



# **Costa Group Holdings Limited**

## **Appendix 4E**

### **Preliminary Final Report to the ASX**

**For the financial year ended 1 July 2018**

**ASX Listing Rule 4.3A**

**ABN 68 151 363 129**

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## Reporting Period

<b>Financial year ended:</b>	<b>Previous corresponding period:</b>
1 July 2018	25 June 2017

## 1. Results for announcement to the market

### Key Information

	<b>2018</b>	<b>2017</b>	<b>% change</b>
	<b>Results</b>	<b>Results</b>	
	<b>\$ '000</b>	<b>\$ '000</b>	
Revenue from ordinary activities	1,002,027	909,054	10.2%
Profit / (loss) from ordinary activities	117,778	57,642	104.3%
Profit / (loss) for the period attributable to members	115,162	57,713	99.5%
Earnings before interest, tax, depreciation, amortisation, SGARA and material items <sup>1</sup>	150,793	115,197	30.9%
Net profit after tax before SGARA and material items <sup>1</sup>	76,695	60,713	26.3%

1. Results have excluded the impact of material items to allow shareholders to make a meaningful comparison with the prior year comparative. Further details on the material items has been provided in Note A3 of the Consolidated Financial Statements.

### Explanation of results

Revenue from ordinary activities in FY2018 was up \$93.0 million, or 10.2%, from \$909.1 million with revenue growth achieved across all reportable segments. The Produce segment recorded solid revenue growth with the avocado and citrus categories being the largest contributors. The International segment results included the consolidated results of African Blue from November 2017 following the majority acquisition of the business, which also contributed to the increase in revenue.

Net profit after tax in FY2018 was up \$57.4 million, or 99.5%, from \$57.7 million to \$115.2m. The increase was primarily driven by:

- Strong performance from the Produce and International segments; and
- a one-off gain on notional disposal of the 49% equity investment in African Blue of \$48.3 million as part of the step-up acquisition accounting.

This was partially offset by:

- Decrease in fair value on biological assets of \$4.0 million;
- higher depreciation and amortisation expense driven by increased capital expenditure across the Produce and International segments; and
- higher tax expense in line with earnings growth.

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

**Dividends or dividend distribution plan**

	Cents per share	Franking %
<b>Paid to ordinary shareholders</b>		
<b>Declared and paid during the year</b>		
Final 2017 dividend	7.0 cents	100% franked
Interim 2018 dividend	5.0 cents	100% franked
<b>Declared after end of year</b>		
Final 2018 dividend <sup>1</sup>	8.5 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 13 September 2018 and the company expects to pay the dividend on 4 October 2018. This dividend has not been accrued for at year end.

There was no dividend reinvestment plan in operation during the financial years ended 1 July 2018 and 25 June 2017.

**2. Earnings and Net Tangible Asset per Share**

Please refer to Note A4, page 50 of the notes to the financial statements for Earnings per Share information.

	2018 Cents	2017 Cents
Net tangible asset backing per ordinary share	69.92	79.31

**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 77 of the Financial Statements.

**4. Associates and Joint Ventures**

The Group's associates and joint ventures are included at Note D1, page 75.

**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 1 July 2018

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 1 July 2018.

## 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 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 and Aristocrat Leisure. He was previously a Non-executive director of Iron Mountain Inc. (to September 2017), 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 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 four 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.

Harry is currently a Non-executive director of Kogan.com Ltd and Chair and Non-executive director of The Yield Pty Ltd.

*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

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Rothschild Australia. Tiffany is an experienced public company director with broad expertise in finance, strategy, M&A, risk and governance.

Tiffany currently serves as Non-Executive director of Washington H. Soul Pattinson and as Non-Executive director and Risk and Audit Committee Chair of Computershare Ltd and Smart Parking Ltd.

**Janette Kendall B.Bus (Marketing), FAICD**  
**Independent Non-Executive Director**

Director since 11 October 2016. Member of the Audit and Risk Committee and Nomination Committee.

Janette has held various senior management roles in her career including Senior Vice President of Marketing at Galaxy Entertainment Group in Macau, China; Executive General Manager of Marketing at Crown Melbourne; General Manager, Pacific Brands; Managing Director of emitch Limited; and Managing Director of Clemenger Digital and Clemenger Proximity.

Janette is currently a non-executive director of Wellcom Group, Nine Entertainment, Vicinity Centres and Placer Property.

**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. Peter was previously a Non-executive director of the NSX listed company Ricegrowers Ltd (to August 2015), Chairman and Non-executive director of Huon Aquaculture Ltd (to August 2016), and a Non-executive director of PMP Ltd (to August 2016).

**Kevin Schwartz BSc (Accountancy)**  
**Non-Executive Director**

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

Kevin is the Chief Executive Officer of Paine Schwartz Partners (since February 2017) which he cofounded in 2006. He was a Managing Director at the predecessor firm, Fox Paine & Company, which he joined in 2002.

Kevin serves on the boards of directors of Foodchain ID, Lyons Magnus, Verdesian Life Sciences, and Wawona Delaware Holdings, LLC. 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, AgBiTech, Icicle Seafoods, Seminis, Inc., Sunrise Holdings (Delaware), Inc. and on the Board of United American Energy Corp.

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

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**2. COMPANY SECRETARY**

*David Thomas LLB (Hons), BSc*

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 24 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	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Neil Chatfield	6	6	7	6 <sup>1</sup>	4	4	2	2
Frank Costa	6	6	7	2 <sup>1</sup>	4	2	2	2
Harry Debney	6	6	7	6 <sup>1</sup>	4	4 <sup>1</sup>	2	2 <sup>1</sup>
Tiffany Fuller	6	6	7	7	4	1 <sup>1</sup>	2	2
Janette Kendall	6	6	7	7	4	1 <sup>1</sup>	2	2
Peter Margin	6	6	7	7	4	4	2	2
Kevin Schwartz	6	4	7	-	4	-	2	1

Notes:

1. Not a member of the Committee. Attended the meeting as a guest.

**5. PRINCIPAL ACTIVITIES**

Costa Group is Australia's leading 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, avocados 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.

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**6. SIGNIFICANT CHANGES IN STATE OF AFFAIRS DURING THE YEAR**

In November 2017, the Group signed an agreement to acquire an additional 41% of the shares and voting interests in African Blue SARL (African Blue). The transaction involved the Group initially acquiring 37% of the issued shares, with options enabling it to acquire an additional 4% over the next 3 years. As a result, the Group's equity interest in African Blue increased from 49% to 86%, giving it control over the company. The transaction settled on 27 November 2017. From this date, African Blue is accounted for as a subsidiary of the Group.

Other than the above matters and those matters referred to in the Financial Statements, there have been no other significant changes in the state of affairs of the Group during the financial year.



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7. OPERATING AND FINANCIAL REVIEW  
 RESULTS FOR THE FINANCIAL YEAR ENDED 1 JULY 2018

SUMMARY OF GROUP PERFORMANCE

	FY2018 (\$m)	vs FY2017 (%)
Revenue	1002.0	▲ 10.2%
EBITDA BEFORE SGARA <sup>1,2</sup>	150.8	▲ 30.9%
NPAT-S <sup>1,2</sup>	76.7	▲ 26.3%

- Strong result for the year with all reportable segments achieving revenue growth
- Continued earnings growth contribution from the Produce segment with the citrus category being the standout
- International segment growth inclusive of African Blue consolidated from November 2017

Table 1: Summary of results for FY2018 compared to prior year

Consolidated income statement				
A\$m	FY2018	FY2017	Change \$	Change %
Revenue	985.6	895.3	90.2	10.1%
Other revenue	16.5	13.7	2.8	20.1%
<b>Total Revenue</b>	<b>1,002.0</b>	<b>909.1</b>	<b>93.0</b>	<b>10.2%</b>
Raw materials, consumables & third party purchases	(321.0)	(336.0)	15.0	(4.5%)
Employee benefits expense	(331.3)	(300.4)	(30.8)	10.3%
Other operating expense	(205.8)	(173.6)	(32.2)	18.5%
Share of associates profit	6.8	16.2	(9.4)	(57.9%)
<b>EBITDA-S<sup>1,2</sup></b>	<b>150.8</b>	<b>115.2</b>	<b>35.6</b>	<b>30.9%</b>
<i>EBITDA-S margin</i>	15.0%	12.7%		2.3ppts
Fair value movements in biological assets	(4.0)	5.9	(9.9)	(167.6%)
<b>EBITDA</b>	<b>146.8</b>	<b>121.1</b>	<b>25.7</b>	<b>21.3%</b>
Depreciation & amortisation	(34.7)	(27.8)	(6.9)	24.7%
Profit/(loss) on sale of assets	(0.3)	0.3	(0.7)	(212.4%)
<b>EBIT</b>	<b>111.8</b>	<b>93.6</b>	<b>18.2</b>	<b>19.5%</b>
Net interest expense	(7.2)	(5.3)	(1.9)	36.1%
<b>Net profit/(loss) before tax</b>	<b>104.7</b>	<b>88.3</b>	<b>16.3</b>	<b>18.5%</b>
Income tax expense	(28.1)	(23.6)	(4.5)	19.2%
<b>NPAT (before material items)</b>	<b>76.6</b>	<b>64.7</b>	<b>11.8</b>	<b>18.2%</b>
Material items (before tax)	40.3	(8.1)	48.3	
Tax on material items	1.0	0.9	0.0	
Non-controlling interest	(2.6)	0.1	(2.7)	
<b>Net profit after tax attributable to shareholders</b>	<b>115.2</b>	<b>57.7</b>	<b>57.5</b>	<b>99.6%</b>
Transacted Sales <sup>1</sup>	1,336.1	1,179.2	156.9	13.3%
NPAT-S <sup>1,2</sup>	76.7	60.7	16.0	26.3%

Notes:

1. Transacted Sales, EBITDA-S and NPAT-S are non-IFRS measures. See Table 8 for further details. Refer Table 9 for a reconciliation of Transacted Sales to revenue.
2. NPAT-S and EBITDA-S are presented before material items.

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**Financial highlights**

**Revenue**

Revenue increased by \$93.0 million from the prior year with all reportable segments growing revenue. Strong growth achieved in particular in the Produce (\$57.1m) and International (\$62.5m) segments.

**Operating expenses**

Raw materials, consumables and 3<sup>rd</sup> party purchases expenses decreased by \$15.0 million due to change in mix of 3<sup>rd</sup> party and own farm costs and a key 3<sup>rd</sup> party grower changing to an agency relationship in the Produce segment.

Employee benefits expenses increased by \$30.8 million in line with the revenue growth achieved across the domestic and international businesses.

Other operating expenses increased \$32.2 million driven predominantly by an increase in occupancy expenses with new Avocado orchards leased through Macquarie Agriculture Funds Management (Macquarie), and higher variable rent on the Vitalharvest citrus properties due to strong FY2018 performance

**Share of associates profit**

Profits from associates decreased by \$9.4 million with the change in African Blue being classified as a subsidiary from November 2017.

**EBITDA before SGARA**

EBITDA before SGARA increased by \$35.6 million from prior year driven predominantly by the Produce and International segments. The increase in Produce was led by a strong performance in the citrus category. The International segment increased with the acquisition of an additional 37% of African Blue in November resulting in its consolidation and China also recording a modest profit.

**Fair value movements in biological assets**

SGARA fair value movement was down \$4.0 million during the year. The largest driver of the decrease was due to release of African Blue biological assets acquired following harvest. SGARA fair value movement for citrus was also negative, due to the 2018 calendar crop being a smaller 'off-year' crop compared to the prior year.

**Depreciation and amortisation**

Depreciation and amortisation increased by \$6.9 million in line with increased capital expenditures as well as consolidation of African Blue JV from November 2017.

**Net interest expense**

Net finance cost up \$1.9 million from FY2017, primarily as a result of the increased debt from the acquisition of African Blue and growth related capital expenditures.

**Tax expense**

Higher tax expense in line with the increased earnings, with an effective tax rate of 26.9% compared to 26.7% in FY2017.

**Material items**

Material items (before tax) were \$40.3 million, and relate to the African Blue acquisition. This includes a gain of \$48.3 million recognised on the disposal of the original 49% interest at fair value, net of transaction costs of \$3.5 million and amortisation of intangibles of \$4.6 million relating to customer relationships and reacquired rights recognised on consolidation.

**NPAT-S**

NPAT-S increased by \$16.0 million from prior year due to factors described above. Higher EBITDA-S was offset by an increase in depreciation and amortisation expense, finance costs and tax expense.

**Dividends**

The Board has declared a final dividend of 8.5 cents per share on 23 August 2018. This brings the total dividend payment for FY2018 to 13.5 cents per share, an increase of 22.7% from prior year. This equates to approximately 56% of NPAT-S before material items. Dividends are expected to be fully franked.

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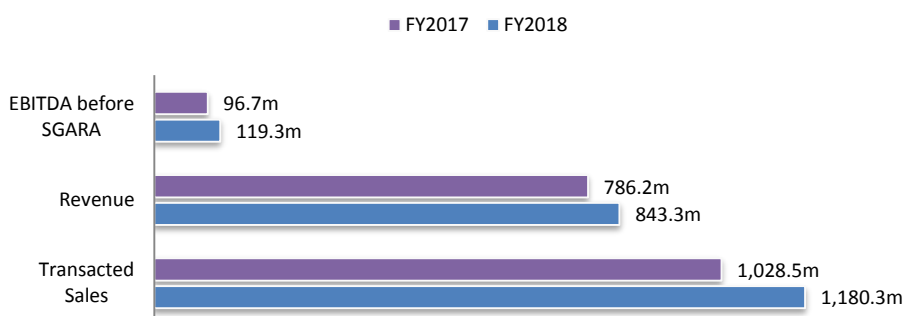
**SEGMENT INFORMATION**

**PRODUCE**

Highlights of financial results:

	FY2018 (\$m)	vs FY2017 (%)
<b>Transacted Sales</b>	<b>1,180.3</b>	<b>▲ 14.8%</b>
<b>Revenue</b>	<b>843.3</b>	<b>▲ 7.3%</b>
<b>EBITDA-S</b>	<b>119.3</b>	<b>▲ 23.4%</b>

**Figure 1: Revenue, Transacted Sales and EBITDA before SGARA results**



**Table 2: Selected financial information for the Produce segment**

Produce A\$m	FY2018	FY2017	Change
Transacted Sales	1,180.3	1,028.5	151.8
Revenue	843.3	786.2	57.1
EBTIDA-S	119.3	96.7	22.6
EBITDA-S margin	14.1%	12.3%	1.8%

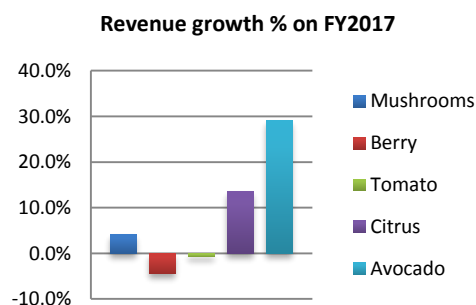
Produce revenue increased by \$57.1 million on FY2017. The drivers for the increase include:

- Avocado sales growth through addition of the new avocado farms in FNQ and Central QLD<sup>1</sup>, and increased marketing activities, both avocado and banana;
- Strong citrus revenue growth, with favourable seasonal timing, benefit of calendar 2017 biennial 'on-year crop' and strong export demand contributing; and

This was partially offset by a challenging year in the berry category with lower production volumes in Tasmania and on the Atherton Tableland reducing shoulder season pricing benefits.

EBITDA before SGARA increased by \$22.6 million against FY2017. This was predominantly driven by revenue growth in

the citrus and avocado categories as well as a solid contribution from the tomato category led by continuous improvement at the new 10ha glasshouse.



1. Acquisition of avocado orchards have been completed primarily, but not exclusively, in conjunction with Macquarie Agriculture Funds Management (Macquarie). For those orchards with which it was involved, Macquarie purchased the land, biological assets, water and infrastructure assets with Costa entering into a 20-year lease with Macquarie to operate the orchards.

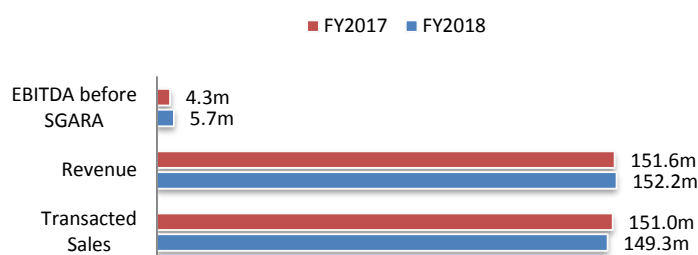
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**COSTA FARMS & LOGISTICS**

Highlights of financial results:

	FY2018 (\$m)	vs FY2017 (%)
<b>Transacted Sales</b>	<b>149.3</b>	<b>▼ 1.1%</b>
<b>Revenue</b>	<b>152.2</b>	<b>▲ 0.4%</b>
<b>EBITDA-S</b>	<b>5.7</b>	<b>▲ 31.1%</b>

**Figure 2: Revenue, Transacted Sales and EBITDA before SGARA results**



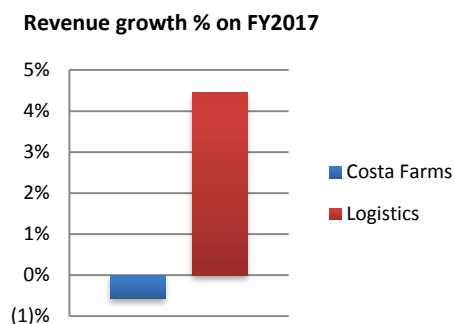
**Table 3: Selected financial information for the CF&L segment**

<b>Costa Farms and Logistics</b>			
<b>A\$m</b>			
	<b>FY2018</b>	<b>FY2017</b>	<b>Change</b>
Transacted Sales	149.3	151.0	(1.7)
Revenue	152.2	151.6	0.6
EBTIDA-S	5.7	4.3	1.4
EBITDA-S margin	3.7%	2.9%	0.8%

Revenue up a modest \$0.6 million compared to the prior year, mainly due to volumetric growth in logistics through increased utilisation of the Eastern Creek facility. Trading flow across the wholesale business was flat, with lower availability of product from core product lines offset with higher services income.

