



# **Costa Group Holdings Limited**

## **Appendix 4E**

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

**For the financial year ended 25 June 2017**

**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>
25 June 2017	26 June 2016

## 1. Results for announcement to the market

### Key Information

	<b>2017</b>	<b>2016</b>	<b>% change</b>
	<b>Results</b>	<b>Results</b>	
	<b>\$ '000</b>	<b>\$ '000</b>	
Revenue from ordinary activities	909,108	821,861	10.6%
Profit / (loss) from ordinary activities	57,642	25,258	128.2%
Profit / (loss) for the period attributable to members	57,713	25,258	128.5%
Earnings before interest, tax, depreciation, amortisation, SGARA and material items <sup>1</sup>	115,197	89,051	29.4%
Net profit after tax before SGARA and material items <sup>1</sup>	60,713	44,231	37.3%

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 was up \$87.2 million, or 10.6%, from \$821.9 million to \$909.1 million in FY2017 with revenue growth achieved across all reportable segments. The Produce segment experienced solid revenue growth with the berry and avocado categories being the largest contributors to this growth.

Net profit after tax was up \$32.4 million, or 128.2%, from \$25.3 million to \$57.7 million in FY2017. The increase is driven primarily by:

- Strong performance from the Produce and International segments;
- FY2016 results include \$21.8 million one-off costs associated with the IPO; and
- Increase in the gain of fair value movements in biological assets predominantly due to strong yields in the citrus category.

This was partially offset by:

- \$8.9 million of closure provisions relating to the wind down of the Polar Fresh joint venture; and
- Higher depreciation and amortisation expense driven by new CAPEX and additional plantings.

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

## Costa Group Holdings Ltd

### Appendix 4E Preliminary Final Report

#### Dividends or dividend distribution plan

	Cents per share	Franking %
<b>Paid to ordinary shareholders</b>		
Final dividend – year ended 25 June 2017 (declared subsequent to balance date) <sup>1</sup>	7.0 cents	100% franked
Interim dividend – half year ended 25 December 2016	4.0 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 14 September 2017 and the company expects to pay the dividend on 5 October 2017. This dividend has not been accrued for at year end.

There was no dividend reinvestment plan in operation during the financial years ended 25 June 2017 and 26 June 2016.

## 2. Earnings and Net Tangible Asset per Share

Please refer to Note A4, page 49 of the notes to the financial statements for Earnings per Share information.

	2017 Cents	2016 Cents
Net tangible asset backing per ordinary share	79.31	69.86

## 3. Parent Entity and Subsidiaries

### (a) Ultimate Parent

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

### b) Subsidiaries

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

## 4. Associates and Joint Ventures

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

## 5. Commentary on results for the period

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

## 6. Audit/Review status

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

## Costa Group Holdings Ltd

### Directors' report

For the year ended 25 June 2017

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 25 June 2017.

## 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 ceased to be a member of the Audit and Risk Committee on 17 November 2016.

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

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

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

### *Frank Costa AO OAM*

#### **Non-Executive Director**

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

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

During the past 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.

## Costa Group Holdings Ltd

### Directors' report

For the year ended 25 June 2017

#### *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 AgBiTech, Global ID, Verdesian Life Sciences, and Wawona Delaware Holdings, LLC (since April 2017). He is also a member of the Rush Associates Board of the Rush University Medical Center. Kevin has previously served as a director of Advanta, Seminis, Inc., Sunrise Holdings (Delaware), Inc. and on the Board of United American Energy Corp.

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

#### *Peter Margin BSc (Hons), MBA*

##### **Independent Non-Executive Director**

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

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

Peter currently serves as a Non-executive director of PACT Group Holdings Ltd, Nufarm Ltd and Bega Cheese Ltd. 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).

#### *Tiffany Fuller B.Com, GAICD, ACA*

##### **Independent Non-Executive Director**

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

Tiffany has held various accounting, corporate finance, financial advisory and management consulting positions with Arthur Anderson in Australia, the United States and in England and subsequently held roles in investment banking and private equity with Rothschild Australia. 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 Computershare Ltd and Smart Parking Ltd and is the Chair of the Audit and Risk Committee of both companies.

#### *Janette Kendall B.Bus (Marketing), FAICD*

##### **Independent Non-Executive Director**

Director since 11 October 2016. Member of the Audit and Risk Committee (from 17 November 2016), 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.

## Costa Group Holdings Ltd

### Directors' report

For the year ended 25 June 2017

Janette is currently a non-executive director of Wellcom Group (ASX: WLL), Nine Entertainment (ASX: NEC) and the Melbourne Theatre Company.

## 2. COMPANY SECRETARY

*David Thomas LLB, BSc (Hons)*

Mr. Thomas joined the Company as General Counsel in July 2012 and was appointed to the position of Company Secretary in October 2012. In addition to being the Company Secretary, Mr. Thomas oversees the Group's legal department and advises the Group on legal, risk and compliance matters. Prior to joining the Company, Mr. Thomas was a Partner of Middletons (now K&L Gates), practising in corporate and commercial law. He has over 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 <sup>1</sup>	7	7	4	4	3	3	2	2
Frank Costa	7	7	-	-	3	3	2	2
Harry Debney	7	7	-	-	-	-	-	-
Kevin Schwartz	7	5	-	-	-	-	2	2
Peter Margin	7	7	7	6	3	3	2	2
Tiffany Fuller	7	7	7	7	-	-	2	2
Janette Kendall <sup>2</sup>	4	4	4	4	-	-	2	2

Notes:

1. Mr Chatfield was a member of the Audit & Risk Committee until 17 November 2016

2. Ms Kendall joined the Audit & Risk Committee on 17 November 2016

## 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.

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

During the year, the Group entered into a strategic relationship with Macquarie Agriculture Funds Management (Macquarie) to jointly investigate compelling M&A projects in farmland, biological assets, water and infrastructure assets to enable Costa to extend its capacity to gain significant economic benefit for its shareholders.

Under the agreement, Macquarie will purchase the assets and enter into a 20 year lease with Costa to operate them, with an option for Costa to extend a further 10 years. Costa maintains the full horticultural income from these assets.

## 7. OPERATING AND FINANCIAL REVIEW

### RESULTS FOR THE FINANCIAL YEAR ENDED 25 JUNE 2017

#### SUMMARY OF GROUP PERFORMANCE

	FY2017 (\$m)	vs FY2016 (%)
Revenue	909.1	▲ 10.6%
EBITDA BEFORE SGARA	115.2	▲ 29.4%
NPAT-S	60.7	▲ 37.2%

- Revenue, EBITDA-S and NPAT-S up on FY2016.
- Strong FY2017 trading outcome, with all Produce categories exceeding target.
- Continued earnings growth contribution from the International segment.

Table 1: Summary of results for FY2017 compared to prior year

Consolidated income statement				
A\$m	FY2017	FY2016	Change \$	Change %
Revenue	895.3	809.0	86.3	10.7%
Other revenue	13.7	12.7	1.0	7.8%
<b>Total Revenue</b>	<b>909.1</b>	<b>821.7</b>	<b>87.3</b>	<b>10.6%</b>
Raw materials, consumables & third party purchases	(336.0)	(311.8)	(24.2)	7.8%
Employee benefits expense	(300.4)	(276.4)	(24.1)	8.7%
Other operating expense	(173.6)	(159.0)	(14.6)	9.2%
Share of associates profit	16.2	14.4	1.8	12.2%
<b>EBITDA-S</b>	<b>115.2</b>	<b>89.1</b>	<b>26.1</b>	<b>29.4%</b>
<i>EBITDA-S margin</i>	12.7%	10.8%	-	1.8ppts
Fair value movements in biological assets	5.9	4.3	1.5	35.2%
<b>EBITDA</b>	<b>121.1</b>	<b>93.4</b>	<b>27.7</b>	<b>29.6%</b>
Depreciation & amortisation	(27.8)	(22.5)	(5.3)	23.5%
Profit/(loss) on sale of assets	0.3	(1.0)	1.3	(131.1%)
<b>EBIT</b>	<b>93.6</b>	<b>69.9</b>	<b>23.7</b>	<b>33.9%</b>
Net interest expense	(5.3)	(5.2)	(0.0)	0.5%
<b>Net profit/(loss) before tax</b>	<b>88.3</b>	<b>64.7</b>	<b>23.7</b>	<b>36.6%</b>
Income tax expense	(23.6)	(17.4)	(6.2)	35.6%
<b>NPAT (before material items)</b>	<b>64.7</b>	<b>47.3</b>	<b>17.5</b>	<b>36.9%</b>
Material items (before tax)	(8.1)	(29.0)	20.9	(72.2%)
Tax on material items	0.9	7.0	(6.0)	(86.4%)
Non-controlling interest	0.1	-	0.1	nm
<b>Net profit after tax attributable to shareholders</b>	<b>57.7</b>	<b>25.3</b>	<b>32.4</b>	<b>128.4%</b>
Transacted Sales <sup>1</sup>	1,179.2	1,042.5	136.7	13.1%
NPAT-S <sup>2</sup>	60.7	44.2	16.5	37.2%

Notes:

1. Transacted Sales is a non-IFRS operating measure. See Table 9 for a reconciliation of Transacted Sales to revenue. Further details on Transacted Sales are provided in Table 8.
2. Net profit attributable to shareholders before material items and SGARA.

## **Financial highlights**

### **Revenue**

Revenue increased by \$87.3 million from the prior year with all reportable segments achieving growth. The Produce segment recorded strong growth with notable contributions from the berry and avocado categories.

### **Operating expenses**

Raw materials, consumables and 3<sup>rd</sup> party purchases and employee benefits expenses increased in line with the growth across the domestic and international businesses.

Other operating expenses increased \$14.6 million. This includes a \$5m onerous lease provision taken up on the Eastern Creek DC.

### **Share of associates profit**

Profits from joint ventures grew by \$1.8 million driven by increased contribution from the African Blue and Driscoll's Australia JVs. This was partially offset by a reduction in the Polar Fresh earnings contribution following the exit from the Parkinson and Eastern Creek sites.

### **EBITDA before SGARA**

EBITDA before SGARA increased by \$26.1 million from prior year driven by the Produce and International segments. The increase in Produce was predominantly led by strong growth in the berry category, excellent citrus performance and recovery in the tomato category from the challenging 2016 market conditions. This was partially offset by the \$5 million onerous lease provision recognised in the CF&L segment.

### **Fair value movements in biological assets**

SGARA movement was \$5.9 million largely driven by the strong yields and pricing for the 2017 season citrus crop together with crop timing.

### **Depreciation and amortisation**

Depreciation and amortisation increased by \$5.3 million in line with increased capital expenditure on the berry domestic growth projects as well as the China farming operations.

### **Net interest expense**

Net finance cost up \$0.1 million from FY2016, primarily due to write-off of capitalised borrowing costs as the Group refinanced its Banking Facilities in June 2017.

### **Tax expense**

Higher tax expense due to increased earnings. Effective tax rate of 26.7%, down from 26.9% in FY2016. This was due to higher contribution from the International segment (as Costa's foreign operations yield a lower effective tax rate than the domestic business), offset partially by higher non-deductible expenditure in FY2017.

### **Material items**

Material items for FY2017 were \$8.1 million which related to the wind-up of the Polar Fresh joint venture and finalisation of pre-IPO site closure provisions.

### **NPAT-S**

NPAT-S increased by \$16.5 million from prior year due to factors described above. Higher EBITDA-S was offset by an increase in depreciation and amortisation expense.

### **Dividends**

The Board has declared a final dividend of 7.0 cents per share on 23 August 2017. This brings the total dividend payment for FY2017 to 11.0 cents per share which equates to approximately 58% of NPAT-S before material items. Dividends are expected to be fully franked.

## SEGMENT INFORMATION

### PRODUCE

Highlights of financial results:

	FY2017 (\$m)	vs FY2016 (%)
Transacted Sales	1,028.5	▲ 12.6%
Revenue	786.2	▲ 9.4%
EBITDA-S	96.7	▲ 38.6%

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

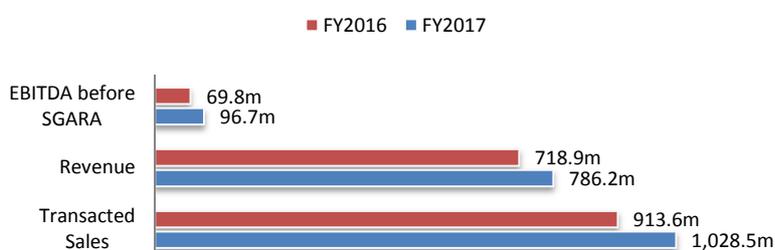


Table 2: Selected financial information for the Produce segment

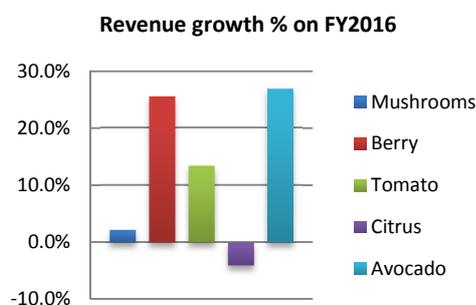
Produce A\$m	FY2017	FY2016	Change
Transacted Sales	1,028.5	913.6	115.0
Revenue	786.2	718.9	67.3
EBTIDA-S	96.7	69.8	26.9
EBITDA-S margin	12.3%	9.7%	2.6%

Produce revenue increased by \$67.3 million on FY2016. The drivers for the increase include:

- strong growth in the berry category driven by expanded planted area and strong blueberry performance, partially offset by a raspberry season impacted by cooler weather resulting in lower than expected yields;
- contribution from the avocado category with the addition of the Childers farm acquired in January 2017<sup>1</sup>; and
- market recovery in tomatoes from a poor 2016 season and improved sales mix with better correlation of growing areas with demand.

