costs in relation to the previous facility. Refer to note C1 for further detail.

**The impairment losses for FY2015 were attributed to the produce segment and relates to the downsizing of the grape category.

Borrowing costs

Borrowing costs can include interest, amortisation of discounts or premiums relating to borrowings, ancillary costs incurred in connection with arrangement of borrowings and foreign exchange losses net of hedged amounts on borrowings.

Borrowing costs are expensed as incurred, except for borrowing costs incurred as part of the cost of the construction of a qualifying asset which are capitalised until the asset is ready for its intended use or sale.

Loan establishment costs have been capitalised and amortised over the life of the loan facility. Establishment costs relating to loans extinguished during the reporting period have been expensed.

	2016 \$ '000	2015 \$ '000
Employee expenses		
Salaries, contractors and wages (including on-costs)	250,086	218,305
Superannuation costs	14,455	12,399
Leave entitlements	7,998	7,569
Share-based payments expense	446	1,310
Other employee expenses	3,391	4,172
	<u>276,376</u>	<u>243,755</u>
Other expenses		
Repair and maintenance expenses	15,225	13,656
Legal and consulting expenditure*	24,271	9,797
Insurance	6,787	6,330
Other**	23,099	25,337
	<u>69,382</u>	<u>55,120</u>

*In FY2016, legal and consulting expenditure includes \$19.6m of costs associated with the IPO (2015: \$3.8m).

**Other expenses includes telecommunications, marketing, information technology and general administration expenditure.

Costa Group Holdings Ltd

Notes to the Consolidated Financial Statements

A3. Earnings per share

	2016 Cents per share	2015* Restated Cents per share
<i>Basic EPS</i>		
Basic EPS (cents) based on net profit attributable to members of Costa Group Holdings Limited	8.04	0.11
<i>Diluted EPS</i>		
Diluted EPS (cents) based on net profit attributable to members of Costa Group Holdings Limited	7.96	0.11
	2016 Number	2015 Number
<i>Weighted average number of shares (in thousands)</i>		
Weighted average number of ordinary shares on issue used in the calculation of basic EPS	310,345	194,600
<i>Effect of potentially dilutive securities</i>		
Redeemable Preference Shares	3,091	45,000
Equity-settled share options	200	-
Weighted average number of ordinary shares on issue used in the calculation of diluted EPS	313,636	239,600
	2016 \$ '000	2015* Restated \$ '000
Earnings reconciliation		
<i>Basic EPS</i>		
Net profit attributable to owners of Costa Group Holdings Limited	25,258	4,313
Dividends on redeemable preference shares	(294)	(4,098)
Adjusted profit/(loss) attributable to ordinary shareholders of Costa	24,964	215
<i>Diluted EPS</i>		
Earnings used in calculating basic EPS	24,964	215
Interest expense on Redeemable Preference Shares (net of tax)	7	58
Net profit attributable to owners of Costa Group Holdings Limited (diluted)	24,971	273

*Refer to note E3 for details regarding the restatements as a result of the early adoption of the amendments made to Accounting Standards AASB 116 Property, plant and equipment and AASB 141 Agriculture in relation to bearer plants.

Calculation of earnings per share

Earnings per share is the amount of post-tax profit attributable to each share. Basic earnings per share is computed using the weighted average number of shares outstanding during the period.

Diluted earnings per share is computed using the weighted average number of shares outstanding during the period plus the dilutive effect of redeemable preference shares and share options outstanding during the period.

A4. Subsequent events

There have been no matters or circumstances other than those referred to in the financial statements or notes thereto, that have arisen since the end of the financial year, that have significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial years.

Costa Group Holdings Ltd
Notes to the Consolidated Financial Statements

B. OPERATING ASSETS AND LIABILITIES

B1. Cash and cash equivalents

	2016	2015
	\$ '000	\$ '000
Cash on hand	25	26
Cash at bank	3,927	9,435
Cash on deposit	50	43
	4,002	9,504

(a) Reconciliation of profit after tax to net cash flows from operating activities

	2016	2015
	\$ '000	\$ '000
Profit for the year	25,258	4,313
Non-cash adjustments to reconcile profit before tax to net cash flows:		
Depreciation and amortisation	22,507	19,554
(Profit)/loss on sale of assets	(1,387)	(470)
Borrowing costs written-off / amortised	8,373	-
Impairment losses	-	18,941
(Gain)/loss on fair value adjustments - biological assets	(4,349)	(3,350)
(Gain)/loss on fair value of derivatives	870	(58)
Share-based payments expense	446	1,310
(Gain)/loss on fair value of assets	-	2
Transaction costs on issuance of shares	21,803	-
Share of profit of equity-accounted investees, net of tax	(14,442)	(9,515)
	59,079	30,727
Change in working capital and tax balances:		
(Increase)/decrease in inventories	(1,762)	(1,430)
(Increase)/decrease in receivables	(10,256)	4,687
(Increase)/decrease in biological assets	(804)	-
(Increase)/decrease in other assets	1,184	(3,620)
Increase/(decrease) in interest payable	(873)	83
Increase/(decrease) in payables	7,693	61
Increase/(decrease) in provisions	616	(1,108)
(Increase)/decrease in deferred taxes	3,584	(886)
Increase/(decrease) in current tax payables	4,316	(538)
Net cash generated from operating activities	62,777	27,976

Recognition and measurement

Cash comprises cash on hand and demand deposits. Cash equivalents comprise short-term and highly liquid cash deposits that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. For the purposes of the Statement of Cash Flows, cash includes cash on hand, demand deposits and cash equivalents. All cash on deposit has maturing terms of less than 90 days.

Costa Group Holdings Ltd

Notes to the Consolidated Financial Statements

B2. Receivables

	2016 \$ '000	2015 \$ '000
CURRENT		
Trade debtors	65,939	51,248
Less: Allowance for impairment losses on trade receivables	(419)	(1,009)
	65,520	50,239
Other receivables	7,287	12,312
	72,807	62,551
NON CURRENT		
Other receivables	-	125
	-	125

(i) Other receivables comprise GST receivable and accrued income.

Recognition and measurement

Trade receivables are recognised initially at invoice value (fair value) and subsequently measured at amortised cost, less allowance for doubtful debts.

Credit terms are generally between 15-60 days depending on the nature of the transaction. An allowance for doubtful debt is raised to reduce the carrying amount of trade receivables based on a review of outstanding amounts at reporting date where there is credit risk.

B3. Inventories

	2016 \$ '000	2015 \$ '000
CURRENT		
<i>At cost</i>		
Raw materials	12,003	10,706
Finished goods	5,901	5,418
	17,904	16,124

Recognition and measurement

Inventories are measured at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials and consumables: purchase cost on a first in, first out basis and weighted average; and
- Finished goods and work in progress: cost of direct material and labour and a proportion of manufacturing overheads based on normal operating capacity.

Raw materials and consumables include packaging, supplies and other materials not consumed in the production or growing processes. Finished goods include purchased agricultural produce and own farm fruit held for sale and other stock held for sale.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of production and the estimated costs necessary to complete the sale.

Costa Group Holdings Ltd
Notes to the Consolidated Financial Statements

B4. Payables

	2016 \$ '000	2015 \$ '000
CURRENT		
<i>Unsecured liabilities</i>		
Trade creditors	37,237	29,909
Sundry creditors and accruals	44,401	44,586
	<u>81,638</u>	<u>74,495</u>

Recognition and measurement

Trade and other payables including accruals are recorded as future payments required to be made as a result of purchases of goods or services. Trade and other payables are carried at cost less accumulated amortisation (if applicable).

B5. Other assets

	2016 \$ '000	2015 \$ '000
CURRENT		
Prepayments	5,333	6,517
	<u>5,333</u>	<u>6,517</u>

B6. Biological assets

	2016 \$ '000	2015 \$ '000
CURRENT		
Produce - at fair value	31,650	25,512
Produce - at cost	5,758	6,059
Total biological assets	<u>37,408</u>	<u>31,571</u>

(a) Reconciliation of changes in carrying amount of biological assets

Opening balance	31,571	28,054
Gain arising from changes in fair value	4,349	3,350
Increases due to purchases	155,834	144,254
Decreases due to harvest	(155,030)	(144,087)
Increase resulting from acquisition of business	684	-
Closing balance	<u>37,408</u>	<u>31,571</u>

Costa Group Holdings Ltd

Notes to the Consolidated Financial Statements

Recognition and measurement

Biological assets are measured at their fair value less costs to sell at each reporting date. The fair value is determined as the net present value of cash flows expected to be generated by these crops (including a risk adjustment factor). Where fair value cannot be measured reliably, biological assets are measured at cost.