EBITDA before SGARA increased by \$1.4 million. This was primarily due to:

- FY2017 results includes a \$5 million onerous lease provision recognised for the Eastern Creek DC
- Underlying logistics contribution was reduced from closure of Polar Fresh operations (substantially exited during FY2017) and renewed Jandakot contract at lower margins; and
- Wholesale market earnings were lower reflective of the reduced trading flow.



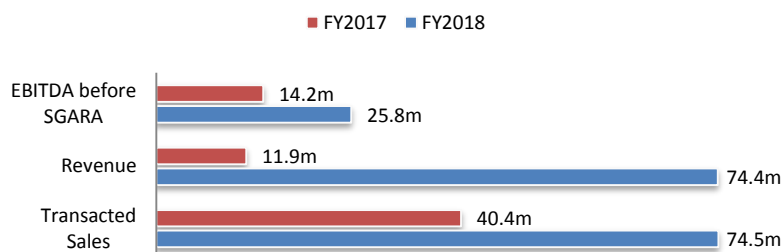
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**INTERNATIONAL**

Highlights of financial results:

	FY2018 (\$m)	vs FY2017 (%)
<b>Transacted Sales</b>	<b>74.5</b>	<b>▲ 84.4%</b>
<b>Revenue</b>	<b>74.4</b>	<b>▲ 523.8%</b>
<b>EBITDA-S</b>	<b>25.8</b>	<b>▲ 82.2%</b>

**Figure 3: Revenue, Transacted Sales and EBITDA before SGARA results**



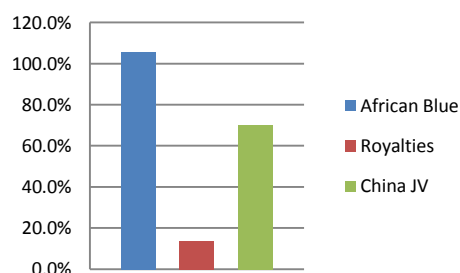
**Table 4: Selected financial information for the International segment**

<b>International</b> <b>A\$m</b>	<b>FY2018</b>	<b>FY2017</b>	<b>Change</b>
Transacted Sales	74.5	40.4	34.1
Revenue	74.4	11.9	62.5
EBTIDA-S	25.8	14.2	11.7
EBITDA-S margin	nm	nm	nm

Transacted sales increased by \$34.1 million compared to prior year primarily due to the additional 37% acquisition of the African Blue from November 2017. China revenue growth was primarily due to the harvest of an additional 20ha of blueberries from the second farm at Manlai.

EBITDA before SGARA growth was \$11.7 million driven by the consolidation of African Blue, China growth, as well as increased royalty income from both Morocco and Driscoll's US licensing streams.

**Transacted Sales growth % on FY2017**



**BALANCE SHEET**

**Table 5: Selected consolidated balance sheet for the year ended 1 July 2018**

<b>Selected Balance Sheet</b>			
<b>A\$m</b>			
<b>As at 1 July 2018</b>	<b>2018</b>	<b>2017</b>	<b>Change</b>
Cash and cash equivalents	60.4	22.6	37.8
Receivables	109.8	87.4	22.3
Inventories	26.0	18.1	7.9
Property, plant and equipment	364.6	281.9	82.6
Intangible assets	255.8	143.1	112.7
Biological assets	47.8	46.0	1.8
Equity accounted investments	11.4	32.4	(21.0)
Other assets	13.7	16.7	(2.9)
<b>Total assets</b>	<b>889.6</b>	<b>648.2</b>	<b>241.3</b>
Payables	127.0	102.7	24.3
Provisions	26.1	25.0	1.1
Borrowings	236.5	106.8	129.7
Other liabilities	20.7	17.6	3.1
<b>Total liabilities</b>	<b>410.3</b>	<b>252.1</b>	<b>158.2</b>
<b>Net assets</b>	<b>479.3</b>	<b>396.2</b>	<b>83.1</b>

**Working capital**

Increase in working capital accounts is primarily due to business growth, and consolidation of African Blue balances in FY2018.

**Property, plant and equipment**

Property, plant and equipment increased by \$82.6 million driven by consolidation of the African Blue and growth project expenditures.

**Biological assets**

Biological assets increased \$1.8 million to \$47.8 million in FY2018, resulting from acquisitions of new avocado farms. This was partially offset by the decrease in fair value led by the citrus and berry categories.

**Equity accounted investments**

Equity accounted investment decreased by \$21.0 million due to African Blue now being classified as a subsidiary. This was partially offset by solid earnings contribution from the Driscoll's Australia marketing joint venture.

**Other assets and liabilities**

Other assets reduced by \$2.9 million with the FY2017 deposit paid for the Monarto expansion project transferring from prepayments to property, plant and equipment in FY2018.

Other liabilities increased by \$3.1 million primarily driven by the put and call option liability recognised as part of the African Blue transaction.

## Costa Group Holdings Ltd

### Directors' report

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#### NET DEBT

**Table 6: Consolidated net debt as at 1 July 2018**

<b>Net debt</b>		
<b>A\$m</b>		
<b>As at 1 July 2018</b>	<b>2018</b>	<b>2017</b>
Bank loans	237.3	108.0
Capitalised loan establishment fees included in borrowings	(0.9)	(1.2)
<b>Gross debt</b>	<b>236.5</b>	<b>106.8</b>
Less: Cash and cash equivalents	(60.4)	(22.6)
<b>Net debt</b>	<b>176.1</b>	<b>84.2</b>

Net debt as at 1 July 2018 was \$176.1 million and consisted of \$60.4 million in cash and \$237.3 million of borrowings. The increase in borrowings reflects cash consideration paid for the African Blue transaction of \$68.5 million in November 2017 and capital expenditure on growth projects incurred during the year.

Under the existing domestic banking facilities in place during the year, the Group was required to meet set covenant compliance ratios which included total leverage ratio (TLR) and interest coverage ratio (ICR). All covenants were comfortably met.

## Costa Group Holdings Ltd

### Directors' report

For the year ended 1 July 2018

## CASH FLOW

Table 7: Cash flow before financing, tax, dividends and material items

Consolidated cash flow			
A\$m			
	FY2018	FY2017	Change
<b>EBITDAS before material items</b>	150.8	115.2	35.6
Less: Share of profit of JVs	(6.8)	(16.2)	9.4
Dividends from JVs	5.5	9.2	(3.7)
Non-cash items in EBITDAS	2.2	1.0	1.2
Change in working capital	(4.1)	(0.4)	(3.7)
<b>Net cash flow from operating activities before interest, tax and material items</b>	<b>147.6</b>	<b>108.8</b>	<b>38.8</b>
Maintenance capital expenditure	(18.9)	(18.0)	(0.9)
<b>Free cash flow</b>	<b>128.7</b>	<b>90.8</b>	<b>37.9</b>
Productivity and growth capital expenditure	(70.7)	(39.2)	(31.6)
Payments for business acquisitions	(4.2)	(3.8)	(0.4)
Payment for acquisition of subsidiary	(57.4)	-	(57.4)
Proceeds from sale of investments	-	3.6	(3.6)
Disposal of property, plant and equipment	0.7	0.1	0.6
<b>Net cash flow before financing, tax, dividends and material items</b>	<b>(2.9)</b>	<b>51.5</b>	<b>(54.4)</b>
Cash conversion ratio <sup>1</sup>	85%	79%	

Notes:

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

### Dividends from joint ventures

Dividends from JVs decreased by \$3.7 million from prior year. FY2017 included \$2.8 million dividends received from African Blue JV which was consolidated in FY2018.

### Working capital

Working capital outflow was \$4.1 million, a moderate movement relative Costa's sales and earnings growth.

### Capital expenditure

Operating capital expenditure increased by \$0.9 million against FY2017, consistent with the overall growth across the business.

Productivity and growth capital expenditure was \$70.7 million for the year and comprises of:

- \$22.5 million for the domestic berry expansion projects;
- \$7.9 million for plant and equipment for the new avocado farming operations acquired during the year;
- \$15.0 million for the Mushroom Monarto expansion project;
- \$15.0 million for China joint venture; and
- \$10.6 million for Morocco.

### Other material items in cash flow

Payment for acquisition of subsidiary of \$57.4 million relates to the African Blue acquisition representing cash consideration of \$68.5 million less cash acquired of \$11.1 million. Payments for business acquisitions of \$4.2 million comprises of the purchase of a citrus farm in Denmark.



## 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:

- **Weather and climate:** Changes in weather, climate or water availability can cause price and yield volatility for Costa. Costa partially mitigates against weather risk by investing in weather protective growing environments and equipment. Approximately two-thirds 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 and the impact of weather, this risk is still apparent. Possible changes in climate may also have an adverse impact on Costa's business. Costa has sought to manage the impact of this risk by increasing the geographic diversity of its operations (both within Australia and internationally). Costa is also continuing to develop and implement further strategies to manage this risk and will report on these strategies in future periods. 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. Costa regularly reviews its short and medium term water security and takes steps to secure access to additional water as and when required, together with continuing to invest in technology and growing techniques that improve water efficiency.
- **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. Costa has zero tolerance for circumstances which may result in food safety concerns and employs strict food safety and quality assurance standards across its business.
- **Customer risk:** Costa's top three customers comprised approximately 75% of FY2018 domestic produce sales. While Costa actively seeks additional channels for its produce, and seeks to manage the security of its existing customer arrangements, the nature of the Australian market means that most customer arrangements are uncontracted and are supplied at market prices which are subject to fluctuation. Any contractual agreements have supply periods typically for 1 season or 1 to 2 years.
- **Labour arrangements:** Costa uses multiple employment models to meet the needs of growing and harvesting a product that is perishable. This includes using labour hire firms to meet production peaks including harvest periods. Costa has less direct control over employment arrangements for persons employed by labour hire firms than it does over its direct employees. Third party labour hire firms are processed by Costa through a rigorous procurement process, and Costa requires their employment practices to satisfy all Australian employment laws. Costa also ensures that all employment instruments and agreements used by any third party labour hire firm engaged by Costa comply with legal minimum pay and conditions. In addition, the majority of Costa's employees are covered by enterprise bargaining agreements and other workplace agreements, which periodically require renegotiation and renewal. Disputes may arise in the course of renegotiations which have the potential to lead to strikes and other industrial action, which may disrupt Costa's operations. Any renegotiations could also result in increased labour costs.
- **Work health and safety:** Given the nature of the industry in which Costa operates, Costa's employees are at risk of workplace accidents and incidents. In addition to the potential for harm to any employee, the occurrence of workplace accidents has the potential to harm both the reputation and financial performance of Costa. Costa is committed to promoting a zero tolerance culture where the risk of harm to our people, through our work activities, is unacceptable. Costa continually works towards achieving zero harm through best practice standards and the elimination of work related injury/illness and risk.
- **Regulatory changes:** Costa is a significant beneficiary of the import restrictions in place for fresh fruits and vegetables including mushrooms, bananas, tomatoes, avocados 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 China joint ventures. Unfavourable movements in the foreign exchange rates between the Australian dollar and other currencies such as the US dollar, Japanese yen, Moroccan dirham and Chinese Yuan can have a material adverse impact on the overall financial performance of Costa. Costa actively employs hedging strategies to mitigate this risk.

- **Risks associated with foreign operations:** Costa has significant interests in African Blue in Morocco and its joint venture with Driscoll's Inc in China. Costa's operations may be adversely affected by the risks associated with operation in such jurisdictions, which may impact on its ability to grow the business by expansion into other overseas markets. As with its domestic operations, Costa has instituted certain internal controls to regulate the operations of its activities outside Australia, and constantly reviews and monitors these controls for effectiveness. Failure to adequately and consistently monitor these internal controls may have an adverse impact on Costa's financial performance. Jurisdictions in which Costa operates may in the future experience sudden civil unrest or major change to their government or political or legal systems and the nature of the legal and regulatory systems in those jurisdictions can result in a lack of certainty regarding the interpretation and enforcement of local laws and regulations.
- **Environmental risk:** Costa's operations are subject to various environmental laws and regulations, and a range of licences and permits are required for Costa to operate its farming operations. If Costa is responsible for any environmental pollution or contamination, or is found to be in breach of any of its licences or permits, Costa may incur substantial costs (including fines and remediation costs), its operations may be interrupted, and it may suffer reputational damage. Costa actively seeks to reduce its environmental impact, including by applying measures across its business which are designed to reduce waste and reduce migration of any nutrients applied to crops.
- **Community:** Costa operates in many regional communities and a failure to successfully integrate with those communities could impact on its operations. Costa is actively involved in supporting the social fabric of the many regional communities in which it operates. In addition to acting and behaving as a responsible corporate citizen, Costa works closely with communities so that they can benefit both economically and socially from Costa's presence.

## Costa Group Holdings Ltd

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For the year ended 1 July 2018

#### Non-IFRS measures

Throughout this report, Costa has included certain non-IFRS financial information, including EBITDA before SGARA, NPAT 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 8: Non-IFRS measures**

Non-IFRS Financial measures	
<b>EBIT</b>	Earnings before interest and tax
<b>EBITDA</b>	Earnings before interest, tax, depreciation and amortisation
<b>EBITDA before SGARA (EBITDA-S)</b>	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.
<b>NPAT before SGARA (NPAT-S)</b>	Net profit attributable to members of Costa before fair value movements in biological assets and material items.
Non-IFRS operating measures	
<b>Transacted Sales</b>	<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"> <li>• statutory sales revenue;</li> <li>• gross invoiced value of agency sales of third party produce;</li> <li>• Costa's proportionate share of joint venture sales relating to the African Blue and Polar Fresh joint ventures;</li> <li>• royalty income from the licensing of Costa blueberry varieties in Australia, the Americas and Africa; and</li> <li>• 100% of Driscoll's JV sales after eliminating Costa produce sales to the Driscoll's JV.</li> </ul> <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>

**Table 9: Reconciliation of Transacted Sales to revenue**

Reconciliation of Transacted Sales			
A\$m	Note	FY2018	FY2017
<b>Transacted Sales</b>		<b>1,336.1</b>	<b>1,179.2</b>
Agency revenue adjustments	1	(81.7)	(41.1)
Joint venture adjustments	2	(0.8)	(31.3)
Driscoll's Australia Partnership consolidation adjustments	3	(264.4)	(206.6)
Other revenue	4	12.7	8.9
<b>Total revenue</b>		<b>1,002.0</b>	<b>909.1</b>

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 ventures, of 49% and 50% respectively. Under AASB, 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. Other revenue (with the exception of royalty income) not included in Transacted Sales.

## Costa Group Holdings Ltd

### Directors' report

For the year ended 1 July 2018

#### 8. DIVIDENDS

During the year ended 1 July 2018, Costa Group Holdings Ltd declared and paid a fully franked final dividend of 7.0 cents per share for FY2017 (as previously disclosed in the Directors' report for FY2017) and an interim dividend of 5.0 cents per share for FY2018.

The Board has approved a final dividend for FY2018 of 8.5 cents per share with record date of 13 September 2018 and payment date of 4 October 2018. This dividend will be fully franked. As this dividend was approved after year end, it has not been accrued for as at 1 July 2018.

This brings the total dividend payment for FY2018 to 13.5 cents per share. FY2019 dividends will be balanced against the company's need to fund growth objectives.

#### 9. LIKELY DEVELOPMENTS

The Group will continue to explore opportunities that meet the Group's long term growth and development objectives. 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 investing in farming practices that are innovative, cost efficient, promote sustainable horticulture and focus on the need for responsible environmental stewardship with respect to its use of natural resources, 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 water use and air and noise emission levels. The Group's operations are conducted in accordance with its licences and permits (such as those for manufacturing compost for its mushroom operations) and its environmental management plans. The Group was not found to be in breach of any environmental regulations during the year.

The Group reports under the *National Greenhouse and Energy Reporting Act 2007 (Cth)*. While its overall emissions have increased over recent years due to the Group's significant growth and larger production footprint, the Group continues to review, and adopt where appropriate, more efficient forms of energy (such as the solar farm being established at the Group's Monarto mushroom farm).

The Group publishes an annual Sustainability Report in which it reports on initiatives that are aimed at improving environmental performance. Reflecting the growing importance of its sustainable farming initiatives, Costa's 2018 Sustainability Report will be a separate report, rather than being included in its Annual Report.

The Group is committed to achieving a level of environmental performance that meets or exceeds Federal, State and local requirements.

## Costa Group Holdings Ltd

### Directors' report

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#### 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	260,000	-
Frank Costa <sup>1</sup>	5,005,248	-
Harry Debney	1,310,818	1,577,363
Kevin Schwartz	-	-
Peter Margin	38,793	-
Tiffany Fuller	10,000	-
Janette Kendall	15,870	-

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.

#### 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
50,000	\$1.45	October 2024
361,904	\$2.25	June 2020
2,063,469	\$2.78	December 2021
616,944	\$2.81	August 2019
1,706,229 <sup>1</sup>	\$4.82	September 2022

Notes:  
1. These options represent unvested options granted to management (including the CEO) during FY18 under the Group's LTI plan, including 352,481 options issued to Harry Debney, 183,936 options issued to Linda Kow and 181,818 options issued to Sean Hallahan, as KMP of the Company, and 69,936 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 issued 236,259 shares as a result of the exercise of LTI options issued under the Company's FY16 Long Term Incentive Plan. The Company also issued 181,885 shares on the vesting of performance rights granted under the Company's FY16 Short Term Incentive Plan.

## Costa Group Holdings Ltd

### Directors' report

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#### 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.