This was partially offset by lower citrus category revenue due to the calendar 2016 season being an 'off-year' cycle with lower volume of production.

EBITDA before SGARA increased by \$26.9 million against FY2016. This was predominantly driven by revenue growth in the berry, tomato and avocado categories as well as strong export demand in the citrus category.



Notes:

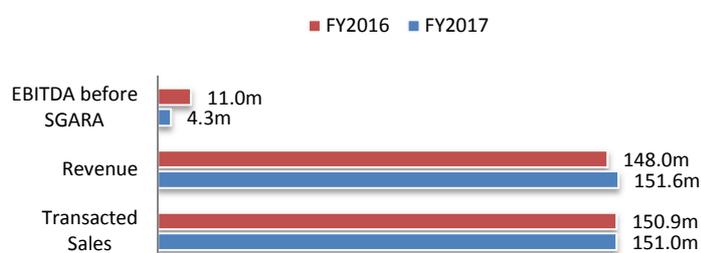
1. Acquisition of the Childers avocado orchards has been completed in conjunction with Macquarie Agriculture Funds Management (Macquarie). Under the agreement, Macquarie purchased the land, biological assets, water and infrastructure assets with Costa entering into a 20-year lease with Macquarie to operate the orchards.

**COSTA FARMS & LOGISTICS**

Highlights financial results:

	FY2017 (\$m)	vs FY2016 (%)
<b>Transacted Sales</b>	<b>151.0</b>	<b>▲ 0.1%</b>
<b>Revenue</b>	<b>151.6</b>	<b>▲ 2.4%</b>
<b>EBITDA-S</b>	<b>4.3</b>	<b>▼ 60.6%</b>

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



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

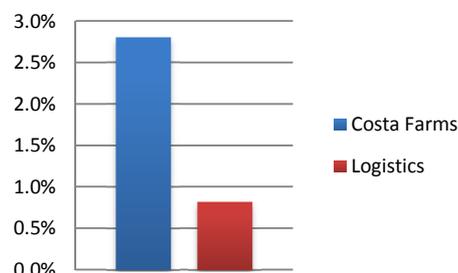
<b>Costa Farms and Logistics</b>			
<b>A\$m</b>			
	<b>FY2017</b>	<b>FY2016</b>	<b>Change</b>
Transacted Sales	151.0	150.9	0.1
Revenue	151.6	148.0	3.6
EBTIDA-S	4.3	11.0	(6.7)
EBITDA-S margin	2.9%	7.4%	(4.6%)

Revenue up \$3.6 million compared to prior year with higher volume of bananas and avocados traded across the wholesale markets, offset by lower mushroom volumes with produce supply diverted to retail segment.

EBITDA before SGARA decreased by \$6.6 million. This was caused by:

- a \$5 million onerous lease provision recognised for the Eastern Creek DC; and
- Lower contribution from Polar Fresh due to the wind down of the joint venture.

**Revenue growth % on FY2016**

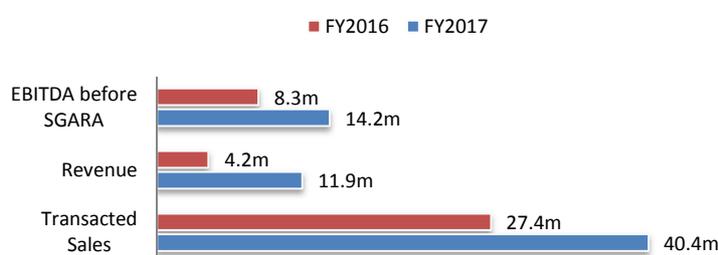


**INTERNATIONAL**

Highlights of financial results:

	FY2017 (\$m)	vs FY2016 (%)
<b>Transacted Sales</b>	<b>40.4</b>	<b>▲ 47.2%</b>
<b>Revenue</b>	<b>11.9</b>	<b>▲ 181.9%</b>
<b>EBITDA-S</b>	<b>14.2</b>	<b>▲ 70.5%</b>

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



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

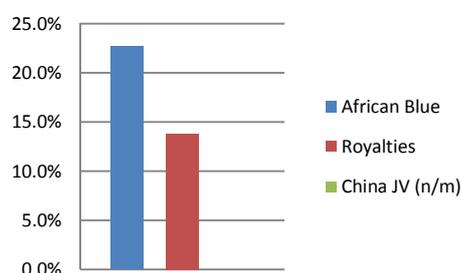
<b>International A\$m</b>	<b>FY2017</b>	<b>FY2016</b>	<b>Change</b>
Transacted Sales	40.4	27.4	13.0
Revenue	11.9	4.2	7.7
EBTIDA-S	14.2	8.3	5.9
EBITDA-S margin	nm	nm	nm

Transacted sales increased by \$13.0 million compared to prior year. This was primarily driven by:

- a productive year from African Blue with increased sales volumes;
- China achieving a modest profit in its first full year of farming operations; and
- Royalty income.

EBITDA before SGARA growth was \$5.9 million, or 78.1%, against FY2016 driven by the factors noted above.

**Transacted Sales growth % on FY2016**



## BALANCE SHEET

Table 5: Selected consolidated balance sheet for the year ended 25 June 2017

Selected Balance Sheet			
A\$m			
As at 25 June 2017	2017	2016	Change
Cash and cash equivalents	22.6	4.0	18.6
Receivables	87.4	72.8	14.6
Inventories	18.1	17.9	0.2
Property, plant and equipment	281.9	249.3	32.6
Intangible assets	143.1	142.8	0.3
Biological assets	46.0	37.4	8.6
Equity accounted investments	32.4	33.7	(1.3)
Other assets	16.7	10.6	6.1
<b>Total assets</b>	<b>648.2</b>	<b>568.5</b>	<b>79.7</b>
Payables	102.7	81.6	21.1
Provisions	25.0	17.4	7.6
Borrowings	106.8	103.8	3.0
Other liabilities	17.6	6.1	11.4
<b>Total liabilities</b>	<b>252.1</b>	<b>208.9</b>	<b>43.1</b>
<b>Net assets</b>	<b>396.2</b>	<b>359.6</b>	<b>36.6</b>

### Net working capital

Net working capital<sup>1</sup> decreased by \$13.9 million driven by:

- increase in payables of \$21.1 million primarily due to the avocado farming and marketing expansion and citrus and berry seasonal harvests; and
- increase in provisions with the recognition of \$5 million onerous lease for the Eastern Creek DC.

This was partially offset by an increase in receivables of \$14.6 million due to the same drivers as identified for payables above.

### Property, plant and equipment

Property, plant and equipment increased by \$32.6 million reflecting capital expenditure incurred on the berry growth plan, China joint venture and the acquisition of Childers avocado farm plant and equipment.

### Biological assets

Biological assets increased \$8.6 million to \$46.0 million in FY2017 resulting from the fair value increase on the 2017 citrus hanging crop and the acquisition of the Childers avocado farm hanging crop.

### Equity accounted investments

Equity accounted investment decreased by \$1.3 million resulting from the impairment provisions recognised on the Polar Fresh joint venture, partially offset by strong earnings contributions from the African Blue and Driscoll's joint ventures.

### Other assets and liabilities

Other assets increased \$6.1 million for the year. This included a \$3.8 million prepayment for capital expenditure on the Monarto expansion project.

Other liabilities increased by \$11.4 million primarily driven by higher income tax accruals for the year.

1. Net working capital comprises of receivables, inventory, payables and provisions.

## NET DEBT

**Table 6: Consolidated net debt as at 25 June 2017**

<b>Net debt</b>		
<b>A\$m</b>		
<b>As at 25 June 2017</b>	<b>2017</b>	<b>2016</b>
Bank loans	108.0	104.5
Capitalised loan establishment fees included in borrowings	(1.2)	(0.7)
<b>Gross debt</b>	<b>106.8</b>	<b>103.8</b>
Less: Cash and cash equivalents	(22.6)	(4.0)
<b>Net debt</b>	<b>84.2</b>	<b>99.8</b>

Net debt as at 25 June 2017 was \$84.2 million and consisted of \$22.6 million in cash and \$108.0 million of borrowings. Net debt decreased by \$15.6 million during the year with strong cash generation.

The group successfully refinanced its debt increasing available facilities to \$350 million comprising of:

- Facility A - \$175 million with a 3 year maturity; and
- Facility B - \$175 million with a 4 year maturity.

Under the existing 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.

## CASH FLOW

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

Consolidated cash flow			
A\$m			
	FY2017	FY2016	Change
<b>EBITDAS before material items</b>	115.2	89.1	26.1
Less: Share of profit of JVs	(16.2)	(14.4)	(1.8)
Dividends from JVs	9.2	8.1	1.0
Non-cash items in EBITDAS	1.0	0.7	0.3
Change in working capital	(0.4)	(3.3)	3.0
<b>Net cash flow from operating activities before interest, tax and material items</b>	<b>108.8</b>	<b>80.1</b>	<b>28.7</b>
Maintenance capital expenditure	(18.0)	(12.1)	(5.9)
<b>Free cash flow</b>	<b>90.8</b>	<b>68.0</b>	<b>22.8</b>
Productivity and growth capital expenditure	(39.2)	(36.6)	(2.5)
Payments for business acquisitions	(3.8)	(5.3)	1.5
Repayment of loans from investments	-	1.9	(1.9)
Proceeds from sale of investments	3.6	-	3.6
Disposal of property, plant and equipment	0.1	0.3	(0.3)
<b>Net cash flow before financing, tax, dividends and material items</b>	<b>51.5</b>	<b>28.3</b>	<b>23.2</b>
Cash conversion ratio <sup>1</sup>	79%	76%	

Notes:

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

### Dividends from Joint venture

Dividends from JVs increased by \$1.0 million on FY2016 resulting from increased contributions from African Blue and Driscoll's joint ventures, offset by a reduction from Polar Fresh.

### Working capital

Working capital decreased by \$0.4 million in FY2017. This was primarily due to prepayment of a deposit for capital expenditure relating to the Monarto mushroom expansion project. This was offset by benefit due to timing of calendar month-end vendor payments and a \$5 million onerous lease provision recognised for the Eastern Creek DC.

### Capital expenditure

Operating capital expenditure increased by \$5.9 million against FY2016. This includes investment in backup generators and part payment for the Murtho citrus pack-house upgrade.

Productivity and growth capital expenditure was \$46.1 million for the year and comprises of:

- \$3.0 million plant and equipment for the Childers avocado farm;
- \$8.7 million for China including the asset transfer from Driscoll's; and
- Domestic berry expansion projects.

### Other material items in cash flow

Payments for business acquisitions comprises of a purchase of a small berry farm in Tasmania. Proceeds from sale of investments relates to the sale of the River Rain irrigation business (non-core asset).

## MATERIAL BUSINESS RISKS

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

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

## Non-IFRS measures

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

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

**Table 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. Transacted Sales comprise:</p> <ul style="list-style-type: none"> <li>• statutory 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. 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.</li> </ul>

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

Reconciliation of Transacted Sales			
A\$m	Note	FY2017	FY2016
<b>Transacted Sales</b>		<b>1,179.2</b>	<b>1,042.5</b>
Agency revenue adjustments	1	(41.1)	(31.9)
Joint venture adjustments	2	(31.3)	(27.6)
Driscoll's Australia Partnership consolidation adjustments	3	(206.6)	(169.7)
Other revenue	4	8.9	8.5
<b>Total revenue</b>		<b>909.1</b>	<b>821.7</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 AAS, joint ventures are accounted for under the equity method, with only Costa's share of joint venture NPAT recognised in profit or loss.
3. Costa owns 50% of the equity of Driscoll's JV. Transacted Sales includes 100% of Driscoll's JV sales, after eliminating Costa produce sales to the Driscoll's JV.
4. Other revenue (with the exception of royalty income) not included in Transacted Sales.

## **8. DIVIDENDS**

Costa Group Holdings Ltd declared and paid a fully franked interim dividend of 4.0 cents per share during the year ended 25 June 2017.

The Board has approved a final dividend of 7.0 cents per share with record date of 14 September 2017 and payment date of 5 October 2017. This dividend will be fully franked. As this dividend was approved after year end, it has not been accrued for as at 25 June 2017.

This brings the total dividend payment for FY2017 to 11.0 cents per share. FY2018 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 goals. The goal is to provide a superior sustainable increase in profits.

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

## **10. ENVIRONMENTAL REGULATION**

The Group is committed to conducting business activities and 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 publishes an annual Sustainability Report currently contained within the Annual Report in which it reports on initiatives that are aimed at improving environmental performance.