Net increments and decrements in the fair value of the growing assets are recognised as income or expense in the statement of profit/loss and other comprehensive income, determined as:

- The difference between the total fair value of the biological assets recognised at the beginning of the reporting period and the total fair value of the biological assets recognised at reporting date.
- Costs incurred in maintaining or enhancing the biological assets recognised at the beginning of the reporting period and the total fair value of the biological assets recognised at the reporting date.
- The market value of the produce picked during the reporting period is measured at their fair value less estimated costs to be incurred up until the time of picking. Market price is determined based on underlying market prices of the product.

Measurement of fair values

Fair value hierarchy

The fair value measurements for the Group's hanging crop have been categorised as Level 3 fair values based on the inputs to the valuation techniques used, which are not based on observable market data.

Valuation techniques and significant unobservable inputs

The following table provides a description of the various biological asset types, shows the valuation techniques used in measuring Level 3 fair values, as well as the significant unobservable inputs used. Refer to note C6 for further detail on Level 3 fair value measurement.

Costa Group Holdings Ltd
Notes to the Consolidated Financial Statements

Measurement of fair values (Continued)

Type	Description	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Hanging crop (citrus, grapes, avocados, tomatoes, blueberries, raspberries and bananas)	These are crops from trees and bushes that have an annual crop production cycle and a reasonably stable development cycle.	<i>Discounted cash flows:</i> The valuation model considers the present value of the net cash flows expected to be generated by the plantation. The cash flow projections include specific estimates for one year. The expected net cash flows are discounted using a risk-adjustment factor to factor in volatility for weather, production and pricing and future farming costs.	Inclusive of: <ul style="list-style-type: none"> - Estimated future crop prices. - Estimated cash inflows based on forecasted sales. - Estimated yields per hectare. - Estimated remaining farming, harvest and transportation costs. - Risk adjustment factor. 	The estimated fair value would increase (decrease) if: <ul style="list-style-type: none"> - the estimated fruit prices were higher (lower); - the estimated yields per hectare were higher (lower); - the estimated harvest and transportation costs were lower (higher); or - the risk-adjusted discount rates were lower (higher).

Measurement of biological assets at cost

Short lived crops (mushrooms) are measured at cost. These crops typically have a short term development cycle of less than three months. The calculation of market value for these crops is based on total cost due to the inherent difficulty in accurately determining the biological advancement percentage of the crop. As such, the cost approach takes into account actual costs for preparation and cultivation.

Costa Group Holdings Ltd

Notes to the consolidated Financial Statements

Risk management strategy related to biological activities

Regulatory and environmental risks

The Group is subject to laws and regulations in the various locations in which it operates. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws.

Supply and demand risk

The Group is exposed to risks arising from fluctuations in the price and sales volume of all its fruit and vegetables. Management performs regular industry trend analysis to project harvest volumes and pricing. Where possible, the Group manages this risk by aligning its harvest volume to market supply and demand.

Climate and other risks

The Group's biological assets are exposed to the risk of damage from climatic changes, diseases and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating these risks, including protected cropping techniques across most crops, and geographical diversification.

Critical accounting estimate and judgement

Valuation of biological assets

The valuation takes into account expected sales prices, yields, growth profile, picked fruit quality and expected direct costs related to the production and sale of the assets and management must make a judgement as to the trend in these factors.

B7. Property, plant and equipment

	2016 \$ '000	2015* Restated \$ '000
Land and buildings at cost	149,114	113,791
Accumulated depreciation and impairment	(42,501)	(42,043)
	106,613	71,748
Assets Under Construction at cost	13,996	58,959
Plant and equipment at cost	202,015	166,164
Accumulated depreciation and impairment	(95,166)	(90,072)
	106,849	76,092
Leased plant and equipment at cost	1,728	1,728
Accumulated depreciation and impairment	(1,728)	(1,714)
	-	14
Improvements at cost	20,133	13,394
Accumulated depreciation and impairment	(5,047)	(4,148)
	15,086	9,246
Bearer plants at cost	11,346	8,240
Accumulated depreciation and impairment	(4,566)	(4,312)
	6,780	3,928
Total property, plant and equipment	249,324	219,987

Costa Group Holdings Ltd
Notes to the consolidated Financial Statements

(a) Reconciliations

Reconciliation of the carrying amounts of property, plant and equipment at the beginning and end of the current financial year.

	2016	2015*
	\$ '000	Restated \$ '000
<i>Land and buildings</i>		
Opening carrying amount	71,748	83,100
Additions	1,936	922
Disposals	-	(16)
Depreciation expense	(4,863)	(4,835)
Impairment	-	(5,800)
Transfers, reclassifications and adjustments	37,792	(1,623)
Closing carrying amount	106,613	71,748
<i>Assets Under Construction</i>		
Opening carrying amount	58,959	13,008
Additions	38,474	60,893
Disposals	(276)	-
Transfers, reclassifications and adjustments	(83,161)	(14,942)
Closing carrying amount	13,996	58,959
<i>Plant and equipment</i>		
Opening carrying amount	76,092	63,607
Additions	4,875	17,827
Disposals	(598)	(518)
Depreciation expense	(13,684)	(12,296)
Impairment	-	(2,954)
Transfers, reclassifications and adjustments	40,164	10,426
Closing carrying amount	106,849	76,092
<i>Leased plant and equipment</i>		
Opening carrying amount	14	137
Depreciation expense	(14)	(123)
Closing carrying amount	-	14
<i>Leasehold Improvements</i>		
Opening carrying amount	9,246	5,350
Additions	1,515	1,121
Disposals	(199)	(3)
Depreciation expense	(882)	(346)
Transfers, reclassifications and adjustments	5,406	3,124
Closing carrying amount	15,086	9,246
<i>Bearer Plants</i>		
Opening carrying amount	3,928	6,009
Additions	4,660	2,230
Depreciation expense	(1,808)	(1,073)
Impairment	-	(3,238)
Closing carrying amount	6,780	3,928

Costa Group Holdings Ltd
Notes to the consolidated Financial Statements

	2016	2015*
	\$ '000	Restated \$ '000
<i>Total property, plant and equipment</i>		
Opening carrying amount	219,987	171,211
Additions	51,460	82,993
Disposals	(1,073)	(537)
Depreciation expense	(21,251)	(18,673)
Impairment	-	(11,992)
Transfers, reclassifications and adjustments	201	(3,015)
Closing carrying amount	<u>249,324</u>	<u>219,987</u>

*Refer to note E3 for details regarding the restatements as a result of the early adoption of the amendments made to Accounting Standards AASB 116 Property, plant and equipment and AASB 141 Agriculture in relation to bearer plants.

Recognition and measurement

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and any accumulated impairment losses.

Depreciation

The depreciable amount of all fixed assets is depreciated over their estimated useful lives commencing from the time the asset is held ready for use. Land owned by the Group is freehold land and accordingly is not depreciated.

Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

Class of fixed asset	Depreciation rates	Depreciation basis
Land and buildings at cost	3% - 10%	Straight line
Plant and equipment at cost	5% - 33%	Straight line
Leased plant and equipment at cost	10% - 20%	Straight line
Bearer plants at cost	4% - 25%	Straight line

Assets under construction are measured at cost and not depreciated until the assets are ready for use.

Capital commitments

As at 26 June 2016, the Group has capital commitments amounting to \$673,306 (2015: 16,636,525) in relation to the purchase of property, plant and equipment, which are contracted for but not provided for.

Costa Group Holdings Ltd
Notes to the consolidated Financial Statements

B8. Intangible assets

	2016 \$ '000	2015 \$ '000
Goodwill at cost	131,495	131,285
Capitalised software costs	8,697	8,457
Accumulated amortisation and impairment	(2,883)	(1,636)
	5,814	6,821
Brand names at cost	1,730	1,730
Lease premiums at cost	1,665	1,665
Accumulated amortisation and impairment	(643)	(643)
	1,022	1,022
Water rights at cost	2,721	1,007
Total intangible assets	142,782	141,865

Costa Group Holdings Ltd

Notes to the consolidated Financial Statements

Reconciliations

Reconciliation of the carrying amounts of intangible assets at the beginning and end of the current financial year.

	2016 \$ '000	2015 \$ '000
<i>Goodwill</i>		
Opening balance	131,285	138,258
Additions from acquisitions	210	-
Impairment	-	(6,949)
Transfers, reclassifications and adjustments	-	(24)
Closing balance	131,495	131,285
<i>Capitalised software costs</i>		
Opening balance	6,821	5,623
Additions	249	2,071
Amortisation expense	(1,255)	(881)
Transfers, reclassifications and adjustments	(1)	8
Closing balance	5,814	6,821
<i>Brand names</i>		
Opening balance / closing balance	1,730	1,730
<i>Lease premiums</i>		
Opening balance / closing balance	1,022	1,022
<i>Water Rights</i>		
Opening balance	1,007	3,176
Additions	1,714	146
Transfers, reclassifications and adjustments	-	(2,315)
Closing balance	2,721	1,007

Amortisation expense in relation to intangible assets is included within depreciation and amortisation expenses in the statement of profit or loss and other comprehensive income. Impairment losses in relation to intangible assets are included within impairment losses in the statement of profit or loss and other comprehensive income.

