



# **Costa Group Holdings Limited**

## **Appendix 4E**

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

**For the financial year ended 27 December 2020**

**ASX Listing Rule 4.3A**

**ABN 68 151 363 129**

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## Reporting Period

<b>Current reporting period:</b>	<b>Previous reporting period:</b>
Financial year ended 27 December 2020	Financial year ended 29 December 2019

## 1. Results for announcement to the market

### Key Information

	December 2020	December 2019 (Restated)*	% change
	Results	Results	
	\$ '000	\$ '000	
Revenue from ordinary activities	1,164,916	1,047,873	11.2%
Profit / (loss) from ordinary activities	67,449	(34,428)	295.9%
Profit / (loss) for the period attributable to members	60,774	(36,071)	268.5%
Earnings before interest, tax, depreciation, amortisation, SGARA, leasing and material items <sup>1</sup>	144,759	98,335	47.2%
Net profit after tax before SGARA, leasing and material items <sup>2</sup>	59,364	28,488	108.4%

\*Comparative restated for IFRIC lease adjustment – refer to Note E6 for further detail.

- (1) Earnings before interest, tax, depreciation, effect of AASB 16 Leases, fair value movements in biological assets (SGARA) and material items & amortisation.  
(2) EBITDA-SL and NPAT-SL disclosed are presented before material items. Refer Note A3 for further detail.

### Explanation of results

Please refer to the Review of operations contained within the Director's Report on page 6 for further information on results for the period.

**Costa Group Holdings Ltd**  
**Appendix 4E Preliminary Final Report**

**Dividends or dividend distribution plan**

	<b>Cents per share</b>	<b>Franking %</b>
<b>Paid to ordinary shareholders</b>		
<b>Declared and paid during the year</b>		
Final dividend – financial year ended 29 December 2019	2.0 cents	100% franked
Interim dividend – financial year ended 27 December 2020	4.0 cents	100% franked
<b>Determined after end of year</b>		
Final dividend – financial year ended 27 December 2020 <sup>1</sup>	5.0 cents	100% franked

Note:

1. The final dividend was determined subsequent to balance date. The record date for determining an entitlement to receipt of the final dividend is 11 March 2021 and the company expects to pay the dividend on 8 April 2021. This dividend has not been accrued for at year end.

There was no dividend reinvestment plan in operation during the years ended 27 December 2020 and 29 December 2019.

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

Please refer to Note A4, page 54 of the notes to the financial statements for Earnings per Share information.

	<b>December 20</b>	<b>December 19</b>
	<b>Cents</b>	<b>(Restated)*</b>
	<b>Cents</b>	<b>Cents</b>
Net tangible asset backing per ordinary share	101.57	110.39

\*Comparative restated for IFRIC lease adjustment – refer to Note E6 for further detail.

## **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 83 and 84 of the Financial Statements.

## **4. Associates and Joint Ventures**

The Group's associates and joint ventures are included at Note D1, page 82.

## **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 6.

## **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 financial year ended 27 December 2020

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 year ended 27 December 2020 ('CY2020').

## 1. DIRECTORS

The directors of the Company at any time during or since the end of the period are set out below. During CY2020, the Company's CEO and Managing Director, Harry Debney, announced his intention to retire. Following a recruitment search that included both internal and external candidates the Board appointed Sean Hallahan, the Company's existing COO, to fill the role. The change in CEO and Managing Director will take effect from 31 March 2021.

### **Current directors**

#### **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 and Human Resources Committee, Audit and Risk Committee and Chair of the Horticultural Innovation and Technology Committee and Nomination Committee.

Neil is an established executive and non-executive director with extensive experience in company management, and with specific expertise in high growth companies, financial management, capital markets, mergers and acquisitions, and risk management.

Neil is currently a Non-executive director of Transurban Ltd (since 2009) and Non-executive Chairman of Aristocrat Leisure (Director since November 2017 and Chairman since February 2019). He was previously the Chair and Non-executive director of Seek Limited (to 31 December 2018), a Non-executive director of Iron Mountain Inc. (to September 2017), Recall Holdings Ltd (to May 2016), Chair and Non-executive director of Virgin Australia Holdings Ltd (to May 2015). He was also a Non-executive director of Atomos Ltd from September 2017 until 1 February 2019. Neil previously served as an executive director and Chief Financial Officer of Toll Holdings Ltd (from 1997 to 2008).

#### **Harry Debney BAppSc (Hons)**

##### **Managing Director and Chief Executive Officer**

Director since 5 January 2012 and Managing Director since 24 July 2015. Member of the Horticultural Innovation and Technology Committee.

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

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

#### **Tim Goldsmith BCom**

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

Director since 1 September 2018, Chair of the Audit and Risk Committee and member of the Remuneration and Human Resources Committee and Nomination Committee.

Tim has extensive corporate experience gained from over three decades of working in Australia and internationally. Tim previously worked as a partner at PricewaterhouseCoopers (PwC) for over 20 years, which included leading PwC's National China desk.

Tim is currently President and CEO of Rincon Mining Pty Ltd, an unlisted mine development company, and Non-Executive Chairman of Hazer Group Ltd and Angel Seafood Holdings Ltd.

## Costa Group Holdings Ltd

### Directors' report

For the financial year ended 27 December 2020

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

**Independent Non-Executive Director**

Director since 11 October 2016. Member of the Audit and Risk Committee, Horticultural Innovation and Technology Committee and Nomination Committee.

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

Janette is currently a non-executive director of Vicinity Centres, Tabcorp Holdings, Australian VenueCo, Visit Victoria and KM Property Funds. Janette was previously a director of Nine Entertainment Ltd (to December 2018) and Wellcom Group Ltd (to November 2019) and Chair of the Melbourne Theatre Company Foundation (to December 2020).

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

**Independent Non-Executive Director**

Director since 24 June 2015. Chair of the Remuneration and Human Resources 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 Executive Chairman of Asahi Beverages ANZ, Chief Executive of Goodman Fielder Ltd and 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.

Peter currently serves as a Non-executive director of Nufarm Ltd and Deputy Chair of 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) and PACT Group Holdings Ltd (to August 2019).

**Dr Jane Wilson**

**Independent Non-Executive Director**

Director since 1 April 2019 and member of the Remuneration and Human Resources Committee, Horticultural Innovation and Technology Committee and Nomination Committee.

Dr Wilson holds a medical degree from The University of Queensland and a Master of Business Administration from Harvard Business School. She is Co-Chair of the Federal Government's Australian Advisory Board on Technology and Healthcare Competitiveness. She was also a director of the General Sir John Monash Foundation until December 2019. In the early 2000s Dr Wilson was the Inaugural Chair of Horticulture Australia and served on the Council of Rural Research & Development Corporations' Chairs.

Dr Wilson serves as a Guardian of the Future Fund Board, Australia's Sovereign Wealth Fund, in addition to serving as a non-executive director of Transurban Ltd and Sonic Healthcare Ltd

## 2. COMPANY SECRETARY

**David Thomas LLB (Hons), BSc, GAICD**

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 25 years' experience in legal practice.

## Costa Group Holdings Ltd

### Directors' report

For the financial year ended 27 December 2020

### 3. 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 period are:

Director	Board Meetings		Audit and Risk Committee Meetings		Remuneration and HR Committee Meetings		Nomination Committee Meetings	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Neil Chatfield <sup>2</sup>	10	10	7	7 <sup>1</sup>	5	5	5	5
Harry Debney <sup>2</sup>	10	10	7	7 <sup>1</sup>	5	5 <sup>1</sup>	5	5 <sup>1</sup>
Tim Goldsmith	10	10	7	7	5	-	5	5
Janette Kendall <sup>2</sup>	10	10	7	7	5	-	5	5
Peter Margin	10	10	7	7	5	5	5	5
Jane Wilson <sup>2</sup>	10	10	7	4 <sup>1</sup>	5	5	5	5

Notes:

1. Not a member of the Committee at the time that meetings were held and attended the meeting as a guest. Neil Chatfield joined the Audit and Risk Committee, and Tim Goldsmith joined the Remuneration and Human Resources Committee, with effect from 1 December 2020 which was after the last Committee meetings for CY2020 had been held.
2. Neil Chatfield, Harry Debney, Janette Kendall and Jane Wilson joined the Horticultural Innovation and Technology Committee on its formation on 1 December 2020, but the first meeting of that Committee was not held until early CY2021.

### 4. 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 also operates international farming operations in Morocco and China. The Group's principal activities during the year were:

- the growing of mushrooms, berries, 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 period.

### 5. SIGNIFICANT CHANGES IN STATE OF AFFAIRS DURING THE PERIOD

Other than those matters referred to in the 'Strategy and Growth' Section of the Operating and Financial Review and the Financial Statements, there have been no other significant changes in the state of affairs of the Group during the period.

## Costa Group Holdings Ltd

### Directors' report

For the financial year ended 27 December 2020

## 6. Operating and Financial Review

### RESULTS FOR FINANCIAL YEAR ENDED 27 DECEMBER 2020

#### SUMMARY OF GROUP PERFORMANCE

	CY2020 (\$m)	vs CY2019 <sup>1</sup> (%)
Transacted Sales	1,598.6	▲ 9.1%
Revenue	1,164.9	▲ 11.2%
EBITDA-SL <sup>3</sup>	144.8	▲ 47.3%

- Revenue up on prior comparative period primarily due to increased International trading volume combined with improved pricing for Avocado and Citrus categories.
- EBITDA-SL improvement due to increased earnings led by the International segment as well as the Berry and Avocado categories in Australia.