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

## 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	372,222	-
Frank Costa <sup>1</sup>	10,432,099	-
Harry Debney	632,078	2,499,882
Kevin Schwartz <sup>2</sup>	-	-
Peter Margin	24,988	-
Tiffany Fuller	10,000	-
Janette Kendall	10,000	-

Notes:

1. Frank Costa's interests represent an indirect interest in approximately 31.67% of the ordinary shares held by Costa AFR Pty Ltd as trustee for the Costa AFR Unit Trust as a result of his shareholding in a series of other entities.
2. The Company had previously notified that Kevin Schwartz had an indirect interest in P&P COS Holdings B.V.'s shareholding in the Company as a result of his shareholding in a series of other entities. The Company has been informed that while Mr Schwartz continues to have an economic interest of approximately 0.1% in a fund which is the ultimate shareholder in P&P COS Holdings B.V., Mr Schwartz's indirect interest in the Company's shares held by P&P COS Holdings B.V is not a notifiable interest under the ASX Listing Rules.

## 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
1,621,428 <sup>1</sup>	\$2.25	June 2020
2,063,469 <sup>2</sup>	\$2.78	December 2021
1,891,944	\$2.81	August 2019

Notes:

1. These options represent options granted to management during FY16 under the Group's LTI plan, including 282,738 options issued to Linda Kow and 407,738 options issued to George Hagggar, as KMP of the Company, and 61,905 options issued to David Thomas, the company secretary of the Company.
2. These options represent options granted to management during FY17 under the Group's LTI plan, including 260,468 options issued to Linda Kow and 125,191 options issued to and retained by George Hagggar, as KMP of the Company, and 71,328 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 400,000 C class shares to Neil Chatfield as a result of the exercise of legacy LTI options described in section 6.3.3.2 of the Company's prospectus dated 25 June 2015, which shares were immediately converted to ordinary shares pursuant to the terms of the options.

### 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.

	2017	2016	2015
<b>Other services provided by KPMG</b>			
Taxation compliance and other taxation advisory services (including R&D)	245,700	175,000	277,030
Other assurance services (including IPO services)	-	-	785,000
Other services (including IPO services)	10,000	21,000	575,230
	255,700	196,000	1,637,260

### 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 34 and forms part of the directors' report for the financial year ended 25 June 2017

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## 1 Introduction

The directors are pleased to present the FY2017 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
Kevin Schwartz	Non-executive director
Peter Margin	Non-executive director
Tiffany Fuller	Non-executive director
Janette Kendall	Non-executive director (Appointed 11 <sup>th</sup> October 2016)
Harry Debney	Chief Executive Officer, Managing Director
<b>Executives</b>	
Linda Kow	Chief Financial Officer
George Haggart	Chief Operating Officer

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

## 2 Corporate Governance

### 2.1 Remuneration 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 resources practices
- 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 and Young to undertake a review of the Long Term Incentive Plan ('LTIP') for FY2017. 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 2017 the Remuneration and Human Resources Committee engaged Ernst and Young specifically to undertake market data analysis benchmarking executive remuneration. The Remuneration and Human Resources Committee sought market data from the consultants from appropriate comparator groups within Australia.

The Remuneration and Human Resources Committee is satisfied that no remuneration recommendations (as defined in the Corporations Act 2001) were provided by Ernst and 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 and Securities Trading Policy. These policies and procedures have been implemented to uphold ethical behaviour and responsible decision making. Further information on the Group's policies is available at: <http://investors.costagroup.com.au/investor-centre/?page=corporate-governance>.

**3 Executive Remuneration**

**3.1 Remuneration Framework**

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

<b>Principle</b>	<b>Objective</b>	<b>Application</b>
<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 is 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>
<b>Performance Driven</b>	Executives are rewarded for achieving strategic goals that create sustainable growth in shareholder wealth.	<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 FY2017

The FY2017 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.

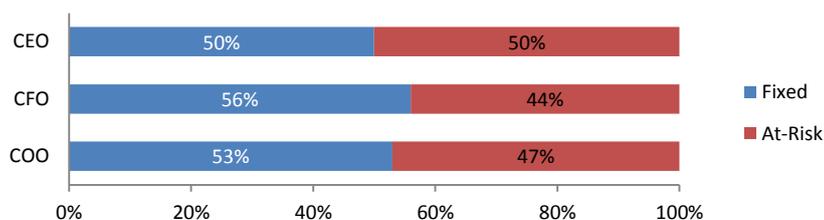
3.1.2 Remuneration mix for FY2017

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 FY2017, 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 FY2017 for the Executive KMP was as follows:



1. Includes cash and deferred equity component of FY2017 STI plan (section 3.2.2) and share-based payments associated with the FY2017 LTI arrangements (section 3.3).

**3.2 Remuneration Components**

3.2.1 Fixed remuneration

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

3.2.2 Short Term Incentive (“STI”) Plan

*FY2017 STI Plan overview*

The STI Plan enables Executive KMP and other members of senior management to receive an incentive payment calculated as a percentage of total fixed remuneration (“TFR”) conditional on achieving EBIT hurdles as set out below. Solely for the purposes of this section 3.2.2 all references to “EBIT” means management EBIT-S, i.e. statutory EBIT before the impact of the movement in SGARA.

- If the Group achieves less than 90% of budget EBIT for the year, no STI will be paid.
- Target STI is paid to a participant on the Group achieving 100% of budget EBIT and the participant satisfying their other STI performance measures, with pro rata payments if EBIT is between 90% and 100% of budget EBIT.

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### Directors' report

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#### Remuneration report (audited)

- Stretch STI is payable if the Group achieves over 100% of budget EBIT, with the maximum STI being payable at 110% of budget EBIT (and the participant *meet's expectations* of their individual performance STI measures). The stretch STI component is measured solely on EBIT and is calculated on a straight line basis between 100% and 110% of budget EBIT.

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

#### 2017 Short Term Incentive Plan features

The table below outlines the key features of the FY2017 STI Plan, as it applied to the Executive KMP and other members of senior management:

Objective	To reward participants for achieving goals directly linked with the Group's business strategy								
Participants	All Executive KMP and selected senior management								
Performance Period	Financial year ending 25 June 2017								
Opportunity	<ul style="list-style-type: none"> <li>CEO – Target STI is 45% of TFR, with a maximum opportunity of 70% TFR for exceeding stretch targets.</li> <li>CFO, COO – Target STI is 35% of TFR, with a maximum opportunity of 60% TFR for exceeding stretch targets.</li> </ul>								
Performance Measures	<p>Consistent with FY2016, STI was assessed against both financial and non-financial measures, and was weighted as follows:</p> <table border="1"> <thead> <tr> <th>Measure</th> <th>Weighting</th> </tr> </thead> <tbody> <tr> <td>EBIT</td> <td>50%</td> </tr> <tr> <td>Cash Flow</td> <td>30%</td> </tr> <tr> <td>Individual Performance</td> <td>20%</td> </tr> </tbody> </table> <p>Individual Performance 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.</p> <p>Cash Flow is based on EBITDA-S cash conversion, which includes EBITDA-S adjusted for joint ventures, operational working capital movements, and operating capex.</p>	Measure	Weighting	EBIT	50%	Cash Flow	30%	Individual Performance	20%
Measure	Weighting								
EBIT	50%								
Cash Flow	30%								
Individual Performance	20%								
Payment Method	<ul style="list-style-type: none"> <li><u>Cash</u> - Two thirds 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. A participant's performance rights will vest on 1 September 2018 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').</li> </ul>								
Calculation methodology	<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 Group EBIT only, with the opportunity capped at 25% of the participant's TFR. Every 1% of Actual Group EBIT over Budget increases the 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>								

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Calculations	<p>Each of the three measures 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 measure.</p> <p>Group EBIT before SGARA:          Budgeted Group EBIT before SGARA for Financial year 2017 was \$72.0 million. The actual Group EBIT before SGARA for financial year 2017 was \$79.7 million including material items, which is greater than the 10% hurdle enabling the full STI stretch opportunity to be exercised.</p>
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The performance against the key targets identified under the STI Plan resulted in each KMP receiving an incentive as follows:

KMP	Target STI	% of target STI achieved in the year
CEO	\$437,715	156%
CFO	\$170,184	171%
COO	\$245,375	171%

### 3.3 LTIP for FY2017

The FY2017 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.

Term	Description
Eligibility	CEO, CFO, COO and selected members of the senior management team
Consideration for grant	Nil
Instrument	Options to acquire ordinary shares in Costa Group Holdings Limited
Number of options granted	The number of options was determined based on a set percentage of the participant's TFR ("LTI Incentive Amount"), being 35% for the CEO and 30% for each of the CFO and COO. The options were indicatively valued by an independent external valuer (Ernst and Young), prior to seeking shareholder approval for the issue of options to the CEO. 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 following shareholder approval of the issuance of options to the CEO.
Exercise price	\$2.78 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 30 June 2016.
Performance Period	The FY2017 LTI performance period will be the 3 year period commencing on 27 June 2016 and ending on 30 June 2019

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Performance Measure (EPS) 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:

Company’s EPS CAGR over performance period	Percentage of LTIP Options (subject to the EPS hurdle) that will vest
Less than 8%	0%
8%	50%
Between 8% and 11% (inclusive)	50%-100%, on a straight line sliding scale
Above 11%	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.

Performance Measure (Growth) 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 creation. Diversification includes two new geographic locations, which may include domestic and/or international locations and one new major category pillar. Growth includes the scaling up of the Avocado Category from its establishment position as well as continuing the China and Morocco Joint Ventures growth trajectory. In addition to the performance hurdles the Company investment hurdles will be applied.

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 in the 2019 Remuneration Report.

Entitlements Options will not carry rights to dividends or voting rights prior to vesting.

Option exercise Vested options must be exercised within 5 years from the grant date of the options (“**Expiry Date**”). Prior to the Expiry Date, an optionholder can exercise by either:

- 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
- electing a cashless exercise in respect of some or all of his options.

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:

*(A minus B) divided by C, where:*

*A = Number of Shares to which each Vested Option relates (ie. 1) x Number of Vested Options exercised x Market Price per Share*

*B = Number of Vested Options exercised x Exercise Price per Option*

*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.*

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Restrictions on Dealing	Participants must not sell, transfer, encumber, hedge or otherwise deal with their options granted under the LTIP.  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..
Service conditions	Any unvested options granted under the LTIP will be forfeited where the participant is dismissed during the performance period, or resigns in circumstances where they are not considered to be a 'good leaver'. Where the participant is considered a 'good leaver' (which includes death, disability or redundancy), the unvested options and/or performance rights will remain on foot subject to Board discretion and be tested at the end of the original vesting date against the relevant performance conditions.

## 4 Executive Remuneration Disclosure

### 4.1 Executives' Contract Terms

A summary of the key terms of employment for executives as at 25 June 2017 is presented in the below table:

Executive	Role	Notice by the Group	Notice on Resignation
Harry Debney	Chief Executive Officer	6 Months	6 Months
Linda Kow	Chief Financial Officer	3 Months	3 Months
George Hagggar <sup>1</sup>	Chief Operating Officer	3 Months	3 Months

1 George Hagggar resigned during the reporting period and ceased to be employed after 25 June 2017. His replacement will commence employment with the Group during FY2018.

## 5 Non-executive Directors

The details of fees paid to non-executive directors in FY2017 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 FY2017. 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.

Board/Committee	Chairman Fee (\$)	Member Fee (\$)
Board base fee	235,290 (inclusive of Committee fees)	102,300
Audit and Risk Committee	20,460	10,230
Remuneration and Human Resources Committee	15,345	7,672.50
Nomination Committee	-	-

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## 6 Relationship between remuneration policy and Group performance

**Key performance indicator**

	<b>FY2015<sup>1</sup></b>	<b>FY 2016</b>	<b>FY2017</b>
Revenue (\$'000)	736,231	821,861	909,108
Statutory EBIT-S (\$'000)	22,289	46,128	79,651
EBIT-S before material items (\$'000)	49,911	65,558	87,711
NPAT-S before material items (\$'000)	34,349	44,230	60,713
Dividend paid or declared to ordinary shareholders (cents per ordinary share)	Nil	9.0	11.0

**Notes:**

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

**Costa Group Holdings Ltd**  
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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 benefits	Termination	Share-based payments	Total
		Salary & fees	STI (cash)	Non-monetary benefits	Other Monetary Benefits		Superannuation benefits	Long service leave	Termination benefits		
		\$	\$	\$	\$	\$	\$	\$	\$	\$	
<b>Non-executive Directors<sup>1</sup></b>											
Neil Chatfield	2017	215,674	-	-	-	215,674	19,616	-	-	-	235,290
	2016	210,321	-	-	-	210,321	19,679	-	-	-	230,000
Frank Costa	2017	100,431	-	-	-	100,431	9,541	-	-	-	109,972
	2016	98,173	-	167	-	98,340	9,327	-	-	-	107,667
Kevin Schwartz	2017	100,000	-	-	-	100,000	-	-	-	-	100,000
	2016	100,000	-	-	-	100,000	-	-	-	-	100,000
Peter Margin	2017	116,781	-	-	-	116,781	11,094	-	-	-	127,875
	2016	108,947	-	-	-	108,947	11,053	-	-	-	120,000
Tiffany Fuller	2017	112,110	-	-	-	112,110	10,650	-	-	-	122,760
	2016	82,192	-	-	-	82,192	7,808	-	-	-	90,000
Janette Kendall	2017	67,673	-	-	-	67,673	6,429	-	-	-	74,102
	2016	-	-	-	-	-	-	-	-	-	-
<b>Managing Director and Executive Officers</b>											
Harry Debney	2017	953,011	453,927	-	7,677	1,414,615	19,616	13,164	-	508,168	1,955,563
	2016	931,217	312,770	-	-	1,243,987	19,308	15,547	-	272,275	1,551,117
Linda Kow	2017	466,549	194,496	-	3,062	664,107	19,616	8,767	-	194,014	886,504
	2016	455,692	124,718	-	-	580,410	19,308	11,295	-	75,071	686,084
George Hagger	2017	681,379	280,428	-	4,415	966,222	19,616	17,984	-	364,778	1,368,600
	2016	665,692	179,857	-	-	845,549	19,308	15,990	-	108,260	989,107

**Notes in relation to the table of Directors' and Executive officers' 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.