	2018 \$ '000	2017 \$ '000
<b>Audit and review services</b>		
Services provided by KPMG Australia	394,808	394,756
Services provided by associate firms of KPMG Australia	160,838	17,422
	<u>555,646</u>	<u>412,178</u>
<b>Other services provided by KPMG Australia</b>		
Taxation compliance and other taxation advisory services (including R&D)	247,584	245,700
Other services	10,000	10,000
	<u>257,584</u>	<u>255,700</u>

## **Costa Group Holdings Ltd**

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#### **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 36 and forms part of the directors' report for the financial year ended 1 July 2018

**Costa Group Holdings Ltd**  
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**Remuneration report (audited)**

## 1 Introduction

The directors are pleased to present the FY2018 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.

<b>Name</b>	<b>Position Held</b>
<b>Directors</b>	
Neil Chatfield	Chairman, Non-executive director
Frank Costa	Non-executive director
Tiffany Fuller	Non-executive director
Janette Kendall	Non-executive director
Peter Margin	Non-executive director
Kevin Schwartz	Non-executive director
Harry Debney	Chief Executive Officer, Managing Director
<b>Executives</b>	
Linda Kow	Chief Financial Officer
Sean Hallahan	Chief Operating Officer (commenced 2 <sup>nd</sup> October 2017)

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 and Human Resources Committee

The Group has established a Remuneration and Human Resources Committee that is comprised of Non-Executive Directors, the majority of whom are independent in accordance with the Remuneration and Human Resources Committee Charter.

The Remuneration and Human Resources 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;
- diversity;
- human resource policy and practices across the Group; and
- shareholder and other stakeholder engagement in relation to the Group's remuneration policies and practices.

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



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2.2 Use of Remuneration Consultants

The Remuneration and Human Resources 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 Remuneration and Human Resources Committee engaged Ernst & Young to undertake a review of the Long Term Incentive Plan ('LTIP') for FY2018. The objectives in the review included benchmarking and market positioning of the LTIP to align participant performance with the long term growth and business strategy delivering shareholder value. During 2018 the Remuneration and Human Resources Committee engaged Ernst & Young specifically to undertake market data analysis benchmarking executive remuneration incentive programs. The Remuneration and Human Resources Committee sought market data from the consultants from appropriate comparator groups within Australia.

The Remuneration and Human Resources Committee engaged Ernst and Young further to the above, to undertake a review of Short Term Incentive Plan ('STIP') and Long Term Incentive Plan ('LTIP') for FY2019. The objective of the review was to provide market intelligence and possible options for transitional incentive plans to be considered in the planning for the pending transition to calendar financial year reporting periods.

The Remuneration and Human Resources Committee is satisfied that no remuneration recommendations (as defined in the Corporations Act 2001) were provided by Ernst & Young.

2.3 Associated Policies

The Group has established a number of policies to support a strong governance framework, including a Whistleblower Policy, Anti-Bribery and Anti-Corruption Policy, Diversity Policy, Disclosure Policy, Securities Trading Policy and Non-Executive Director Share Ownership 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
<b>Competitive Remuneration</b>	Reward employees fairly and competitively for their contributions to the Group's success.	<ul style="list-style-type: none"> <li>Total remuneration is set having regard to the individual's capabilities and experience.</li> <li>Remuneration for FY2018 was set with regard to an appropriate comparator group of companies within the consumer discretionary and consumer staples sectors of the S&amp;P/ASX Small Ordinaries Index.</li> <li>The Board may at times obtain independent advice on the appropriateness of total remuneration package.</li> </ul>

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<p><b>Performance Driven</b></p>	<p>Executives are rewarded for achieving strategic goals that create sustainable growth in shareholder wealth.</p>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• Equity is used as a key element of the variable remuneration to align executives and shareholders.</li> </ul>
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**3.1.1 Remuneration Overview for FY2018**

The FY2018 remuneration for the CEO, CFO and COO ("Executive KMP") included a combination of fixed remuneration, short-term incentives and long-term incentives in the form of options over shares.

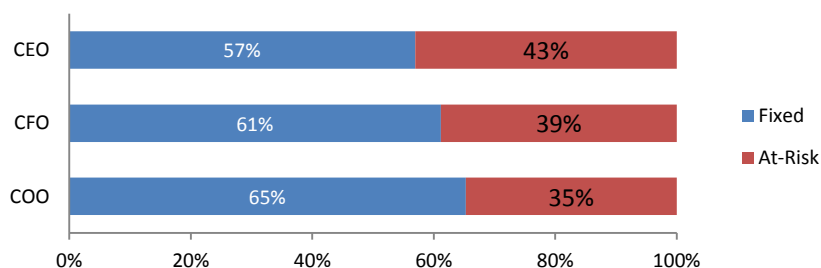
**3.1.2 Remuneration Mix for FY2018**

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 FY2018, 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 section 3.3,

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

The mix of fixed versus variable 'at risk'<sup>1</sup> remuneration payable in respect of FY2018 for the Executive KMP was as follows:



1. Includes cash and deferred equity component of FY2018 STI plan (section 3.2.2) and share-based payments associated with the FY2018 LTI arrangements (section 3.3).
2. COO commenced employment with Costa on 2 October 2017.

**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 and Human Resources Committee with regard to individual and Group performance. The Committee's review of TFR takes into account the Executive KMP's total remuneration package.

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**3.2.2 Short Term Incentive ("STI") Plan**

*FY2018 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 Group EBIT hurdles as set out below. Solely for the purposes of this section 3.2.2 all references to "Group EBIT" means management EBIT-S, ie. statutory EBIT before the impact of the movement in SGARA and references to cash flows mean management cash flows.

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

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

*2018 Short Term Incentive Plan Features*

The table below outlines the key features of the FY2018 STI Plan, as it applied to the Executive KMP and other members of senior management:

<b>Objective</b>	To reward participants for achieving goals directly linked with the Group's business strategy
<b>Participants</b>	All Executive KMP and selected senior management
<b>Performance Period</b>	Financial year ending 1 July 2018
<b>Opportunity</b>	<ul style="list-style-type: none"> <li>• CEO – Target STI is 45% of TFR, with a maximum opportunity of 70% TFR for achieving stretch targets.</li> <li>• CFO – Target STI is 40 % of TFR, with a maximum opportunity of 60% TFR for exceeding stretch targets.</li> <li>• COO - Target STI is 35% of TFR, with a maximum opportunity of 60% TFR for exceeding stretch targets.</li> </ul>

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<p><b>Performance Measures</b></p>	<p>Consistent with FY2017, STI was assessed against both financial and non-financial measures, and for the CEO and Executive KMP was weighted as follows:</p> <table border="1" data-bbox="432 409 1107 584"> <thead> <tr> <th>Measure</th> <th>Weighting</th> </tr> </thead> <tbody> <tr> <td>Group 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 was measured against KPIs appropriate for the Executive's role and included key business measures such as safety, project execution, innovation, quality, customer satisfaction and people leadership.</p> <p>Cash Flow is based on Group EBITDA cash conversion, which includes Group EBITDA adjusted for joint ventures, operational working capital movements, and operating capex.</p>	Measure	Weighting	Group EBIT	50%	Cash Flow	30%	Individual Performance	20%
Measure	Weighting								
Group EBIT	50%								
Cash Flow	30%								
Individual Performance	20%								
<p><b>Payment Method</b></p>	<ul style="list-style-type: none"> <li>• <u>Cash</u> - Two thirds of the STI benefit payable will be paid in cash following the end of the performance year; and</li> <li>• <u>Deferred</u> - One third of the STI benefit payable will be delivered in the form of performance rights. No dividends or voting rights are attached to performance rights, but cash payments equivalent to dividends will be paid to holders of performance rights.</li> </ul> <p>A participant's performance rights will vest on 1 September 2019 and the participant will receive an equivalent number of shares, 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').</p>								
<p><b>Calculation methodology</b></p>	<p>The STI incentive is assessed annually at the end of the financial year.</p> <p>The stretch opportunity is based on the overachievement against the budgeted Group EBIT only, with the opportunity capped at 20% of the CFO's TFR and 25% of the CEO's and COO's TFR. Every 1% of actual Group EBIT over budgeted Group EBIT increases the CFO's incentive by 2.0% and the CEO's and COO's incentive by 2.5%.</p> <p>The stretch STI component is measured solely on EBIT and is calculated on a straight line basis between 100% and 110% of budgeted EBIT.</p>								
<p><b>Calculations</b></p>	<p>Each of the three measures (Group EBIT, Cash flow and Individual performance) has been evaluated.</p> <p>Each of the participants has been determined to have met the requirements of the performance measures, as follows:</p> <p><u>Personal:</u>                      The CEO assessed the individual performance of the CFO and COO and the Board assessed the individual performance of the CEO, in each case against the relevant KPIs as described above. All KMPs were regarded as having achieved their individual performance measure.</p> <p><u>Cash flow:</u>                      The metric used for this performance measure is the Group's free cash flow. This is calculated as cash from operations less operating capital expenditure. For FY2018, budget free cash flow was \$118.6m and the actual free cash flow was \$125.4m.</p>								

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	<p><u>Group EBIT:</u>          Budgeted Group EBIT for FY2018 was \$115.4 million. The actual Group EBIT for FY2018 was \$115.8 million. Based on the calculation methodology outlined above, the STI payable for the KMP was calculated in accordance with the table below.</p>
--	--

<i>KMP</i>	<i>STI payable at budgeted EBIT</i>	<i>Actual EBIT achieved (as % of budgeted EBIT)</i>	<i>STI payable (as % of total TFR)</i>	<i>STI payable (\$)</i>
<i>CEO</i>	<i>\$448,659</i>	<i>100.3%</i>	<i>45.8%</i>	<i>456,756</i>
<i>CFO</i>	<i>\$208,111</i>	<i>100.3%</i>	<i>40.6%</i>	<i>211,491</i>
<i>COO</i>	<i>\$210,000</i>	<i>100.3%</i>	<i>35.8%</i>	<i>214,873</i>

### 3.3 LTIP for FY2018

The FY2018 LTIP is designed to reward the Executive KMP (including the CEO) and other senior executives for long term performance and long term value creation for shareholders.

<b>Term</b>	<b>Description</b>										
<b>Eligibility</b>	CEO, CFO, COO and selected senior management										
<b>Consideration for grant</b>	Nil										
<b>Instrument</b>	Options to acquire ordinary shares in Costa Group Holdings Limited										
<b>Number of options granted</b>	The number of options was determined based on a set percentage of the participant's TFR ("LTI Incentive Amount"), being 35% for the CEO and CFO and 30% for the COO. The options were indicatively valued by an independent external valuer (Ernst & Young). The number of options issued to each participant was determined by dividing that participant's LTI Incentive Amount by the indicative value per Option as determined by the independent valuer. The final fair value of the options was determined on the grant date.										
<b>Exercise price</b>	\$4.82 per share, being the volume weighted average price of an ordinary fully paid share in the capital of the Company recorded on the ASX over 10 ASX trading days ending on 25 June 2017.										
<b>Performance Period</b>	The FY2018 LTI performance period will be the 3 year period commencing on 26 June 2017 and ending on 28 June 2020.										
<b>Performance Measure (EPS)</b>	75% of the options ("EPS Options") will be subject to a performance hurdle based on the Company's Earnings Per Share (basic) compound annual growth rate ("CAGR") over the performance period, with performance and vesting outcomes as follows:										
	<table border="1"> <thead> <tr> <th><b>Company's EPS CAGR over performance period</b></th> <th><b>Percentage of LTIP Options (subject to the EPS hurdle) that will vest</b></th> </tr> </thead> <tbody> <tr> <td>Less than 10%</td> <td>0%</td> </tr> <tr> <td>10%</td> <td>50%</td> </tr> <tr> <td>Between 10% and 13% (inclusive)</td> <td>50%-100%, on a straight line sliding scale</td> </tr> <tr> <td>Above 13%</td> <td>100%</td> </tr> </tbody> </table>	<b>Company's EPS CAGR over performance period</b>	<b>Percentage of LTIP Options (subject to the EPS hurdle) that will vest</b>	Less than 10%	0%	10%	50%	Between 10% and 13% (inclusive)	50%-100%, on a straight line sliding scale	Above 13%	100%
<b>Company's EPS CAGR over performance period</b>	<b>Percentage of LTIP Options (subject to the EPS hurdle) that will vest</b>										
Less than 10%	0%										
10%	50%										
Between 10% and 13% (inclusive)	50%-100%, on a straight line sliding scale										
Above 13%	100%										
	The Board retains discretion to adjust the calculation of EPS (for example, to exclude the impact of significant events that may occur during the performance period).										
	The Board will continue to assess the appropriateness of this metric over time.										
<b>Performance Measure (Growth)</b>	25% of the options ("Growth Target Options") will be subject to a performance hurdle based on geographic and category diversification and growth designed to support sustainable long term value										

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creation linked to return on capital. Growth includes the scaling up of the Avocado Category and continuing the growth trajectory of the Company's international joint ventures.

The number of Growth Target Options that vest will be determined by the Board (with the Managing Director not voting) based on an assessment of the Company's performance during the Performance Period against the growth and diversification targets set by the Board.

The Company considers the performance targets for this hurdle to be commercially sensitive, with the result that publication of that information prior to the end of the Performance Period may be prejudicial to the interests of the Company. Accordingly, complete details regarding the outcomes of vesting will be disclosed at the end of the Performance Period.

<b>Entitlements</b>	Options will not carry rights to dividends or voting rights prior to vesting.
<b>Option exercise</b>	<p>Vested options must be exercised prior to 1 September 2022 ("<b>expiry date</b>"). Prior to the expiry date, an optionholder can exercise by either:</p> <ul style="list-style-type: none"> <li>- providing the Company with an exercise notice that specifies the number of options to be exercised, together with the exercise price in respect of those exercised options; or</li> <li>- electing a cashless exercise in respect of some or all of his options.</li> </ul> <p>If an optionholder provides the exercise price, he/she will be issued with one share per exercised option. If an optionholder elects a cashless exercise, he/she will be issued with a lower number of shares, calculated in accordance with the following formula:</p> <p style="text-align: center;"><i>(A minus B) divided by C, where:</i></p> <p style="text-align: center;"><i>A = Number of Shares to which each Vested Option relates (ie. 1) x Number of Vested Options exercised x Market Price per Share</i></p> <p style="text-align: center;"><i>B = Number of Vested Options exercised x Exercise Price per Option</i></p> <p style="text-align: center;"><i>C = Market Price per Share, being an amount equal to the volume weighted average price of a Share recorded on the ASX over 10 ASX trading days immediately preceding the date on which the Market Price is to be calculated or, if no sale occurred during such period, the last sale price of a Share recorded on the ASX.</i></p>
<b>Restrictions on Dealing</b>	<p>Participants must not sell, transfer, encumber, hedge or otherwise deal with their options granted under the LTIP.</p> <p>Shares delivered on the exercise of 50% of the options will be subject to a restriction period (during which the shares cannot be sold or otherwise dealt with) for 12 months following vesting.</p>
<b>Service conditions</b>	<p>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), a pro rata proportion of the unvested options (reflecting the portion of the Performance Period served) will remain on foot subject to Board discretion and be tested at the end of the original vesting date against the relevant performance conditions.</p>

**3.4 Remuneration transition plans for 2019**

The transition to calendar year financial periods from 1 January 2019 required consideration of transitional arrangements for the STIP and LTIP for FY2019.

*2019 Short Term Incentive Plan*

The STI transition plan will adopt the features and methodology of the FY2018 STI in all areas outlined above apart from the length of the performance period. The performance period will commence from 2 July 2018 and end 29 December 2019. The performance period will be approximately eighteen (18) months for this transitional period, then reverting to a 12 month STIP performance period for subsequent years.

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*2019 Long Term Incentive Plan*

The LTI transition plan will adopt the methodology of the FY2018 LTI outlined above. The performance period will commence from 1 January 2018 and end 27 December 2020.

**4 Executive Remuneration Disclosure**

**4.1 Executives' Contract Terms**

A summary of the key terms of employment for executives as at 1 July 2018 is presented in the below table:

<b>Executive</b>	<b>Role</b>	<b>Notice by the Group</b>	<b>Notice on Resignation</b>
Harry Debney	Chief Executive Officer	6 Months	6 Months
Linda Kow	Chief Financial Officer	3 Months	3 Months
Sean Hallahan	Chief Operating Officer	3 Months	3 Months

**5 Non-executive Directors**

The details of fees paid to non-executive directors in FY2018 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 FY2018. 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.