**Table 1: Summary of results for the financial year ended 27 December 2020 compared to CY2019<sup>1</sup>**

Consolidated income statement			
A\$m	CY2020	CY2019 <sup>1</sup>	Change \$
Revenue	1,140.7	1,030.8	109.9
Other revenue	24.2	17.1	7.1
<b>Total Revenue</b>	<b>1,164.9</b>	<b>1,047.9</b>	<b>117.0</b>
Raw materials, consumables & third party purchases	(408.2)	(360.4)	(47.8)
Employee benefits expense	(378.6)	(370.2)	(8.4)
Other operating expense	(189.9)	(174.3)	(15.6)
Share of associates profit	9.1	4.1	5.0
<b>EBITDA-S</b>	<b>197.2</b>	<b>147.0</b>	<b>50.2</b>
<i>EBITDA-S margin</i>	16.9%	14.2%	
Fair value movements in biological assets	8.0	4.3	3.7
<b>EBITDA</b>	<b>205.2</b>	<b>151.3</b>	<b>53.9</b>
Depreciation & amortisation	(96.6)	(88.3)	(8.3)
Profit/(loss) on sale of assets and investments	(1.8)	1.4	(3.2)
<b>EBIT</b>	<b>106.8</b>	<b>64.4</b>	<b>42.4</b>
Net interest expense	(25.6)	(28.0)	2.4
<b>Net profit/(loss) before tax</b>	<b>81.2</b>	<b>36.4</b>	<b>44.8</b>
Income tax expense	(13.8)	(8.9)	(4.9)
<b>NPAT (before material items)</b>	<b>67.4</b>	<b>27.5</b>	<b>39.9</b>
Material items (before tax)	-	(70.2)	70.2
Tax on material items	-	8.3	(8.3)
Non-controlling interest	(6.7)	(1.6)	(5.1)
<b>Net profit after tax attributable to shareholders</b>	<b>60.8</b>	<b>(36.1)</b>	<b>96.9</b>
Transacted Sales <sup>2</sup>	1,598.6	1,464.5	134.1
EBITDA-SL <sup>3</sup>	144.8	98.3	46.5
NPAT-SL <sup>3</sup>	59.4	28.5	30.9

Notes:

- The CY2019 comparative period has been restated for IFRIC lease adjustment – refer note E6 of the Financial statements for further detail.
- 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.
- EBITDA-SL and NPAT-SL are non-IFRS financial measures. Further details and reconciliation to EBITDA-SL and NPAT-SL are provided in Table 8 and Table 10 respectively.



## Costa Group Holdings Ltd

### Directors' report

For the financial year ended 27 December 2020

### Financial highlights

#### **Revenue**

Revenue increased by \$109.9 million against prior comparative period (CY2019) driven by the increased volume in the International segment combined with improved pricing in the Produce segment led by the avocados and citrus categories.

#### **Operating expenses**

Raw materials, consumables and 3<sup>rd</sup> party purchases expenses increased by \$47.8 million in line with the increase in revenue as described above.

Employee benefits expenses increased by \$8.4 million from CY2019 driven by volumetric growth in the International segment and COVID-19 related costs. This was partially offset by harvesting efficiencies achieved in the mushroom and berry categories.

Other operating expenses increased by \$15.6 million from CY2019 in line with revenue growth as described above.

#### **Share of associates profit**

Profits from associates grew by \$5.0 million with increased earnings contribution from the Driscoll's Australia joint venture with the raspberry crumble issue in the previous year being resolved, as well as a general increase in berry trading volumes.

#### **EBITDA before SGARA & leasing<sup>2</sup>**

EBITDA before SGARA & leasing increased by \$46.5 million from CY2019 driven by:

- International segment with footprint expansion and ideal growing conditions experienced in China and the expansion of the Agadir farm in Morocco
- Volume growth in the berry category due to improved yields in blueberries and blackberry maturity
- Increase in Avocado own farm volumes combined with strong pricing

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

SGARA fair value movement was up \$3.7 million during the year. Material fair value increases were recorded in the avocado category resulting from maturing orchards and China with increased blueberry plantings from the new Guangmen farm.

#### **Depreciation and amortisation**

Depreciation and amortisation increased by \$8.3 million from CY2020 primarily driven by the International segment with recent footprint expansion across both China and Morocco as well as the completion of the Monarto mushroom expansion in the Produce segment.

#### **Net interest expense**

Net interest costs lower by \$2.4 million from CY2019 reflecting lower base rates and reduced debt levels.

#### **Tax expense**

Higher tax expense in line with increased earnings, although a lower effective tax rate in CY2020 is reflective of a higher mix of international earnings.

#### **NPAT-SL<sup>2</sup>**

NPAT-SL increased by \$30.9 million from CY2019 due to the earnings drivers described above. The increased EBITDA-SL and lower interest charges were partially offset by higher depreciation and tax expense.

#### **Dividends**

The Board has determined a fully franked, final dividend of 5.0 cents per share for the financial year ended 27 December 2020.

Note:

1. The CY2019 comparative period has been restated for IFRIC lease adjustment – refer note E6 of the Financial statements for further detail.
2. EBITDA-SL and NPAT-SL are non-IFRS financial measures. Further details and reconciliation to EBITDA-SL and NPAT-SL are provided in Table 8 and Table 10 respectively.

## SEGMENT INFORMATION

### PRODUCE

Table 2: Selected financial information for the Produce segment

Produce A\$m	CY2020	CY2019	Change
Transacted Sales	1,371.0	1,291.1	79.9
Revenue	930.2	869.3	60.9
EBITDA-SL	85.2	69.2	16.0
EBITDA-SL margin	9.2%	8.0%	1.2pts

Revenue increased \$60.9 million on CY2019 mainly driven by:

- Strong citrus export and domestic demand driving improved pricing
- Increase in Avocado own farm volumes combined with better pricing due to market supply constraints
- Volume growth in berries with improved yields in blueberries and blackberry maturity

EBITDA-SL increased by \$16.0 million against CY2019 led by revenue drivers as outlined above as well as:

- Recovery of consumer retail demand in the mushroom category leading to improved pricing combined with the cost efficiencies associated with network optimisation following the Monarto farm expansion
- Increased earnings contribution from the Driscoll's Australia joint venture with the raspberry crumble issue in the previous year being resolved, as well as a general increase in berry trading volumes.

This was partially offset by demand and production issues in the tomato category with poor light conditions and restrictions from COVID-19 impacting pricing for snacking.

EBITDA-SL margin improvement due to production and harvest efficiencies in the mushroom and berry categories and strong avocado pricing.

### COSTA FARMS & LOGISTICS

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

Costa Farms and Logistics A\$m	CY2020	CY2019	Change
Transacted sales	146.3	144.0	2.3
Revenue	150.4	149.1	1.3
EBITDA-SL	6.2	6.5	(0.3)
EBITDA-SL margin	4.1%	4.3%	-0.2pts

Revenue increased by \$1.3 million compared to CY2019 driven mainly due to solid performance in berry trading in the wholesale markets. This was partially offset by lower servicing revenue, particularly for the berry and tomato product lines.

EBITDA-SL decreased \$0.3 million against CY2019 driven by a fall in revenue in the Logistics category due to the completion of a contract in 1HCY20.

## Costa Group Holdings Ltd

### Directors' report

For the financial year ended 27 December 2020

## INTERNATIONAL

Table 4: Selected financial information for the International segment

International A\$m	CY2020	CY2019	Change
Transacted sales	133.7	91.7	42.0
Revenue	136.7	91.7	45.0
EBITDA-SL	53.3	22.7	30.6
<i>EBITDA-SL margin</i>	39.0%	24.7%	14.3pts

Revenue up \$45.0 million compared to CY2019 primarily due to:

- expanded planting footprint and higher yields in China; and
- Improved yield and quality as well as first early season production from the Agadir southern region farm in Morocco.

EBITDA-SL increased by \$30.6 million against CY2019 driven by the revenue drivers as outlined above as well as

- Improved royalty income driven primarily by growth in China and Morocco; and
- Favourable FX on translation of earnings.

This was partially offset by blueberry pricing being negatively impacted by COVID-19 across most of UK/Europe.

## Costa Group Holdings Ltd

### Directors' report

For the financial year ended 27 December 2020

## BALANCE SHEET

Table 5: Selected consolidated balance sheet as at 27 December 2020

Selected Balance Sheet			
A\$m			
As at 27 December 2020	Dec-20	Dec-19 <sup>1</sup>	Change
Cash and cash equivalents	32.5	36.0	(3.5)
Receivables	100.9	92.4	8.5
Inventories	27.0	24.4	2.6
Property, plant and equipment	515.7	498.9	16.8
ROU assets	302.8	324.3	(21.5)
Intangible assets	209.5	213.4	(3.9)
Biological assets	58.3	49.2	9.1
Equity accounted investments	21.6	16.7	4.9
Other assets	37.2	33.8	3.4
<b>Total assets</b>	<b>1,305.5</b>	<b>1,289.1</b>	<b>16.4</b>
Payables	135.1	113.5	21.6
Provisions	30.9	31.6	(0.7)
Lease liabilities	318.1	333.8	(15.7)
Borrowings	176.3	214.8	(38.5)
Other liabilities	28.4	18.6	9.8
<b>Total liabilities</b>	<b>688.8</b>	<b>712.3</b>	<b>(23.5)</b>
<b>Net assets</b>	<b>616.7</b>	<b>576.8</b>	<b>39.9</b>

#### Net working capital<sup>2</sup>

Net working capital decreased by \$9.7 million during the year, primarily driven by an increase in trade payables due to timing of month-end vendor payments.