## 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 26 June 2016	Shares acquired	Shares sold	Other changes <sup>3</sup>	Held at 25 June 2017
Neil Chatfield (directly & indirectly held)	22,222	-	50,000	400,000	372,222
Neil Chatfield (close family members)	14,000	-	-	-	14,000
Peter Margin (indirectly held)	14,350	10,638	-	-	24,988
Tiffany Fuller (directly held)	10,000	-	-	-	10,000
Frank Costa <sup>1</sup>	10,432,099	-	-	-	10,432,099
Kevin Schwartz <sup>2</sup>	-	-	-	-	-
Janette Kendall		10,000			10,000
Harry Debney (directly & indirectly held)	1,032,078	-	400,000	-	632,078
Linda Kow (directly held)	213,404	-	-	-	213,404
George Haggar (directly & indirectly held)	327,336	-	155,000	-	172,336

#### 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.
2. The Company had previously notified that Kevin Schwartz had an indirect interest in P&P COS Holdings B.V.'s shareholding in the Company as a result of his shareholding in a series of other entities. The Company has been informed that while Mr Schwartz continues to have an economic interest of approximately 0.1% in a fund which is the ultimate shareholder in P&P COS Holdings B.V., Mr Schwartz's indirect interest in the Company's shares held by P&P COS Holdings B.V is not a notifiable interest under the ASX Listing Rules.
3. Other changes represent the issue of C class shares that were issued on the exercise of legacy LTI options, that were then immediately converted into ordinary shares as described in section 6.3.3.2 of the Company's prospectus dated 25 June 2015.

**Costa Group Holdings Ltd**  
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**8.2 Options over equity instruments granted as compensation**

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

	Number of options granted during 2017	Grant date	Fair Value per option \$	Exercise price per option \$	Expiry date	Number of options vested during 2017
Harry Debney	607,938	6 December 2016	0.670	2.78	5 December 2021	-
Linda Kow	260,486	6 December 2016	0.670	2.78	5 December 2021	-
George Haggar	375,573	6 December 2016	0.670	2.78	5 December 2021	-

**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	% vested in year	% forfeited in year	Financial year in which grant vests
Harry Debney	Options	1,891,944	15 July 2015	-	-	2018
	Performance rights	53,740	1 September 2016	-	-	2018
	Options	607,938	6 December 2016	-	-	2019
Linda Kow	Options	282,738	26 October 2015	-	-	2018
	Performance rights	21,429	1 September 2016	-	-	2018
	Options	260,486	6 December 2016	-	-	2019
George Haggar	Options	407,738	26 October 2015	-	-	2018
	Performance rights	30,903	1 September 2016	-	-	2018
	Options	375,573	6 December 2016	-	-	2019

- George Haggar resigned during the reporting period and ceased to be employed by the Group with effect from 3 July 2017. As he was categorised by the Board as a 'Good Leaver', he has retained the proportion of his options that represented his time employed by the Group during the performance period, with the balance of the options issued during the reporting period being forfeited.

**Costa Group Holdings Ltd**  
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**8.4 LTI grants and movement during the year**

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

	Held at 26 June 2016	Granted as compensation	Exercised	Held at 25 June 2017	Vested during the year	Vested and exercised or disposed of at 25 June 2017	Vested and Exercisable 25 June 2017
Neil Chatfield	400,000	-	400,000	-	-	400,000	-
Harry Debney	1,891,944	607,938	-	2,499,882	-	-	-
Linda Kow	282,738	260,486	-	543,224	-	-	-
George Hagggar	407,738	375,573	-	783,311 <sup>1</sup>	-	-	-

1. George Hagggar resigned during the reporting period and ceased to be employed by the Group with effect from 3 July 2017. As he was categorised by the Board as a 'Good Leaver', he has retained the proportion of his options that represented his time employed by the Group during the performance period, with the balance of the options issued during the reporting period being forfeited.

**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 (2016: 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.

**Costa Group Holdings Ltd**  
**Directors' report**  
**For the year ended 25 June 2017**

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. 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. At the date of the Company's listing on the Australian Securities Exchange, the Company's governing documents provided that directors could only be appointed to the Company's Board if they were nominated by one of those shareholders and, accordingly, Neil Chatfield's appointment was a result of his nomination by Costa AFR. As disclosed in the 2015 Annual Report, Neil was engaged by State Logistics and Costa Asset Management in relation to that nominee directorship. The Company's governing documents were amended at the time of the Company's listing on the Australian Securities Exchange and Neil Chatfield ceased at that time to be a nominee of Costa AFR and since that time has had no direct or indirect relationship with Costa AFR, Costa Asset Management and State Logistics, or any other company controlled by members of the Costa family (including Table Grape Growers of Australia). Neil Chatfield was subsequently appointed as a director by the Company's shareholders at the Company's 2015 Annual General Meeting.
- Not independent: Frank Costa (due to shares held by Costa AFR), Kevin Schwartz (due to shares held by P&P COS Holdings BV, 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. As at the date of the Company's listing on the Australian Securities Exchange, Frank Costa had an indirect interest in Vitalharvest Pty Ltd (a company from which the Group leases various berry and citrus properties) solely by virtue of holding a convertible note issued by Vitalharvest Pty Ltd. That convertible note was repaid in August 2015 and since that time Frank Costa has had no legal or beneficial interest in Vitalharvest Pty Ltd or its parent company 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.

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



**Neil Chatfield**  
Chairman

Dated at Melbourne 23 August 2017



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

To the Directors of Costa Group Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Costa Group Holdings Limited for the financial year ended 25 June 2017 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 2017

**Costa Group Holdings Ltd**  
**Consolidated Statement of Profit and Loss and Other Comprehensive Income**  
**For the financial year ended 25 June 2017**

	Notes	2017 \$ '000	2016 \$ '000
<b>Revenue</b>			
Sales revenue	A2	895,341	809,027
Other revenue	A2	13,767	12,834
		<u>909,108</u>	<u>821,861</u>
<b>Less: expenses</b>			
Raw materials, consumables and third party purchases		(335,991)	(311,761)
Depreciation and amortisation expenses		(27,793)	(22,507)
Employee benefits expenses	A2	(300,434)	(276,376)
Occupancy expenses		(53,867)	(52,716)
Finance costs	A2	(5,321)	(14,283)
Profit on sale of assets		1,107	1,387
Freight and cartage		(47,483)	(49,346)
Leasing expenses		(15,269)	(9,117)
Gain on fair value adjustments - biological assets		5,878	4,349
Gain / (loss) on fair value of derivatives		512	(870)
Other expenses	A2	(65,430)	(69,382)
		<u>(844,091)</u>	<u>(800,622)</u>
Share of net profits of associates and joint ventures accounted for using the equity method	D1	15,245	14,442
<b>Profit before income tax expense</b>		<u>80,262</u>	<u>35,681</u>
Income tax expense	E2	(22,620)	(10,423)
<b>Profit for the period</b>		<u>57,642</u>	<u>25,258</u>
<b>Other comprehensive income / (loss) for the period</b>			
Foreign currency translation differences		(435)	-
<b>Total other comprehensive income / (loss) for the period</b>		<u>(435)</u>	<u>-</u>
<b>Total comprehensive income for the period</b>			
		<u>57,207</u>	<u>25,258</u>
Profit / (loss) attributable to:			
Owners of Costa Group Holdings Ltd		57,713	25,258
Non-controlling interests		(71)	-
		<u>57,642</u>	<u>25,258</u>
Total comprehensive profit / (loss) attributable to:			
Owners of Costa Group Holdings Ltd		57,278	25,258
Non-controlling interests		(71)	-
		<u>57,207</u>	<u>25,258</u>
		<b>2017</b>	<b>2016</b>
		<b>Cents</b>	<b>Cents</b>
<b>Earnings per share for profit attributable to ordinary equity holders:</b>			
Basic earnings per share	A4	18.09	8.04
Diluted earnings per share	A4	18.02	7.96

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 25 June 2017**

	Notes	25-Jun-17 \$ '000	26-Jun-16 \$ '000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	B1	22,582	4,002
Receivables	B2	87,434	72,807
Inventories	B3	18,076	17,904
Biological assets	B6	46,042	37,408
Derivative financial assets	C7	270	-
Other assets	B5	12,579	5,333
<b>Total current assets</b>		<u>186,983</u>	<u>137,454</u>
<b>Non-current assets</b>			
Other financial assets	E5	327	327
Equity accounted investments	D1(b)	32,354	33,665
Intangible assets	B8	143,101	142,782
Deferred tax assets	E2	3,517	4,957
Property, plant and equipment	B7	281,949	249,324
<b>Total non-current assets</b>		<u>461,248</u>	<u>431,055</u>
<b>Total assets</b>		<u>648,231</u>	<u>568,509</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Payables	B4	102,733	81,638
Provisions	B9	15,761	13,217
Derivative financial liabilities	C7	-	242
Current tax liabilities	E2	17,561	5,879
<b>Total current liabilities</b>		<u>136,055</u>	<u>100,976</u>
<b>Non-current liabilities</b>			
Borrowings	C1	106,775	103,766
Provisions	B9	9,223	4,172
<b>Total non-current liabilities</b>		<u>115,998</u>	<u>107,938</u>
<b>Total liabilities</b>		<u>252,053</u>	<u>208,914</u>
<b>NET ASSETS</b>		<u>396,178</u>	<u>359,595</u>
<b>EQUITY</b>			
Share capital	C2	399,902	395,688
Profit reserve	C3	45,802	20,005
Share-based payment reserve	E1	2,501	523
Foreign currency translation reserve		(435)	-
Accumulated losses		(56,621)	(56,621)
<b>Equity attributable to owners of the parent</b>		<u>391,149</u>	<u>359,595</u>
Non-controlling interests		5,029	-
<b>Total equity</b>		<u>396,178</u>	<u>359,595</u>

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 25 June 2017

	Share capital	Share based payment reserve	Foreign currency translation reserve	Accumulated losses	Profit reserve	Total	Non-controlling interests	Total equity
Consolidated	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
<b>Balance as at 29 June 2015</b>	238,564	1,759	-	(47,199)	4,313	197,437	-	197,437
<b>Profit for year</b>	-	-	-	25,258	-	25,258	-	25,258
Transfer to profit reserve			-	(25,258)	25,258	-	-	-
<b>Total comprehensive income for the year</b>	-	-	-	-	25,258	25,258	-	25,258
<b>Transactions with owners in their capacity as owners:</b>								
Options granted / vested during the year	-	446	-	-	-	446	-	446
Conversion of redeemable preference shares	1,126	-	-	-	-	1,126	-	1,126
Issue of ordinary shares net of transaction costs	166,200	-	-	-	-	166,200	-	166,200
Dividend paid on redeemable preference shares	-	-	-	(9,422)	-	(9,422)	-	(9,422)
Dividend paid on ordinary shares	-	-	-	-	(9,566)	(9,566)	-	(9,566)
Disposal of share options	(11,884)	-	-	-	-	(11,884)	-	(11,884)
Settlement of share based payment	1,682	(1,682)	-	-	-	-	-	-
<b>Balance as at 26 June 2016</b>	395,688	523	-	(56,621)	20,005	359,595	-	359,595

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 25 June 2017

	Share capital	Share based payment reserve	Foreign currency translation reserve	Accumulated losses	Profit reserve	Total	Non-controlling interests	Total equity
Consolidated	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
Balance as at 27 June 2016	395,688	523	-	(56,621)	20,005	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>(56,621)</b>	<b>45,802</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 Cash Flows**  
**For the year ended 25 June 2017**

	Notes	25-Jun-17 \$ '000	26-Jun-16 \$ '000
<b>Cash flow from operating activities</b>			
Receipts from customers		898,945	815,709
Payments to suppliers and employees		(799,476)	(743,863)
Interest received		54	115
Interest paid		(4,655)	(6,774)
Dividends received		170	113
Income taxes paid		(5,962)	(2,523)
<b>Net cash provided by operating activities</b>	<b>B1(a)</b>	<b>89,076</b>	<b>62,777</b>
<b>Cash flow from investing activities</b>			
Payments for property, plant and equipment		(57,147)	(48,433)
Proceeds from sale of investments		3,579	150
Dividends from equity accounted investments		9,156	8,109
Payment for intangible assets		-	(249)
Acquisition of business (net of cash acquired)		(3,815)	(5,272)
Proceeds from sale of intangible assets		-	3,772
Proceeds from sale of property, plant and equipment		880	2,725
<b>Net cash used in investing activities</b>		<b>(47,347)</b>	<b>(39,198)</b>
<b>Cash flow from financing activities</b>			
Proceeds from share issue, net of transaction costs		-	518,730
Acquisition of shares		-	(377,370)
Proceeds from exercise of share options		580	-
Proceeds from loans from related party associates		-	1,884
Dividend payments on ordinary shares		(31,916)	(9,566)
Dividend payments on redeemable preference shares		-	(9,422)
Sale of non-controlling interests		5,100	-
Redemption of options		-	(11,884)
Settlement of derivatives		-	(3,957)
Proceeds from borrowings		206,500	539,006
Repayment of borrowings		(203,000)	(676,502)
<b>Net cash used in financing activities</b>		<b>(22,736)</b>	<b>(29,081)</b>
<b>Reconciliation of cash</b>			
Cash at beginning of the financial year		4,002	9,504
Net increase / (decrease) in cash held		18,993	(5,502)
Effect of movement in foreign exchange rate		(413)	-
<b>Cash at end of financial year</b>	<b>B1</b>	<b>22,582</b>	<b>4,002</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 as at 23 August 2017.