<b>Board/Committee</b>	<b>Chairman Fee (\$)</b>	<b>Member Fee (\$)</b>
Board base fee	241,172 (inclusive of committee fees)	104,587
Audit and Risk Committee	20,972	10,486
Remuneration and Human Resources Committee	15,729	7,864
Nomination Committee	-	-

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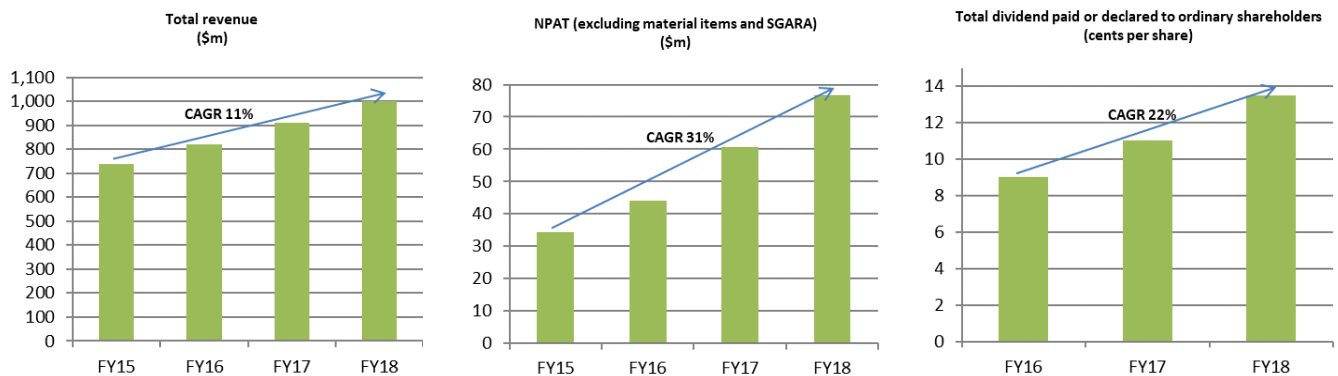
**6 Relationship between remuneration policy and Group performance**

**Key performance indicator**

	<b>FY2015<sup>1</sup></b>	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018</b>
Revenue (\$'000)	736,231	821,861	909,054	1,002,027
Statutory EBIT-S (\$'000)	22,289	46,128	79,651	152,092
EBIT-S before material items (\$'000)	49,911	65,558	87,711	115,474
NPAT-S before material items (\$'000)	34,349	44,230	60,713	76,550
Dividend paid or declared to ordinary shareholders (cents per ordinary share)	Nil	9.0	11.0	13.5

1. FY2015 was restated as a result of the adoption of the amendments made to Accounting Standards AASB 116 Property, Plant and Equipment and AASB 141 Agriculture in relation to bearer plants. The FY2015 EBIT-S before material items and NPAT-S before material items results have not been subject to audit.

The charts below set out information about the Group's performance for previous financial years up to and including FY2018.





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**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				Total	Post-employment	Long-term	Termination	Share-based	Total
		Salary & fees	STI (cash)	Non-monetary benefits	Other Monetary Benefits		Superannuation benefits	Long service leave	Termination benefits	payments	
<b>Non-executive Directors<sup>1</sup></b>		\$	\$	\$	\$	\$	\$	\$	\$	\$	
Neil Chatfield	2018	221,124	-	-	-	221,124	20,049	-	-	-	241,173
	2017	215,674	-	-	-	215,674	19,616	-	-	-	235,290
Frank Costa	2018	102,942	-	-	-	102,942	9,780	-	-	-	112,722
	2017	100,431	-	-	-	100,431	9,541	-	-	-	109,972
Kevin Schwartz	2018	104,856	-	-	-	104,856	-	-	-	-	104,856
	2017	100,000	-	-	-	100,000	-	-	-	-	100,000
Peter Margin	2018	119,700	-	-	-	119,700	11,372	-	-	-	131,072
	2017	116,781	-	-	-	116,781	11,094	-	-	-	127,875
Tiffany Fuller	2018	114,912	-	-	-	114,912	10,917	-	-	-	125,829
	2017	112,110	-	-	-	112,110	10,650	-	-	-	122,760
Janette Kendall (appointed 11.10.16)	2018	105,336	-	-	-	105,336	10,007	-	-	-	115,343
	2017	67,673	-	-	-	67,673	6,429	-	-	-	74,102
<b>Managing Director and Executive KMP</b>											
Harry Debney	2018	976,970	304,504	-	7,973	1,289,447	25,036	18,976	-	473,077	1,806,536
	2017	953,011	453,927	-	7,677	1,414,615	19,616	13,164	-	508,168	1,955,563
Linda Kow	2018	500,228	140,994	-	3,416	644,638	25,036	11,955	-	202,060	883,689
	2017	466,549	194,496	-	3,062	664,107	19,616	8,767	-	194,014	886,504
Sean Hallahan (commenced 2.10.17)	2018	434,963	143,249	-	-	578,212	15,037	7,197	-	100,007	700,453
	2017	-	-	-	-	-	-	-	-	-	-

**Notes in relation to the table of Directors' and Executive KMP's remuneration**

1. 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.

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**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 25 June 2017	Shares acquired	Shares sold	Shares delivered under STI or LTI plans	Held at 1 July 2018
Neil Chatfield (directly held)	372,222	-	112,222	-	260,000
Neil Chatfield (close family members)	14,000	-	14,000	-	-
Peter Margin (indirectly held)	24,988	13,805	-	-	38,793
Tiffany Fuller (directly held)	10,000	-	-	-	10,000
Frank Costa <sup>1</sup>	10,432,099	-	5,426,851	-	5,005,248
Kevin Schwartz	-	-	-	-	-
Janette Kendall (indirectly held)	10,000	5,870	-	-	15,870
Harry Debney (directly & indirectly held)	632,078	-	650,000	1,328,740	1,310,818
Linda Kow (directly & indirectly held)	213,404	-	150,000	216,541	279,945
Sean Hallahan	-	2,025	-	-	2,025

**Notes in relation to Table 8.1 (Movement in shares)**

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.

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**8.2 Options over equity instruments granted as compensation**

The number of options over ordinary shares granted as compensation to KMP during FY18 was as follows:

	Number of options granted during 2018	Grant date	Fair Value per option \$	Exercise price per option \$	Expiry date
Harry Debney	352,481	24 August 2017	1.37	4.82	1 September 2022
Linda Kow	183,936	24 August 2017	1.37	4.82	1 September 2022
Sean Hallahan	181,818	9 October 2017	1.51	4.82	1 September 2022

**8.3 Details of equity incentives affecting current and future remuneration**

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

	Instrument	Number	Grant date	Vesting date
Harry Debney	Options	607,938	6 December 2016	August 2019
	Performance rights	46,508 <sup>1</sup>	1 September 2017	September 2018
Linda Kow	Options	352,481	24 August 2017	September 2020
	Options	260,486	6 December 2016	August 2019
	Performance rights	19,927 <sup>1</sup>	1 September 2017	September 2018
Sean Hallahan	Options	183,936	24 August 2017	September 2020
	Options	181,818	9 October 2017	September 2020

**Notes in relation to Table 8.3**

- Subject to certain conditions, the performance rights will vest on 1 September 2018 and the holders of those rights will receive one share per vested performance right. At the time of grant, each performance right was valued at \$4.88 (based on the 10 day volume weighted average share price of Costa shares). The value at the time of vesting will depend on the price of Costa shares at that time.

**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 25 June 2017	Granted as compensation	Exercised	Value of exercised options (at time of exercise) \$	Held at 1 July 2018	Vested during the year	Vested and exercisable 1 July 2018
Harry Debney	2,499,882	352,481	1,275,000	5,012,562 <sup>1</sup>	1,577,363	1,891,944	616,944
Linda Kow	543,224	183,936	282,738	1,416,517 <sup>1</sup>	444,422	282,738	-
Sean Hallahan	-	181,818	-	-	181,818	-	-

**Notes in relation to Table 8.4**

- Option value is based on the 5 day volume weighted average share price of Costa shares. Approximately 74% of the resulting shares issued to Harry Debney and 50% of the resulting shares issued to Linda Kow are subject to escrow arrangements until after release of the FY2018 results.

## Costa Group Holdings Ltd

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#### 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 (2017: AUD \$1). This property is leased to Costa's Pty Ltd until 2076 at AUD \$1 per annum and is subleased to an unrelated third party on standard commercial terms, with an arms-length commercial rent payable to Costa's Pty Ltd. The Board considers this arrangement to be beneficial, given that it generates revenue greater than the expenses that are incurred in respect of the property.

#### 8.6 Director independence

The Board regularly monitors and assesses the independence of each Director by considering whether the Director is allied with management or a substantial securityholder or other stakeholder and whether the Director is free of any other interest, position, association or relationship that might influence, or reasonably be perceived to influence, in a material respect his or her capacity to bring an independent judgement to bear on issues before the Board and to act in the best interests of the entity and its securityholders generally. The Board considers numerous factors as part of this process, including those identified by the ASX Corporate Governance Council, namely whether the Director:

- is, or recently has been, employed by the Group in an executive capacity;
- is or recently has been, a director, partner or senior employee of a provider of material professional services to the Business;
- is, or recently has been (or is associated with someone who is or recently has been), in a material business relationship with the Group;
- is, or is associated with, as substantial security holder of the Company;
- has a material contractual relationship with the Group;
- has close family ties with someone who falls within the above categories; or
- has been a Director for such a period that his or her independence may have been compromised.

On this basis the Board has made the following assessments in respect of the Company's Directors:

- Independent: Neil Chatfield, Peter Margin, Tiffany Fuller, Janette Kendall, Kevin Schwartz. Specifically, it is noted that none of these directors is a related party of any substantial shareholder of the Company (or any entities associated with substantial shareholders), nor have they provided any services to the company (other than in their capacity as director) nor been an employee or officer of any such service provider. It is noted that Kevin Schwartz was previously considered to be not independent due to shares held by P&P COS Holdings BV, which was a substantial shareholder of the Company from the date of the Company's listing until September 2017. As P&P COS Holdings BV is no longer a substantial shareholder of the Company, Kevin is now considered by the Company to be independent.
- Not independent: Frank Costa (due to his longstanding relationship with the Company) and Harry Debney (due to his executive role). Specifically, it is noted that Frank Costa has no interest in properties occupied by the Group other than the lease referred to in section 8.5. Frank Costa has no legal or beneficial interest in Vitalharvest Pty Ltd (from which the Group leases various berry and citrus properties) or its shareholder Costa Asset Management Pty Ltd (or the Costa Asset Management Unit Trust), nor has he been employed by or an officer of either of those companies. Non-dependant family members of Frank Costa are directors of Costa Asset Management Pty Ltd and collectively have a significant interest in the Costa Asset Management Unit Trust, but Frank has no control over, and does not seek to exert any influence over, the decisions made by them in relation to the leases between the Company and either Vitalharvest or Costa Asset Management. Notwithstanding that he is not a related party of Vitalharvest or Costa Asset Management, Frank Costa intends to abstain from voting on any significant decisions that are to be made in relation to the Company's dealings with Vitalharvest or Costa Asset Management.

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



**Neil Chatfield**  
Chairman

Dated at Melbourne **23 August 2018**



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

To the Directors of Costa Group Holdings Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit of Costa Group Holdings Ltd for the financial year ended 1 July 2018 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

23 August 2018

**Costa Group Holdings Ltd**  
**Consolidated Statement of Profit and Loss and Other Comprehensive Income**  
**For the financial year ended 1 July 2018**

	Notes	2018 \$ '000	2017 \$ '000
<b>Revenue</b>			
Total revenue	A2	1,002,027	909,054
Other income	D6	48,317	-
		<u>1,050,344</u>	<u>909,054</u>
<b>Less: expenses</b>			
Raw materials, consumables and third party purchases		(320,978)	(335,991)
Depreciation and amortisation expenses		(39,230)	(27,793)
Employee benefits expenses	A2	(331,251)	(300,434)
Occupancy expenses		(71,931)	(53,867)
Net finance costs	A2	(7,167)	(5,267)
Profit / (loss) on sale of assets		(345)	1,107
Freight and cartage		(53,002)	(47,483)
Leasing expenses		(9,639)	(15,269)
Gain / (loss) on fair value adjustments - biological assets		(3,973)	5,878
Gain / (loss) on fair value of derivatives		(270)	512
Other expenses	A2	(74,452)	(65,430)
		<u>(912,238)</u>	<u>(844,037)</u>
Share of net profits of associates and joint ventures accounted for using the equity method	D1	6,818	15,245
		<u>144,924</u>	<u>80,262</u>
<b>Profit before income tax expense</b>			
Income tax expense	E2	(27,146)	(22,620)
<b>Profit for the period</b>		<u>117,778</u>	<u>57,642</u>
<b>Other comprehensive income / (loss) for the period</b>			
Foreign currency translation differences		681	(435)
Cash flow hedges – effective portion of changes in fair value	C6	(635)	-
<b>Total other comprehensive income / (loss) for the period</b>		<u>46</u>	<u>(435)</u>
		<u>117,824</u>	<u>57,207</u>
<b>Total comprehensive income for the period</b>			
Profit attributable to:			
Owners of Costa Group Holdings Ltd		115,162	57,713
Non-controlling interests		2,616	(71)
		<u>117,778</u>	<u>57,642</u>
Total comprehensive income attributable to:			
Owners of Costa Group Holdings Ltd		115,208	57,278
Non-controlling interests		2,616	(71)
		<u>117,824</u>	<u>57,207</u>
		<b>2018</b>	<b>2017</b>
		<b>Cents</b>	<b>Cents</b>
<b>Earnings per share for profit attributable to ordinary equity holders:</b>			
Basic earnings per share	A4	36.04	18.09
Diluted earnings per share	A4	35.95	18.02

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

Costa Group Holdings Ltd  
Consolidated Statement of Financial Position  
As at 1 July 2018

	Notes	2018 \$ '000	2017 \$ '000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	B1	60,394	22,582
Receivables	B2	109,780	87,434
Inventories	B3	25,998	18,076
Biological assets	B6	47,839	46,042
Other assets	B5	10,603	12,849
<b>Total current assets</b>		<b>254,614</b>	<b>186,983</b>
<b>Non-current assets</b>			
Other financial assets	C6	244	327
Equity accounted investments	D1(b)	11,402	32,354
Intangible assets	B8	255,827	143,101
Deferred tax assets	E2	2,896	3,517
Property, plant and equipment	B7	364,583	281,949
<b>Total non-current assets</b>		<b>634,952</b>	<b>461,248</b>
<b>Total assets</b>		<b>889,566</b>	<b>648,231</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Payables	B4	127,039	102,733
Provisions	B9	16,461	15,761
Other financial liabilities	B4	769	-
Current tax liabilities	E2	12,709	17,561
<b>Total current liabilities</b>		<b>156,978</b>	<b>136,055</b>
<b>Non-current liabilities</b>			
Borrowings	C1	236,467	106,775
Provisions	B9	9,665	9,223
Other financial liabilities	B4	7,189	-
<b>Total non-current liabilities</b>		<b>253,321</b>	<b>115,998</b>
<b>Total liabilities</b>		<b>410,299</b>	<b>252,053</b>
<b>NET ASSETS</b>		<b>479,267</b>	<b>396,178</b>
<b>EQUITY</b>			
Share capital	C2	403,410	399,902
Other equity reserve		(11,558)	-
Other Reserves	E1, E2	4,339	2,066
Profit reserve	C3	122,600	45,802
Accumulated losses		(56,621)	(56,621)
<b>Equity attributable to owners of the parent</b>		<b>462,170</b>	<b>391,149</b>
Non-controlling interests		17,097	5,029
<b>Total equity</b>		<b>479,267</b>	<b>396,178</b>

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



Costa Group Holdings Ltd  
Consolidated Statement of Changes in Equity  
As at 1 July 2018

	Reserves			Profit reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	Share capital	Share based payment reserve	Foreign currency translation reserve					
Consolidated	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
Balance as at 27 June 2016	395,688	523	-	20,005	(56,621)	359,595	-	359,595
Profit for the year	-	-	-	-	57,713	57,713	(71)	57,642
Other comprehensive income / (loss)	-	-	(435)	-	-	(435)	-	(435)
Transfer to profit reserve	-	-	-	57,713	(57,713)	-	-	-
<b>Total comprehensive income for the year</b>	-	-	(435)	57,713	-	57,278	(71)	57,207
<b>Transactions with owners in their capacity as owners:</b>								
Options granted during the year	-	1,090	-	-	-	1,090	-	1,090
Performance rights granted during the year	-	956	-	-	-	956	-	956
Share options exercised	580	-	-	-	-	580	-	580
Settlement of share-based payments	68	(68)	-	-	-	-	-	-
Dividend paid on ordinary shares	-	-	-	(31,916)	-	(31,916)	-	(31,916)
Tax effect on legacy share options	3,566	-	-	-	-	3,566	-	3,566
Sale of subsidiary with non-controlling interest	-	-	-	-	-	-	5,100	5,100
<b>Balance as at 25 June 2017</b>	<b>399,902</b>	<b>2,501</b>	<b>(435)</b>	<b>45,802</b>	<b>(56,621)</b>	<b>391,149</b>	<b>5,029</b>	<b>396,178</b>

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

**Costa Group Holdings Ltd**  
**Consolidated Statement of Changes in Equity**  
**As at 1 July 2018**

	Share capital	Other equity reserve	Other reserves				Profit reserve	Accumulated losses	Total	Non-controlling interests	Total equity
			Share based payment reserve	Foreign currency translation reserve	Hedge reserve	General reserve <sup>1</sup>					
Consolidated	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
<b>Balance as at 26 June 2017</b>	<b>399,902</b>	-	<b>2,501</b>	<b>(435)</b>	-	-	<b>45,802</b>	<b>(56,621)</b>	<b>391,149</b>	<b>5,029</b>	<b>396,178</b>
<b>Profit for the year</b>	-	-	-	-	-	-	-	115,162	115,162	2,616	117,778
<b>Other comprehensive income / (loss)</b>	-	-	-	681	(635)	-	-	-	46	-	46
Transfer to profit reserve	-	-	-	-	-	-	115,162	(115,162)	-	-	-
<b>Total comprehensive income for the year</b>	-	-	-	681	(635)	-	115,162	-	115,208	2,616	117,824
<b>Transactions with owners in their capacity as owners:</b>											
Issue of shares	2,228	-	-	-	-	-	-	-	2,228	-	2,228
Own shares acquired	-	(15,144)	-	-	-	-	-	-	(15,144)	-	(15,144)
Options granted during the year	-	-	1,016	-	-	-	-	-	1,016	-	1,016
Performance rights granted during the year	-	-	732	-	-	-	-	-	732	-	732
Share options exercised	-	3,586	-	-	-	-	-	-	3,586	-	3,586
Settlement of share-based payments	1,280	-	(1,280)	-	-	-	-	-	-	-	-
Dividend paid on ordinary shares	-	-	-	-	-	-	(38,364)	-	(38,364)	-	(38,364)
Tax effect of share plan payment through equity	-	-	9,031	-	-	-	-	-	9,031	-	9,031
Acquisition of subsidiary	-	-	-	-	-	(7,272)	-	-	(7,272)	5,901	(1,371)
Capital injected by non-controlling interest without change in control	-	-	-	-	-	-	-	-	-	3,551	3,551
<b>Balance as at 1 July 2018</b>	<b>403,410</b>	<b>(11,558)</b>	<b>12,000</b>	<b>246</b>	<b>(635)</b>	<b>(7,272)</b>	<b>122,600</b>	<b>(56,621)</b>	<b>462,170</b>	<b>17,097</b>	<b>479,267</b>

<sup>(1)</sup> Included in general reserve is the put and call option as part of the acquisition of African Blue, measured under the present-access method. Refer Note D6 for details.