Costa Group Holdings Ltd

Notes to the consolidated Financial Statements

Recognition and measurement

Goodwill

Goodwill is recognised initially as the excess over the aggregate of the consideration transferred, the fair value of the non-controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest (in case of step acquisition), less the fair value of the identifiable assets acquired and liabilities assumed.

Goodwill is not amortised, but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

Brand names

Brand names are measured initially at their cost of acquisition. Brand names are an indefinite useful life intangible asset as there is no expiry date associated with the underlying assets in terms of its generation of future economic benefits to the Group, and are therefore tested for impairment annually. The carrying amount of brand names is supported by a value in use calculation.

Lease premiums

The value of market lease premiums is recorded in the financial report at cost. Market lease premiums are an indefinite life intangible asset as there is no expiry date associated with the underlying assets in terms of its generation of future economic benefits to the Group, and are therefore tested for impairment annually. The carrying amount of market lease premiums is supported by a value in use calculation.

Water rights

Water rights are measured initially at their cost of acquisition. Water rights are an indefinite life intangible asset as there is no expiry date associated with the underlying assets in terms of its generation of future economic benefits to the Group, and are therefore tested for impairment annually. The carrying amount of water rights is supported by a value in use calculation.

Software

Software is measured initially at the cost of acquisition and amortised over the useful life of the software. Expenditure on software development activities is capitalised only when it is expected that future benefits will exceed the deferred costs, and these benefits can be reliably measured. Capitalised development expenditure is stated at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost of the intangible asset over its estimated useful life (not exceeding seven years) commencing when the intangible asset is available for use. Other development expenditure is recognised as an expense when incurred.

Acquisitions

Intangible assets acquired separately are capitalised at cost. Intangible assets acquired through a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Internally generated intangible assets are capitalised when the Group is certain that there are future economic benefits that will arise from these assets. Other internally generated intangible assets that do not fit this recognition criteria are charged against the statement of comprehensive income in the reporting period in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the nature of the intangible asset.

Costa Group Holdings Ltd

Notes to the consolidated Financial Statements

Allocation of goodwill

The allocation of goodwill across the Group's reportable segments is provided below:

	Produce 2016 \$ '000	CF&L 2016 \$ '000	International 2016 \$ '000	Total 2016 \$ '000
Goodwill				
Carrying amount at start of year	127,444	3,841	-	131,285
Additions for the year	210	-	-	210
Carrying amount at end of year	127,654	3,841	-	131,495

	Produce 2015 \$ '000	CF&L 2015 \$ '000	International 2015 \$ '000	Total 2015 \$ '000
Goodwill				
Carrying amount at start of year	134,417	3,841	-	138,258
Impairment losses for the year	(6,949)	-	-	(6,949)
Reclassification	(24)	-	-	(24)
Carrying amount at end of year	127,444	3,841	-	131,285

Impairment testing

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit (CGU) level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

In FY2016, the recoverable amount of our CGUs exceeds their carrying values and as a result no impairment loss has been recognised (2015: \$6,949,027).

Critical accounting estimate and judgement

Projected cash flows

Goodwill is allocated to CGUs according to applicable business operations. The recoverable amount of a CGU is based on value in use calculations that are based on the board approved budget covering a one year period together with management prepared cash flow through to FY2019. For FY2020 onwards, the Group assumes a long-term growth rate to allow for organic growth on the existing asset base. Management's determination of cash flow projections and gross margins are based on past performance and its expectation for the future.

Long-term growth rate

An average growth rate of 2.5% to 3.0% (2015: 2.5%) has been used for cash flows for FY2020 onwards with a terminal value growth rate of 2.5% to 3.0% (2015: 3.0%).

Discount rate

A post-tax discount rate to post-tax cash flows has been applied as the valuation calculated using this method closely approximates applying pre-tax discount rates to pre-tax cash flows. The Group used a pre-tax discount rate of 13.0% to 14.0% for financial year 2016 which was revised for post IPO capital structure (2015: 12.8% to 13.4%).

Costa Group Holdings Ltd

Notes to the consolidated Financial Statements

Sensitivity Analysis

Other than as discussed below, the Group believes that for all other CGUs, any reasonable possible change in the key assumptions would not cause the carrying value of the CGUs to exceed their recoverable amount.

For the tomato CGU included within the Produce segment, a reasonable possible change in the underlying assumptions could result in the carrying value of the CGU exceeding its recoverable amount. The tomato category experienced a challenging year in FY2016 with price deflation impacting the earnings from that category. The cash flow projections used in the valuation of recoverable amount assumes that prices will progressively recover towards a more longer term average. Should prices not recover as anticipated, absent any changes in other assumptions the carrying value of the CGU could exceed its recoverable amount.

B9. Provisions

		2016 \$ '000	2015 \$ '000
CURRENT			
Employee benefits	(a)	13,217	12,452
Onerous leases	(c)	-	908
Restructuring and other	(d)	-	123
		<u>13,217</u>	<u>13,483</u>
NON CURRENT			
Employee benefits	(a)	4,042	3,290
Provision for make good costs		130	-
		<u>4,172</u>	<u>3,290</u>

(a) Aggregate employee benefits liability	17,259	15,742
--	--------	--------

These consist of provisions for annual leave and long service leave.

(b) Reconciliations

Reconciliation of the carrying amounts of provisions at the beginning and end of the current financial year:

Employee benefits

Opening balance	15,742	15,804
Amounts used	(5,313)	(7,299)
Additional amounts recognised	6,830	7,237
Closing balance	<u>17,259</u>	<u>15,742</u>

Restructuring and other

Opening balance	123	2,077
Amounts used	(172)	(1,968)
Additional amounts recognised	49	14
Closing balance	<u>-</u>	<u>123</u>

Onerous leases

Opening balance	908	-
Amounts used	(908)	-
Additional amounts recognised	-	908
Closing balance	<u>-</u>	<u>908</u>

(c) Onerous leases

As part of the Group's decision to downsize its growing exposure in the grape category, Costa ceased farming operations on a leased property adjacent to its Mundubbera grape farm in January 2015. The expected payout costs associated with the lease have now been settled.

Costa Group Holdings Ltd

Notes to the consolidated Financial Statements

(d) Restructuring

Estimated restructuring costs mainly included employee termination benefits.

Recognition and measurement

Provisions are recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Short-term employee benefit obligations

Liabilities arising in respect of wages and salaries, annual leave, long service leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. The expected cost of short term employee benefits in the form of compensated absences such as annual leave is recognised in the provision for employee benefits. All other short term employee benefit obligations are presented as payables.

Long-term employee benefit obligations

Liabilities arising in respect of long service leave and annual leave which is not expected to be settled within twelve months of the reporting date are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

Termination benefits

Termination benefits are payable when employment of an employee or group of employees is terminated before the normal retirement date, or when the Group provides termination benefits as a result of an offer made and accepted in order to encourage voluntary redundancy. The Group recognises a provision for termination benefits when the entity can no longer withdraw the offer of those benefits, or if earlier, when the termination benefits are included in a formal restructuring plan that has been announced to those affected by it.

B10. Contingent Liabilities

From time to time the Group is party to claims from customers and suppliers arising from operations in the ordinary course of business. At the date of this report there are no claims or contingent liabilities that are expected to materially impact, either individually or in aggregate, the Group's financial position or results from operations.

C. CAPITAL STRUCTURE AND FINANCING

C1. Borrowings

	2016 \$ '000	2015 \$ '000
CURRENT		
<i>Unsecured liabilities</i>		
Bank loans	-	4,884
Hire purchase liability	-	1
	-	4,885
NON CURRENT		
<i>Unsecured liabilities</i>		
Bank loans	103,766	228,004
	103,766	228,004

Terms and conditions relating to the above financial instruments

The Group refinanced its borrowings during the year under a new banking facility.

Details of the key terms and conditions of the banking facility available at year end are as follows:

- Facility A – \$125m facility that can be drawn upon as required. This facility matures 3 years from July 2015. \$104.5m was drawn down at the end of the 2016 financial year.
- Facility B – \$125m facility that can be drawn upon as required. This facility matures 4 years from July 2015 with nil balance drawn at June 2016.
- The nominal rate for each facility consists of a floating cash rate plus a margin dependant on the amount of leverage.
- Lending covenants for both facilities include Interest Cover Ratio and Total Gearing Ratio. The Group met all its lending covenants during the 2016 financial year.
- It is noted that the banking facility is unsecured.

The Group has financial guarantees to other persons of \$12.2 million that could be called up at any time in the event of a breach of our financial obligations. We do not expect any payments will eventuate under these financial guarantees as we expect to meet our respective obligations to the beneficiaries of these guarantees. The financial guarantees are applied against the available drawdown limit for Facility A and B as detailed above.