#### Property, plant and equipment

Property, plant and equipment increased by \$16.8 million driven by growth capital expenditures across the Produce and International segments, including Monarto mushroom farm expansion, Guyra tomato glasshouse and the domestic and international berry growth programs.

#### ROU assets

Right-of-use assets decreased by \$21.5 million with depreciation of Costa's property lease portfolios' right of use of \$40.7m, partially offset by new operating lease additions during the year.

#### Biological assets

Biological assets increased \$9.1 million primarily from the uplift in fair value of the avocado and berry domestic and China hanging crop.

#### Equity accounted investments

Equity accounted investment increased by \$4.9 million due to earnings contribution from the Driscoll's Australia marketing joint venture.

#### Other liabilities

Other liabilities increased by \$9.8 million mainly driven by an increase in tax liabilities.

Note:

1. The CY2019 comparative period has been restated for IFRIC lease adjustment – refer note E6 of the Financial statements for further detail.
2. Net working capital calculated as receivables and inventories less payables and provisions.

## Costa Group Holdings Ltd

### Directors' report

For the financial year ended 27 December 2020

#### NET DEBT

Table 6: Consolidated net debt as at 27 December 2020

Net debt		
A\$m		
As at 27 Dec 2020	Dec-20	Dec-19
Bank loans	177.2	216.4
Capitalised loan establishment fees included in borrowings	(0.9)	(1.6)
<b>Gross debt</b>	<b>176.3</b>	<b>214.8</b>
Less: Cash and cash equivalents	(32.5)	(36.0)
<b>Net debt</b>	<b>143.9</b>	<b>178.9</b>
<b>Leverage ratio<sup>1</sup></b>	<b>0.99x</b>	<b>1.82x</b>

Notes:

1. Leverage ratio defined as net debt divided by EBITDA-SL.

Net debt as at 27 December 2020 decreased by \$35.0 million to \$143.9 million primarily driven by positive cashflow from earnings, tight management of working capital and operating capital expenditure. Leverage ratio decreased to 0.99x during the year which reflects the combined impact of lower debt level and stronger earnings.

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

## CASH FLOW

Table 7: Cash flow before financing, tax, dividends and material items &amp; amortisation

Consolidated cash flow		
A\$m	CY2020	CY2019
<b>EBITDA-S before material items</b>	197.2	147.0
Less: Share of profit of JVs	(9.1)	(4.1)
Dividends from JVs	4.2	1.9
Non-cash items in EBITDAS	(0.7)	1.3
Payment for leases	(52.6)	(50.1)
Change in working capital	6.1	(1.3)
<b>Net cash flow from operating activities before interest, tax and material items</b>	<b>145.1</b>	<b>94.7</b>
Maintenance capital expenditure	(28.6)	(26.0)
<b>Free cash flow</b>	<b>116.5</b>	<b>68.7</b>
Productivity and growth capital expenditure	(50.3)	(121.1)
Payments for business acquisitions	-	-
Acquisition of non-controlling interest in subsidiary	-	(0.7)
Proceeds from sale of investments	-	1.6
Disposal of property, plant and equipment	1.1	1.0
<b>Net cash flow before financing, tax, dividends and material items</b>	<b>67.3</b>	<b>(50.6)</b>
Cash conversion ratio <sup>1</sup>	80%	70%

Notes:

1. Defined as free cash flow divided by EBITDA-SL before material items &amp; amortisation

**Dividends from joint ventures**

Dividends from JVs increased by \$2.3 million from CY2019 reflective of improved earnings in Driscoll's Australia joint venture from the resolution of the raspberry crumble issue from CY2019 and strong berry volume trading.

**Working capital**

Improvements in working capital against CY2019 reflect tight management of these balances.

**Capital expenditure**

Maintenance capital expenditure increased by \$2.6 million against CY2019, reflective of a higher capital base due to recent growth initiatives.

Productivity and growth capital expenditure was \$50.3 million for the period and comprised mainly of:

- \$7.2 million for the mushroom Monarto expansion project;
- \$20.9 million for China joint venture;
- \$17.5 million for the Tomato glasshouse project;
- \$1.1 million for the domestic berry expansion projects; and
- \$3.6 million for Morocco.

## Non-IFRS measures

Throughout this report, Costa has included certain non-IFRS financial information, including EBITDA before SGARA & leasing, NPAT before SGARA & leasing 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	
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EBITDA before SGARA (EBITDA-S)	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.
NPAT before SGARA (NPAT-S)	Net profit attributable to members of Costa before fair value movements in biological assets and material items & amortisation.
EBITDA before SGARA & leasing; and NPAT before SGARA & leasing	<p>On 31 December 2018, the Group adopted the new lease accounting standard AASB 16. Costa applied the modified retrospective approach which means that prior year comparatives were not adjusted for the impact of AASB16. As such, two alternative performance measures were introduced to assist with the transition period.</p> <ul style="list-style-type: none"> <li>• EBITDA before SGARA &amp; leasing (EBITDA-SL) is EBITDA-S as identified above adjusted for the impact of AASB16 and includes operating lease expense; and</li> <li>• NPAT before SGARA and leasing (NPAT-SL) is NPAT-S as identified above adjusted for the impact of AASB16. It includes operating lease expense and excludes ROU asset depreciation and interest on lease liability.</li> </ul> <p>It is expected that the Group would revert to EBITDA-S and NPAT-S performance measures from CY2021.</p> <p>Refer Table 10 for a reconciliation of EBITDA-SL to profit after tax.</p>
Non-IFRS operating measures	
Transacted Sales	<p>Transacted Sales are used by management as a key measure to assess Costa's sales and marketing performance and market share. Transacted Sales represent the aggregate volume of sales in which Costa is involved in various capacities (including sales of third party-grown produce marketed by Costa under agency arrangements), as well as royalty income. Transacted Sales are not considered by Costa to be a revenue measure. There are material differences between the calculation of Transacted Sales and the way in which revenue is determined under AAS.</p> <p>Transacted Sales comprise:</p> <ul style="list-style-type: none"> <li>• statutory sales revenue;</li> <li>• gross invoiced value of agency sales of third party produce;</li> <li>• royalty income from the licensing of Costa blueberry varieties in Australia, the Americas, China and Africa; and</li> <li>• 100% of Driscoll's Australia JV sales after eliminating Costa produce sales to the Driscoll's Australia JV. Prior to the formation of Driscoll's Australia JV in 2010, all of Costa's domestic sales and marketing activities for the berry category were managed by Costa.</li> </ul> <p>Refer Table 9 for a reconciliation of Transacted Sales to revenue.</p>

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

A\$m	Note	CY2020	CY2019
<b>Transacted Sales</b>		<b>1,598.6</b>	<b>1,464.5</b>
Agency revenue adjustments	1	(87.4)	(109.7)
Driscoll's Australia Partnership consolidation adjustments	2	(362.9)	(318.5)
Other revenue	3	16.6	11.6
<b>Total revenue</b>		<b>1,164.9</b>	<b>1,047.9</b>

Notes:

- Under AAS, the invoiced value of agency sales is excluded from revenue with only the commission associated with the agency sales recognised.
- Costa owns 50% of the equity of Driscoll's JV. Transacted Sales includes 100% of Driscoll's Australia JV sales, after eliminating Costa produce sales to the Driscoll's Australia JV.
- Other revenue (with the exception of royalty income) not included in Transacted Sales.

**Table 10: Reconciliation of EBITDA-SL to profit after tax**

A\$m	Note	CY2020	CY2019 <sup>1</sup>
<b>EBITDA-SL</b>		<b>144.8</b>	<b>98.3</b>
Lease expense (AASB16 adjustment) <sup>2</sup>	2	52.4	48.7
<b>EBITDA-S</b>		<b>197.2</b>	<b>147.1</b>
Fair value movements in biological assets		8.0	4.3
Depreciation and amortisation		(96.6)	(88.3)
Material items (before tax)		-	(70.2)
(Loss)/profit on sale of assets		(1.8)	1.4
Net finance costs		(25.6)	(28.0)
Income tax expense		(13.8)	(0.6)
<b>Statutory profit/(loss) after tax</b>		<b>67.4</b>	<b>(34.4)</b>

Notes:

- The CY2019 comparative period has been restated for IFRIC lease adjustment – refer note E6 of the Financial statements for further detail.
- Payments for operating leases accounted for as an expense under AASB117 *Leases*. Operating leases are capitalised as right-of-use assets under AASB16 *Leases*.



## MATERIAL BUSINESS RISKS

There are various risks that could have a material impact on the achievement of Costa's strategies and future performance. Set out in the table below are the risks that Costa considers having the greatest impact to the business and an outline of what Costa is doing to mitigate these risks.