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

**Costa Group Holdings Ltd**  
**Consolidated Statement of Cash Flows**  
**For the year ended 1 July 2018**

	Notes	2018 \$ '000	2017 \$ '000
<b>Cash flow from operating activities</b>			
Receipts from customers		990,501	898,945
Payments to suppliers and employees		(851,952)	(799,476)
Interest received		173	54
Interest paid		(6,073)	(4,655)
Dividends received		121	170
Income taxes paid		(28,568)	(5,962)
<b>Net cash provided by operating activities</b>	<b>B1(a)</b>	<b>104,202</b>	<b>89,076</b>
<b>Cash flow from investing activities</b>			
Payments for property, plant and equipment		(89,629)	(57,147)
Proceeds from sale of investments		-	3,579
Dividends from equity accounted investments		5,450	9,156
Acquisition of subsidiary (net of cash acquired)		(57,411)	-
Acquisition of business (net of cash acquired)		(4,170)	(3,815)
Proceeds from sale of property, plant and equipment		691	880
<b>Net cash used in investing activities</b>		<b>(145,069)</b>	<b>(47,347)</b>
<b>Cash flow from financing activities</b>			
Proceeds from exercise of share options		3,586	580
Proceeds from loans from related party associates		88	-
Dividend payments on ordinary shares		(38,364)	(31,916)
Dividend payment to non-controlling interest		(3,678)	-
Capital injection by non-controlling interest		3,551	5,100
Purchase of treasury shares, net of share issue		(12,916)	-
Proceeds from borrowings		867,922	206,500
Repayment of borrowings		(742,000)	(203,000)
<b>Net cash provided by / (used in) financing activities</b>		<b>78,189</b>	<b>(22,736)</b>
<b>Reconciliation of cash</b>			
Cash at beginning of year		22,582	4,002
Net increase in cash held		37,322	18,993
Effect of movement in foreign exchange rate		490	(413)
<b>Cash at end of year</b>	<b>B1</b>	<b>60,394</b>	<b>22,582</b>

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

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# Costa Group Holdings Ltd

## Notes to the Consolidated Financial Statements

### OVERVIEW

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#### 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 Robyns 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 on 23 August 2018.

#### 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, including acquisitions and divestments during the period.

*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
Valuation of biological assets	B6 - Biological assets	54
Recoverability of goodwill	B8 – Intangible assets	60
Recoverability of non-financial assets other than goodwill	B8 – Intangible assets	60
Fair value measurement	C6. Financial instruments – fair values and risk management	68
Income tax	E2 - Taxation	86

# Costa Group Holdings Ltd

## Notes to the Consolidated Financial Statements

### 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 five core categories: berries, mushrooms, glasshouse grown tomatoes, citrus and avocados. 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, and marketing operations within Australia. These categories share common infrastructure, such as warehousing and ripening facilities, and are trading and services focused.

##### International

The International segment comprises royalty income from licensing of Costa's blueberry varieties in Australia, the Americas, China 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.

2018	Produce	CF&L	International	Adjustments and eliminations	Total
	\$,000	\$,000	\$,000	\$,000	\$,000
Revenue					
External customers	784,694	142,953	74,380	-	1,002,027
Inter-segment	58,651	9,287	-	(67,938)	-
<b>Total revenue</b>	<b>843,345</b>	<b>152,240</b>	<b>74,380</b>	<b>(67,938)</b>	<b>1,002,027</b>
<b>EBITDA before SGARA</b>	<b>119,279</b>	<b>5,680</b>	<b>25,834</b>	<b>-</b>	<b>150,793</b>



**Costa Group Holdings Ltd**  
**Notes to the Consolidated Financial Statements**

2017	Produce	CF&L	International	Adjustments and eliminations	Total
	\$,000	\$,000	\$,000	\$,000	\$,000
<b>Revenue</b>					
External customers	750,906	146,225	11,923	-	909,054
Inter-segment	35,304	5,394	-	(40,698)	-
<b>Total revenue</b>	<b>786,210</b>	<b>151,619</b>	<b>11,923</b>	<b>(40,698)</b>	<b>909,054</b>
<b>EBITDA before SGARA</b>	<b>96,686</b>	<b>4,332</b>	<b>14,179</b>	<b>-</b>	<b>115,197</b>

The Group principally supplies fresh produce to the major supermarkets in Australia, including Coles, Woolworths and ALDI, which collectively comprise approximately 75% of the Group's Australian based produce sales in the 2018 financial year (2017: 73%).

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

	Notes	2018 \$ '000	2017 \$ '000
<b>EBITDA before SGARA for reportable segments</b>		150,793	115,197
Fair value movements in biological assets		(3,973)	5,878
Depreciation and amortisation		(34,652)	(27,793)
Material items (before tax)	<b>A3</b>	40,268	(8,860)
Profit / (loss) on sale of assets		(345)	1,107
Net finance costs		(7,167)	(5,267)
Income tax expense		(27,146)	(22,620)
<b>Profit after tax</b>		<b>117,778</b>	<b>57,642</b>

**A2. Revenue and expenses**

**REVENUE**

	2018 \$ '000	2017 \$ '000
Sale of goods and commissions received	970,297	873,595
Rebates and discounts provided	(15,063)	(14,244)
Rendering of services	30,317	35,990
Other revenue	16,476	13,713
<b>Total revenue</b>	<b>1,002,027</b>	<b>909,054</b>

## Costa Group Holdings Ltd

### Notes to the Consolidated Financial Statements

#### Recognition and measurement

##### ***Sale of goods and commissions received***

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).

**Costa Group Holdings Ltd**  
**Notes to the Consolidated Financial Statements**

**EXPENSES**

	<b>2018</b>	<b>2017</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<b><i>Net finance costs</i></b>		
Interest income	(172)	(54)
Interest expense on borrowings	6,845	4,219
Amortisation / write off of borrowing costs	494	1,102
	<u>7,167</u>	<u>5,267</u>

**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.

	<b>2018</b>	<b>2017</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<b><i>Employee benefits expenses</i></b>		
Salaries, contractors and wages (including on-costs)	299,541	270,711
Superannuation costs	18,107	15,525
Leave entitlements	9,138	9,623
Other employee expenses	4,465	4,575
	<u>331,251</u>	<u>300,434</u>

	<b>2018</b>	<b>2017</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<b><i>Other expenses</i></b>		
Repair and maintenance expenses	16,721	16,941
Legal and consulting expenditure	9,395	7,472
Insurance	6,000	6,340
Other*	42,336	34,677
	<u>74,452</u>	<u>65,430</u>

\*Other expenses include telecommunications, marketing, information technology and general administration expenditure. In FY2018, this also includes \$3.5 million of transaction costs associated with the African Blue acquisition. Refer to Note A3 for more information.

**Costa Group Holdings Ltd**  
**Notes to the Consolidated Financial Statements**

**A3. Material items**

	<b>2018</b>	<b>2017</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<b>Individually material items included in profit before income tax:</b>		
Gain on disposal of 49% equity-accounted investment in African Blue <sup>1</sup>	48,317	-
Amortisation of intangibles on acquisition of African Blue <sup>2</sup>	(4,579)	-
Transaction costs associated with the acquisition of African Blue <sup>3</sup>	(3,470)	-
Site Closures <sup>4</sup>	-	800
Polar Fresh closure provisions <sup>5</sup>	-	(8,860)
<b>Total material items (before tax)</b>	<b>40,268</b>	<b>(8,060)</b>
Tax effect of material items	960	945
<b>Total material items (after tax)</b>	<b>41,228</b>	<b>(7,115)</b>

1. During the year, the Group acquired an additional 37% interest in African Blue, giving it control over the company. AASB 3 requires that the original 49% investment is revalued to fair value in the income statement when the Group gained control of African Blue, which resulted in a gain of \$48.3m. This gain has been included in 'Other income' in the Statement of Profit or Loss. Refer to Note D6 for further details.
2. Amortisation of customer relationships and reacquired rights recognised as part of the acquisition of African Blue. These assets are expected to be fully amortised by December 2019.
3. Acquisition related costs associated with the African Blue transaction. Refer to Note D6 for further details.
4. These adjustments represent the removal of gain/loss on disposal of closed sites and divested businesses.
5. Represents the impairment loss and closure costs associated with the wind down of the Polar Fresh joint venture.

**A4. Earnings per share**

	<b>2018</b>	<b>2017</b>
	<b>Cents per share</b>	<b>Cents per share</b>
<i>Basic EPS</i>		
Basic EPS (cents) based on net profit attributable to members of Costa Group Holdings Limited	36.04	18.09
<i>Diluted EPS</i>		
Diluted EPS (cents) based on net profit attributable to members of Costa Group Holdings Limited	35.95	18.02
<i>Weighted average number of shares</i>		
Weighted average number of ordinary shares on issue used in the calculation of basic EPS	319,553	319,102
<i>Effect of potentially dilutive securities</i>		
Equity-settled share options	785	1,140
Weighted average number of ordinary shares on issue used in the calculation of diluted EPS	320,338	320,242
<b>Earnings reconciliation</b>		
<i>Basic and diluted EPS</i>		
Net profit attributable to owners of Costa Group Holdings Limited	115,162	57,713

## Costa Group Holdings Ltd

### Notes to the Consolidated Financial Statements

#### 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 share options outstanding during the period.

#### A5. 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 period ending 1 July 2018, that have significantly affected, or may 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**

	<b>2018</b>	<b>2017</b>
	<b>\$ '000</b>	<b>\$ '000</b>
Cash on hand	80	22
Cash at bank	57,166	22,512
Cash on deposit	3,148	48
	<u>60,394</u>	<u>22,582</u>

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

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Profit for the year</b>	117,778	57,642
Non-cash adjustments to reconcile profit before tax to net cash flows:		
Depreciation and amortisation	39,230	27,793
(Profit)/loss on sale of assets	345	(1,107)
Borrowing costs written-off / amortised	494	734
Fair value gain on disposal of investment	(48,317)	-
(Gain)/loss on fair value adjustments - biological assets	3,973	(5,878)
(Gain)/loss on fair value of derivatives	270	(512)
Share-based payments expense	1,748	1,518
Impairment provisions on equity accounted investees, net of tax	-	7,400
Share of profit of equity-accounted investees, net of tax	(6,818)	(15,245)
	<u>108,703</u>	<u>72,345</u>
Change in working capital and tax balances:		
(Increase) in inventories	(6,225)	(644)
(Increase) in receivables	(19,784)	(16,832)
(Increase) in biological assets	(776)	(2,740)
(Increase)/decrease in other assets	4,329	(7,618)
Increase/(decrease) in interest payable	918	(67)
Increase in payables	17,327	20,111
Increase in provisions	690	7,937
Decrease in deferred taxes	4,797	4,902
Increase/(decrease) in current tax payables	(5,777)	11,682
<b>Net cash generated from operating activities</b>	<u>104,202</u>	<u>89,076</u>

**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**

	<b>2018</b>	<b>2017</b>
	<b>\$ '000</b>	<b>\$ '000</b>
CURRENT		
Trade debtors	93,421	76,920
Less: Allowance for impairment losses on trade receivables	(435)	(538)
	<u>92,986</u>	<u>76,382</u>
Other receivables	16,794	11,052
	<u>109,780</u>	<u>87,434</u>

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

(ii) Also included in other receivables are value added tax credits sold with recourse to a bank for cash proceeds by the Group's subsidiary, African Blue. These value added tax credits have not been derecognised from the statement of financial position, because African Blue retains substantially all of the risk and rewards – primarily credit risk. The amount received on transfer has been recognised as a secured bank loan (refer note C1). The arrangement with the bank is such that value added tax credits received by African Blue will be remitted to bank.

The following information shows the carrying amount of other receivables at reporting date that have been transferred but have not been derecognised and the associated liabilities.

<b>In AUD\$'000</b>	<b>Note</b>	<b>2018</b>
Carrying amount of other receivables transferred to a bank		2,261
Carrying amount of associated liabilities	<b>C1</b>	(2,539)

**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**

	<b>2018</b>	<b>2017</b>
	<b>\$ '000</b>	<b>\$ '000</b>
CURRENT		
<i>At cost</i>		
Raw materials	15,409	11,449
Finished goods	10,589	6,627
	<u>25,998</u>	<u>18,076</u>

**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 and other liabilities**

<b>Payables</b>	<b>2018</b>	<b>2017</b>
	<b>\$ '000</b>	<b>\$ '000</b>
CURRENT		
<i>Unsecured liabilities</i>		
Trade creditors	69,614	53,409
Sundry creditors and accruals	57,425	49,324
	<u>127,039</u>	<u>102,733</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).

<b>Other financial liabilities</b>	<b>2018</b>	<b>2017</b>
	<b>\$ '000</b>	<b>\$ '000</b>
CURRENT		
Forward exchange contracts	368	-
Put and call options liability	401	-
	<u>769</u>	<u>-</u>
NON-CURRENT		
Interest rate swap	267	-
Put and call options liability	6,922	-
	<u>7,189</u>	<u>-</u>

**Recognition and measurement**

Recognition and measurement of other liabilities above are further detailed in note C6.

**B5. Other assets and financial assets**

	<b>2018</b>	<b>2017</b>
	<b>\$ '000</b>	<b>\$ '000</b>
CURRENT		
Prepayments	10,603	12,579
Forward exchange contracts	-	270
	<u>10,603</u>	<u>12,849</u>

**B6. Biological assets**

	<b>2018</b>	<b>2017</b>
	<b>\$ '000</b>	<b>\$ '000</b>
CURRENT		
Produce at fair value	41,771	40,164
Produce - at cost	6,068	5,878
Total biological assets	<u>47,839</u>	<u>46,042</u>

**Reconciliation of changes in carrying amount of biological assets**

Opening balance	46,042	37,408
(Loss)/Gain arising from changes in fair value	(3,973)	5,878
Increases due to purchases	281,182	204,994
Decreases due to harvest	(281,605)	(204,451)
Increase resulting from acquisitions <sup>(1)</sup>	6,193	2,213
Closing balance	<u>47,839</u>	<u>46,042</u>

(1) Includes fair value of biological assets acquired as part of the African Blue acquisition (refer note D6) and other farm acquisition that are not material.



## 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.

#### 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.

##### **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 C5 for further detail on Level 3 fair value measurement.

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**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.	<p><i>Discounted cash flows:</i></p> <p>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.</p>	<p>Inclusive of:</p> <ul style="list-style-type: none"> <li>- Estimated future crop prices.</li> <li>- Estimated cash inflows based on forecasted sales.</li> <li>- Estimated yields per hectare.</li> <li>- Estimated remaining farming, harvest and transportation costs.</li> <li>- Risk adjustment factor.</li> </ul>	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> <li>- the estimated fruit prices were higher (lower);</li> <li>- the estimated yields per hectare were higher (lower);</li> <li>- the estimated harvest and transportation costs were lower (higher); or</li> <li>- the risk-adjusted discount rates were lower (higher).</li> </ul>

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**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.

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**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.

**B7. Property, plant and equipment**

	<b>2018</b>	<b>2017</b>
	<b>\$ '000</b>	<b>\$ '000</b>
Land and buildings at cost	163,867	156,143
Accumulated depreciation and impairment	(50,192)	(44,849)
	<u>113,675</u>	<u>111,294</u>
Assets Under Construction at cost	<u>43,184</u>	<u>17,426</u>
Plant and equipment at cost	304,537	231,704
Accumulated depreciation and impairment	(138,844)	(104,610)
	<u>165,693</u>	<u>127,094</u>
Improvements at cost	29,595	22,915
Accumulated depreciation and impairment	(8,128)	(6,144)
	<u>21,467</u>	<u>16,771</u>
Bearer plants at cost	32,632	15,917
Accumulated depreciation and impairment	(12,068)	(6,553)
	<u>20,564</u>	<u>9,364</u>
Total property, plant and equipment	<u><u>364,583</u></u>	<u><u>281,949</u></u>

**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.

	<b>2018</b>	<b>2017</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<i>Land and buildings</i>		
Opening carrying amount	111,294	106,613
Additions	4,265	9,232
Acquisitions through business combinations <sup>(1)</sup>	1,785	-
Disposals	(9)	141
Depreciation expense	(5,401)	(5,238)
Transfers, reclassifications, adjustments and effect of movement in FX rate	1,741	546
Closing carrying amount	<u>113,675</u>	<u>111,294</u>
<i>Assets Under Construction</i>		
Opening carrying amount	17,426	13,996
Additions	48,189	26,623
Acquisitions through business combinations <sup>(1)</sup>	5,848	-
Transfers, reclassifications, adjustments and effect of movement in FX rate	(28,279)	(23,193)
Closing carrying amount	<u>43,184</u>	<u>17,426</u>
<i>Plant and equipment</i>		
Opening carrying amount	127,094	106,849
Additions	25,169	18,302
Acquisitions through business combinations <sup>(1)</sup>	11,330	-
Disposals	(518)	(982)
Depreciation expense	(23,019)	(17,600)
Transfers, reclassifications, adjustments and effect of movement in FX rate	25,638	20,525
Closing carrying amount	<u>165,693</u>	<u>127,094</u>
<i>Leasehold Improvements</i>		
Opening carrying amount	16,771	15,086
Additions	3,532	1,363
Acquisitions through business combinations <sup>(1)</sup>	1,395	-
Depreciation expense	(1,447)	(1,096)
Transfers, reclassifications, adjustments and effect of movement in FX rate	1,216	1,418
Closing carrying amount	<u>21,467</u>	<u>16,771</u>
<i>Bearer Plants</i>		
Opening carrying amount	9,364	6,780
Additions	7,410	4,819
Acquisitions through business combinations <sup>(1)</sup>	5,876	-
Disposals	(517)	(17)
Depreciation expense	(3,554)	(2,196)
Transfers, reclassifications, adjustments and effect of movement in FX rate	1,985	(22)
Closing carrying amount	<u>20,564</u>	<u>9,364</u>

**Costa Group Holdings Ltd**  
**Notes to the consolidated Financial Statements**

	<b>2018</b>	<b>2017</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<i>Total property, plant and equipment</i>		
Opening carrying amount	281,949	249,324
Additions	88,564	60,339
Acquisitions through business combinations <sup>(1)</sup>	26,234	-
Disposals	(1,044)	(859)
Depreciation expense	(33,421)	(26,130)
Transfers, reclassifications, adjustments and effect of movement in FX rate	2,301	(725)
Closing carrying amount	<u>364,583</u>	<u>281,949</u>

(1) Includes property, plant and equipment acquired as part of the African Blue acquisition (refer Note D6) and other farm acquisition that are not material.