#### Basis of preparation of the financial report

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

The notes are organised into the following sections:

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

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

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

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

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

#### Historical Cost Convention

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

#### Rounding

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

#### Going concern

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

#### Goods and services tax (GST)

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

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

## Costa Group Holdings Ltd

### Notes to the Consolidated Financial Statements

#### **Basis of consolidation**

##### ***Subsidiaries***

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

##### ***Investments in associates and joint ventures (equity accounted investments)***

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

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

##### ***Transactions eliminated on consolidation***

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

##### **Foreign currency translations and balances**

##### ***Functional and presentation currency***

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

##### ***Transactions and balances***

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

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

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

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

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

## Costa Group Holdings Ltd

### Notes to the Consolidated Financial Statements

#### Critical accounting estimates and judgements

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

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

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

Accounting estimates and judgements	Note	Page
Valuation of biological assets	B6 - Biological assets	52
Recoverability of goodwill	B8 – Intangible assets	58
Recoverability of non-financial assets other than goodwill	C5 - Capital and risk management	65
Fair value measurement	C5 - Capital and risk management	65
Income tax	E2 - Taxation	81

# 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.

2017 \$'000	Produce	CF&L	International	Adjustments and eliminations	Total
<b>Revenue</b>					
External customers	750,960	146,225	11,923	-	909,108
Inter-segment	35,304	5,394	-	(40,698)	-
<b>Total revenue</b>	<b>786,264</b>	<b>151,619</b>	<b>11,923</b>	<b>(40,698)</b>	<b>909,108</b>
<b>EBITDA before SGARA</b>	<b>96,686</b>	<b>4,332</b>	<b>14,179</b>	<b>-</b>	<b>115,197</b>

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

2016* \$'000	Produce	CF&L	International	Adjustments and eliminations	Total
<b>Revenue</b>					
External customers	675,451	142,180	4,230	-	821,861
Inter-segment	43,576	5,868	-	(49,444)	-
<b>Total revenue</b>	<b>719,027</b>	<b>148,048</b>	<b>4,230</b>	<b>(49,444)</b>	<b>821,861</b>
<b>EBITDA before SGARA</b>	<b>69,753</b>	<b>10,982</b>	<b>8,316</b>	<b>-</b>	<b>89,051</b>

The Group principally supplies fresh produce to the major supermarkets in Australia, including Coles, Woolworths and ALDI, which collectively comprise approximately 73% of the Group's Australian based produce sales in the 2017 financial year (2016: 70%).

\* FY2016 segment results have been restated for:

- (a) the transfer of the avocado (and banana) categories from the CF&L segment to Produce; and  
(b) the allocation of costs from the Produce segment to International.

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

	Notes	2017 \$ '000	2016 \$ '000
<b>EBITDA before SGARA for reportable segments</b>		115,197	89,051
IPO transaction costs	(i)	-	(21,803)
Fair value movements in biological assets		5,878	4,349
Depreciation and amortisation		(27,793)	(22,507)
Provisions associated with Polar Fresh joint venture	(ii)	(8,860)	-
Profit on sale of assets		1,107	1,387
Interest income		54	115
Finance costs		(5,321)	(14,283)
Loss on fair value of derivatives	(iii)	-	(628)
Income tax expense		(22,620)	(10,423)
<b>Profit after tax</b>		<b>57,642</b>	<b>25,258</b>

(i) IPO transaction costs have not been allocated to reportable segments (refer Note A3).

(ii) Provisions associated with the wind down of the Polar Fresh joint venture taken up as a material item (refer Note A3).

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

**A2. Revenue and expenses**

**REVENUE**

	2017 \$ '000	2016 \$ '000
<i>Sales revenue</i>		
Sale of goods and commissions received	873,595	781,477
Rebates and discounts provided	(14,244)	(13,308)
Rendering of services	35,990	40,858
<b>Total sales revenue</b>	<b>895,341</b>	<b>809,027</b>
<b>Total other revenue</b>	<b>13,767</b>	<b>12,834</b>
<b>Total revenue</b>	<b>909,108</b>	<b>821,861</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.

Certain sales undertaken by the Group are performed in their capacity as an agent, and not merchant relationship. In these instances, the revenue recognised is the commissions payable to the Group.

##### ***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>2017</b>	<b>2016</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<b>Finance costs</b>		
Bank charges	98	92
Interest expense on borrowings	4,121	5,642
Amortisation / write off of borrowing costs*	1,102	8,542
Interest expense on redeemable preference shares	-	7
	<u>5,321</u>	<u>14,283</u>

\*In FY2016, the Group refinanced its borrowings under a new banking facility and wrote off its loan establishment costs in relation to the previous facility.

**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>2017</b>	<b>2016</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<b>Employee expenses</b>		
Salaries, contractors and wages (including on-costs)	270,711	250,086
Superannuation costs	15,525	14,455
Leave entitlements	9,623	7,998
Share-based payments expense	1,518	446
Other employee expenses	3,057	3,391
	<u>300,434</u>	<u>276,376</u>

	<b>2017</b>	<b>2016</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<b>Other expenses</b>		
Repair and maintenance expenses	16,941	15,225
Legal and consulting expenditure*	7,472	24,271
Insurance	6,340	6,787
Other**	34,677	23,099
	<u>65,430</u>	<u>69,382</u>

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

\*\*Other expenses include telecommunications, marketing, information technology and general administration expenditure. In FY2017, this also includes \$7.9 million of provisions associated with the wind down of the Polar Fresh joint venture. Refer to Note A3 for more information.

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

**A3. Material items**

	<b>2017</b>	<b>2016</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<b>Individually material items included in profit before income tax:</b>		
Initial public offering transaction costs <sup>1</sup>	-	(21,803)
Interest expense adjustment <sup>2</sup>	-	(9,556)
Site closures <sup>3</sup>	800	2,373
Polar Fresh closure provisions <sup>4</sup>	(8,860)	-
<b>Total material items (before tax)</b>	<b>(8,060)</b>	<b>(28,986)</b>
Tax effect of material items	945	6,970
<b>Total material items (after tax)</b>	<b>(7,115)</b>	<b>(22,016)</b>

1. An adjustment has been made to remove the costs associated with the IPO process in FY2016, including adviser fees, break costs associated with the old Banking Facilities and share-based payment expense relating to the exercise of legacy share options held by Costa directors and management.

2. Interest expense has been adjusted to reflect the terms of the Banking Facility post completion of the IPO.

3. These adjustments represent the removal of gain/loss on disposal of closed sites and divested businesses.

4. Costs associated with the wind down of the Polar Fresh joint venture. This includes impairment in the Polar Fresh investment, closure expenses arising from the exit of the three facilities previously operated by Polar Fresh. \$7.9m of these costs has been included in other expenses (refer to note A2), and the remainder forms part of share of net profits of associates and joint ventures.

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

**A4. Earnings per share**

	<b>2017</b>	<b>2016</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	18.09	8.04
<i>Diluted EPS</i>		
Diluted EPS (cents) based on net profit attributable to members of Costa Group Holdings Limited	18.02	7.96
	<b>2017</b>	<b>2016</b>
	<b>Number</b>	<b>Number</b>
	<b>('000)</b>	<b>('000)</b>
<i>Weighted average number of shares</i>		
Weighted average number of ordinary shares on issue used in the calculation of basic EPS	319,102	310,345
<i>Effect of potentially dilutive securities</i>		
Redeemable preference shares	-	3,091
Equity-settled share options	1,140	200
Weighted average number of ordinary shares on issue used in the calculation of diluted EPS	320,242	313,636
	<b>2017</b>	<b>2016</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<b>Earnings reconciliation</b>		
<i>Basic EPS</i>		
Net profit attributable to owners of Costa Group Holdings Limited	57,713	25,258
Dividends on redeemable preference shares	-	(294)
Adjusted profit attributable to ordinary shareholders of Costa	57,713	24,964
<i>Diluted EPS</i>		
Earnings used in calculating basic EPS	57,713	24,964
Interest expense on Redeemable Preference Shares (net of tax)	-	7
Net profit attributable to owners of Costa Group Holdings Limited (diluted)	57,713	24,971

**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**

*Acquisition of Lankester*

In July 2017, the Group signed an agreement for the purchase of the Lankester Avocado orchards and packing operations located in the Atherton region of Far North Queensland, with total plantings of 130 hectares across three farms. The acquisition agreement was entered into in conjunction with Macquarie Agriculture Funds Management (MAFM) under which MAFM has purchased the farms and entered into a 20 year lease with the Group to operate them. The acquisition was completed by the end of July 2017.

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

**B. OPERATING ASSETS AND LIABILITIES**

**B1. Cash and cash equivalents**

	<b>2017</b>	<b>2016</b>
	<b>\$ '000</b>	<b>\$ '000</b>
Cash on hand	22	25
Cash at bank	22,512	3,927
Cash on deposit	48	50
	<u>22,582</u>	<u>4,002</u>

All cash on deposit has maturing terms of less than 90 days.

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

	<b>2017</b>	<b>2016</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<b>Profit for the year</b>	57,642	25,258
Non-cash adjustments to reconcile profit before tax to net cash flows:		
Depreciation and amortisation	27,793	22,507
Profit on sale of assets	(1,107)	(1,387)
Borrowing costs written-off / amortised	734	8,373
Impairment losses	-	-
Gain on fair value adjustments - biological assets	(5,878)	(4,349)
(Gain)/loss on fair value of derivatives	(512)	870
Share-based payments expense	1,518	446
Transaction costs on issuance of shares	-	21,803
Share of profit of equity-accounted investees, net of tax	(15,245)	(14,442)
Impairment provisions on equity-accounted investment	7,400	-
	<u>72,345</u>	<u>59,079</u>
Change in working capital and tax balances:		
Increase in inventories	(644)	(1,762)
Increase in receivables	(16,832)	(10,256)
Increase in biological assets	(2,740)	(804)
(Increase)/decrease in other assets	(7,618)	1,184
Decrease in interest payable	(67)	(873)
Increase in payables	20,111	7,693
Increase in provisions	7,937	616
Decrease in deferred taxes	4,902	3,584
Increase in current tax payables	11,682	4,316
<b>Net cash generated from operating activities</b>	<u>89,076</u>	<u>62,777</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>2017</b>	<b>2016</b>
	<b>\$ '000</b>	<b>\$ '000</b>
CURRENT		
Trade debtors	76,920	65,939
Less: Allowance for impairment losses on trade receivables	(538)	(419)
	<u>76,382</u>	<u>65,520</u>
Other receivables	11,052	7,287
	<u>87,434</u>	<u>72,807</u>

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

**Recognition and measurement**

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

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

**B3. Inventories**

	<b>2017</b>	<b>2016</b>
	<b>\$ '000</b>	<b>\$ '000</b>
CURRENT		
<i>At cost</i>		
Raw materials	11,449	12,003
Finished goods	6,627	5,901
	<u>18,076</u>	<u>17,904</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**

	<b>2017</b>	<b>2016</b>
	<b>\$ '000</b>	<b>\$ '000</b>
CURRENT		
<i>Unsecured liabilities</i>		
Trade creditors	53,409	37,237
Sundry creditors and accruals	49,324	44,401
	<u>102,733</u>	<u>81,638</u>

**Recognition and measurement**

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

**B5. Other assets**

	<b>2017</b>	<b>2016</b>
	<b>\$ '000</b>	<b>\$ '000</b>
CURRENT		
Prepayments	12,579	5,333
	<u>12,579</u>	<u>5,333</u>

**B6. Biological assets**

	<b>2017</b>	<b>2016</b>
	<b>\$ '000</b>	<b>\$ '000</b>
CURRENT		
Produce - at fair value	40,164	31,650
Produce - at cost	5,878	5,758
Total biological assets	<u>46,042</u>	<u>37,408</u>

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

Opening balance	37,408	31,571
Gain arising from changes in fair value	5,878	4,349
Increase due to purchases	204,994	155,834
Decreases due to harvest	(204,451)	(155,030)
Increase resulting from acquisitions	2,213	684
Closing balance	<u>46,042</u>	<u>37,408</u>

## Costa Group Holdings Ltd

### Notes to the Consolidated Financial Statements

#### Recognition and measurement

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

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

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

#### Measurement of fair values

##### *Fair value hierarchy*

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

##### *Valuation techniques and significant unobservable inputs*

The following table provides a description of the various biological asset types, shows the valuation techniques used in measuring Level 3 fair values, as well as the significant unobservable inputs used. Refer to note C5 for further detail on Level 3 fair value measurement.