Although the material risks to Costa's business did not fundamentally change in 2020, focus on the following risks, which are described in more detail in the table below, has elevated due to COVID-19:

- **Health and safety** of workers as they continued to attend work in-person in order to maintain the provision of the critical food Costa grows for customers and consumers.
- **Labour sourcing** models traditionally utilised by Costa in an environment of domestic and international border restrictions.
- **Changing market landscape** of consumption habits during government-imposed lockdown periods, and sustained changes in consumer behaviour resulting from the pandemic and associated global economic impacts.
- **Restrictions on the movement of people or goods** as countries and states implement measures to manage the pandemic.

From early experiences dealing with the impact of COVID-19 in China in January and February 2020, the Group proactively established a COVID-19 Steering Committee which was responsible for designing and implementing comprehensive and agile response practices to address the risks to the business from the pandemic.

Risk	Description	Mitigation
<b>Weather and climate:</b>	Changes in weather and climate can cause price and yield volatility for Costa.	Costa partially mitigates against weather risk by investing in weather protective growing environments and equipment. Approximately two-thirds of Costa's Group EBITDA before SGARA is derived from crops grown under cover indoors or under permanent tunnels. While protected cropping reduces the risk of disease and the impact of weather, this risk is still relevant. Changes in climate also have the potential to have an adverse impact on Costa's business. Costa has sought to primarily manage the impact of this risk by increasing the geographic diversity of its operations (both within Australia and internationally). Costa has also recently created a new Board committee – the Horticultural Innovation and Technology Committee - to oversee strategies relating to horticultural innovation, with one of its areas of focus being the Company's adaptation to the impacts of climate change. Costa is continually developing and implementing strategies to manage this risk.
<b>Water:</b>	Insufficient supply of good quality water, whether due to drought or otherwise, and fluctuating water prices have the ability to impact on Costa's business.	Costa has sought to manage the impact of this risk by increasing the geographic diversity of its operations (both within Australia and internationally). Costa proactively forecasts water usage and availability and maintains a focus on reducing water inputs per unit of crop output through efficiency of water use and ensuring water security predominantly through water capture and recycling. Costa also actively monitors water prices and, where appropriate, enters into forward water contracts to partially protect against the effect of potential water price increases.

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<b>Brand risk:</b>	Quality issues, product recall, contamination, public health issues, disputes or adverse media coverage could damage Costa's brands which could adversely impact Costa's financial performance.	Costa has zero tolerance for circumstances which may result in food safety concerns and employs strict food safety and quality assurance standards across its business. In order to achieve these standards, Costa has a dedicated Food Safety & Quality team, consisting of senior specialist managers from all Costa categories. Costa has foreign object control standards and processes to ensure it is well prepared to deal with foreign object contamination risks.
<b>Customer risk:</b>	Costa's top three customers comprised approximately two thirds of sales revenue.	Costa enters into contractual arrangements where possible with its major customers, with any such agreements typically having supply periods for 1 season or 1 to 2 years. However, the nature of the Australian market means that most customer arrangements are uncontracted. Costa also continues to actively explore alternative sales channels, both within Australia and internationally, with non-Australian customers comprising around one quarter of sales revenue.
<b>Supplier risk:</b>	Costa relies on a number of suppliers to support the achievement of its objectives and therefore inability to access key supply inputs at the right time and at the right price could impact Costa's harvest outcomes. Additionally, there is a risk that practices in our supply chain are misaligned to Costa's values.	Procurement, operations and Costa's Ethical Sourcing group work closely to manage and mitigate risks related to key supply inputs. To manage the delivery of the right product, at the right time and cost, from the right suppliers Costa primarily utilises the following mechanisms: sharing of operational plans and forecasts with key suppliers; diversification of supply base to reduce dependency; pre-engagement requirements and defined terms of engagement and periodic supplier performance reviews. Additionally, through the Group's Ethical Sourcing Programme, Costa is focused on understanding the social sustainability practices of our supply chain. The first stage of the programme requires key suppliers to complete self-assessment questionnaires to enable systematic monitoring of risk indicators within our supply chain in relation to labour (including Modern Slavery), health and safety, environmental and business ethics. Additionally, third-party audits are conducted for selected suppliers to better understand, and remediate where necessary, standards and practices.
<b>Labour sourcing:</b>	Costa has complex labour demands due to the nature of growing and harvesting a product that is perishable. There is a risk that the Group is unable to source the appropriate volume of labour at the appropriate time to meet demand and quality standards.	Costa labour planning is a foundational component of operational planning in order to ensure adequate personnel are available, and sufficiently trained and engaged, to harvest produce, at the right time, to meet quality standards and customer and consumer demand. To manage the risk of insufficient labour Costa proactively utilises multiple employment models including direct hire, labour hire firms and being an Approved Employer under the Australian Federal Government's Seasonal Worker Programme.

<b>Labour arrangements:</b>	<p>Costa uses labour hire firms to meet production peaks including harvest periods. Costa has less direct control over employment arrangements for persons employed by labour hire firms than it does over its direct employees. Poor practices by these labour hire firms may impact workers engaged at Costa sites, which in turn could damage Costa's reputation and/or adversely impact Costa's financial performance.</p>	<p>Third party labour hire firms are processed by Costa through a rigorous procurement process, and Costa requires their employment practices to satisfy all Australian employment laws. Costa monitors that employment instruments and agreements used by third party labour hire firms engaged by Costa comply with legal pay and conditions. In addition, Costa has communicated Costa's Supplier Code of Conduct to each labour provider. This Code seeks to ensure that human rights issues are understood, respected and upheld. Labour providers are contractually obliged to comply with the Code. Not only does Costa conduct routine audits and interviews with labour hire staff to ensure compliance with Costa's expected standards, but labour hire firms are subject to additional risk assessments and audits through the Group's Ethical Sourcing Programme.</p>
<b>Workplace health and safety:</b>	<p>Given the nature of the industry in which Costa operates, workers at Costa sites are at risk of workplace accidents and incidents. In addition to the potential for harm to any worker, the occurrence of workplace accidents has the potential to harm both the reputation and financial performance of Costa.</p>	<p>All workers entering a Costa work site are inducted and made aware of Costa's WHS expectations and policies. Costa conducts training across sites for employees and supervisors on safety expectations. Safe work instructions are deployed through the workplace to reduce risk and hazards. Costa workers are encouraged and expected to undertake hazard identification and near miss reporting, as well as tracking the time taken to mitigate those hazards identified. Since the beginning of the COVID-19 pandemic, Costa has implemented thorough COVID protocols across all sites, both in Australia and internationally, to ensure the safety and care of workers and the community.</p>
<b>Competition from new market entrants:</b>	<p>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.</p>	<p>Costa maintains strong relationships with licensors of key genetic varieties and regularly trials and assesses new varieties. Costa also has an active blueberry breeding program at multiple locations worldwide, which assists Costa to continually develop new and superior varieties that are suitable for growing in key geographic regions. Costa monitors new market entrants and actively employs strategies to maintain its competitive advantage.</p>
<b>Changing market landscape:</b>	<p>An inability to anticipate or respond to changes in the consumption habits and preferences of consumers would have an adverse impact on Costa's business.</p>	<p>Costa utilises multiple mechanisms to quantitatively and qualitatively analyse consumer demands to identify emerging trends. The Group has systems in place to continuously review panel insights and focus group information, transactional and questionnaire data and domestic and international industry research. The results of this analysis not only inform strategic planning, but also allow Costa to adjust and tailor existing initiatives and operational processes to quickly respond to changes in demand patterns.</p>

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<b>Foreign exchange risk:</b>	<p>Costa is exposed to foreign exchange risk from a number of sources, namely from the export of produce to various countries including Japan and the United States, and through the earnings it generates from its international operations, including the African Blue and China joint ventures. Unfavourable movements in the foreign exchange rates between the Australian dollar and other currencies such as the US Dollar, Japanese Yen, Moroccan Dirham and Chinese Yuan can have a material adverse impact on the overall financial performance of Costa.</p>	<p>Costa actively employs financial hedging strategies to manage this risk.</p>
<b>Risks associated with international operations:</b>	<p>Costa has significant interests in the African Blue JV in Morocco and its joint venture with Driscoll's Inc in China. Costa's operations may be adversely affected by the risks associated with operation in such jurisdictions, which may impact on its ability to grow the business by expansion into other overseas markets. Jurisdictions in which Costa operates may in the future experience sudden civil unrest or major change to their government or political or legal systems and the nature of the legal and regulatory systems in those jurisdictions can result in a lack of certainty regarding the interpretation and enforcement of local laws and regulations.</p>	<p>As with its Australian operations, Costa has instituted certain internal controls to regulate the operations of its activities outside Australia, and reviews and monitors these controls for effectiveness. Costa has a program of close engagement with local and regional governments and local advisers in relevant jurisdictions to assist with any legal, regulatory and political changes within those jurisdictions.</p>
<b>Environmental risk:</b>	<p>Costa's operations are subject to various environmental laws and regulations, and a range of licences and permits are required for Costa to operate its farming operations. If Costa is responsible for any environmental pollution or contamination, or is found to be in breach of any of its licences or permits, Costa may incur substantial costs (including fines and remediation costs), its operations may be interrupted, and it may suffer reputational damage.</p>	<p>Costa actively seeks to reduce its environmental impact, including by applying measures across its business which are designed to reduce waste, reduce migration of any nutrients applied to crops, improve water usage efficiency and reduce chemical usage. In line with Costa's Sustainable Commercial Farming objective, Costa continually reviews its operations to identify ways in which it can minimise the environmental impact of its operations.</p>
<b>Community:</b>	<p>Costa operates in many regional communities and a failure to successfully integrate with those communities could impact on its operations.</p>	<p>Costa is actively involved in supporting the social fabric of the many regional communities in which it operates, both in Australia and internationally. In addition to acting and behaving as a responsible corporate citizen, Costa works closely with communities so that they can benefit both economically and socially from Costa's presence.</p>