Recognition and measurement

Borrowings are initially recognised at fair value of the consideration received, net of directly attributable costs.

After initial recognition, borrowings are measured at amortised cost, using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on issuance. Gains and losses are recognised in the statement of profit or loss and other comprehensive income if borrowings are derecognised. The fair value approximates carrying value as borrowings are fully variable.

Borrowings are presented net of capitalised loan establishment costs.

Costa Group Holdings Ltd
Notes to the consolidated Financial Statements

C2. Redeemable preference shares

	2016 \$ '000	2015 \$ '000
Redeemable preference shares (RPS)	-	1,119
	-	1,119

All RPS on issue at the end of 2015 were converted to ordinary shares in July 2015 prior to the completion of the initial public offering (IPO).

C3. Share capital

	2016 \$ '000	2015 \$ '000
Issued and paid-up capital		
Ordinary shares	401,093	194,600
Transaction costs for issued share capital (net of tax)	(7,087)	-
Settlement of share based payment	1,682	-
Redeemable preference shares	-	43,964
	395,688	238,564

	2016		2015	
	Number '000	\$ '000	Number '000	\$ '000
(a) Ordinary shares				
Opening balance	194,600	194,600	194,600	194,600
Ordinary shares issued on 24 July 2015	77,017	173,287	-	-
Conversion of redeemable preference shares to ordinary shares	45,000	45,090	-	-
Settlement of share based payment	-	1,682	-	-
Disposal of share options	-	(11,884)	-	-
Issue of new shares on disposal of options	2,263	-	-	-
Transaction costs incurred in respect of initial public offering (net of tax)	-	(7,087)	-	-
Closing balance	318,880	395,688	194,600	194,600
	-	-	-	-
(b) Redeemable preference shares				
Opening balance	45,000	43,964	45,000	43,964
Redeemable preference shares liability converted to equity	-	1,126	-	-
Conversion of redeemable preference shares to ordinary shares	(45,000)	(45,090)	-	-
Closing balance	-	-	45,000	43,964
Total share capital	318,880	395,688	239,600	238,564

Ordinary shares

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholders meetings, each ordinary share is entitled to one vote when a poll is called; otherwise each shareholder has one vote on a show of hands.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Costa Group Holdings Ltd

Notes to the consolidated Financial Statements

C4. Reserves

The profit reserve comprises the transfer of net profit for the year and characterises profits available for distribution as dividends in future years. The profit reserve balance as at balance sheet date (in thousands) is \$20,005 (2015: \$4,313).

C5. Dividends

Dividends declared and paid during the year:

	2016 \$ '000	2015 \$ '000
Dividends on redeemable preference shares (equity component):		
Dividend paid upon completion of the IPO on 24 July 2015	9,422	-
Dividends on ordinary shares:		
Interim franked dividend for 2016	9,566	-

The Board has approved a final dividend of 6.0 cents per share with record date of 28 September 2016 and payment date of 26 October 2016. This dividend will be fully franked. As this dividend was approved after year end, it has not been accrued as at 26 June 2016.

Costa Group Holdings Ltd

Notes to the consolidated Financial Statements

C6. Capital and risk management

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Fair value hierarchy	2016 \$ '000	2015 \$ '000
Financial assets			
<i>Loans and receivables</i>			
Current receivables	-	72,807	62,551
Cash and cash equivalents	-	4,002	9,504
Loans to related party associates	-	80	1,631
		<u>76,889</u>	<u>73,686</u>
<i>Available for sale</i>			
Shares in unlisted corporations	Level 3	247	397
		<u>247</u>	<u>397</u>
<i>Designated at fair value</i>			
Interest rate swap-option	Level 2	-	8
		<u>-</u>	<u>8</u>
Financial liabilities			
<i>Designated at fair value</i>			
Interest rate swaps	Level 2	-	3,337
Forward exchange contracts	Level 2	242	-
		<u>242</u>	<u>3,337</u>
<i>Other financial liabilities not measured at fair value</i>			
Payables	-	81,638	74,495
Bank loans	Level 2	103,766	232,888
Hire purchase liabilities	Level 2	-	1
Redeemable preference shares (liability component)	Level 2	-	1,119
		<u>185,404</u>	<u>308,503</u>

Classification

The Group classifies its financial assets into the following categories: financial assets at fair value through profit and loss, loans and receivables and available for sale financial assets. The classification depends on the purpose for which the instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Derivative financial instruments

Derivatives are recognised initially at fair value; any directly attributable transaction costs are recognised in statement of comprehensive income as they are incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in the statement of comprehensive income.

Foreign exchange contracts

The Group enters into foreign exchange contracts to hedge its exposure against foreign currency risk in line with the Group's risk management strategy.

Non-derivative financial instruments

Non-derivative financial instruments consist of investments in equity securities, trade and other receivables, cash and cash equivalents, borrowings, and trade and other payables.

Costa Group Holdings Ltd

Notes to the consolidated Financial Statements

Non-derivative financial instruments are initially recognised at fair value, plus directly attributable transaction costs (if any). After initial recognition, non-derivative financial instruments are measured as described below.

Loans and receivables

Loans and receivables are measured at fair value at inception and subsequently at amortised cost using the effective interest rate method. Loan and receivables include trade receivables.

Available-for-sale

Available-for-sale financial assets include any financial assets not included in the above categories and are measured at fair value. Unrealised gains and losses arising from changes in fair value, other than impairment losses, are recognised in other comprehensive income and presented in equity. The cumulative gain or loss is held in equity until the financial asset is disposed of, at which time the cumulative gain or loss held in equity is recognised in profit and loss.

Financial liabilities

Financial liabilities include trade payables, other creditors and loans from third parties and loans from or other amounts due to related entities.

Non derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

Impairment

Non-derivative financial assets

Financial assets measured at amortised cost

The Group considers evidence of impairment for financial assets measured at amortised cost (loans and receivables) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in the statement of comprehensive income and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment was recognised causing the amount of the impairment loss to decrease, the decrease in impairment loss is reversed through the statement of comprehensive income.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than biological assets, equity accounted investments, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite life intangible assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

Costa Group Holdings Ltd

Notes to the consolidated Financial Statements

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows or other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes.

Impairment losses are recognised in the statement of comprehensive income. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

The Group's financial risk management objective is to minimise the potential adverse effects of financial performance arising from changes in financial risk. Financial risks are managed centrally by the Group's finance team under the direction of the directors and the Board's Risk and Audit Committee. Management regularly monitors the Group's exposure to any of these financial risks and reports to the Board.

The Group's activities expose it to a number of financial risks, including market risk (interest rate risk and foreign currency risk), liquidity risk and credit risk.

The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

(a) Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial asset or financial liability will change as a result of changes in market interest rates. The Group's exposure to market interest rate risk relates primarily to its borrowings. The Group has historically managed its cash flow interest rate risk by using floating to fixed interest rate swaps for a portion of variable rate borrowings. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates.

Costa Group Holdings Ltd

Notes to the consolidated Financial Statements

As at reporting date, the Group had the following financial assets and liabilities exposed to variable interest rate risk:

	2016 \$ '000	2015 \$ '000
Variable rate instruments		
Assets		
Cash and cash equivalents	4,002	9,504
Derivative financial assets	-	8
	4,002	9,512
Liabilities		
Bank loans	104,500	54,500
Derivative financial liabilities	-	3,337
	104,500	57,837
Net financial liabilities	100,498	48,325

Sensitivity analysis for variable rate instruments

At 26 June 2016, if interest rates had changed by +/- 100 basis points from the year end rates with all other variables held constant, profit or loss would have increased/(decreased) by:

	2016 \$ '000	2015 \$ '000
Increase of 100 basis points in interest rate	(1,005)	(483)
Decrease of 100 basis points in interest rate	1,005	483

Foreign currency risk

The Group's exposure to the risk of changes in foreign exchanges rates relates to the Group's operating activities and investments in foreign joint ventures. The Group imports and exports produce and is exposed to foreign exchange risk, primarily movements in exchange rates of US dollar and Japanese Yen. In addition, it is also exposed to exchange rate movements in Moroccan Dirhams ("MAD") through its investment in the African Blue joint venture. The Group also makes purchases and capital expenditure that expose it to movements in exchange rates of US dollar and Euro. The Group enters into forward contracts to hedge some of its exposure against foreign currency risk.