**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.

<b>Class of fixed asset</b>	<b>Depreciation rates</b>	<b>Depreciation basis</b>
Land and buildings at cost	3% - 10%	Straight line
Plant and equipment at cost	4% - 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 1 July 2018, the Group has capital commitments amounting to \$21,495,372 (2017: \$24,939,230) 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**

	<b>2018</b>	<b>2017</b>
	<b>\$ '000</b>	<b>\$ '000</b>
Goodwill at cost	232,704	133,007
Brand names at cost	3,182	1,730
Lease premiums at cost	2,924	1,022
Water rights at cost	2,924	2,741
Capitalised software costs	8,724	8,724
Accumulated amortisation and impairment	(5,351)	(4,123)
	<u>3,373</u>	<u>4,601</u>
Reacquired rights at cost	3,600	-
Accumulated amortisation and impairment	(1,167)	-
	<u>2,433</u>	<u>-</u>
Customer relationships at cost	11,700	-
Accumulated amortisation and impairment	(3,413)	-
	<u>8,287</u>	<u>-</u>
Total intangible assets	<u><u>255,827</u></u>	<u><u>143,101</u></u>

**Reconciliations**

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

	<b>2018</b>	<b>2017</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<i>Goodwill</i>		
Opening balance	133,007	131,495
Acquisitions through business combinations <sup>(1)</sup>	99,697	1,512
Closing balance	<u><u>232,704</u></u>	<u><u>133,007</u></u>
<i>Capitalised software costs</i>		
Opening balance	4,601	5,814
Amortisation expense <sup>(2)</sup>	(1,228)	(1,354)
Disposals	-	(311)
Transfers, reclassifications and adjustments	-	452
Closing balance	<u><u>3,373</u></u>	<u><u>4,601</u></u>
<i>Brand names</i>		
Opening balance	1,730	1,730
Acquisition through business combinations <sup>(1)</sup>	1,452	-
Closing balance	<u><u>3,182</u></u>	<u><u>1,730</u></u>

**Costa Group Holdings Ltd**  
**Notes to the consolidated Financial Statements**

	2018 \$ '000	2017 \$ '000
<i>Lease premiums</i>		
Opening balance	1,022	1,022
Acquisitions through business combinations <sup>(1)</sup>	1,902	-
Closing balance	2,924	1,022
<i>Water rights</i>		
Opening balance	2,741	2,721
Additions	183	20
Closing balance	2,924	2,741
<i>Reacquired rights</i>		
Acquisitions through business combinations <sup>(1)</sup>	3,600	-
Amortisation expense <sup>(2)</sup>	(1,167)	-
Closing balance	2,433	-
<i>Customer relationships</i>		
Acquisitions through business combinations <sup>(1)</sup>	11,700	-
Amortisation expense <sup>(2)</sup>	(3,413)	-
Closing balance	8,287	-
<i>Total Intangibles assets</i>		
Opening carrying amount	143,101	142,782
Additions	183	20
Acquisitions through business combinations <sup>(1)</sup>	118,351	1,512
Disposals	-	(311)
Amortisation expense <sup>(2)</sup>	(5,808)	(1,354)
Transfers, reclassification and adjustments	-	452
Closing carrying amount	255,827	143,101

(1) Includes intangibles acquired as part of the African Blue acquisition and other farm acquisitions that are not material (refer Note D6).

(2) 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.

**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.

## Costa Group Holdings Ltd

### Notes to the consolidated Financial Statements

#### 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.

#### Reacquired rights

Reacquired rights arise when the acquirer has granted a right to the acquiree to use one or more of the acquirer's asset, such as intellectual property. Reacquired rights are measured initially at fair value of the remaining contractual term of the contract and amortised over the remaining contractual period. The carrying amount of reacquired rights is supported by a value in use calculation.

#### Customer relationship assets

Customer relationship assets are measured initially at fair value and amortised over the period of the associated contracts. The carrying amount of customer relationship asset is supported by a value in use calculation.

#### 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.

#### Allocation of goodwill

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

2018 \$'000	Produce	CF&L	International	Total
<b>Goodwill</b>				
Carrying amount at start of year	131,333	1,674	-	133,007
Acquisitions through business combinations	150	-	99,547	99,697
Carrying amount at end of year	131,483	1,674	99,547	232,704
<b>2017</b>				
2017 \$'000	Produce	CF&L	International	Total
<b>Goodwill</b>				
Carrying amount at start of year	127,654	3,841	-	131,495
Transfers between segments*	2,167	(2,167)	-	-
Acquisitions through business combinations	1,512	-	-	1,512
Carrying amount at end of year	131,333	1,674	-	133,007

\*Goodwill relating to the Avocado CGU has been transferred to the Produce segment as the Avocado category now forms part of Produce.



## Costa Group Holdings Ltd

### Notes to the consolidated Financial Statements

#### **Impairment testing**

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.

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.

In FY2018, the recoverable amount of our CGUs exceeds their carrying values and as a result no impairment loss has been recognised (2017: Nil impairment).

#### **Useful life**

Intangibles with indefinite useful life 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.

#### **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 FY2021. For FY2022 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% (2017: 2.5%) has been used for cash flows for FY2022 onwards with a terminal value growth rate of 3.0% (2017: 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 10.0% to 13.0% for domestic and 14% to 17% for International for financial year 2018 (2017: 10.0% to 13.0%).

##### **Sensitivity Analysis**

The Group believes that for all CGUs, any reasonable possible change in the key assumptions would not cause the carrying value of the CGUs to exceed their recoverable amount.

## Costa Group Holdings Ltd

### Notes to the consolidated Financial Statements

#### 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.

#### B9. Provisions

		2018 \$ '000	2017 \$ '000
<b>CURRENT</b>			
Employee benefits	(a)	15,233	14,185
Onerous leases	(b)	1,228	1,500
Other	(c)	-	76
		<u>16,461</u>	<u>15,761</u>
<b>NON CURRENT</b>			
Employee benefits	(a)	5,490	5,343
Onerous leases	(b)	2,426	3,500
Other	(c)	1,749	380
		<u>9,665</u>	<u>9,223</u>

##### **(a) Employee benefits liability**

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

##### **(b) Onerous leases**

The group currently holds a long-term lease for the Eastern Creek warehouse in New South Wales. The lease expires in FY2026. A provision has been recognised for the fact that the unavoidable lease expenses are higher than the economic benefits available from the site. The obligation for the discounted future payments, net of expected economic benefits, has been provided for.

##### **(c) Other provisions**

This relates to provision for warranty and lease make good.

##### **(d) Reconciliations**

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

	2018 \$ '000	2017 \$ '000
<i>Employee benefits</i>		
Opening balance	19,528	17,259
Amounts used	(7,352)	(5,824)
Additional amounts recognised	8,547	8,093
Closing balance	<u>20,723</u>	<u>19,528</u>
<i>Onerous leases</i>		
Opening balance	5,000	-
Amounts used	(1,346)	-
Additional amounts recognised	-	5,000
Closing balance	<u>3,654</u>	<u>5,000</u>
<i>Other provisions</i>		
Opening balance	456	130
Amounts used	(9)	-
Additional amounts recognised	1,302	326
Closing balance	<u>1,749</u>	<u>456</u>

## Costa Group Holdings Ltd

### Notes to the consolidated Financial Statements

#### 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.

**Costa Group Holdings Ltd**  
**Notes to the consolidated Financial Statements**

**C. CAPITAL STRUCTURE AND FINANCING**

**C1. Borrowings**

	2018 \$ '000	2017 \$ '000
<b>Non-current liabilities</b>		
<i>Secured liabilities</i>		
Bank loans	8,290	-
<i>Unsecured liabilities</i>		
Bank loans	228,177	106,775
	<u>236,467</u>	<u>106,775</u>

**Terms and conditions relating to the above financial instruments**

The key terms of the Group's banking facilities detailed as below:

Secured

- Secured bank loan with \$2.1m facility that can be drawn upon as required. This facility matures on July 2019.
- Secured bank loan with \$7.1m facility that can be drawn upon as required. This facility matures on November 2023.
- Secured bank loan of \$2.5m that matures on January 2023
- The above secured bank loans are secured over buildings and trade receivables (see Note B2)

Unsecured

- Facility A – \$175m facility that can be drawn upon as required. This facility matures 3 years from August 2017.
- Facility B – \$175m facility that can be drawn upon as required. This facility matures 4 years from August 2017.
- 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.
- It is noted that the banking facility is unsecured.

The Group has financial guarantees to other persons of \$11.5 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 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.

**C2. Share Capital**

	2018 \$ '000	2017 \$ '000
<i>Issued and paid-up capital</i>		
Ordinary shares	401,673	401,673
Transaction costs directly transferred to equity (net of tax)	(7,087)	(7,087)
Tax effect on legacy share options	3,566	3,566
Settlement of share-based payments	5,258	1,750
	<u>403,410</u>	<u>399,902</u>

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	2018		2017	
	Number '000	\$ '000	Number '000	\$ '000
<b>Ordinary shares</b>				
Opening balance	319,280	399,902	318,880	395,688
Ordinary shares issued	418	2,228	400	580
Settlement of share-based payment	-	1,280	-	68
Tax effect on legacy share options	-	-	-	3,566
At reporting date	319,698	403,410	319,280	399,902

**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.

**C3. Profit reserve**

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 \$122,600 (2017: \$45,802).

**C4. Other reserves**

The nature and purpose of other equity reserves is as follows:

**Other equity reserve**

Other equity reserve comprises the treasury shares in Costa Group Holdings Limited that are held by the Employee share Trust for the purpose of issuing shares under the employee share scheme and the executive short-term incentive (STI) scheme. Shares issued to employees are recognised on first-in-first out basis. As at 1 July 2018, no shares were held by the Trust.

**Share based payment reserve**

The share based payment reserve is used to recognise the value of equity-settled share based payments provided to employees, including key management personnel, as part of their remuneration. Refer to E1 for further details of these plans.

**Foreign currency translation reserve**

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

**Cash flow hedge reserve**

The hedging reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge relationship.

**General reserve**

General reserve consists of put and call option as part of the acquisition of African Blue, measured under the present-access method. Refer note D6 for further details.

**Costa Group Holdings Ltd**  
**Notes to the consolidated Financial Statements**

**C5. Dividends**

Dividends paid or declared by the Company to members since the end of the previous financial year were:

	Cents per share	Total amount \$'000	Date of payment
<b>Declared and paid during the year 2018</b>			
Final 2017 ordinary	7.0	22,379	2 October 2017
Interim 2018 ordinary	5.0	15,985	3 April 2018
Total amount		38,364	

**Declared after end of year**

After the balance sheet date, the following dividends were proposed by the directors. The dividends have not been provided and there are no income tax consequences.

	Cents per share	Total amount \$'000	Date of payment
Final 2018 ordinary	8.5	27,174	4 October 2018
Total amount		27,174	

**C6. Financial instruments – fair values and risk management**

**(A) Valuation of financial instruments**

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	2018 \$ '000	2017 \$ '000
<b>Financial assets</b>			
<i>Loans and receivables</i>			
Current receivables	-	109,780	87,434
Cash and cash equivalents	-	60,394	22,582
Loans to related party associates	-	-	80
		<u>170,174</u>	<u>110,096</u>
<i>Available for sale</i>			
Shares in other corporations	Level 2	244	247
		<u>244</u>	<u>247</u>
<i>Designated at fair value</i>			
Forward exchange contracts	Level 2	-	270
		<u>-</u>	<u>270</u>
<b>Financial liabilities</b>			
<i>Designated at fair value</i>			
Forward exchange contracts	Level 2	368	-
Interest rate swaps	Level 2	267	-
		<u>635</u>	<u>-</u>
<i>Other financial liabilities not measured at fair value</i>			
Payables	-	127,040	102,733
Bank loans	Level 2	236,467	106,775
Put and call options	-	7,322	-
		<u>370,829</u>	<u>209,508</u>

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For all fair value measurement and disclosures, the Group uses the following to categorise the method used:

- Level 1: the fair value is calculated using quoted prices in active markets
- Level 2: the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
- Level 3: the fair value is estimated using inputs for the asset or liability that are not based on observable market data

#### Recognition, classification and measurement

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**

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Foreign exchange forward contracts and interest rate swap contracts are all valued using forward pricing techniques. This includes the use of market observable inputs, such as foreign exchange spot, forward rates and interest rate curves. Accordingly, these derivatives are classified as Level 2.

##### **Cash flow hedges**

When a derivative is designated as a cash flow hedging instrument, the effective portion of the fair value of the derivative is recognised in other comprehensive income and accumulated in the hedging reserve. Any ineffective portion of the fair value of the derivative is recognised immediately in the profit or loss.

The amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period or periods during which the hedge forecast cash flow affect profit or loss or the hedged item affects profit or loss.

If the forecast transaction is no longer expected to occur, the hedge no longer meets the criteria for hedge accounting, the hedging instrument expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss.

#### **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.

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.

##### **Other 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.

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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.

#### **Put and call options**

The Group has put and call options arising as a result of business acquisition. Recognition and subsequent measurement are detailed in Note D6.

#### **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.

#### **(B) Risk management**

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.

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

	<b>2018</b>	<b>2017</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<b>Variable rate instruments</b>		
<b>Assets</b>		
Cash and cash equivalents	60,394	22,582
<b>Liabilities</b>		
Bank loans	237,290	108,000
<b>Total financial liabilities</b>	<b>176,896</b>	<b>85,418</b>



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**Notes to the consolidated Financial Statements**

*Sensitivity analysis for variable rate instruments*

At 1 July 2018, 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:

	<b>2018</b>	<b>2017</b>
	<b>\$ '000</b>	<b>\$ '000</b>
Increase of 100 basis points in interest rate	(1,769)	(854)
Decrease of 100 basis points in interest rate	1,769	854

**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 (USD) and Japanese Yen (JPY). In addition, it is also exposed to exchange rate movements in Moroccan Dirhams (MAD) and Chinese Yuan (CNY) through its investment in the International subsidiaries. The Group also makes purchases and capital expenditure that expose it to movements in exchange rates of USD, Euro (EUR), British Pound (GBP) and New Zealand dollar (NZD). 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:

<b>2018</b>	<b>USD</b>	<b>JPY</b>	<b>EUR</b>	<b>CNY</b>	<b>MAD</b>
	<b>\$ '000</b>	<b>\$ '000</b>	<b>\$ '000</b>	<b>\$ '000</b>	<b>\$ '000</b>
Cash	417	1,475	432	8,073	19,816
Trade and other receivables	9,254	7,789	2,727	600	14,991
Trade and other payables	-	-	(739)	(1,252)	(25,582)
Derivative financial assets / (liabilities)	(190)	(155)	(23)	-	-
<b>Net exposure</b>	<b>9,481</b>	<b>9,109</b>	<b>2,397</b>	<b>7,421</b>	<b>9,225</b>

**2017**

	<b>USD</b>	<b>JPY</b>	<b>EUR</b>	<b>CNY</b>	<b>GBP</b>	<b>NZD</b>
	<b>\$ '000</b>	<b>\$ '000</b>	<b>\$ '000</b>	<b>\$ '000</b>	<b>\$ '000</b>	<b>\$ '000</b>
Cash	1,619	1,342	-	6,194	-	-
Trade and other receivables	6,077	4,461	-	842	-	-
Trade and other payables	(92)	-	(6)	(452)	(10)	(20)
Derivative financial assets / (liabilities)	123	152	(5)	-	-	-
<b>Net exposure</b>	<b>7,727</b>	<b>5,955</b>	<b>(11)</b>	<b>6,584</b>	<b>(10)</b>	<b>(20)</b>

*Sensitivity analysis*

At 1 July 2018, had the Australian dollar weakened/strengthened by 10% against these currencies with all other variables held constant, the impact to profit or loss and equity would be an increase/(decrease) of:

	<b>USD</b>	<b>JPY</b>	<b>EUR</b>	<b>CNY</b>	<b>MAD</b>
	<b>\$ '000</b>	<b>\$ '000</b>	<b>\$ '000</b>	<b>\$ '000</b>	<b>\$ '000</b>
Australian dollar weakened by 10%	948	911	240	742	922
Australian dollar strengthened by 10%	(948)	(911)	(240)	(742)	(922)

**(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

## Costa Group Holdings Ltd

### Notes to the consolidated Financial Statements

when they fall due.

As at reporting date, unused credit facilities net of bank guarantees of the Group were \$112.8 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.