<b>Plant and crop quality:</b>	<p>Plant and crop health is vital to Costa's ability to grow and harvest high quality produce to meet the demands of consumers. If the quality of seeds, spawn, nursery plants or crops were compromised this could have a major impact on Costa's production output and in turn reputation and financial outcomes.</p>	<p>Through expert personnel and leading technology, Costa utilises a number of agronomic practices across the business to manage the quality of seeds, spawn, nursery plants and crop health. Seed, tree and fruit tests and assessments are conducted prior to commercial-scale planting to monitor the integrity of plant material. Once planted, Costa conducts constant quality monitoring through systematic inspection processes, tree health assessments, and rigorous irrigation management. Weather sensing and yield assessment technology is deployed to optimise water rates and yield outcomes.</p> <p>A key component of plant health is the ability to provide necessary water inputs, and Costas first sustainable commercial farming principle centres around this need – focusing on efficiency of water use and ensuring water security.</p>
<b>Intellectual Property ('IP') risk</b>	<p>Costa's superior genetics are a key driver of competitive advantage in some produce segments in which it operates. An inability to protect or maintain this IP would have adverse impacts on financial outcomes and growth aspirations.</p>	<p>Costa licenses its superior blueberry genetics in Australia and internationally. Before commercialising varieties in a new jurisdiction there is an analysis of the protection mechanisms that exist in that jurisdiction to manage the protection of our competitive IP. Costa's primary mechanism for the management of IP is through registration of patents or plant breeders' rights (PBRs). Additionally, Costa imposes strict physical security requirements and physical access to and inspection of growing facilities.</p>
<b>Information security/ Cyber Risk:</b>	<p>Costa's business relies on IT infrastructure, systems and processes to support the operation and growth of the business. Should such infrastructure, systems and processes fail or become compromised then there is a risk that the efficiencies, synergies and data that give the business a competitive advantage will be reduced or lost.</p>	<p>Costa implements various strategies to mitigate cyber risk across our applications, networks and websites. Costa focuses on employee education, network defence, enterprise-wide testing, disaster recovery and the segregation of sensitive data. These strategies are internally and externally periodically reviewed, audited and updated.</p>
<b>Restrictions on movement of people or goods:</b>	<p>Unplanned restrictions, such as those imposed due to widespread illness (e.g. COVID-19) or the result of armed conflict or sudden geopolitical changes, have the potential to have a significant impact on Costa's operations.</p>	<p>Costa seeks to maintain a diverse supplier base so that it is not overly reliant on any one supplier. Costa also continues to actively explore alternative sales and distribution channels, to minimise the impact of this risk.</p>

## **7. DIVIDENDS**

During the year ended 27 December 2020, Costa Group Holdings Ltd declared and paid a fully franked final dividend of 2.0 cents per share for CY2019 (as previously disclosed in the Directors Report for that period) and a fully franked interim dividend of 4.0 cents per share for CY2020.

The Board has determined a final dividend for CY2020 of 5.0 cents per share with a record date of 11 March 2021 and payment date of 8 April 2021. This dividend will be fully franked. As this dividend was approved after year end, it has not been accrued for as at 27 December 2020.

This brings the total dividend payment for CY2020 to 9.0 cents per share. CY2021 dividends will be determined after taking into account earnings performance during CY2021 and will be balanced against the Company's need to fund growth objectives.

## **8. 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.

## **9. 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, suppliers and communities in which the Group conducts business.

The Group is subject to environmental regulations under various federal, state and local laws relating predominantly to water use and air and noise emission levels. The Group's operations are also subject to conditions of its licences and permits (such as those for manufacturing compost for its mushroom operations) and its environmental management plans. The Group was not found to be in breach of any environmental regulations during the period.

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

The Group publishes an annual Sustainability Report in which it reports on initiatives that are aimed at improving environmental performance. Reflecting the importance of its sustainable farming initiatives, Costa's 2021 Sustainability Report is a separate report, rather than being included in its Annual Report.

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

## 10. 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	375,000	-
Harry Debney	723,013	1,165,029
Tim Goldsmith	37,500	-
Janette Kendall	36,798	-
Peter Margin	75,118	-
Dr Jane Wilson	37,500	-

## 11. 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
397,201	\$2.78	December 2021
151,141	\$4.82	September 2022
679,108 <sup>1</sup>	\$6.58	March 2023
1,983,939	\$7.42	March 2024
1,747,888 <sup>2</sup>	\$2.44	March 2025

Notes:

1. This represents the number of outstanding options under the Company's FY19 LTI Plan as at the date of this report. However, the Board has determined that all options subject to the EPS hurdle under the FY19 LTI plan will lapse, and 60% of the options subject to the growth hurdle under the FY19 LTI Plan will lapse, on 1 March 2021. Accordingly, 67,905 FY19 LTI options will vest on 1 March 2021, with the remaining 611,203 FY19 LTI options to lapse.
2. These options represent unvested options granted to management (including the CEO) during the period under the Group's LTI plan, including 372,604 options issued to Harry Debney, 125,000 options issued to Wayne Johnston and 199,875 options issued to Sean Hallahan, as KMP of the Company, and 84,556 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 period, the Company issued 38,576 shares as a result of the exercise of options by a member of the Company's Executive management team.

## 12. 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 period, 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.

## 13. INDEMNIFICATION AND INSURANCE OF AUDITORS

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

## 14. NON-AUDIT SERVICES

During the period 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 period by the auditor and is satisfied that the provision of those non-audit services during the period 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 period are set out below.

	CY2020 \$ '000	CY2019 \$ '000
<b>Audit and review services</b>		
Services provided by KPMG Australia	535	392
Services provided by associate firms of KPMG Australia	222	206
	<u>757</u>	<u>598</u>
<b>Other services provided by KPMG</b>		
Taxation compliance and other taxation advisory services (including R&D)	207	213
Other services	23	56
	<u>230</u>	<u>269</u>
<b>Total remuneration of KPMG</b>	<u>987</u>	<u>867</u>



## **15. 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.

## **16. LEAD AUDITOR'S INDEPENDENCE DECLARATION**

The Lead auditor's independence declaration is set out on page 40 and forms part of the directors' report for the financial period ended 27 December 2020.

## Remuneration report (audited)

### 1 Introduction

The directors are pleased to present the Remuneration Report for the financial year commencing on 30 December 2019 and ending 27 December 2020 ("CY2020"), outlining the Board's approach to the remuneration for key management personnel (KMP).

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

Name	Position Held
<b>Directors</b>	
Neil Chatfield	Chairman, Non-executive director
Tim Goldsmith	Non-executive director
Janette Kendall	Non-executive director
Peter Margin	Non-executive director
Dr Jane Wilson	Non-executive director
Harry Debney	Chief Executive Officer, Managing Director
<b>Executive KMP<sup>1</sup></b>	
Sean Hallahan	Chief Operating Officer
Wayne Johnston	Chief Financial Officer (commenced on 29 June 2020)
Linda Kow	Chief Financial Officer (ceased on 1 May 2020)

**Notes in relation to Table 1**

1. The Company's Deputy CFO (Amin Ikram) was Acting CFO after Linda Kow's departure until Wayne Johnston's commencement as CFO. He was not regarded as KMP due to the interim nature of his role.

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, all 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 and inclusion;
- human resource policy and practices across the Group;
- workplace health and safety across the Group; and
- shareholder and other stakeholder engagement in relation to the Group's remuneration policies and practices.

## Remuneration report (audited)

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>.

### 2.2 Use of Remuneration Consultants

The Remuneration and Human Resources Committee can engage remuneration consultants to provide it with information on current market practice, and other matters to assist the Committee in the performance of its duties. The Remuneration and Human Resources Committee engaged Ernst & Young to undertake a review of the Short Term Incentive Plan ("STI Plan") and Long Term Incentive Plan ("LTI Plan") for CY2020. The objectives in the review included benchmarking and market positioning of the incentive plans to align participant performance with the Group's growth and business strategy delivering shareholder value. In addition, the review sought to structure the incentive plans in a manner that best supported the transition to calendar financial year reporting periods.

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

### 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 and Inclusion Policy, Disclosure Policy, Securities Trading Policy, Human Rights Policy, Supplier Code of Conduct and Non-Executive Director Share Ownership Policy. These policies and procedures have been implemented to uphold ethical behaviour and responsible decision making. Further information on the Group's policies is available at:

<http://investors.costagroup.com.au/investor-centre/?page=corporate-governance>.

## 3 Executive Remuneration

### 3.1 Remuneration Framework

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

Principle	Objective	Application
<b>Competitive Remuneration</b>	Reward employees fairly and competitively for their contributions to the Group's success.	<ul style="list-style-type: none"> <li>Total remuneration is set having regard to the individual's capabilities and experience.</li> <li>Remuneration for CY2020 was set with regard to an appropriate comparator group of companies within the consumer discretionary and consumer staples sectors of the S&amp;P/ASX Small Ordinaries Index.</li> <li>The Board may at times obtain independent advice on the appropriateness of total remuneration package.</li> </ul>
<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 executives' 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>

## Remuneration report (audited)

### 3.1.1 Remuneration Overview for CY2020

The remuneration for CY2020 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.