The Group's exposure to foreign exchange risk at the end of the reporting period, expressed in Australian dollars, was as follows:

2016	USD \$ '000	JPY \$ '000	EUR \$ '000
Cash	1,130	298	-
Trade and other receivables	4,610	4,231	-
Trade and other payables	(3)	-	(7)
Derivative financial liabilities	13	(255)	-
Net exposure	5,750	4,274	(7)
2015			
	USD \$ '000	JPY \$ '000	EUR \$ '000
Cash	1,720	7	-
Trade and other receivables	3,417	322	-
Trade and other payables	(4)	-	(100)
Net exposure	5,133	329	(100)

Costa Group Holdings Ltd

Notes to the consolidated Financial Statements

Sensitivity analysis

At 26 June 2016, had the Australian dollar weakened/strengthened by 10% against the MAD, the US dollar, the Euro and Japanese Yen, with all other variables held constant, the impact to profit or loss and equity would be an increase/(decrease) of:

	MAD \$ '000	USD \$ '000	JPY \$ '000	EUR \$ '000
Australian Dollar Weakened by 10%	672	575	427	(1)
Australian Dollar Strengthened by 10%	(672)	(575)	(427)	1

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity risk is to ensure it always has sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages its liquidity risk using a recurring planning tool, and maintaining, at all times, an appropriate minimum level of liquidity, comprising committed, unused bank facilities and cash resources, to meet the Group's financial obligations as and when they fall due.

The Group manages liquidity risk by maintaining sufficient cash reserves, banking facilities and standby borrowing facilities and by monitoring forecast and actual cash flows. As at reporting date, unused credit facilities net of bank guarantees of the Group were \$133.3 million. In addition, the Group maintains an overdraft facility of \$3.0 million.

The Group is in compliance with all undertakings under its various financial arrangements.

The following are the remaining contractual maturities at the end of the reporting period of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

2016

	Less than 6 months	6 - 12 months	1 - 5 years	Over 5 years	Total
Non-derivative financial liabilities					
Bank loans*	104,500	-	-	-	104,500
Finance lease liabilities	1	-	-	-	1
Trade payables	81,638	-	-	-	81,638
	186,139	-	-	-	186,139
Derivative financial liabilities					
Forward exchange contracts	242	-	-	-	242
	242	-	-	-	242

*Bank loans consist of commercial bills. The Group expects to and has the discretion to refinance or rollover the bank loans for at least 12 months after the end of the reporting period under the existing banking facility. Refer to note C1 for details of terms and conditions on bank loans.

Costa Group Holdings Ltd
Notes to the consolidated Financial Statements

2015

	Less than 6 months	6 - 12 months	1 - 5 years	Over 5 years	Total
Non-derivative financial liabilities					
Bank loans	9,931	10,464	266,660	-	287,055
Redeemable convertible preference shares (CPS50)	-	-	-	45,000	45,000
Finance lease liabilities	1	-	-	-	1
Trade payables	74,495	-	-	-	74,495
	<u>84,427</u>	<u>10,464</u>	<u>266,660</u>	<u>45,000</u>	<u>406,551</u>
Derivative financial liabilities					
Interest rate swaps	-	-	3,337	-	3,337
	<u>-</u>	<u>-</u>	<u>3,337</u>	<u>-</u>	<u>3,337</u>

(c) Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Group.

The Group is exposed to counterparty credit risk arising from its operating activities, primarily from trade receivables. Trade receivable balances are monitored on a weekly basis. The finance function assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings and regularly monitored by management.

The maximum exposure to credit risk is as follows:

	2016 \$ '000	2015 \$ '000
Cash and cash equivalents	4,002	9,504
Receivables	<u>72,807</u>	<u>62,676</u>
	<u>76,809</u>	<u>72,180</u>

The ageing analysis of trade receivables is set out in the table below. The credit quality of financial assets that are neither past due nor impaired is assessed based on the application of the credit risk policies described above.

	2016 \$ '000	2015 \$ '000
Neither past due nor impaired	54,427	39,784
Past due 1 - 30 days	9,829	11,045
Past due 31 - 60 days	939	269
Past due over 60 days	<u>744</u>	<u>150</u>
	<u>65,939</u>	<u>51,248</u>

Management believes that the unimpaired amounts that are past due by more than 30 days are still collectible in full, based on historical payment behaviour and extensive analysis of customer credit risk, including underlying customers' credit ratings if they are available. Major Australian supermarkets, including Coles, Woolworths, Aldi and IGA comprise approximately 47% of the Group's trade debtors at 26 June 2016.

Costa Group Holdings Ltd

Notes to the consolidated Financial Statements

Impairment losses on trade receivables

Trade receivables are non-interest bearing with credit terms generally between 15 and 60 day terms. An impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. The impairment losses have been included within other expenses in the statement of profit or loss and other comprehensive income. All trade receivables that are not impaired are expected to be received within credit terms.

	2016 \$ '000	2015 \$ '000
Movements in the accumulated impairment losses were:		
Opening balance at 29 June 2015	(1,009)	(1,083)
Impairment loss (recognised) / reversed	518	(665)
Amounts written off	72	739
Closing balance at 26 June 2016	(419)	(1,009)

(d) Capital management

The primary objective of the Group's capital management is to maintain investor, creditor and market confidence and a strong credit rating and healthy capital ratios to support its business and maximise shareholder value. Capital includes equity attributable to the equity holders of the parent.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

Various financial ratios and internal targets are assessed and reported to the Board on a regular basis by management to monitor and support the key objectives as set out above. These ratios and targets include;

- an earnings to net interest expense ratio;
- a total net indebtedness to earnings ratio; and
- adjusted earnings to interest expense ratio.

Critical accounting estimates and judgements

Recoverability of non-financial assets other than goodwill

All assets are assessed for impairment at each reporting date by evaluating whether indicators of impairment exist in relation to the continued use of the asset by the consolidated entity. Impairment triggers include declining product or manufacturing performance, technology changes, adverse changes in the economic or political environment or future product expectations. If an indicator of impairment exists the recoverable amount of the asset is determined.

Fair value measurement

The Group measures certain financial instruments, including derivatives, and certain biological assets, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in its principal or most advantageous market at the measurement date. It is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial item assumes it is put to its highest and best use.

The Group utilises valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Costa Group Holdings Ltd

Notes to the consolidated Financial Statements

Accounting standards prescribe a fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- *Level 1:* Quoted (unadjusted) market prices in active markets for identical assets of liabilities.
- *Level 2:* Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly (i.e. as prices) or indirectly (i.e. derived by prices) observable.
- *Level 3:* Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

C7. Capital and leasing commitments

(a) Operating lease commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements:

	2016 \$ '000	2015 \$ '000
Payable		
- not later than one year	31,006	29,343
- later than one year and not later than five years	110,995	107,233
- later than five years	101,807	116,016
	<u>243,808</u>	<u>252,592</u>

Operating lease commitments are in relation to property rentals and various rentals of plant and equipment.

(b) Bank guarantees

The Group maintains bank guarantees of \$12,171,871 (2015: \$8,481,174).

In addition to the above, bank guarantees of \$2.5 million are committed in relation to an overdraft facility for the Driscoll's Australia joint venture.

Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Finance leases

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the Group are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. The interest expense is calculated using the interest rate implicit in the lease and is included in finance costs in the statement of profit and loss and other comprehensive income. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the group will obtain ownership of the asset, or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Operating leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as an expense on a straight line basis over the term of the lease.

Lease incentives received under operating leases are recognised as a liability and amortised on a straight line basis over the life of the lease term.

Costa Group Holdings Ltd
Notes to the consolidated Financial Statements

C8. Derivative financial instruments

	2016 \$ '000	2015 \$ '000
CURRENT		
Forward foreign currency contracts	242	-
	242	-
NON CURRENT		
Interest rate swaps	-	3,337
	-	3,337

Measurement of fair values

The fair value of the financial assets and financial liabilities is the amount at which the asset could be sold or the liability transferred in a current transaction between market participants, other than in a forced or liquidation sale. The financial liabilities above disclosed in Note E6 are the only financials assets and liabilities of the Group that are measured at fair value. The carrying amounts of financial assets and financial liabilities not measured at fair value are a reasonable approximation of fair value.

Fair value hierarchy

When measuring the fair values of financial assets and financial liabilities, the Group uses market observable data for identical assets or liabilities, which are Level 2 with reference to the AASB 13 Fair Value Hierarchy. The fair values of the derivative financial instruments are based on mark-to-market valuations.

D. GROUP STRUCTURE

D1. Joint ventures and associates

(a) Details of Associates and Joint Ventures

	Equity instrument	Ownership interest	Ownership interest	Measurement basis	Principal place of business and country of incorporation
		2016 %	2015 %		
Associates					
African Blue SARL	Ordinary shares	49	49	Equity Accounted	Moulay-Bousselham, Morocco
Polar Fresh Partnership	Ordinary shares	50	50	Equity Accounted	Victoria, Australia
Joint Ventures					
Driscolls Australia Partnership	Ordinary shares	50	50	Equity Accounted	Victoria, Australia

(b) Summarised financial information for associates and joint ventures

	African Blue SARL \$ '000	Polar Fresh Partnership \$ '000	Driscolls Australia Partnership \$ '000	Total \$ '000
Reconciliation of carrying amount in joint ventures and associates:				
Opening balance at 29 June 2015	12,244	8,534	6,809	27,587
Total share of profit	7,204	3,398	3,840	14,442
Reclassification	(333)	-	-	(333)
Other (FX movement against loan)	78	-	-	78
Dividends paid	(1,649)	(3,460)	(3,000)	(8,109)
Closing balance at 26 June 2016	17,544	8,472	7,649	33,665

(a) African Blue SARL

In 2007, the Group entered into a joint venture to establish African Blue, a Moroccan-based grower and marketer of blueberries. The African Blue joint venture holds an exclusive licence to grow Costa blueberry varieties in Morocco for sale worldwide (excluding Americas). In financial year 2016, sales revenue for African Blue was \$47,339,352 (2015: \$26,813,125), and net assets were \$30,137,457 (2015: \$19,375,918).