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

**Measurement of fair values (Continued)**

Type	Description	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Hanging crop (citrus, grapes, avocados, tomatoes, blueberries, raspberries and bananas)	These are crops from trees and bushes that have an annual crop production cycle and a reasonably stable development cycle.	<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>

**Measurement of biological assets at cost**

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

## Costa Group Holdings Ltd

### Notes to the consolidated Financial Statements

#### Risk management strategy related to biological activities

##### *Regulatory and environmental risks*

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

##### *Supply and demand risk*

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

##### *Climate and other risks*

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

#### Critical accounting estimate and judgement

##### *Valuation of biological assets*

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

#### B7. Property, plant and equipment

	2017 \$ '000	2016 \$ '000
Land and buildings at cost	156,143	149,114
Accumulated depreciation and impairment	(44,849)	(42,501)
	<u>111,294</u>	<u>106,613</u>
Assets Under Construction at cost	<u>17,426</u>	<u>13,996</u>
Plant and equipment at cost	231,704	202,015
Accumulated depreciation and impairment	(104,610)	(95,166)
	<u>127,094</u>	<u>106,849</u>
Leased plant and equipment at cost	-	1,728
Accumulated depreciation and impairment	-	(1,728)
	<u>-</u>	<u>-</u>
Improvements at cost	22,915	20,133
Accumulated depreciation and impairment	(6,144)	(5,047)
	<u>16,771</u>	<u>15,086</u>
Bearer plants at cost	15,917	11,346
Accumulated depreciation and impairment	(6,553)	(4,566)
	<u>9,364</u>	<u>6,780</u>
Total property, plant and equipment	<u><u>281,949</u></u>	<u><u>249,324</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>2017</b>	<b>2016</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<i>Land and buildings</i>		
Opening carrying amount	106,613	71,748
Additions	9,232	1,936
Disposals	141	-
Depreciation expense	(5,238)	(4,863)
Transfers, reclassifications and adjustments	546	37,792
Closing carrying amount	<u>111,294</u>	<u>106,613</u>
<i>Assets Under Construction</i>		
Opening carrying amount	13,996	58,959
Additions	26,623	38,474
Disposals	-	(276)
Transfers, reclassifications and adjustments	(23,193)	(83,161)
Closing carrying amount	<u>17,426</u>	<u>13,996</u>
<i>Plant and equipment</i>		
Opening carrying amount	106,849	76,092
Additions	18,302	4,875
Disposals	(982)	(598)
Depreciation expense	(17,600)	(13,684)
Transfers, reclassifications and adjustments	20,525	40,164
Closing carrying amount	<u>127,094</u>	<u>106,849</u>
<i>Leased plant and equipment</i>		
Opening carrying amount	-	14
Depreciation expense	-	(14)
Closing carrying amount	<u>-</u>	<u>-</u>
<i>Leasehold Improvements</i>		
Opening carrying amount	15,086	9,246
Additions	1,363	1,515
Disposals	(1)	(199)
Depreciation expense	(1,096)	(882)
Transfers, reclassifications and adjustments	1,419	5,406
Closing carrying amount	<u>16,771</u>	<u>15,086</u>
<i>Bearer Plants</i>		
Opening carrying amount	6,780	3,928
Additions	4,819	4,660
Disposals	(17)	-
Depreciation expense	(2,196)	(1,808)
Transfers, reclassifications and adjustments	(22)	-
Closing carrying amount	<u>9,364</u>	<u>6,780</u>

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

	<b>2017</b>	<b>2016</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<i>Total property, plant and equipment</i>		
Opening carrying amount	249,324	219,987
Additions	60,339	51,460
Disposals	(859)	(1,073)
Depreciation expense	(26,130)	(21,251)
Transfers, reclassifications and adjustments	(725)	201
Closing carrying amount	<u>281,949</u>	<u>249,324</u>

**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	5% - 33%	Straight line
Leased plant and equipment at cost	10% - 20%	Straight line
Bearer plants at cost	4% - 25%	Straight line

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

**Capital commitments**

As at 25 June 2017, the Group has capital commitments amounting to \$24,939,230 (2016: \$673,306) in relation to the purchase of property, plant and equipment, which are contracted for but not provided for.

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**B8. Intangible assets**

	<b>2017</b>	<b>2016</b>
	<b>\$ '000</b>	<b>\$ '000</b>
Goodwill at cost	133,007	131,495
Capitalised software costs	8,724	8,697
Accumulated amortisation and impairment	(4,123)	(2,883)
	<u>4,601</u>	<u>5,814</u>
Brand names at cost	1,730	1,730
Lease premiums at cost	1,022	1,665
Accumulated amortisation and impairment	-	(643)
	<u>1,022</u>	<u>1,022</u>
Water rights at cost	2,741	2,721
Total intangible assets	<u>143,101</u>	<u>142,782</u>

**Reconciliations**

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

	<b>2017</b>	<b>2016</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<i>Goodwill</i>		
Opening balance	131,495	131,285
Additions	1,512	210
Closing balance	<u>133,007</u>	<u>131,495</u>
<i>Capitalised software costs</i>		
Opening balance	5,814	6,821
Additions	-	249
Amortisation expense	(1,354)	(1,255)
Disposals	(311)	-
Transfers, reclassifications and adjustments	452	(1)
Closing balance	<u>4,601</u>	<u>5,814</u>
<i>Brand names</i>		
Opening balance / closing balance	<u>1,730</u>	<u>1,730</u>
<i>Lease premiums</i>		
Opening balance / closing balance	<u>1,022</u>	<u>1,022</u>
<i>Water rights</i>		
Opening balance	2,721	1,007
Additions	20	1,714
Closing balance	<u>2,741</u>	<u>2,721</u>

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.

## Costa Group Holdings Ltd

### Notes to the consolidated Financial Statements

#### Recognition and measurement

##### **Goodwill**

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

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

##### **Brand names**

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

##### **Lease premiums**

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

##### **Water rights**

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

##### **Software**

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

##### **Acquisitions**

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

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

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

## Costa Group Holdings Ltd

### Notes to the consolidated Financial Statements

#### Allocation of goodwill

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

	Produce 2017 \$ '000	CF&L 2017 \$ '000	International 2017 \$ '000	Total 2017 \$ '000
<b>Goodwill</b>				
Carrying amount at start of year	127,654	3,841	-	131,495
Transfers between segments*	2,167	(2,167)	-	-
Additions for the year	1,512	-	-	1,512
Carrying amount at end of year	131,333	1,674	-	133,007

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

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

#### Impairment testing

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

In FY2017, the recoverable amount of our CGUs exceeds their carrying values and as a result no impairment loss has been recognised (2016: Nil impairment).

#### 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 FY2020. For FY2021 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% (2016: 2.5%) has been used for cash flows for FY2021 onwards with a terminal value growth rate of 3.0% (2016: 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 financial year 2017 (2016: 13.0% to 14.0%).

##### Sensitivity Analysis

Other than as discussed below, 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.

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For the tomato CGU included within the Produce segment, a reasonable possible change in the price of truss tomatoes could result in the carrying value of the CGU exceeding its recoverable amount. The tomato category posted a strong recovery in FY2017 after a challenging FY2016 in which price deflation impacted earnings. The recovery was mainly driven by strong truss pricing and an improved focus on sales mix. The cash flow projections used in the valuation of recoverable amount assumes that record low truss prices experienced in FY2016 will not be repeated. Should this happen, absent any changes in other assumptions the carrying value of the CGU could exceed its recoverable amount.

For the mushroom CGU included within the Produce segment, a reasonable possible change in the sales price of mushroom could result in the carrying value of the CGU exceeding its recoverable amount. If the cost base of the category increased by 2-3% per annum over the next 3 years with no corresponding increase in sales price over the same period, the mushroom CGU could incur an impairment charge. Based on current economic conditions and CGU performance, no other reasonably possible changes in key assumptions would result in impairment.

#### B9. Provisions

		2017 \$ '000	2016 \$ '000
<b>CURRENT</b>			
Employee benefits	(a)	14,185	13,217
Onerous leases	(b)	1,500	-
Other	(c)	76	-
		<u>15,761</u>	<u>13,217</u>
<b>NON CURRENT</b>			
Employee benefits	(a)	5,343	4,042
Onerous lease	(b)	3,500	-
Other	(c)	380	130
		<u>9,223</u>	<u>4,172</u>

**(a) Aggregate employee benefits liability** 19,528 17,259

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:

	2017 \$ '000	2016 \$ '000
<i>Employee benefits</i>		
Opening balance	17,259	15,742
Amounts used	(5,824)	(5,313)
Additional amounts recognised	8,093	6,830
Closing balance	<u>19,528</u>	<u>17,259</u>
<i>Onerous leases</i>		
Opening balance	-	908
Amounts used	-	(908)
Additional amounts recognised	5,000	-
Closing balance	<u>5,000</u>	<u>-</u>

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	<b>2017</b>	<b>2016</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<i>Other provisions</i>		
Opening balance	130	123
Amounts used	-	(172)
Additional amounts recognised	326	179
Closing balance	456	130

**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

	2017 \$ '000	2016 \$ '000
<i>Unsecured liabilities</i>		
Bank loans	106,775	103,766
	<u>106,775</u>	<u>103,766</u>

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

The Group refinanced its banking facility on 22 June 2017. The new facility will be drawn down on 9 August 2017. The key terms of the new facility are:

- 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 \$11.6 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.

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**C2. Share capital**

	<b>2017</b>	<b>2016</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<i>Issued and paid-up capital</i>		
Ordinary shares	401,673	401,093
Transaction costs directly transferred to equity (net of tax)	(7,087)	(7,087)
Tax effect on legacy share options	3,566	-
Settlement of share based payments	1,750	1,682
	<u>399,902</u>	<u>395,688</u>

	<b>2017</b>		<b>2016</b>	
	<b>Number '000</b>	<b>\$ '000</b>	<b>Number '000</b>	<b>\$ '000</b>
<b>(a) Ordinary shares</b>				
Opening balance	318,880	395,688	194,600	194,600
Ordinary shares issued	400	580	77,017	173,287
Conversion of redeemable preference shares to ordinary shares	-	-	45,000	45,090
Settlement of share based payment	-	68	-	1,682
Disposal of share options	-	-	-	(11,884)
Issue of new shares on disposal of options	-	-	2,263	-
Transactions costs incurred in respect of initial public offering (net of tax)	-	-	-	(7,087)
Tax effect on legacy share options	-	3,566	-	-
At reporting date	<u>319,280</u>	<u>399,902</u>	<u>318,880</u>	<u>395,688</u>
	-	-	-	-
<b>(b) Redeemable preference shares</b>				
Opening balance	-	-	45,000	43,964
Redeemable preference shares liability converted to equity	-	-	-	1,126
Conversion of redeemable preference shares to ordinary shares	-	-	(45,000)	(45,090)
At reporting date	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	-	-	-	-
<b>Total share capital</b>	<u>319,280</u>	<u>399,902</u>	<u>318,880</u>	<u>395,688</u>

**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 \$45,802 (2016: \$20,005).

**Costa Group Holdings Ltd**  
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**C4. Dividends**

	<b>2017</b>	<b>2016</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<b>Dividends declared and paid:</b>		
Fully franked dividend paid upon completion of the IPO on 24 July 2015 on redeemable preference shares (equity component)	-	9,422
Fully franked interim dividend at 4.0 cents per share (2016: 3.0 cents)	12,771	9,566
<b>Dividends declared after balance date:</b>		
Since the end of the year, the Directors have declared a fully franked final dividend of 7.0 cents per share (2016: 6.0 cents). The dividend is expected to be paid on 5 October 2017. This dividend has not been recognised as a liability as at 25 June 2017.	22,350	19,145

**C5. Capital and risk management**

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

	<b>Fair value hierarchy</b>	<b>2017</b>	<b>2016</b>
		<b>\$ '000</b>	<b>\$ '000</b>
<b>Financial assets</b>			
<i>Loans and receivables</i>			
Current receivables	-	87,434	72,807
Cash and cash equivalents	-	22,582	4,002
Loans to related party associates	-	80	80
		<u>110,096</u>	<u>76,889</u>
<i>Available for sale</i>			
Shares in other corporations	Level 2	247	247
		<u>247</u>	<u>247</u>
<i>Designated at fair value</i>			
Forward exchange contracts	Level 2	270	-
		<u>270</u>	<u>-</u>
<b>Financial liabilities</b>			
<i>Financial liabilities not measured at fair value</i>			
Payables	-	102,733	81,638
Bank loans	Level 2	106,775	103,766
		<u>209,508</u>	<u>185,404</u>
<i>Designated at fair value</i>			
Forward exchange contracts	Level 2	-	242
		<u>-</u>	<u>242</u>