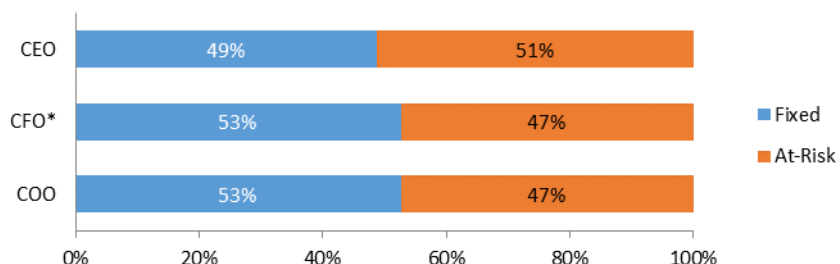
### 3.1.2 Remuneration Mix for CY2020

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 CY2020, the Executive KMPs' remuneration included fixed remuneration, together with the following 'at risk' components:

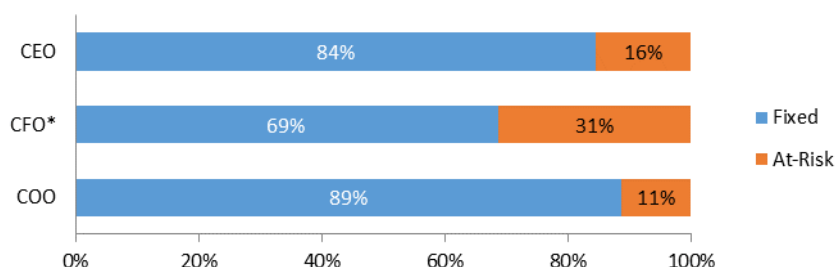
- short term incentives, as outlined in section 3.2.2; and
- long term incentives, as outlined in section 3.2.3,

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

The remuneration potential for the Executive KMPs for CY2020 (with the total 'at risk' remuneration, including the maximum potential stretch STI benefit for CY2020) is set out below:



As noted in section 3.2.2 below, the performance hurdles for CY20 were met and an STI payment was made for that period. However, the majority of the options issued under the FY18 LTI Plan lapsed during the year (refer Section 3.3) and it was determined that the EPS hurdle that is applicable to the majority of the options under the FY19 LTI Plan (see section 3.3.2 below) would not be met. This resulted in an accounting reversal of the associated share-based payments in CY2020, and hence a reduction in the amount of 'at risk' remuneration, for the CEO and COO. The CFO was not a participant in the FY18 and FY19 LTI Plans. As a result, the mix of fixed versus variable 'at risk'<sup>1</sup> remuneration payable in respect of CY2020 for the Executive KMP was as follows:



#### Notes in relation to Figure 3.1.2

1. Includes share-based payments associated with unvested LTI arrangements (including those in section 3.3).

\* Relates to newly appointed CFO (Wayne Johnston).

## Remuneration report (audited)

### 3.2 CY2020 Remuneration Components

#### 3.2.1 Fixed Remuneration

Total fixed remuneration ("TFR") for CY2020 comprised of cash salary, superannuation contributions, and other non-monetary benefits such as car leasing arrangements and additional superannuation contributions. TFR is reviewed annually by the Remuneration and Human Resources Committee with regard to individual and Group performance. The Committee's review of TFR takes into account the Executive KMP's total remuneration package.

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

##### CY20 STI Plan Overview

The CY20 STI Plan was designed to enable Executive KMP and other members of senior management to receive an incentive payment calculated as a percentage of TFR conditional on achieving Group EBIT-SL hurdles as set out below. Solely for the purposes of this section 3.2.2 all references to "Group EBIT-SL" means management EBIT-SL, ie. Statutory EBIT before the impact of movement in SGARA and before the impact of AASB 16 (Leases).

The Group EBIT-SL hurdles were:

- If the Group achieves less than 90% of budgeted Group EBIT-SL for the 12 month period, no STI will be paid.
- Target STI is paid to a participant on the Group achieving 100% of budgeted Group EBIT-SL and the participant satisfying their other STI performance measures, with pro rata payments if Group EBIT-SL is between 90% and 100% of budgeted Group EBIT-SL.
- Stretch STI is payable if the Group achieves over 100% of budgeted Group EBIT-SL, with the maximum STI being payable at 110% of budgeted Group EBIT-SL (and the participant *meets expectations* of their individual performance STI measures). The stretch STI component is measured solely on Group EBIT-SL and is calculated on a straight line basis between 100% and 110% of budgeted Group EBIT-SL.

EBIT-SL is calculated as earnings before interest, tax, fair value movement in biological assets (SGARA) and impacts of the new lease accounting standard AASB16 *Leases*. The Company prefers the EBIT-SL hurdle for executive performance assessments as it believes it has a more direct correlation to the financial performance of the Group than other statutory earnings measures by removing the impact of SGARA and the new accounting standards for leasing. SGARA is an area of estimates and judgements and allows for profit to be recognised on produce that is not yet in a saleable condition, harvested or sold. As such, a pre-SGARA measure is chosen as the relevant hurdle metric as it rewards executives on earnings that have been 'realised'. Additionally, EBIT-SL was introduced as an alternative performance measure to assist with the transition to the new lease accounting standard AASB16 *Leases*. The metric ignores the impacts of the new leasing standard to allow for a better like-for-like growth comparison against prior years. From CY21 onwards, Costa will be using post-leasing metrics and as such the hurdle metrics will be re-assessed and updated.

##### CY20 STI Plan Features

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	CY2020
Opportunity	<ul style="list-style-type: none"> <li>• CEO – Target STI was 45% of TFR, with a maximum opportunity of 70% TFR for achieving stretch targets.</li> <li>• CFO – Target STI was 35% of TFR, with a maximum opportunity of 60% TFR for exceeding stretch targets (pro rata for period of service during the performance period).</li> <li>• COO - Target STI was 35% of TFR, with a maximum opportunity of 60% TFR for exceeding stretch targets.</li> </ul>

Remuneration report (audited)

Performance Measures	<p>Consistent with prior years, STI was assessed against both financial and non-financial measures, and for the CEO and Executive KMP was weighted as follows:</p> <table border="1"> <tr> <th>Measure</th><th>Weighting</th></tr> <tr> <td>Group EBIT-SL</td><td>50%</td></tr> <tr> <td>Cash Flow</td><td>30%</td></tr> <tr> <td>Individual Performance</td><td>20%</td></tr> </table> <p>Individual Performance was measured against KPIs appropriate for the Executive's role and included key measures such as safety, personal commitment to the Company's values, project execution, risk management, quality, customer satisfaction and people leadership.</p> <p>Cash Flow was based on the Group's free cash flow. This is calculated as cash from operations less operating capital expenditure.</p>	Measure	Weighting	Group EBIT-SL	50%	Cash Flow	30%	Individual Performance	20%
Measure	Weighting								
Group EBIT-SL	50%								
Cash Flow	30%								
Individual Performance	20%								
Payment Method	<ul style="list-style-type: none"> <li><u>Cash</u> - Two thirds of the STI benefit payable will be paid in cash following the end of the performance year; and</li> <li><u>Deferred</u> - One third of the STI benefit payable will be delivered in the form of performance rights on 1 March 2021. No dividends or voting rights are attached to performance rights, but cash payments equivalent to dividends will be paid to holders of performance rights.</li> </ul> <p>A participant's performance rights will vest on 1 March 2022 and the participant will receive an equivalent number of shares, if the participant remains employed by the Group at that time (or has ceased employment in circumstances where they are regarded as a 'good leaver').</p>								
Calculation methodology	<p>The STI incentive is assessed annually at the end of the financial year.</p> <p>The stretch opportunity is based on overachievement against the budgeted Group EBIT-SL only, with the opportunity capped at 25% of the participant's TFR. Every 1% of actual Group EBIT-SL over budgeted Group EBIT-SL increases the incentive by 2.5%.</p> <p>The stretch STI component is measured solely on Group EBIT-SL and is calculated on a straight line basis between 100% and 110% of budgeted Group EBIT-SL.</p>								
Calculations	<p>Each of the three measures (Group EBIT-SL, Cash flow and Individual performance) has been evaluated.</p> <p>Each of the participants has been determined to have met the requirements of the performance measures, as follows:</p> <p><u>Personal:</u></p> <p>The CEO assessed the individual performance of the CFO and COO and the Board assessed the individual performance of the CEO, in each case against the relevant KPIs as described above. All KMPs were regarded as having achieved their individual performance measure.</p> <p><u>Cash flow:</u></p> <p>As noted above, the metric used for this performance measure is the Group's free cash flow. For CY2020, budget free cash flow was \$81.8 million and the actual free cash flow was \$116.5 million.</p> <p><u>Group EBIT-SL:</u></p> <p>Budgeted Group EBIT-SL for CY2020 was \$84.9 million. The actual Group EBIT-SL for CY2020 was \$87.1 million, being 102.6% of budgeted Group EBIT-SL.</p>								

## Remuneration report (audited)

Based on the calculation methodology outlined above, the STI payable for the KMP was calculated in accordance with the table below.