(b) Polar Fresh Partnership

The Polar Fresh Partnership is a provider of cold storage, warehousing and distribution solutions. Polar Fresh Partnership operates three cold storage sites throughout Australia. In financial year 2016, sales revenue for the Polar Fresh Partnership was \$8,714,674 (2015: \$7,175,041), and net assets were \$2,145,569 (2015: \$2,270,072).

(c) Driscoll's Australia Partnership

In 2010, the Group entered into a partnership with Driscoll's Strawberry Associates Inc. to form Driscoll's Australia Partnership, which is an Australian berry marketing business. The majority of the Groups' berries grown are marketed in Australia through the Driscoll's brand. In financial year 2016, sales revenue for the Driscoll's Australia Partnership was \$78,160,839 (2015: \$80,416,042), and net assets were \$15,640,287 (2015: \$13,850,964).

Costa Group Holdings Ltd

Notes to the consolidated Financial Statements

Recognition and measurement

Investments in joint ventures

Investments in joint ventures are accounted for using the equity method of accounting.

Investments in associates

Investments in entities over which the Group has the ability to exercise significant influence, but not control, are accounted for using equity method of accounting. The investment in associates is carried at cost plus post-acquisition changes in the Group's share of the associates' net assets, less any impairment in value.

Costa Group Holdings Ltd

Notes to the consolidated Financial Statements

D2: List of subsidiaries

The following are the Group's significant subsidiaries:

Subsidiaries of Costa Group Holdings Ltd:	Country of incorporation	Ownership interest held by the group	
		2016 %	2015 %
Costa Group Holdings (Finance) Pty Ltd	Australia	100	100
Costa's Pty Ltd	Australia	100	100
ACN 151 702 251 Pty Ltd	Australia	100	100
Costa Exchange Holdings Pty Ltd	Australia	100	100
Costa Asia Pty Ltd (formerly ACN 125 158 741 Pty Ltd)	Australia	100	100
Grape Exchange Management Euston Pty Ltd	Australia	100	100
North Fresh Pty Ltd	Australia	100	100
Vinefresh Pty Ltd	Australia	100	100
Southern Cross Overseas Pty Ltd	Australia	100	100
CostaExchange Pty Ltd (formerly CostaExchange Ltd)	Australia	100	100
Costa Berry Holdings Pty Ltd	Australia	100	100
Costa Berry Pty Ltd	Australia	100	100
Blueberry Investments Morocco Pty Ltd	Australia	100	100
Raspberry Fresh Pty Ltd	Australia	100	100
CBSP Pty Ltd	Australia	100	100
FruitExpress Pty Ltd	Australia	100	100
ACN 057 689 246 Pty Ltd	Australia	100	100
Exchange Innisfail Pty Ltd	Australia	100	100
Freshexchange Pty Ltd	Australia	100	100
Yandilla Park Pty Ltd	Australia	100	100
East Africa Coffee Plantations Pty Ltd	Australia	100	100
AgriExchange Pty Ltd	Australia	100	100
Vitor Marketing Pty Ltd	Australia	100	100
AgriExchange Farm Management Pty Ltd	Australia	100	100
Mushroom Holdings Exchange Pty Ltd	Australia	100	100
Mushroom Exchange Pty Ltd	Australia	100	100
Costa Fresh Logistics Pty Ltd	Australia	100	100
Tomato Exchange Pty Ltd	Australia	100	100
Grape Exchange Farming Pty Ltd	Australia	100	100
Grape Exchange Pty Ltd	Australia	100	100
Grape Exchange Farming Mundubbera Pty Ltd	Australia	100	100
Costa Group Finance Pty Ltd	Australia	100	100
Costa Farms Pty Ltd	Australia	100	100
Costa Logistics Pty Ltd	Australia	100	100
AgriExchange Murtho Pty Ltd	Australia	100	100
Hillston Investments Pty Ltd	Australia	100	100
Banana Exchange Pty Ltd	Australia	100	100
Innisfail Holdings Pty Ltd	Australia	100	100
Exchange Brisbane Pty Ltd	Australia	100	100
Costa Asia Ltd	Hong Kong	100	100
Costa China (Hong Kong) Ltd	Hong Kong	100	100

Costa Group Holdings Ltd

Notes to the consolidated Financial Statements

D3: Related party disclosures

(a) Transactions with associates and joint ventures

The group transacted with jointly controlled entities during the 2016 financial period as follows:

- African Blue SARL - Accrual of royalty income on blueberry sales of \$1,247,250 (2015: \$764,000).
- African Blue SARL - Dividends received amounting to \$1,648,773 (2015: \$1,353,810).
- African Blue SARL - Other costs charged of \$173,705 (2015: \$130,986).
- Polar Fresh Partnership - Dividends received amounting to \$3,460,029 (2015: \$2,745,143) and \$125,000 (2015: \$125,000) for transactional and management services provided.
- Polar Fresh Partnership - Receivable of \$19,097 (2015: \$3,819) for management fees.
- Driscoll's Australia Partnership - Commission paid on sale of berries \$17,903,083 (2015: \$13,820,539).
- Driscoll's Australia Partnership - Sales of produce \$136,592,526 (2015: \$109,126,476).
- Driscoll's Australia Partnership - Receivable of \$6,376,880 (2015: \$4,471,199) for sale of produce.
- Driscoll's Australia Partnership – Dividends received amounting to \$3,000,000 (2015: \$2,000,000).

The Group has a loan to African Blue (Joint Venture). This is to fund working capital and was incurred in prior years. The balance as at 26 June 2016 is AUD \$80,230 (2015: AUD \$1,630,585).

(b) Transactions with key management personnel of the entity or its parent and their personally related entities

Mr Kevin Schwartz (Director)

- An employee of Paine and Partners, LLC, an entity associated with P&P COS Holdings B.V. P&P COS Holdings B.V. is a 9.16% shareholder in Costa Group Holdings Ltd. Paine and Partners, LLC provided advisory services to the Group in relation to the Company's ASX Listing, for which advisory fees of AUD \$6,433,312 (2015: AUD \$Nil) were paid.

Mr Frank Costa (Director)

- Payment of rent by Costa's Pty Ltd to Frank Costa for lease of 1111 Aviation Road, Werribee of AUD \$1 (2015: AUD \$1).
- Costa Asset Management Pty Ltd as trustee for Costa Asset Management Unit Trust provided advisory services to the Group in relation to the Company's ASX Listing, for which an advisory fee was paid totalling \$5,374,474 GST Inclusive (2015: Nil). Although Costa Asset Management Unit Trust is not a related party of Frank Costa, it is understood that Costa Asset Management Unit Trust subsequently paid part of that advisory fee to entities associated with Frank Costa. The Group is unable to determine how much was paid to Frank Costa.

Costa Group Holdings Ltd
Notes to the consolidated Financial Statements

	2016 \$'000	2015 \$'000
Compensation received by key management personnel of the group:		
- Short-term employee benefits	3,591	3,341
- Post-employment benefits	106	65
- Long-term employee benefits	43	46
- Share-based payment benefits	301	742
	4,041	4,194

D4: Parent entity disclosures

(a) Summarised presentation of the parent entity, Costa Group Holdings Ltd

	2016 \$ '000	2015 \$ '000
Assets		
Current assets	28	211
Non current assets	414,649	264,944
Total Assets	414,677	265,155
Liabilities		
Current liabilities	5,879	2,017
Non current liabilities	43,879	39,803
Total Liabilities	49,758	41,820
Net Assets	364,919	223,335
Equity		
Share capital	395,688	238,564
Profit reserve	20,005	4,313
Share based payment reserve	523	1,759
Accumulated losses	(51,297)	(21,301)
Total Equity	364,919	223,335

(b) Summarised statement of comprehensive income

Loss for the year	(4,882)	(2,152)
Total comprehensive loss for the year	(4,882)	(2,152)

(c) Parent entity guarantees in respect of debts of its subsidiaries

The parent entity has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of certain subsidiaries. Further details of the Deed of Cross Guarantee and the subsidiaries subject to the Deed are disclosed in Note D5.