#### 2018

	Less than 6 months	6 - 12 months	1 - 5 years	Over 5 years	Total
<b>Non-derivative financial liabilities</b>					
Bank loans*	237,290	-	-	-	237,290
Trade payables	127,039	-	-	-	127,039
	364,329	-	-	-	364,329
<b>Derivative financial liabilities</b>					
Forward exchange contracts	368	-	-	-	368
Interest rate swaps	-	-	267	-	267
	368	-	267	-	635

#### 2017

	Less than 6 months	6 - 12 months	1 - 5 years	Over 5 years	Total
<b>Non-derivative financial liabilities</b>					
Bank loans*	108,000	-	-	-	108,000
Trade payables	102,733	-	-	-	102,733
	210,733	-	-	-	210,733

\*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.

#### (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 Group also takes out trade credit insurance in relation to its citrus export sales.

The maximum exposure to credit risk is as follows:

	2018 \$ '000	2017 \$ '000
Cash and cash equivalents	60,394	22,582
Shares in other corporation	244	247
Receivables	109,780	87,434
Forward exchange contracts	-	270
	170,418	110,533

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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.

	<b>2018</b>	<b>2017</b>
	<b>\$ '000</b>	<b>\$ '000</b>
Neither past due nor impaired	68,322	61,239
Past due 1 - 30 days	18,119	14,378
Past due 31 - 60 days	3,540	1,108
Past due over 60 days	3,440	195
	<u>93,421</u>	<u>76,920</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 38% of the Group's trade debtors at 1 July 2018.

#### 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.

	<b>2018</b>	<b>2017</b>
	<b>\$ '000</b>	<b>\$ '000</b>
Movements in the accumulated impairment losses were:		
Opening balance at 26 June 2017	(538)	(419)
Impairment loss (recognised) / reversed	(144)	(204)
Amounts written off	247	85
Closing balance at 1 July 2018	<u>(435)</u>	<u>(538)</u>

#### (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.

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**C7. Capital and leasing commitments**

**(a) Operating lease commitments**

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

	<b>2018</b>	<b>2017</b>
	<b>\$ '000</b>	<b>\$ '000</b>
Payable		
- not later than one year	45,386	36,094
- later than one year and not later than five years	162,394	133,989
- later than five years	246,514	149,215
	<u>454,294</u>	<u>319,298</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 \$11,537,591 (2017: \$11,623,007).

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.

**(c) 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.

AASB 16 replaces existing lease guidance, including AASB 117 Leases. The standard is effective for annual periods beginning on or after 1 January 2019. Further details of the Group's assessment and position of the standard is disclosed in Note E3.

Costa Group Holdings Ltd  
Notes to the consolidated Financial Statements

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
		2018 %	2017 %		
<b>Associates</b>					
African Blue SA <sup>1</sup>	Ordinary shares	-	49	Equity Accounted	Moulay-Bousselham, Morocco
Polar Fresh Partnership	Ordinary shares	50	50	Equity Accounted	Victoria, Australia
<b>Joint Ventures</b>					
Driscoll's Australia Partnership	Ordinary shares	50	50	Equity Accounted	Victoria, Australia

(1) The Group acquired additional shares in African Blue SA on 27 November 2017 giving Costa control over the company. From the date of this transaction, African Blue is accounted for as a subsidiary of the Group. Refer Note D6 for further details.

(b) Summarised financial information for associates and joint ventures

	African Blue SA \$ '000	Polar Fresh Partnership \$ '000	Driscoll's Australia Partnership \$ '000	Total \$ '000
Reconciliation of carrying amount in joint ventures and associates:				
Opening balance at 26 June 2017	22,909	585	8,860	32,354
Total share of profit / (loss)	(589)	607	6,800	6,818
Dividends paid	-	(1,100)	(4,350)	(5,450)
Dividend receivable pre AB acquisition	(3,390)	-	-	(3,390)
Disposal of equity accounted investment	(18,930)	-	-	(18,930)
Closing balance at 1 July 2018	-	92	11,310	11,402

(a) African Blue SA

In 2007, the Group entered into a joint venture to establish African Blue, a Moroccan-based grower and marketer of blueberries. The African Blue subsidiary holds an exclusive licence to grow Costa blueberry varieties in Morocco for sale worldwide (excluding Americas). In November 2017, the Group acquired an additional 37% interest in African Blue giving it control over the company – refer to note D6 for further detail.

(b) Polar Fresh Partnership

The Polar Fresh Partnership is a provider of cold storage, warehousing and distribution solutions. Polar Fresh Partnership currently operates one cold storage site throughout Australia. In FY2018, sales revenue for the Polar Fresh Partnership was \$1,696,191 (2017: \$5,486,569), and net assets were \$2,521,167 (2017: \$1,307,332).

During FY2017, a decision was made to wind down the Polar Fresh JV following Coles' decision not to renew the Parkinson and Eastern Creek contract. As such, the carrying value of the investment in Polar Fresh was impaired by \$7.4m. Refer to Note A3 for further information. The final contract was completed in October 2017 and operations have now ceased.

## Costa Group Holdings Ltd

### Notes to the consolidated Financial Statements

#### **(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 Group's Australian grown berries are marketed in Australia through the Driscoll's brand. In FY2018, sales revenue for the Driscoll's Australia Partnership was \$48,112,741 (2017: \$99,629,160), and net assets were \$22,620,736 (2017: \$18,068,876).

#### **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	
		2018	2017
		%	%
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
Costa Berry International Pty Ltd (formerly 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
CBSPT 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 African 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 Farming Mundubbera Pty Ltd	Australia	100	100
Grape Exchange 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	70	70
Costa (Honghe) Fruit Planting Co. Ltd	China	70	70
Costa (Yunnan) Agricultural Development Co. Ltd	China	70	70
African Blue S.A.*	Morocco	86	-
Sweet Berry*	Morocco	86	-
Blue Flavor*	Spain	77	-

\*Ownership interest obtained as a result of the African Blue acquisition – refer to note D6 for more information

**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 2018 financial period as follows:

- Polar Fresh Partnership - Dividends received amounting to \$1,100,000 (2017: \$1,370,958) and \$24,000 (2017: \$104,000) for transactional and management services provided.
- Polar Fresh Partnership - Receivable of \$3,819 (2017: \$3,819) for management fees.
- Driscoll's Australia Partnership - Commission paid on sale of berries \$21,691,745 (2017: \$22,118,278)
- Driscoll's Australia Partnership - Sales of produce \$166,354,252 (2017: \$173,480,884)
- Driscoll's Australia Partnership - Receivable of \$6,834,103 (2017: \$6,011,073) for sale of produce.
- Driscoll's Australia Partnership - Dividends received amounting to \$4,350,000 (2017: \$5,000,000)

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

*Mr Frank Costa (Director)*

- Payment of leasing fee to Frank Costa paid by Costa's Pty Ltd for 111 Aviation Road, Werribee of AUD \$1 (2017: AUD \$1)

	<b>2018</b>	<b>2017</b>
	<b>\$ '000</b>	<b>\$ '000</b>
Compensation received by key management personnel of the group:		
- Short-term employee benefits	3,281	3,742
- Post-employment benefits	127	116
- Other monetary benefits	11	15
- Long-term employee benefits	38	40
- Share-based payment benefits	775	1067
	<u>4,232</u>	<u>4,980</u>



**Costa Group Holdings Ltd**  
**Notes to the consolidated Financial Statements**

**D4: Parent entity disclosures**

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

	<b>2018</b>	<b>2017</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<b>Assets</b>		
Current assets	171	2,306
Non-current assets	506,998	455,857
<b>Total assets</b>	<u>507,169</u>	<u>458,163</u>
<b>Liabilities</b>		
Current liabilities	15,928	17,558
Non-current liabilities	43,635	43,697
<b>Total liabilities</b>	<u>59,563</u>	<u>61,255</u>
<b>Net assets</b>	<u>447,606</u>	<u>396,908</u>
<b>Equity</b>		
Contributed equity	403,410	399,902
Profit reserve	83,493	45,802
Share-based payment reserve	12,000	2,501
Accumulated losses	(51,297)	(51,297)
<b>Total equity</b>	<u>447,606</u>	<u>396,908</u>

**(b) Summarised statement of comprehensive income**

	<b>2018</b>	<b>2017</b>
	<b>\$ '000</b>	<b>\$ '000</b>
Profit/(Loss) for the period	76,055	(23,556)
Total comprehensive loss for the year	<u>76,055</u>	<u>(23,556)</u>

**(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 Corporations (Wholly-owned Companies) Instrument 2016/785*, the wholly-owned subsidiaries listed in Note D2 (excluding Hillston Investments Pty Ltd and Innisfail Holdings Pty Ltd) are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports, and Directors' report.

A consolidated statement of profit or loss and other comprehensive income and a consolidated statement of financial position for the year ended 1 July 2018, 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**

	<b>2018</b>	<b>2017</b>
	<b>\$ '000</b>	<b>\$ '000</b>
Revenue	1,050,344	901,997
Less: Expense	(912,238)	(837,635)
<b>Profit before income tax expense</b>	<b>138,106</b>	<b>64,362</b>
Income tax expense	(27,146)	(22,611)
<b>Total comprehensive income for the year</b>	<b>110,960</b>	<b>41,751</b>

**Costa Group Holdings Ltd**  
**Notes to the consolidated Financial Statements**

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

	<b>2018</b>	<b>2017</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	31,582	16,387
Receivables	134,660	86,180
Inventories	21,729	17,705
Biological assets	47,663	45,958
Other assets	7,496	10,282
<b>Total current assets</b>	<b>243,130</b>	<b>176,512</b>
<b>Non-current assets</b>		
Other financial assets	89,159	12,374
Equity accounted investments	30,332	32,354
Intangible assets	145,250	143,101
Deferred tax assets	3,583	3,517
Property, plant and equipment	310,137	273,863
<b>Total non-current assets</b>	<b>578,461</b>	<b>465,209</b>
<b>Total assets</b>	<b>821,591</b>	<b>641,721</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Payables	98,154	100,999
Provisions	16,461	15,761
Financial liabilities	369	-
Current tax liabilities	12,017	17,557
<b>Total current liabilities</b>	<b>127,001</b>	<b>134,317</b>
<b>Non-current liabilities</b>		
Borrowings	228,125	106,775
Provisions	9,665	9,223
Financial liabilities	267	-
<b>Total non-current liabilities</b>	<b>238,057</b>	<b>115,998</b>
<b>Total liabilities</b>	<b>365,058</b>	<b>250,315</b>
<b>NET ASSETS</b>	<b>456,533</b>	<b>391,406</b>
<b>EQUITY</b>		
Share capital	391,831	388,313
Reserves	(193)	2,501
Profit reserve	110,107	45,972
Accumulated losses	(45,212)	(45,380)
<b>Total equity</b>	<b>456,533</b>	<b>391,406</b>

## Costa Group Holdings Ltd

### Notes to the consolidated Financial Statements

#### D6. Acquisition of subsidiary

##### Acquisition of African Blue SARL

On 2 November 2017, the Group signed an agreement to acquire an additional 41% of the shares and voting interests in African Blue SARL (African Blue). The transaction involved the Group initially acquiring 37% of the issued shares, with options enabling it to acquire an additional 4% over the next 3 years. As a result, the Group's equity interest in African Blue increased from 49% to 86%, giving it control over the company. The transaction settled on 27 November 2017, which is also the deemed acquisition date for accounting purposes.

African Blue is an integral part of Costa's International segment with the blueberry varieties grown in Morocco coming from genetics developed by Costa originally in Australia. This gives the Group a distinct competitive advantage in the UK and European markets as it is able to deliver a premium product into those markets.

From the date of acquisition to 1 July 2018, African Blue contributed revenue of \$58.4m and a net profit before SGARA and material items of \$13.5m to the Group's results. If the acquisition had occurred on 26 June 2017, Management estimates that the African Blue would have contributed revenue of \$58.5m, and contributed profit before SGARA and material items for the full-year of \$9.3m. Costa consolidated revenue would then be \$1,002.1m and consolidated profit before SGARA and material items of \$74.5m.

In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 26 June 2017.

For the June 2018 reporting period, the assets and liabilities have been determined on a provisional basis. The only changes since December 2017 reporting is in respect of the valuation of bearer plants and intangible assets such as customer relationship, brand names, re-acquired rights and deferred tax liability which have now been recognised separate from goodwill. In addition, a further adjustment to the re-measurement of 49% interest on acquisition was made.

##### a) Consideration transferred

The following table summarises the acquisition date fair value of the cash consideration transferred.

	<u>\$ '000</u>
Cash	68,551
<b>Total consideration</b>	<u><u>68,551</u></u>

##### b) Put and call option

As part of the agreement, the Group will make further payments to the existing shareholders on reaching certain earnings targets over the next three years by way of a put and call option. The put and call option has been measured at present value using management best estimates of these targets being met and has been treated as a financial liability. Since Costa has applied the present-access method to account for the put and call option, the liability does not form part of the consideration transferred and is recognised against 'general reserve' in equity. The fair value of the put option recognised on acquisition was \$9.1m. The value as at 1 July 2018 has reduced to \$7.3m. Any subsequent changes to the fair value of these options will be recognised in equity in accordance with Costa's policy on accounting for such options.

##### c) Acquisition related costs

The Group incurred acquisition related costs of \$3.5m which included legal fees, due diligence costs and stamp duty on transfer of shares. These costs have been included in 'Other expenses' and are treated as material items.

**Costa Group Holdings Ltd**  
**Notes to the consolidated Financial Statements**

**d) Identifiable assets acquired and liabilities assumed**

The following table summarises the recognition amounts, on a provisional basis of acquired and liabilities assumed since date of acquisition:

<b>27 November 2017</b>	<b>Provisional \$'000</b>
Property, plant and equipment	23,044
Intangible assets	18,586
Other assets	1,911
Inventories	1,658
Receivables	7,683
Biological assets	3,263
Cash and cash equivalents	11,141
Borrowings	(2,118)
Payables	(11,243)
Dividends payable	(7,357)
Contingent liabilities	(174)
Deferred tax liability	(4,240)
<b>Total identifiable net assets acquired</b>	<b>42,154</b>

*i) Measurement of fair values*

The measurement valuation techniques used for measuring the fair value of material assets acquired were as follows:

<b>Asset Acquired</b>	<b>Valuation technique</b>
Property, plant and equipment (Bearer assets)	The valuation model considers cost of acquiring the plants as well as any directly attributable cost incurred for planting. These include soil preparation, labour, cost of pots and pelemix for substrate planting. From thereon, the aging profile of the plants are estimated and have also been taken into consideration to arrive at the final valuations.
Intangible assets (customer relationships, reacquired rights and African Blue brand name)	<i>Relief-from-royalty method ("RRM") and multi-period excess earnings method ("MEEM"):</i>  RRM method considers the discounted estimated royalty payments that are expected to be avoided as a result of rights and brand being owned.  MEEM method considers the present value of net cash flows expected to be generated by the customer relationship, by excluding any contributory assets.

**Costa Group Holdings Ltd**  
**Notes to the consolidated Financial Statements**

**e) Goodwill**

Goodwill arising from the acquisition has been recognised as follows:

	<b>Provisional 1-Jul-18 \$ '000</b>
	<hr/>
Consideration transferred	68,551
Non-controlling interest based on their proportionate interest in the recognised amounts of the assets and liabilities of African Blue	5,901
Fair value of pre-existing interest in African Blue	67,247
Fair value of net identifiable net assets	<u>(42,154)</u>
<b>Goodwill</b>	<b><u>99,545</u></b>

Goodwill primarily comprises the skills and technical talent of African Blue's workforce and the synergies expected to be achieved from integrating the company into the Group's operations and existing governance and risk mitigating practices. Goodwill is not deductible for tax purposes.

**f) Re-measurement of existing 49% interest in African Blue**

Since the interim December 2017 reporting period, an adjustment has been made to the calculation of the control premium of the existing 49% interest in African Blue. As the acquisition happened during the financial period, no retrospective adjustment is required in accordance with AASB 108.

The following table summarises changes:

	<b>Original 31-Dec-17 \$ '000</b>	<b>Revised 1 July 2018 \$ '000</b>
<b>Note</b>	<hr/>	<hr/>
Fair value of 49% interest (adjusted for control premium)	59,010	67,247
Carrying value of the equity-accounted investee	<u>(18,930)</u>	<u>(18,930)</u>
<b>Gain of fair value of investment</b>	<b><u>40,080</u></b>	<b><u>48,317</u></b>

The gain on fair value of the Group's existing 49% interest has been included in 'Other income' and has been classified as a material item. The fair value of \$67.2m has been adjusted for any control premium paid on the current transaction.

**Other acquisitions**

The Group acquired other domestic farms during the year which are not considered material for disclosure.

**Costa Group Holdings Ltd**  
**Notes to the consolidated Financial Statements**

**E. OTHER**

**E1. Share-based payments**

	<b>2018</b>	<b>2017</b>
	<b>\$ '000</b>	<b>\$ '000</b>
Share-based payments reserve	12,000	2,501

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 and short term incentive schemes as part of the remuneration packages for the key management personnel and executives of the Company.

During FY2018, 1,706,229 (2017: 2,313,851) options have been granted to key management personnel and the executive team under new option plans.

The Group also granted 142,689 (2017: 181,885) performance rights to key management personnel and the executive team during FY2018.