Participant	CY2020 STI payable at target	CY2020 STI payable if full stretch targets achieved	CY2020 STI paid based on Group performance
Harry Debney	\$459,900	\$715,400	\$527,352
Sean Hallahan	\$223,860	\$383,760	\$276,716
Wayne Johnston <sup>1</sup>	\$84,000	\$144,000	\$99,840
Linda Kow <sup>2</sup>	N/A	N/A	N/A

### Notes in relation to Table 3.2.2

1. STI has been apportioned on a pro rata basis for Wayne Johnston, following his appointment on 29 June 2020
2. Linda Kow resigned with effect from 1 May 2020 and was not a participant in the CY20 STI Plan

### 3.2.3 CY2020 LTI Plan

The CY2020 LTI Plan that governs the LTI options issued during CY2020 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. The features of this LTI Plan are as follows:

Term	Description
<b>Eligibility</b>	CEO, CFO, COO and selected senior management
<b>Consideration for grant</b>	Nil
<b>Instrument</b>	Options to acquire ordinary shares in Costa Group Holdings Limited
<b>Number of options granted</b>	The number of options was determined based on a set percentage of the participant's current TFR ("LTI Incentive Amount"), being 45% for the CEO and 35% for the CFO and COO. The options were indicatively valued by an independent external valuer (Ernst & Young). The number of options issued to each participant was determined by dividing that participant's LTI Incentive Amount by the indicative value per Option as determined by the independent valuer. The final fair value of the options was determined on the grant date.
<b>Exercise price</b>	\$2.44 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 the day prior to the commencement of the performance period.
<b>Performance Period</b>	The performance period is the 3 year period commencing from 30 December 2019 to the end of the Company's 2022 financial year. The three year performance period is consistent with performance periods adopted for previous LTI plans.
<b>Performance Measure (EPS)</b>	75% of the options ("EPS Options") are 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:

## Remuneration report (audited)

Company's EPS CAGR over performance period	Percentage of LTIP Options (subject to the EPS hurdle) that will vest
Less than the minimum EPS growth threshold	0%
Equal to the minimum EPS growth threshold	50%
Greater than the minimum EPS growth threshold, up to the maximum EPS threshold	50%-100%, on a straight line sliding scale
At or above the maximum EPS growth threshold	100%

In setting the EPS hurdle the Board noted that the proposed hurdle was reflective of the Company's target of generating low double digit annual EPS growth over the longer term horizon. 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). EPS will be measured using NPAT-SL and prior to the adoption of IFRS16. The EPS growth threshold is considered commercially sensitive and will be disclosed following the end of the Performance Period.

**Performance Measure (Growth)**

25% of the options ("Growth Target Options") are subject to a performance hurdle based on geographic and category diversification and growth designed to support sustainable long term value creation linked to return on capital. 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.

**Entitlements**

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

**Option exercise**

Vested options must be exercised prior to 1 March 2025 ("expiry date"). Prior to the expiry date, an option holder 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/her options.

If an option holder provides the exercise price, he/she will be issued with one share per exercised option.

If an option holder 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.*

**Restrictions on Dealing**

Participants must not sell, transfer, encumber, hedge or otherwise deal with their options granted under the LTI Plan.



## Remuneration report (audited)

	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.
<b>Service conditions</b>	Any unvested options granted under the LTI Plan will be forfeited where the participant is dismissed during the Performance Period, or resigns in circumstances where they are not considered to be a 'good leaver'. Where the participant is considered a 'good leaver' (which includes death, disability or redundancy), a pro rata proportion of the unvested options (reflecting the portion of the Performance Period served) will remain on foot subject to Board discretion and be tested at the end of the original vesting date against the relevant performance conditions.
<b>Change of Control</b>	The Board has discretion to determine an appropriate treatment for unvested and/or vested, but unexercised, options.

### 3.3 Prior Period LTI Plans

LTI Plans for previous years are also tested over a 3 year performance period, meaning that the performance period for a prior LTI Plan will end, and the associated performance hurdles will be tested, during each financial year. Due to the transitional arrangements put in place during 2018 associated with the change to a calendar financial year, the performance period for both the FY18 LTI Plan and the FY19 LTI Plan ended during CY2020.

#### 3.3.1 FY18 LTI Plan

The performance period for the FY18 LTI Plan ended on 28 June 2020 and the relevant performance hurdles were measured as follows:

- 75% of the options issued under the FY18 LTI Plan were subject to a performance hurdle based on the Company's Earnings Per Share (basic) compound annual growth rate ("CAGR") over the performance period. As the Company's EPS CAGR over the performance period was below the minimum 10% threshold that had been set at the time of the options being granted, all FY18 LTI Plan options subject to the EPS hurdle lapsed.
- 25% of the options issued under the FY18 LTI Plan were subject to a performance hurdle based on geographic and category diversification and growth designed to support sustainable long term value creation. For testing of the performance hurdle, the Board reviewed the current and expected investment returns in relation to the Company's key strategic growth and diversification measures that were identified at the time that the options were granted, being growth in China and the continued scaling up of the avocado category. Over the performance period, the China expansion continued to progress in line with the Company's strategic plan with a total of 237ha planted across 4 farms (as at the end of the performance period), and land identified (and since secured) for further expansion at Baoshan. The China operations remained a meaningful contributor to EBITDA during the performance period, and projected returns from established and projected expansions are above Costa's 15% after tax target ROIC. In the avocado category, a number of completed acquisitions during the performance period resulted in Costa's current strategic footprint across four regions providing Costa with near full year production coverage. With continuing maturity of these farms the avocado category has become a meaningful contributor to earnings and is also expected to achieve returns in excess of Costa's hurdle rates over the longer term. However, the Board recognised that, despite continued growth in the China berry business and the increasing volumes in the avocado category, a challenging CY2019 slowed the implementation of the Company's growth agenda during the performance period. Based on this review of the performance hurdle, the Board (excluding the CEO) determined that 40% of the options subject to the strategic growth hurdle would vest (being 10% of the overall options under the FY18 LTI plan), with the balance to lapse.

The table below shows the vesting outcomes for the KMP's options granted under the FY18 LTI plan. As these options have an exercise price of \$4.82 and the closing price for the Company's shares at the end of the performance period was \$2.81, the KMP will only benefit from these options if the diversification and growth initiatives implemented during the performance period drive an increase in shareholder value.

## Remuneration report (audited)

	FY18 EPS options granted	FY18 EPS options vested	FY18 Growth options granted	FY18 Growth options vested	Total FY18 LTI options lapsed
Harry Debney	264,361	-	88,120	35,248	317,233
Sean Hallahan	136,364	-	45,454	18,181	163,637
Wayne Johnston <sup>1</sup>	N/A	N/A	N/A	N/A	N/A
Linda Kow <sup>2</sup>	137,952	-	45,984	17,371	166,565

### Notes in relation to Table 3.3.1

- Wayne Johnston commenced employment with the Group after FY18 and hence did not receive options under the FY18 LTI Plan.
- Linda Kow ceased employment with the Group on 1 May 2020.

### 3.3.2 FY19 LTI Plan

The performance period for the FY19 LTI Plan ended on 27 December 2020 and details of the relevant performance hurdles are as follows:

- 75% of the options issued under the FY19 LTI Plan were subject to a performance hurdle based on the Company's Earnings Per Share (basic) compound annual growth rate ("CAGR") over the performance period. As the Company's EPS CAGR over the performance period was below the minimum 13% threshold that had been set at the time of the options being granted, all FY19 LTI Plan options subject to the EPS hurdle will lapse.
- 25% of the options issued under the FY19 LTI Plan were subject to a performance hurdle based on geographic and category diversification and growth designed to support sustainable long term value creation. For testing of the performance hurdle, the Board reviewed the current and expected investment returns in relation to the Company's key strategic growth and diversification measures that were identified at the time that the options were granted, being growth in China and the continued scaling up of the avocado category. The Board noted that the Company had continued its growth agenda during the performance period, notwithstanding challenges presented by COVID-19 during CY2020. However as set out in section 3.3.1 above, the Board recognised that, despite continued growth in the China berry business and the increasing volumes in the avocado category, a challenging CY2019 slowed the implementation of the Company's growth agenda during the performance period. Based on this review of the performance hurdle, the Board (excluding the CEO) determined that 40% of the options subject to the strategic growth hurdle (being 10% of the overall options under the FY19 LTI plan) would vest, with the balance to lapse.

The table below shows the vesting outcomes for the KMP's options granted under the FY19 LTI plan. These options, which can be exercised until 1 March 2023, have an exercise price of \$6.58 and the closing price for the Company's shares at the end of the performance period was \$4.00. Accordingly, the KMP will only benefit from these options if the diversification and growth initiatives implemented during the performance period drive an increase in shareholder value.

	FY19 EPS options granted	FY19 EPS options vesting	FY19 Growth options granted	FY19 Growth options vesting	Total FY19 LTI options lapsing
Harry Debney	114,159	-	38,053	15,221	136,991
Sean Hallahan	57,446	-	19,149	7,659	68,936
Wayne Johnston <sup>1</sup>	N/A	N/A	N/A	N/A	N/A
Linda Kow <sup>2</sup>	60,440	-	20,147	6,267	74,320

### Notes in relation to Table 3.3.2

- Wayne Johnston commenced employment with the Group after FY19 and hence did not receive options under the FY19 LTI Plan.
- Linda Kow ceased employment with the Group on 1 May 2020.