Costa Group Holdings Ltd

Notes to the consolidated Financial Statements

D5. Deed of cross guarantee

The wholly owned subsidiaries listed in Note D2 (excluding Hillston Investments Pty Ltd and Innisfail Holdings Pty Ltd) are parties to a deed of cross guarantee under which each company guarantees the debts of the others. These parties to the deed of cross guarantee consist of only the Australian wholly owned subsidiaries.

Pursuant to ASIC Class Order 98/1418 (as amended), these wholly owned subsidiaries listed in Note D2 (excluding Hillston Investments Pty Ltd and Innisfail Holdings Pty Ltd) are relieved from the Corporations Act requirements to prepare a financial report and director's report.

A consolidated statement of profit or loss and other comprehensive income and a consolidated statement of financial position for the year ended 26 June 2016, comprising the above listed parties to the deed which represent the "closed group", are set out below:

(a) Consolidated Statement of Comprehensive Income of the closed group

	2016 \$ '000	2015 \$ '000
Revenue	821,861	736,231
Less: Expense	(800,622)	(740,763)
Profit / (loss) before income tax expense	21,239	(4,532)
Income tax expense	(10,423)	(640)
Total loss / total comprehensive loss for the year	10,816	(5,172)

Costa Group Holdings Ltd
Notes to the consolidated Financial Statements

(b) Consolidated Statement of Financial Position of the closed group

	2016	2015
	\$ '000	*Restated \$ '000
ASSETS		
Current assets		
Cash and cash equivalents	4,002	9,504
Receivables	72,458	62,201
Inventories	17,904	16,124
Biological assets	37,408	31,571
Other assets	5,333	6,517
Assets classified as held for sale	-	4,242
Total current assets	137,105	130,159
Non-current assets		
Receivables	-	125
Other financial assets	327	2,036
Equity accounted investments	33,665	27,587
Intangible assets	142,782	141,865
Deferred tax assets	4,957	5,504
Property, plant and equipment	249,324	219,987
Total non-current assets	431,055	397,104
Total assets	568,160	527,263
LIABILITIES		
Current liabilities		
Payables	81,638	74,495
Borrowings	-	4,885
Provisions	13,217	13,483
Derivative financial liabilities	242	-
Current tax liabilities	5,879	1,563
Total current liabilities	100,976	94,426
Non-current liabilities		
Borrowings	103,766	228,004
Redeemable preference shares	-	1,119
Provisions	4,172	3,290
Derivative financial liabilities	-	3,337
Total non-current liabilities	107,938	235,750
Total liabilities	208,914	330,176
NET ASSETS	359,246	197,087
EQUITY		
Contributed equity	384,098	226,975
Share based payment reserve	523	1,759
Profit reserve	20,005	4,313
Accumulated losses	(45,380)	(35,960)
Total equity	359,246	197,087

*Refer to note E3 for details regarding the restatements as a result of the early adoption of the amendments made to Accounting Standards AASB 116 Property, plant and equipment and AASB 141 Agriculture in relation to bearer plants.

E. OTHER

E1. Share-based payments

	2016 \$ '000	2015 \$ '000
Share-based payments reserve	523	1,759

The share-based payments reserve is used to record the fair value of shares or equity-settled share-based payment options issued to employees.

Share-Based Payment Plan – Employee Share Option Plan

The Group continued to offer equity-settled share-based payments via employee participation in long term incentive schemes as part of the remuneration packages for the key management personnel and executives of the Company.

During the financial year 2016, 3,513,372 (2015: 2,455,000) options have been granted to key management personnel and the executive team under new option plans.

Recognition and measurement

The Group provides benefits to its employees and Directors in the form of share-based payment transactions, whereby services are rendered in exchange for shares or options ("equity-settled transactions").

The fair value of options and performance rights is recognised as an expense with the corresponding increase in equity (share-based payments reserve). The fair value is measured at grant date and recognised over the period during which the holder becomes unconditionally entitled to the options.

Measurement of Fair Values

The fair value of the options issued under this Option Plan was measured on using a Black-Scholes pricing model. The inputs used in the measurement of the fair values at grant date of the options were as follows:

Employee share option programs	2016		2015	
	CEO	KMP and executives	KMP and executives	Non-executive directors
Number issued	1,891,944	1,621,428	2,005,000	450,000
Fair value at grant date	\$ 0.23	\$ 0.39	\$ 0.19	\$ 0.17
Share price at grant date	\$ 2.16	\$ 2.30	\$ 1.29	\$ 1.29
Exercise price	\$ 2.81	\$ 2.25	\$ 1.45	\$ 1.45
Expected volatility	27.00%	27.00%	28.43%	28.43%
Expected dividend yield	3.75%	3.75%	0.00%	0.00%
Risk-free rate	1.98%	1.81%	2.67%	2.58%

The expected volatility has been based on an evaluation of the historical volatility using comparable companies to the Group. The Group has accounted for the options as equity settled share based payments.

Costa Group Holdings Ltd

Notes to the consolidated Financial Statements

Reconciliation of outstanding share options

The number and weighted average exercise prices of options under the employee share option program are as follows:

	Number of options 2016	Weighted average exercise price 2016	Number of options 2015	Weighted average exercise price 2015
Opening balance	21,671,752	1.45	19,216,752	1.45
Disposed for cash or settled for shares during the year	(21,221,752)	1.45	-	1.45
Granted during the year	3,513,372	2.51	2,455,000	1.45
Closing balance	3,963,372	2.39	21,671,752	1.45
Exercisable at year end	450,000	1.45	-	-

The options outstanding as at 26 June 2016, which have not been vested, have an exercise price of \$2.51 (2015: \$1.45). All outstanding options in 2015 vested as part of the IPO undertaken on 24 July 2015.

E2. Taxation

	2016 \$ '000	2015 \$ '000
(a) Components of tax expense		
Current tax	7,387	3,296
Deferred tax	3,101	(886)
Over provision in prior years	(65)	(1,770)
	10,423	640

(b) Prima facie tax payable

The prima facie tax payable on profit before income tax is reconciled to the income tax expense as follows:

Profit before income tax	35,681	4,953
Prima facie income tax expense on profit before income tax at 30.0%	10,704	1,486
Add tax effect of:		
- non-deductible entertainment	146	35
- deferred tax asset not recognised on capital losses	1,726	-
- goodwill impairment loss	-	2,085
- share-based payments expense	134	394
- other assessable items	44	-
- other non-deductible items	28	25
	2,078	2,539
Less tax effect of:		
- research and development tax credits	750	750
- non-assessable, non-exempt income	1,544	865
- over provision in prior years	65	1,770
	2,359	3,385
Income tax expense attributable to profit	10,423	640

Costa Group Holdings Ltd
Notes to the consolidated Financial Statements

	2016	2015
	\$ '000	\$ '000
(c) Current tax		
Current tax relates to the following:		
<i>Current tax liabilities / (assets)</i>		
Opening balance	1,563	2,101
Current year tax expense	7,387	3,296
Tax refunds/(payments)	(2,389)	(2,064)
Foreign withholding tax credits received	(207)	-
Under / (over) provisions	(475)	(1,770)
Closing balance	<u>5,879</u>	<u>1,563</u>
(d) Deferred tax		
Deferred tax relates to the following:		
<i>Deferred tax assets</i>		
The balance comprises:		
Property, plant and equipment	-	1,550
Provisions	5,343	5,357
Trade and other payables	2,973	3,167
Capital (black hole) deductions (section 40-880)	8,534	2,574
Borrowings	-	725
Other	760	60
Derivative financial liabilities	73	1,043
	<u>17,683</u>	<u>14,476</u>
<i>Deferred tax liabilities</i>		
The balance comprises:		
Property, plant and equipment	1,362	-
Trade and other receivables	260	68
Biological assets	9,495	6,554
Intangible assets	1,609	2,306
Derivative financial assets	-	44
	<u>12,726</u>	<u>8,972</u>
Net deferred tax assets	<u>4,957</u>	<u>5,504</u>
(e) Deferred tax expense included in income tax comprises		
Decrease / (increase) in deferred tax assets	(650)	(2,188)
Increase / (decrease) in deferred tax liabilities	3,751	1,302
	<u>3,101</u>	<u>(886)</u>
(f) Deferred tax movement		
Opening balance – net deferred tax asset	5,504	4,618
Other	(483)	-
(Decrease)/increase in DTA recognised in P&L	(3,101)	886
(Decrease)/increase in DTA recognised in equity	3,037	-
Closing balance – net deferred tax asset	<u>4,957</u>	<u>5,504</u>

The Group's franking account balance as at 26 June 2016 is \$11,284,609 (2015: \$17,310,771).