**Classification**

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

**Derivative financial instruments**

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

## Costa Group Holdings Ltd

### Notes to the consolidated Financial Statements

#### **Foreign exchange contracts**

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

#### **Non-derivative financial instruments**

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

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

#### **Loans and receivables**

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

#### **Available-for-sale**

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

#### **Financial liabilities**

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

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

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

#### **Impairment**

##### **Non-derivative financial assets**

##### **Financial assets measured at amortised cost**

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

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

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

##### **Non-financial assets**

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

## Costa Group Holdings Ltd

### Notes to the consolidated Financial Statements

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

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

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

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

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

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

#### (a) Market risk

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

##### *Interest rate risk*

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

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

	<b>2017</b>	<b>2016</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<b>Variable rate instruments</b>		
<b>Assets</b>		
Cash and cash equivalents	22,582	4,002
	<u>22,582</u>	<u>4,002</u>
<b>Liabilities</b>		
Bank loans	108,000	104,500
	<u>108,000</u>	<u>104,500</u>
<b>Net financial liabilities</b>	<u>85,418</u>	<u>100,498</u>

##### *Sensitivity analysis for variable rate instruments*

At 25 June 2017, 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>2017</b>	<b>2016</b>
	<b>\$ '000</b>	<b>\$ '000</b>
Increase of 100 basis points in interest rate	(854)	(1,005)
Decrease of 100 basis points in interest rate	854	1,005

## Costa Group Holdings Ltd

### Notes to the consolidated Financial Statements

#### Foreign currency risk

The Group's exposure to the risk of changes in foreign exchange 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 African Blue joint venture and China 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:

2017	USD	JPY	EUR	CNY	GBP	NZD
	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
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>

2016	USD	JPY	EUR	CNY	GBP	NZD
	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
Cash	1,130	298	-	-	-	-
Trade and other receivables	4,610	4,231	-	-	-	-
Trade and other payables	(3)	-	(7)	-	-	-
Derivative financial assets / (liabilities)	13	(255)	-	-	-	-
<b>Net exposure</b>	<b>5,750</b>	<b>4,274</b>	<b>(7)</b>	<b>-</b>	<b>-</b>	<b>-</b>

#### Sensitivity analysis

At 25 June 2017, 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:

	USD	JPY	EUR	CNY	GBP	NZD	MAD
	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
Australian dollar weakened by 10%	773	596	(1)	658	(1)	(2)	815
Australian dollar strengthened by 10%	(773)	(596)	1	(658)	1	2	(815)

#### (b) Liquidity risk

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

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

The Group manages liquidity risk by maintaining sufficient cash reserves, banking facilities and standby borrowing facilities and by monitoring forecast and actual cash flows. As at reporting date, unused credit facilities net of bank guarantees of the Group were \$130.4 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.

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

**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.

**2016**

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

**(c) Credit Risk**

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

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

The maximum exposure to credit risk is as follows:

	2017 \$ '000	2016 \$ '000
Cash and cash equivalents	22,582	4,002
Receivables	87,434	72,807
Forward exchange contracts	270	-
	110,286	76,809

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.

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

	<b>2017</b>	<b>2016</b>
	<b>\$ '000</b>	<b>\$ '000</b>
Neither past due nor impaired	61,239	54,427
Past due 1 - 30 days	14,378	9,829
Past due 31 - 60 days	1,108	939
Past due over 60 days	195	744
	<u>76,920</u>	<u>65,939</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 51% of the Group's trade debtors at 25 June 2017.

**Impairment losses on trade receivables**

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

	<b>2017</b>	<b>2016</b>
	<b>\$ '000</b>	<b>\$ '000</b>
Movements in the accumulated impairment losses were:		
Opening balance at 27 June 2016	(419)	(1,009)
Impairment loss (recognised) / reversed	(204)	518
Amounts written off	85	72
Closing balance at 25 June 2017	<u>(538)</u>	<u>(419)</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.

**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.

## Costa Group Holdings Ltd

### Notes to the consolidated Financial Statements

#### **Fair value measurement**

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

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

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

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

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

## C6. Capital and leasing commitments

### **(a) Operating lease commitments**

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

	<b>2017</b>	<b>2016</b>
	<b>\$ '000</b>	<b>\$ '000</b>
Payable		
- not later than one year	36,094	31,006
- later than one year and not later than five years	133,989	110,995
- later than five years	149,215	101,807
	<u>319,298</u>	<u>243,808</u>

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

The increase in operating lease commitments in FY2017 predominantly relates to the acquisition of the Avocado Ridge orchards in conjunction with Macquarie Agriculture Funds Management (Macquarie). Under the agreement, Macquarie purchased the land, biological assets, water and infrastructure assets with Costa entering into a 20 year lease with Macquarie to operate the orchards.

### **(b) Bank guarantees**

The Group maintains bank guarantees of \$11,623,007 (2016: \$12,171,871).

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.

## Costa Group Holdings Ltd

### Notes to the consolidated Financial Statements

#### **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.

## C7. Derivative financial instruments

	2017 \$ '000	2016 \$ '000
CURRENT		
Forward exchange contract receivable / (payable)	270	(242)
	270	(242)

#### **Measurement of fair values**

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

#### *Fair value hierarchy*

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

D. GROUP STRUCTURE

D1. Joint ventures and associates

(a) Details of Associates and Joint Ventures

	Equity instrument	Ownership interest	Ownership interest	Measurement basis	Principal place of business and country of incorporation
		2017 %	2016 %		
<b>Associates</b>					
African Blue SA	Ordinary shares	49	49	Equity Accounted	Moulay-Bouselham, 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

(b) Summarised financial information for associates and joint ventures

	Africa 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 27 June 2016	17,544	8,472	7,649	33,665
Total share of profit	8,150	884	6,211	15,245
Impairment	-	(7,400)	-	(7,400)
Dividends paid	(2,785)	(1,371)	(5,000)	(9,156)
Closing balance at 25 June 2017	22,909	585	8,860	32,354

(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 joint venture holds an exclusive licence to grow Costa blueberry varieties in Morocco for sale worldwide (excluding Americas). In FY2017, sales revenue for African Blue was \$58,082,081 (2016: \$47,339,352), and net assets were \$39,330,932 (2016: \$30,137,457).

(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 FY2017, sales revenue for the Polar Fresh Partnership was \$5,486,569 (2016: \$8,714,674), and net assets were \$1,307,332 (2016: \$2,145,569).

During the year, 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 has been impaired by \$7.4m. Refer to Note A3 for further information.

(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 berries grown are marketed in Australia through the Driscoll's brand. In FY2017, sales revenue for the Driscoll's Australia Partnership was \$99,629,160 (2016: \$78,160,839), and net assets were \$18,068,876 (2016: \$15,640,287).

## Costa Group Holdings Ltd

### Notes to the consolidated Financial Statements

#### Recognition and measurement

##### ***Investments in joint ventures***

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

##### ***Investments in associates***

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

## Costa Group Holdings Ltd

### Notes to the consolidated Financial Statements

#### D2: List of subsidiaries

The following are the Group's significant subsidiaries:

Subsidiaries of Costa Group Holdings Ltd:	Country of incorporation	Ownership interest held by the group	
		2017 %	2016 %
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
CBSP Pty Ltd	Australia	100	100
FruitExpress Pty Ltd	Australia	100	100
ACN 057 689 246 Pty Ltd	Australia	100	100
Exchange Innisfail Pty Ltd	Australia	100	100
FreshExchange Pty Ltd	Australia	100	100
Yandilla Park Pty Ltd	Australia	100	100
East 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	100
- Costa (Honghe) Fruit Planting Co. Ltd	China	70	-
- Costa (Yunnan) Agricultural Development Co. Ltd	China	70	-

\* During the year, the group formalised its China joint venture with Driscoll's resulting in the sale of a 30% non-controlling interest in the joint venture holding company, Costa China (Hong Kong) Limited.

**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 2017 financial period as follows:

- African Blue SA - Accrual of royalty income on blueberry sales of \$1,627,993 (2016: \$1,247,250)
- African Blue SA - Dividends received amounting to \$2,785,467 (2016: \$1,648,773)
- African Blue SA - Other costs charged of \$127,311 (2016: \$173,705)
- Polar Fresh Partnership - Dividends received amounting to \$1,370,958 (2016: \$3,460,029) and \$104,000 (2016: \$125,000) for transactional and management services provided.
- Polar Fresh Partnership - Receivable of \$3,819 (2016: \$19,097) for management fees.
- Driscoll's Australia Partnership - Commission paid on sale of berries \$22,118,278 (2016: \$17,903,083)
- Driscoll's Australia Partnership - Sales of produce \$173,480,884 (2016: \$136,592,526)
- Driscoll's Australia Partnership - Receivable of \$6,011,073 (2016: \$6,376,880) for sale of produce.
- Driscoll's Australia Partnership - Dividends received amounting to \$5,000,000 (2016: \$3,000,000)

The Group has a loan to African Blue (Joint Venture). This is to fund working capital and was established in a prior period. The balance as at 25 June 2017 is AUD \$80,230 (2016: AUD \$80,230).

**(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 (2016: AUD \$1)

	<b>2017</b>	<b>2016</b>
	<b>\$ '000</b>	<b>\$ '000</b>
Compensation received by key management personnel of the group:		
- Short-term employee benefits	3,742	3,591
- Post-employment benefits	116	106
- Other monetary benefits	15	-
- Long-term employee benefits	40	43
- Share-based payment benefits	1,067	301
	<u>4,980</u>	<u>4,041</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>2017</b>	<b>2016</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<b>Assets</b>		
Current assets	2,306	28
Non-current assets	455,857	414,649
<b>Total assets</b>	<u>458,163</u>	<u>414,677</u>
<b>Liabilities</b>		
Current liabilities	17,558	5,879
Non-current liabilities	43,697	43,879
<b>Total liabilities</b>	<u>61,255</u>	<u>49,758</u>
<b>Net assets</b>	<u>396,908</u>	<u>364,919</u>
<b>Equity</b>		
Contributed equity	399,902	395,688
Profit reserve	45,802	20,005
Share based payment reserve	2,501	523
Accumulated losses	(51,297)	(51,297)
<b>Total equity</b>	<u>396,908</u>	<u>364,919</u>

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

	<b>2017</b>	<b>2016</b>
	<b>\$ '000</b>	<b>\$ '000</b>
Profit / (loss) for the period	(23,556)	(4,882)
Total comprehensive profit / (loss) for the year	<u>(23,556)</u>	<u>(4,882)</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 Class Order 98/1418 (as amended), these wholly owned subsidiaries listed in Note D2 (excluding Hillston Investments Pty Ltd and Innisfail Holdings Pty Ltd) are relieved from the Corporations Act requirements to prepare a financial report and director's report.

A consolidated statement of profit or loss and other comprehensive income and a consolidated statement of financial position for the year ended 25 June 2017, 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>2017</b>	<b>2016</b>
	<b>\$ '000</b>	<b>\$ '000</b>
Revenue	901,997	821,861
Less: Expense	(837,635)	(800,622)
<b>Profit before income tax expense</b>	<b>64,362</b>	<b>21,239</b>
Income tax expense	(22,611)	(10,423)
<b>Total comprehensive income for the year</b>	<b>41,751</b>	<b>10,816</b>

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

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

	<b>2017</b>	<b>2016</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	16,387	4,002
Receivables	86,180	72,458
Inventories	17,705	17,904
Biological assets	45,958	37,408
Derivative financial assets	270	-
Other assets	10,012	5,333
<b>Total current assets</b>	<b>176,512</b>	<b>137,105</b>
<b>Non-current assets</b>		
Other financial assets	12,374	327
Equity accounted investments	32,354	33,665
Intangible assets	143,101	142,782
Deferred tax assets	3,517	4,957
Property, plant and equipment	273,863	249,324
<b>Total non-current assets</b>	<b>465,209</b>	<b>431,055</b>
<b>Total assets</b>	<b>641,721</b>	<b>568,160</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Payables	100,999	81,638
Provisions	15,761	13,217
Derivative financial liabilities	-	242
Current tax liabilities	17,557	5,879
<b>Total current liabilities</b>	<b>134,317</b>	<b>100,976</b>
<b>Non-current liabilities</b>		
Borrowings	106,775	103,766
Provisions	9,223	4,172
<b>Total non-current liabilities</b>	<b>115,998</b>	<b>107,938</b>
<b>Total liabilities</b>	<b>250,315</b>	<b>208,914</b>
<b>NET ASSETS</b>	<b>391,406</b>	<b>359,246</b>
<b>EQUITY</b>		
Share capital	388,313	384,098
Profit reserve	45,972	20,005
Share-based payment reserve	2,501	523
Accumulated losses	(45,380)	(45,380)
<b>Total equity</b>	<b>391,406</b>	<b>359,246</b>

E. OTHER

E1. Share-based payments

	2017 \$ '000	2016 \$ '000
Share-based payments reserve	2,501	523

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 FY2017, 2,313,852 (2016: 3,513,372) options have been granted to key management personnel and the executive team under new option plans.