**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 and performance rights.

**Measurement of Fair Values**

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

<b>Employee share option programs</b>	<b>2018</b>		<b>2017</b>
	<b>KMP and executives</b>		<b>KMP and executives</b>
Grant date	9/10/2017	24/08/2017	1/07/2016
Number issued	265,151	1,441,078	2,313,851
Fair value at grant date	\$1.51	\$1.37	\$0.67
Share price at grant date	\$5.40	\$5.62	\$3.06
Exercise price	\$4.82	\$4.82	\$2.78
Expected volatility	30%	30%	30%
Expected dividend yield	2.50%	2.50%	3.80%
Risk-free rate	2.10%	2.21%	2.07%

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

The fair value of the performance rights issued under this STI plan was based on the 10 day market volume weighted average price of the shares of Costa Group Holdings Ltd ending on 23 August 2017. Details are as follows:

Employee performance right program	2018	2017
	KMP and executives	KMP and executives
Number issued	142,689	181,885
Fair value at grant date	4.88	2.91

#### Reconciliation of outstanding share options

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

	2018		2017	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Opening balance	5,877,223	\$2.63	3,963,372	\$2.39
Disposed for cash or settled for shares during the year	(2,534,524)	\$2.53	(400,000)	\$1.45
Forfeited during the year	(250,382)	-	-	-
Granted during the year	1,706,229	\$4.82	2,313,851	\$2.78
Closing balance	4,798,546	\$3.46	5,877,223	\$2.63
Exercisable at year end	1,028,848	\$2.55	50,000	\$1.45

The options outstanding as at 1 July 2018, which have not been vested, have an average exercise price of \$3.70 (2017: \$2.64).

## E2. Taxation

(a) Components of tax expense	2018	2017
	\$ '000	\$ '000
Current tax	27,442	20,932
Deferred tax	(351)	2,456
Over provision in prior years	55	(768)
	27,146	22,620



**Costa Group Holdings Ltd**  
**Notes to the consolidated Financial Statements**

**(b) Prima facie tax payable**

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

	<b>2018</b>	<b>2017</b>
	<b>\$ '000</b>	<b>\$ '000</b>
Profit before income tax	144,924	80,262
Prima facie income tax expense on profit before income tax at 30.0%	43,477	24,078
- Effect of tax rates in foreign jurisdiction	(1,304)	9
Tax effect of:		
- non-deductible expenses	1,942	159
- deferred tax asset previously not recognised	(1,081)	-
- impairment of Polar Fresh carrying value	-	2,220
- non-creditable foreign withholding tax	774	-
- under/(over) provision in prior years	55	(768)
- research and development tax credits	(710)	(434)
- utilisation of deferred tax asset not recognised	-	(307)
- non-assessable income	(15,302)	(2,905)
- deductible/(non-deductible) share plan trust payments/expense	(705)	568
Income tax expense attributable to profit	<u>27,146</u>	<u>22,620</u>

**(c) Current tax**

Current tax relates to the following:

*Current tax liabilities/(assets)*

	<b>2018</b>	<b>2017</b>
	<b>\$ '000</b>	<b>\$ '000</b>
Opening balance	17,561	5,879
Current year tax expense	27,442	20,932
Tax payments	(28,567)	(5,787)
Tax provision acquired from business combination	895	-
Foreign withholding tax credits claimable	(180)	(238)
Under/(over) provisions	(1,170)	(3,225)
Share plan payments – tax effect recognised through equity	(3,272)	-
Closing balance	<u>12,709</u>	<u>17,561</u>

**(d) Deferred tax**

Deferred tax relates to the following:

*Deferred tax assets*

The balance comprises:

	<b>2018</b>	<b>2017</b>
	<b>\$ '000</b>	<b>\$ '000</b>
Property, plant and equipment	-	157
Provisions	7,969	7,657
Trade and other payables	2,917	3,195
Capital (black hole) deductions (section 40-880)	3,986	6,463
Borrowings	92	131
Equity Accounted Investments	553	636
Other financial liabilities	191	-
Future deductible share plan trust payment – tax effect through equity	5,759	-
	<u>21,467</u>	<u>18,239</u>

**Costa Group Holdings Ltd**  
**Notes to the consolidated Financial Statements**

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Deferred tax liabilities</b>		
The balance comprises:		
Biological assets	12,478	12,024
Property, plant and equipment	1,076	-
Intangible assets	4,315	1,856
Trade and other receivables	700	762
Other financial assets	1	80
	<u>18,570</u>	<u>14,722</u>
Net deferred tax assets	<u>2,897</u>	<u>3,517</u>

	<b>2018</b>	<b>2017</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<b>(e) Deferred tax expense included in income tax comprises</b>		
(Increase)/decrease in deferred tax assets	1,224	(357)
Increase/(decrease) in deferred tax liabilities	(1,575)	2,813
	<u>(351)</u>	<u>2,456</u>

<b>(f) Deferred tax movement</b>		
Opening balance – net deferred tax asset	3,518	4,957
Under/(over) Provision in Prior Years	(1,279)	1,119
Increase/(decrease) in deferred tax asset recognised in profit or loss	351	(2,456)
Increase in deferred tax liability as a result of acquisitions <sup>(1)</sup>	(5,452)	(103)
Increase in deferred tax asset recognised in equity	5,759	-
Closing balance – net deferred tax asset	<u>2,897</u>	<u>3,517</u>

(1) Includes intangibles acquired as part of the African Blue acquisition and other farm acquisitions that are not material (refer Note D6).

The Group's franking account balance as at 1 July 2018 is \$12,495,941 (2017: \$3,434,435).

**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.

## Costa Group Holdings Ltd

### Notes to the consolidated Financial Statements

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

#### 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 16 Leases*
- *AASB 9 Financial Instruments*
- *AASB 15 Revenue from Contracts with Customers*
- *AASB 2014-10 Amendments to Australian Accounting Standards — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- *AASB 2017-6 Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation*
- *AASB 2017-3 Amendments to Australian Accounting Standards – Clarifications to AASB 4*
- *AASB 2017-7 Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures*
- *AASB 2018-1 Amendments to Australian Accounting Standards – Annual Improvements 2015-2017 Cycle*
- *AASB 2018-2 Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement*
- *AASB 2016-5 Amendments to Australian Accounting Standards — Classification and Measurement of Share-based Payment Transactions*
- *AASB 2017-1 Amendments to Australian Accounting Standards — Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments*
- *Interpretation 22 Foreign Currency Transactions and Advance Consideration*
- *AASB 2016-6 Amendments to Australian Accounting Standards — Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts*
- *Interpretation 23 Uncertainty over Income Tax Treatments*
- *AASB 2017-4 Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments*
- *AASB 1059 Service Concession Arrangements: Grantors*
- *AASB 17 Insurance Contracts*

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

## Costa Group Holdings Ltd

### Notes to the consolidated Financial Statements

#### AASB 9 Financial Instrument

The Group has performed a high level assessment of current bad debts and expected losses under the credit loss model, the deemed change will not be material to the Group. The Group does not hold any other investment in debt security at the end of the reporting period and, as a result, does not expect to be impacted by the introduction of the new measurement category in the standard.

#### AASB 15 Revenue from Contracts with Customers

The Group has undertaken an assessment of its key revenue streams to identify potential changes in: timing of revenue recognition, measurement of the amount of revenue and note disclosure between the current standard and AASB 118. The Group has noted potential impact to the classification of rebates, claims and pricing adjustments recognised for sale of export goods. However, this classification is not expected to have any impact to the Group's net profit after tax.

It is estimated that the transition to AASB 15 will not have a material impact to the Group's financial statements. The Group plans to use the retrospective method for transitioning to the new revenue standard. Under this method, AASB 15 is applied retrospectively to the comparative reporting period presented in the financial statements.

#### AASB 16 Leases

A project has been established to ensure high quality implementation in compliance with the accounting standard. The project has members from finance, IT, legal, procurement and property functions with oversight from the Chief Financial Officer. Key responsibilities of the project group include setting accounting policy, impact assessment of the new standard, identifying data and system requirements, and operational implementation.

As at the end of the reporting period, the group has non-cancellable undiscounted operating lease commitments of \$454 million as disclosed in C7. These commitments predominantly relate to the farmlands, infrastructure assets, farm machinery, fleet vehicles, and office equipment which will require recognition of right-of-use assets and associated lease liabilities.

The group is currently assessing the impact of the requirements on the Group's Consolidated Financial Statements; however, the impact is expected to materially 'gross-up' the Group's Consolidated Statement of Financial Position impacting key financial ratios. As the project develops further, quantitative and qualitative disclosure will be provided.

## E4. Auditor's remuneration

	2018 \$ '000	2017 \$ '000
<b>Audit and review services</b>		
Services provided by KPMG Australia	394,808	394,756
Services provided by associate firms of KPMG Australia	160,838	17,422
	<u>555,646</u>	<u>412,178</u>
<b>Other services provided by KPMG Australia</b>		
Taxation compliance and other taxation advisory services (including R&D)	247,584	245,700
Other services	10,000	10,000
	<u>257,584</u>	<u>255,700</u>
<b>Total remuneration of KPMG</b>	<u>813,230</u>	<u>667,878</u>

## Costa Group Holdings Ltd

### Notes to the consolidated Financial Statements

#### E5. 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 reasonable 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 grant.

## Costa Group Holdings Ltd

### 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 E5 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 1 July 2018 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 those Group entities pursuant to ASIC Corporations (Wholly owned Companies) Instrument 2016/785.
- 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 1 July 2018.
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 23<sup>rd</sup> day of August 2018.



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Harry Debney  
Managing Director & CEO



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Neil Chatfield  
Chairman



# Independent Auditor's Report

To the shareholders of Costa Group Holdings Ltd

## Report on the audit of the Financial Report

### Opinion

We have audited the **Financial Report** of Costa Group Holdings Ltd (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 1 July 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The Financial Report comprises:

- *Consolidated statement of financial position* as at 1 July 2018
- *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 then ended
- Notes including a summary of significant accounting policies
- *Directors' Declaration*.

The **Group** consists of the Costa Group Holdings Ltd (the Company) and the entities it controlled at the year-end or from time to time during the financial year.

### Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.



## Key Audit Matters

The **Key Audit Matters** we identified are:

- Valuation of biological assets
- Recoverability of goodwill
- Presentation of sales revenue
- Acquisition of African Blue

**Key Audit Matters** are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Valuation of biological assets (\$47.8m)

Refer to Note B6. Biological Assets

#### The key audit matter

Biological assets consist of un-harvested agricultural produce and are recorded at their fair value, which entails an assessment of expected future cash outflows and inflows. This is a key audit matter due to the judgment required by us in considering the complexities and assumptions adopted by the Group's in its biological assets valuation model.

The areas that involved significant judgment by us in evaluating and assessing assumptions included:

- yield expectations: the Group has a portfolio of product categories each with unique agricultural characteristics bringing a variety of factors relating to growth patterns and yield per hectare into consideration;
- extent of biological advancement: the crops are seasonal in nature and at valuation date, are at various stages in the development cycle;
- expectations of future market pricing: pricing for each product category fluctuates based on quality and supply and are negotiated when the produce is ready for sale, which may be some time from valuation date; and
- environmental factors: the Group's crops are subject to variations in climate conditions and weather events, which creates inherent uncertainty

#### How the matter was addressed in our audit

We challenged the key assumptions adopted by the Group in its biological asset valuation model, such as future market pricing, seasonality, predicted yield per hectare and biological advancement by:

- comparing the assumptions to historical and current trends and, where possible, actual outcomes in subsequent periods;
- performing site visits on a sample basis, where we inspected the actual biological advancement and compared this to the assumption in the model;
- challenge of farm managers, senior site and head office management for evidence of key assumptions applied;
- analysing expected pricing in comparison with prior periods and using our knowledge of the business and market conditions;
- assessing previous forecasting accuracy to evidence the precision of the Group's forecasting and identifying particular areas where there may be a higher risk of inaccuracies or bias;
- evaluating the consistency of key assumptions within the biological asset valuation models against those used in the goodwill impairment testing;
- performing sensitivity analysis over judgemental assumptions such as biological advancement rates, and comparing outcomes to the Group's fair value calculations; and
- assessing the specific disclosures required for biological assets in the financial report by considering



<p>around yield per hectare, prices, quality and estimation of timing of harvest, which must be factored into the assessment of fair value.</p>	<p>the requirements of relevant accounting standards and industry practice.</p>
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<b>Recoverability of goodwill (\$232.7m)</b>	
Refer to Note B8. Intangible Assets	
<b>The key audit matter</b>	<b>How the matter was addressed in our audit</b>
<p>This is a key audit matter due to the significant audit judgement involved in evaluating assumptions used by the Group when considering the valuation of the Group's goodwill balances (the impairment model) which have been allocated to each product category.</p> <p>This judgement includes disaggregation of Operating Segments into individual Cash Generating Units (CGUs).</p> <p>This necessitated our consideration of the Group's determination of CGUs, based on the smallest group of assets to generate largely independent cash inflows.</p> <p>We focussed on:</p> <ul style="list-style-type: none"> <li>• the subjective assumptions including future pricing, yield and discount rates;</li> <li>• the impact of the expansion of the business, including additional investment in the Berry and Mushroom categories on estimates of future cash flows; and</li> <li>• goodwill arising from the African Blue acquisition.</li> </ul>	<p>The key procedures we performed included:</p> <ul style="list-style-type: none"> <li>• we critically evaluated the Group's determination of CGU's using on our understanding of the Group's business and internal reporting structure, how costs are allocated and results are monitored and reported, and the allocation of goodwill arising from the acquisition of African Blue;</li> <li>• we challenged the key assumptions used in the Group's impairment model such as future pricing and yields, by performing the following:               <ul style="list-style-type: none"> <li>○ we compared these assumptions to historical prices and yields as well as current market prices;</li> <li>○ we worked with our valuation specialists to evaluate the discount rates used by the Group in the impairment model as well as the appropriateness of the impairment model against accounting standard requirements;</li> <li>○ we performed sensitivity analysis on the key assumptions including the future pricing and yields and discount rate, to assess the impact on the level of headroom and focus our work to the most sensitive assumptions;</li> <li>○ we assessed the accuracy of previous forecasts of the Group to inform the areas on which to focus in the current financial year;</li> <li>○ we compared assumptions used in the African Blue impairment model to those used in determining the fair value of identifiable intangible assets.</li> </ul> </li> <li>• we assessed the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.</li> </ul>

Presentation of sales revenue (\$1,002m)	
Refer to Note A2. Revenue and expenses	
The key audit matter	How the matter was addressed in our audit
<p>For certain produce categories, the Group enters into arrangements with external growers, whereby it acts as an agent on behalf of the external growers for sales transactions and earns a commission on these transactions.</p> <p>The recognition of the agency commission income is a key audit matter for us due to:</p> <ul style="list-style-type: none"> <li>the existence of these agency arrangements across multiple product categories; and</li> <li>certain categories having multiple arrangements whereby a proportion of the total sales are sourced from the Group's farms and the remainder sourced from external growers under agency arrangements.</li> </ul>	<p>The key procedures we performed included the following:</p> <ul style="list-style-type: none"> <li>for a sample of sales that involving external growers: <ul style="list-style-type: none"> <li>identifying the amount subject to agency commissions;</li> <li>comparing the agency commission applied to the underlying grower contract; and</li> <li>testing the agency commission and comparing it to the amount presented as agency income.</li> </ul> </li> <li>we compared the overall agency commissions with our understanding of current and previous commission arrangements to identify areas of further testing.</li> </ul>

Acquisition of African Blue	
Refer to Note D6. Acquisition of subsidiary	
The key audit matter	How the matter was addressed in our audit
<p>During the year the Group obtained an additional 37% of the shares in African Blue, increasing the group's equity interest from 49% to 86%.</p> <p>This was a key audit matter due to:</p> <ul style="list-style-type: none"> <li>the acquisition having a pervasive impact on the financial statements, resulting in an increase in goodwill, and recognition of a gain from the revaluation of the existing interest held in African Blue;</li> <li>the application of step-acquisition accounting resulting from the Group's previously held interest in African Blue;</li> <li>the complexity in accounting for a put and call option associated with the</li> </ul>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>reading the transaction documents to understand the structure and key terms and conditions of the transaction;</li> <li>evaluating the accounting for the put and call option by: <ul style="list-style-type: none"> <li>reading the relevant agreements;</li> <li>assessing the accounting methodology applied to the option, and</li> <li>assessing the calculation of the present value based on terms within the relevant agreements;</li> </ul> </li> <li>evaluating the methodology used to: <ul style="list-style-type: none"> <li>determine the fair value assets and liabilities acquired, and</li> </ul> </li> </ul>

<p>agreement and assessment of the judgement required in the assessment of the present value of this option in line with accounting standards;</p> <ul style="list-style-type: none"> <li>• the judgement and complexity in: <ul style="list-style-type: none"> <li>○ establishing the fair value of the assets and liabilities acquired and the purchase price accounting (PPA); and</li> <li>○ determining the impacts of step acquisition accounting resulting from the Group's previously held interest in African Blue.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>○ assess the fair value of the existing 49% equity interest at the acquisition date.</li> <li>• this included consideration of the expertise and independence of the valuation specialist engaged by the Group, and comparing methodologies with accepted market valuation practices. Working with our valuation specialist, we challenged these assumptions via: <ul style="list-style-type: none"> <li>○ comparing the inputs used by the independent expert to underlying documentation;</li> <li>○ assessing the useful life allocated to identifiable assets; and</li> <li>○ assessing the competence, experience and skills of the independent expert.</li> </ul> </li> <li>• assessing the adequacy of the Group's disclosure in respect of the acquisitions in accordance with accounting standards.</li> </ul>
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## Other Information

Other Information is financial and non-financial information in Costa Group Holdings Ltd's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the *Directors' Report including the Operating and Financial Review and Remuneration Report*. The *Chairman's Report, Managing Director's Review, Company Profile, Harvest Calendar, Shareholder Information and Corporate Directory* are expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

## Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*



- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our Auditor's Report.

### Report on the Remuneration Report

#### Opinion

In our opinion, the Remuneration Report of Costa Group Holdings Ltd for the year ended 1 July 2018, complies with *Section 300A of the Corporations Act 2001*.

#### Directors' responsibilities

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 responsibilities

We have audited the Remuneration Report included in pages 22 to 35 of the Directors' report for the year ended 1 July 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

Paul J McDonald

Partner

Melbourne

23 August 2018