Costa Group Holdings Ltd

Notes to the consolidated Financial Statements

Recognition and measurement

Current income tax expense or benefit is the tax payable or receivable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

Deferred tax assets and liabilities are recognised for temporary differences at the applicable tax rates when the assets are expected to be recovered or liabilities are settled. No deferred tax asset or liability is recognised in relation to temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax Consolidation

The parent entity Costa Group Holdings Ltd and its subsidiaries have implemented the tax consolidation legislation and have formed a tax consolidated Group. The parent entity and subsidiaries in the tax consolidated Group have entered into a tax funding agreement such that each entity in the tax consolidated Group recognises the assets, liabilities, expenses and revenues in relation to its own transactions, events and balances only. This means that:

- the parent entity recognises all current and deferred tax amounts relating to its own transactions, events and balances only;
- the subsidiaries recognise current or deferred tax amounts arising in respect of their own transactions, events and balances; and
- current tax liabilities and deferred tax assets arising in respect of tax losses are transferred from the subsidiary to the head entity as inter-company payables or receivables.

The tax consolidated Group also has a tax sharing agreement in place to limit the liability of subsidiaries in the tax consolidated Group arising under the joint and several liability requirements of the tax consolidation system, in the event of default by the parent entity to meet its payment obligations.

Critical accounting estimate and judgement

Income Tax

Income tax benefits are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

E3. New accounting standards

Amendments to AASB 116 Property, Plant and Equipment and AASB 141 Agriculture distinguish bearer plants from other biological assets. Bearer plants are solely used to grow produce over their productive lives and are seen to be similar to an item of machinery. They will therefore now be accounted for under AASB 116 Property, Plant and Equipment, and will be measured using the *cost less accumulated depreciation* method. Agricultural produce growing on bearer plants will remain within the scope of AASB 141 Agriculture and continue to be measured at fair value less costs to sell.

As required under the standards, these changes have been applied retrospectively to the earliest period presented in the financial statements (FY2015). As permitted under the transitional rules, the fair value of the bearer plants at 29 June 2014 will be the deemed opening cost value at the start of FY2015. They will then be depreciated over their remaining useful life using the straight line method. Furthermore, costs associated with re-planting will now be capitalised instead of expensed as they are incurred.

Costa Group Holdings Ltd

Notes to the consolidated Financial Statements

The table below summarises the impact of these changes on the Group's financial statements.

	2015 Previously stated \$ '000	Increase / (Decrease) \$ '000	2015 Restated \$ '000
Consolidated statement of profit and loss and other comprehensive income (extract)			
Other expenses	(55,452)	332	(55,120)
Gain on fair value adjustments – biological assets	(252)	3,602	3,350
Depreciation and amortisation expense	(18,481)	(1,073)	(19,554)
Impairment losses	(15,703)	(3,238)	(18,941)
Profit before income tax	5,330	(377)	4,953
Income tax benefit/(expense)	(753)	113	(640)
NPAT attributable to shareholders	4,577	(264)	4,313
Basic earnings per share (cents per share)	0.25	(0.14)	0.11
Diluted earnings per share (cents per share)	0.22	(0.11)	0.11
Consolidated statement of financial position (extract)			
Biological assets (non-current)	4,305	(4,305)	-
Property, plant and equipment	216,059	3,928	219,987
Deferred tax assets	5,391	113	5,504
Total assets	527,876	(264)	527,612
Net assets	197,701	(264)	197,437
Statement of changes in equity (extract)			
Profit reserve	4,577	(264)	4,313
Total equity	197,701	(264)	197,437

New Accounting Standards and Interpretations

Since 29 June 2015, the Group has adopted the following new and revised Accounting Standards issued by the Australian Accounting Standards Board (AASB) that are relevant to the Group's operations:

- AASB 2014-6 *Amendments to Australian Accounting Standards – Agriculture: Bearer Plants*
- AASB 2015-3 *Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality*
- AASB 2015-4 *Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent*

The adoption of these standards did not have a significant impact on the Group's financial position or performance.

Costa Group Holdings Ltd

Notes to the consolidated Financial Statements

Recently issued or amended Accounting Standards

The following relevant Australian Accounting Standards and Interpretations have been issued or amended but are not yet effective and the Group has not yet adopted them:

- AASB 15 *Revenue from Contracts with Customers*
- AASB 9 *Financial Instruments*
- AASB 16 *Leases*
- AASB 2014-10 *Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- AASB 2016-1 *Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets or Unrealised Losses*
- AASB 2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107*
- AASB 1057 *Application of Australian Accounting Standards*
- AASB 2015-5 *Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception*
- AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101*
- AASB 2015-1 *Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle*
- AASB 2014-9 *Amendments to Australian Accounting Standards – Equity method in Separate Financial Statements*
- AASB 2014-4 *Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation*
- AASB 2014-3 *Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations*

The Group is currently assessing the impact of these standards to its financial position and performance.

E4. Auditor's Remuneration

	2016	2015
Audit and review services provided by KPMG		
Audit and review of financial reports	340,700	245,700
Other services provided by KPMG		
Taxation compliance and other taxation advisory services (including R&D)	175,000	277,030
Other assurance services (including IPO services)	-	785,000
Other services (including IPO services)	21,000	575,230
	196,000	1,637,260
Total Remuneration of KPMG Australia	536,700	1,882,960

E5. Assets classified as held for sale

	2016 \$ '000	2015 \$ '000
Water licences (a)	-	2,315
Property, plant and equipment (b)	-	1,927
	-	4,242

Costa Group Holdings Ltd

Notes to the consolidated Financial Statements

(a) In 2015, the Group held Water access licenses (water rights) across various locations in Australia, in which the following two were classified as assets held for sale:

- St George (Western Queensland)
- Darling River, Menindee (New South Wales)

During 2016, these rights have been sold to external parties in accordance with the closure of these farms.

(b) In 2015, the Group also had property, plant and equipment held for sale from the Mushroom sites which were no longer operational. One of the two sites was sold in 2016.

Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale or held-for-distribution if it is highly probable that they will be recovered primarily through sale rather than through continuing use. This condition is regarded as met when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from date of classification.

Immediately before classification as held-for-sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held-for-sale and subsequent gains or losses on re-measurement are recognised in the statement of comprehensive income. Gains are not recognised in excess of any cumulative impairment loss.

Once classified as held-for-sale or held-for-distribution, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity accounted investments are no longer equity accounted.

Critical accounting estimate and judgement

Valuation of assets held-for-sale

Assets held-for-sale are valued at the lower of cost and fair value less costs to sell upon classification. There are no indicators that assets held-for-sale are impaired. Based on recent market transactions entered into by the Group, the sales price of these assets are higher than the carrying value

E6. Other financial assets

	2016 \$ '000	2015 \$ '000
NON CURRENT		
Loans to related party associates	80	1,631
Interest rate swap-option*	-	8
<i>Available for sale financial assets</i>		
Shares in unlisted corporations	247	397
	<u>327</u>	<u>2,036</u>

*Refer to Note C8 for disclosure on fair valuation technique of this asset.

E7. Other accounting policies

Research and development expenditure

Expenditure on research activities is recognised as an expense when incurred.

Expenditure on development activities is capitalised only when technical feasibility studies demonstrate that the project will deliver future economic benefits and these benefits can be measured reliably. Capitalised development expenditure is stated at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost of its estimated useful life commencing when the intangible asset is available for use.

Other development expenditure is recognised as an expense when incurred.

Bonus plan

The Group recognises a provision when a bonus is payable in accordance with the employee's contract of employment, and the amount can be reliably measured.

Government grants

Government grants are initially recognised as deferred income at fair value when there is recoverable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Subsequently, they are recognised in the statement of comprehensive income to offset the applicable expenses incurred by the Group as stated in the provisions of the government grants.

Directors' Declaration

- 1 In the opinion of the directors of Costa Group Holdings Ltd ("the Company"):
 - (a) the consolidated financial report and notes A1 to E6 and the Remuneration Report in the Directors' Report, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 26 June 2016 and of its performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2 There are reasonable grounds to believe that the Company and the Group entities identified in Note D5 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and the Group entities pursuant to ASIC Class Order 98/1418.
- 3 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 26 June 2016.
4. The directors draw attention to the "Overview" section of the consolidated financial report, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Dated at Melbourne 24th day of August 2016.



Harry Debney
Managing Director & CEO



Neil Chatfield
Chairman



Independent auditor's report to the members of Costa Group Holdings Limited

Report on the financial report

We have audited the accompanying financial report of Costa Group Holdings Limited (the Company), which comprises the Consolidated Statement of Financial Position as at 26 June 2016, the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year ended on that date, the Overview on pages 39 to 41, notes A1 to E7 comprising a summary of significant accounting policies and other explanatory information and the Directors' Declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In the Overview, the Directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.



Auditor's opinion

In our opinion:

- (a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 26 June 2016 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in the Overview.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 22 to 32 of the Directors' Report for the year ended 26 June 2016. The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the Remuneration Report of Costa Group Holdings Limited for the year ended 26 June 2016, complies with Section 300A of the *Corporations Act 2001*

KPMG

KPMG

Paul J McDonald

Partner

Melbourne

24 August 2016