The Group also granted 181,885 (2016: Nil) performance rights to key management personnel and the executive team during FY2017.

**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 Black-Scholes pricing model. The inputs used in the measurement of the fair values at grant date of the options were as follows:

Employee share option programs	2017		2016	
	CEO	KMP and executives (excluding CEO)	CEO	KMP and executives (excluding CEO)
Number issued	607,938	1,705,913	1,891,944	1,621,428
Fair value at grant date	\$0.67	\$0.67	\$0.23	\$0.39
Share price at grant date	\$3.06	\$3.06	\$2.16	\$2.30
Exercise price	\$2.78	\$2.78	\$2.81	\$2.25
Expected volatility	30.00%	30.00%	27.00%	27.00%
Expected dividend yield	3.80%	3.80%	3.75%	3.75%
Risk-free rate	2.07%	2.07%	1.98%	1.81%

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 5 day market volume weighted average price of the shares of Costa Group Holdings Ltd ending on 24 August 2016. Details are as follows:

<b>Employee performance right program</b>	<b>2017</b>	<b>2016</b>
	<b>KMP and executives (including CEO)</b>	<b>KMP and executives (including CEO)</b>
Number issued	181,885	-
Fair value at grant date	\$ 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:

	<b>2017</b>		<b>2016</b>	
	<b>Number of options</b>	<b>Weighted average exercise price</b>	<b>Number of options</b>	<b>Weighted average exercise price</b>
Opening balance	3,963,372	\$2.39	21,671,752	\$1.45
Disposed for cash or settled for shares during the year	(400,000)	\$1.45	(21,221,752)	\$1.45
Granted during the year	2,313,851	\$2.78	3,513,372	\$2.51
Closing balance	5,877,223	\$2.63	3,963,372	\$2.39
Exercisable at year end	50,000	\$1.45	450,000	\$1.45

The options outstanding as at 25 June 2017, which have not been vested, have an average exercise price of \$2.64 (2016: \$2.51).

**E2. Taxation**

	<b>2017</b>	<b>2016</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<b>(a) Components of tax expense</b>		
Current tax	20,932	7,387
Deferred tax	2,456	3,101
Under/(over) provision in prior years	(768)	(65)
	<u>22,620</u>	<u>10,423</u>

**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>2017</b>	<b>2016</b>
	<b>\$ '000</b>	<b>\$ '000</b>
Profit before income tax	80,262	35,681
Prima facie income tax expense on profit before income tax at 30.0%	24,078	10,704
Add tax effect of:		
- non deductible expenses	159	174
- deferred tax asset not recognised	-	1,726
- impairment of Polar Fresh carrying value	2,220	-
- share-based payments expense	568	134
- different tax rates in foreign jurisdictions	9	-
- other assessable items	-	44
	<u>2,956</u>	<u>2,078</u>
Less tax effect of:		
- research and development tax credits	434	750
- utilisation of deferred tax asset not recognised	307	-
- non-assessable income	2,905	1,544
- over provision in prior years	768	65
	<u>4,414</u>	<u>2,359</u>
Income tax expense attributable to profit	<u>22,620</u>	<u>10,423</u>

	<b>2017</b>	<b>2016</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<b>(c) Current tax</b>		
Current tax relates to the following:		
<i>Current tax liabilities / (assets)</i>		
Opening balance	5,879	1,563
Current year tax expense	20,932	7,387
Tax refunds/(payments)	(5,787)	(2,389)
Foreign withholding tax credits received	(238)	(207)
Under / (over) provisions	(3,225)	(475)
Closing balance	<u>17,561</u>	<u>5,879</u>

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

	<b>2017</b>	<b>2016</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<b>(d) Deferred tax</b>		
Deferred tax relates to the following:		
<b>Deferred tax assets</b>		
The balance comprises:		
Property, plant and equipment	157	-
Provisions	7,657	5,343
Trade and other payables	3,195	2,973
Capital (black hole) deductions (section 40-880)	6,463	8,534
Borrowings	131	-
Equity Accounted Investments	636	760
Other financial liabilities	-	73
	<u>18,239</u>	<u>17,683</u>
<b>Deferred tax liabilities</b>		
The balance comprises:		
Biological assets	12,024	9,495
Property, plant and equipment	-	1,362
Intangible assets	1,856	1,609
Trade and other receivables	762	260
Other financial assets	80	-
	<u>14,722</u>	<u>12,726</u>
Net deferred tax assets	<u>3,517</u>	<u>4,957</u>

	<b>2017</b>	<b>2016</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<b>(e) Deferred tax expense included in income tax comprises</b>		
Increase in deferred tax assets	(357)	(650)
Increase in deferred tax liabilities	2,813	3,751
	<u>2,456</u>	<u>3,101</u>
<b>(f) Deferred tax movement</b>		
Opening balance – net deferred tax asset	4,957	5,504
Under / (Over) Provision in Prior Years	1,119	(483)
Decrease in DTA recognised in P&L	(2,456)	(3,101)
Decrease in DTA as a result of sale of business	(103)	-
Increase in DTA recognised in equity	-	3,037
Closing balance – net deferred tax asset	<u>3,517</u>	<u>4,957</u>

The Group's franking account balance as at 25 June 2017 is \$3,434,435 (2016: \$11,270,836).

**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.

## Costa Group Holdings Ltd

### Notes to the consolidated Financial Statements

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

#### **Tax Consolidation**

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

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

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

#### **Critical accounting estimate and judgement**

##### **Income Tax**

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

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

### **E3. New accounting standards**

#### **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 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*
- *AASB 2016-1 Amendments to Australian Accounting Standards —Recognition of Deferred Tax Assets for Unrealised Losses*
- *AASB 2016-2 Amendments to Australian Accounting Standards —Disclosure Initiative: Amendments to AASB 107*
- *AASB 2017-2 Amendments to Australian Accounting Standards —Further Annual Improvements 2014/2016 Cycle*

## Costa Group Holdings Ltd

### Notes to the consolidated Financial Statements

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

#### AASB 16 Leases

AASB 16 Leases will replace the current standard on lease accounting, AASB 117. AASB 16 introduces a single lessee accounting model and requires the lessee to recognise assets and liabilities of all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments. This standard will require the Group to bring all material leases with lease terms greater than one year on to the balance sheet (refer note C6 for further details of the Group's operating lease commitments as at 25 June 2017). The Group has not yet determined the potential effect of this standard on its future financial report. The standard is mandatory for financial years commencing on or after 1 January 2019 and the Group expects to adopt the standard at the start of FY2020.

#### AASB 15 Revenue

AASB 15 is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The standard is not applicable until 1 January 2018 but is available for early adoption. The Group has not yet determined the potential effect of this standard on its future financial report. The Group expects to adopt the standard at the start of FY2019.

#### E4. Auditor's remuneration

	2017 \$ '000	2016 \$ '000
<b>Audit and review services</b>		
Services provided by KPMG Australia	394,756	340,700
Services provided by associate firms of KPMG Australia	17,422	-
	<u>412,178</u>	<u>340,700</u>
<b>Other services provided by KPMG Australia</b>		
Taxation compliance and other taxation advisory services (including R&D)	245,700	175,000
Other services	10,000	21,000
	<u>255,700</u>	<u>196,000</u>
<b>Total remuneration of KPMG</b>	<u><u>667,878</u></u>	<u><u>536,700</u></u>

#### E5. Other financial assets

	2017 \$ '000	2016 \$ '000
<b>NON CURRENT</b>		
Loans to related party associates	80	80
<i>Available for sale financial assets</i>		
Shares in other corporations	247	247
	<u>327</u>	<u>327</u>

\*Refer to Note C7 for disclosure on fair valuation technique of this asset.

## Costa Group Holdings Ltd

### Notes to the consolidated Financial Statements

#### E6. 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

Directors' Declaration

- 1 In the opinion of the Directors of Costa Group Holdings Ltd ("the Company"):
  - (a) the consolidated financial report and notes A1 to E6 and the Remuneration Report in the Directors' Report, are in accordance with the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of the Group's financial position as at 25 June 2017 and of its performance, for the financial year ended on that date; and
    - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2 There are reasonable grounds to believe that the Company and the Group entities identified in Note D5 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and the Group entities pursuant to ASIC Class Order 98/1418.
- 3 The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 25 June 2017.
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 2017.



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Harry Debney  
Managing Director & CEO



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Neil Chatfield  
Chairman



# Independent Auditor's Report

To the members of Costa Group Holdings Limited

## Report on the audit of the Financial Report

### Opinion

We have audited the **Financial Report** of Costa Group Holdings Limited (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 25 June 2017 and of its financial performance for the financial 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 25 June 2017
- *Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows* for the financial year then ended
- Notes including a summary of significant accounting policies
- *Directors' Declaration*.

The **Group** consists of 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

**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 (\$46m)

Refer to Note B6 to the Financial Report.

The key audit matter	How the matter was addressed in our audit
<p>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 management in the Group's biological assets valuation model.</p> <p>In addressing this key audit matter, we involved experienced audit team members who had an understanding of the Group's key product categories, their development cycles, yield, pricing and other external factors including market conditions.</p> <p>The areas that involved significant judgment by us in evaluating and assessing management's assumptions included:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• extent of biological advancement: the crops are seasonal in nature and at valuation date, are at various stages in the development cycle;</li> </ul>	<p>We challenged the key assumptions adopted by management in the Group's biological asset valuation model, such as future market pricing, seasonality, predicted yield per hectare and biological advancement by:</p> <ul style="list-style-type: none"> <li>• comparing the assumptions to historical and current trends and, where possible, actual outcomes in subsequent periods;</li> <li>• performing site visits, on a sample basis, to inspect the actual biological advancement and compare this to the assumption in the model;</li> <li>• enquiring of farm managers, senior site and head office management for corroborative evidence of key assumptions;</li> <li>• analysing expected pricing in comparison with prior periods and using our knowledge of the business and market conditions;</li> <li>• assessing previous forecasting accuracy to consider the precision of management's forecasting and identifying particular areas where there may be a higher risk of inaccuracies or bias;</li> <li>• evaluating the consistency of key assumptions applied to the biological asset valuation models to those applied in the goodwill impairment testing;</li> <li>• performing sensitivity analyses by making reasonably possible changes in judgemental assumptions such as biological advancement rates, and comparing outcomes to management's fair value to identify areas of further testing; and</li> </ul>

<ul style="list-style-type: none"> <li>• 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</li> <li>• environmental factors: the Group's crops are subject in various degrees to climatic conditions and weather events, which creates inherent uncertainty around yield per hectare, prices, quality and timing of harvest, which must be factored into the assessment of fair value.</li> </ul>	<ul style="list-style-type: none"> <li>• in addition to other procedures, we assessed the specific disclosures required for biological assets in the financial report by considering the requirements of relevant accounting standards and industry practice.</li> </ul>
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Recoverability of goodwill (\$133m)	
Refer to Note B8 to the Financial Report.	
The key audit matter	How the matter was addressed in our audit
<p>This is a key audit matter due to the significant audit judgement involved in evaluating assumptions used by management when considering the valuation of the Group's goodwill balances (the impairment model) which have been allocated to each product category. This judgement includes management's disaggregation of Operating Segments into individual Cash Generating Units (CGUs). 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. The assumptions are also discussed in greater detail in the "Valuation of biological assets at fair value" key audit matter above; and</li> </ul>	<p>The key procedures we performed included:</p> <ul style="list-style-type: none"> <li>• we critically evaluated management's determination of the Group's CGU's using our understanding of the Group's business and internal reporting structure, including how costs are allocated and results are monitored and reported.</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 management in the impairment model as well as the appropriateness of the VIU models 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; and</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> </ul> </li> </ul>

<ul style="list-style-type: none"> <li>the impact of the expansion of the business, including additional investment in the Berry category to management's estimates of future cash flows.</li> </ul>	<ul style="list-style-type: none"> <li>we assessed the disclosures in the financial report using our understanding of the issue obtained from our testing and against the requirements of the accounting standards.</li> </ul>
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Presentation of sales revenue (\$895.3m)	
Refer to Note A2 to the Financial Report.	
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. 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>some 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 involved 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>recalculating the agency commission and comparing it to the amount presented as agency income.</li> </ul> </li> <li>we also compared the overall agency commissions with our understanding of current commission arrangements and previous commission amounts to identify areas of further testing.</li> </ul>

## Other Information

Other Information is financial and non-financial information in Costa Group Holdings Limited'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, Sustainability Report, 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.

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. 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 this 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\\_files/ar2.pdf](http://www.auasb.gov.au/auditors_files/ar2.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 Limited for the financial year ended 25 June 2017, complies with *Section 300A of the Corporations Act 2001*.

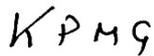
### Directors' responsibilities

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*.

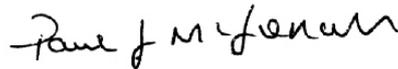
### Our responsibilities

We have audited the Remuneration Report included in pages 21 to 33 of the Directors' report for the financial year ended 25 June 2017.

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 2017