## Remuneration report (audited)

Section 8.3 below includes details of options that have been granted under prior period LTI Plans for which the performance periods have not yet ended.

### 4 Executive KMP Remuneration Disclosure

#### 4.1 Executive KMP Contract Terms

A summary of the key terms of employment for Executive KMP as at 27 December 2020 is presented in the below table:

Executive	Role	Notice by the Group	Notice on Resignation
Harry Debney	Chief Executive Officer	6 Months	6 Months
Wayne Johnston	Chief Financial Officer	6 Months	6 Months
Sean Hallahan <sup>1</sup>	Chief Operating Officer	3 Months	3 Months

#### Notes in relation to Table 4.1

- As notified on 13 November 2020, Sean Hallahan will succeed Harry Debney as CEO on 31 March 2021, at which time his notice period will become a 6 month notice period.

### 5 Non-executive Directors

The details of fees paid to non-executive directors in CY2020 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 CY2020. The annual aggregate fee pool for non-executive directors remained at \$1,200,000. Board and committee fees, which are inclusive of statutory superannuation contributions, are included in this aggregate fee pool. There has been no change in the fees paid during the course of CY2020, except changes arising from changes in the membership composition of Committees.

Board/Committee	Annual Chairman Fee (\$)	Annual Member Fee (\$)
Board base fee	249,921 (inclusive of committee fees)	108,279
Audit and Risk Committee	21,712	10,856
Remuneration and Human Resources Committee	16,284	8,142
Horticultural Innovation and Technology Committee <sup>1</sup>	16,284	8,142
Nomination Committee	-	-

#### Notes in relation to Table 5

- The Horticultural Innovation and Technology Committee was established with effect from 1 December 2020 and as such, fees were paid to Committee Members (excluding the Company's Chairman and CEO) on a pro rata basis from this date.

## Remuneration report (audited)

### 6 Relationship between remuneration policy and Group performance

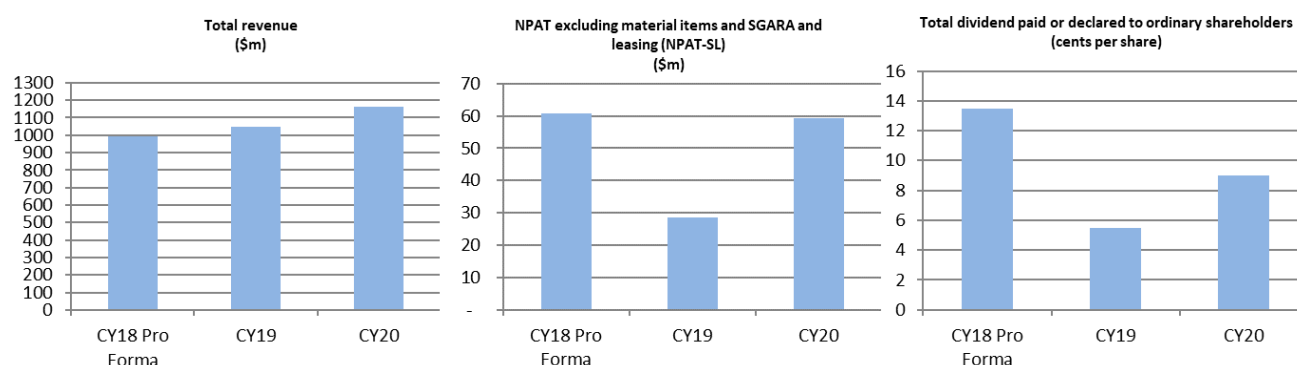
#### Key performance indicator

	FY2016	FY2017	FY2018	CY2018 <sup>1</sup>	CY2019 <sup>2</sup>	CY2020
Revenue (\$'000)	821,861	909,108	1,002,027	990,282	1,047,873	1,164,916
Statutory EBIT <sup>3</sup> (\$'000)	46,128	79,651	156,064	77,466	(10,142)	98,774
EBIT-SL <sup>3</sup> before material items (\$'000)	65,558	87,711	115,797	86,578	51,035	87,124
NPAT-SL <sup>4</sup> before material items (\$'000)	44,230	60,713	76,551	56,538	28,488	59,364
Dividend paid or determined to ordinary shareholders (cents per ordinary share)	9.0	11.0	13.5	13.5	5.5	9.0

#### Notes in relation to Table 6

1. CY2018 (Calendar year beginning 1 Jan 2018 ending 30 December 2018) has been included as a comparative to allow like for like analysis against subsequent calendar years. The 6 month financial period ending 30 December 2018 has not been separately listed as it is included in CY2018.
2. CY2019 has been restated for IFRIC lease adjustment. Refer note E6 of the financial statements for further details.
3. EBIT is defined as earnings before interest and tax. EBIT-SL is calculated as EBIT before fair value movements in biological assets and excluding the impacts of the new lease accounting standard AASB16 *Leases*.
4. NPAT-SL is net profit after tax attributable to ordinary shareholders but excluding impacts of fair value movements in biological assets and the new lease accounting standard AASB16 *Leases*.

#### CY2018 (pro-forma) to CY2020 performance



From the time of the Company's ASX listing in FY2016, the Board has adopted a remuneration framework that is designed to attract and retain key talent, reward the achievement of strategic objectives and align reward with the creation of shareholder wealth. The table and charts above sets out information about the Group's performance, earnings and dividend for CY2020 compared to the preceding year and CY2018 (pro forma).

As performance hurdles based on Group EBIT performance for CY2019 were not met, an STI payment was not made to the CEO or other Executive KMP. Conversely, performance hurdles based on Group EBIT performance for CY20 were met, with a resulting STI payment being made to the CEO and other Executive KMP. This highlights a close alignment between the Group's financial performance and remuneration policy for Executive KMP.

## Costa Group Holdings Ltd

### Directors' report

For the financial year ended 27 December 2020

### Remuneration report (audited)

#### 7 Directors' and Executive Officers' Remuneration

Details of the nature and amount of each major element of remuneration<sup>1</sup> of each director of the Company, and other KMP of the consolidated entity are:

		Short-term				Post-employment	Long-term benefits	Termination	Share-based payments	Total
		Salary & fees	STI (cash)	Non-monetary benefits	Other Monetary Benefits	Total	Superannuation benefits	Long service leave	Termination benefits	
Non-executive Directors		\$	\$	\$	\$	\$	\$	\$	\$	\$
Neil Chatfield	CY2020	243,424	-	-	-	243,424	7,001	-	-	250,425
	CY2019	229,154	-	-	-	229,154	20,767	-	-	249,921
Peter Margin	CY2020	123,670	-	-	-	123,670	11,749	-	-	135,419
	CY2019	123,670	-	-	-	123,670	11,749	-	-	135,419
Janette Kendall	CY2020	109,419	-	-	-	109,419	10,395	-	-	119,814
	CY2019	108,799	-	-	-	108,799	10,336	-	-	119,135
Tim Goldsmith	CY2020	125,031	-	-	-	125,031	5,639	-	-	130,670
	CY2019	118,713	-	-	-	118,713	11,278	-	-	129,991
Dr Jane Wilson	CY2020	106,940	-	-	-	106,940	10,159	-	-	117,099
	CY2019	77,801	-	-	-	77,801	7,391	-	-	85,192
<b>Managing Director and Executive KMP<sup>2</sup></b>										
Harry Debney	CY2020	1,001,413	353,326	-	-	1,354,739	25,814	16,723	-	1,235,560
	CY2019	1,001,413	-	-	1,284	1,002,697	25,232	16,677	-	1,163,933
Sean Hallahan	CY2020	636,021	185,400	-	-	821,421	21,348	10,897	-	752,998
	CY2019	616,536	-	-	604	617,140	20,767	10,549	-	889,152
Wayne Johnston (appointed 29 June 2020)	CY2020	233,029	66,893	-	-	299,922	11,183	3,896	-	361,816
	CY2019	-	-	-	-	-	-	-	-	-
Linda Kow (ceased 1 May 2020)	CY2020	175,521	-	-	-	175,521	8,489	2,826	-	(38,457)
	CY2019	520,556	-	-	594	521,150	25,232	8,669	-	649,914

**Notes:**

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.
2. The Company's Deputy CFO (Amin Ikram) was Acting CFO after Linda Kow's departure until Wayne Johnston's commencement as CFO. He was not regarded as KMP due to the interim nature of his role.

## Costa Group Holdings Ltd

### Directors' report

For the financial year ended 27 December 2020

## Remuneration report (audited)

### 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 KMP, together with shares held by their close family members, is set out below:

	Held at 30 December 2019	Shares acquired	Shares sold	Shares delivered under STI or LTI plans	Held at 27 December 2020
Neil Chatfield	375,000	-	-	-	375,000
Tim Goldsmith (indirectly held)	37,500	-	-	-	37,500
Janette Kendall (indirectly held)	36,798	-	-	-	36,798
Peter Margin (indirectly held)	66,117	9,001	-	-	75,118
Dr Jane Wilson	37,500	-	-	-	37,500
Harry Debney (directly & indirectly held)	1,173,013	-	450,000	-	723,013
Sean Hallahan	10,990	-	-	-	10,990
Wayne Johnston	-	-	-	-	-
Linda Kow (ceased on 1 May 2020)	251,253	-	-	-	251,253 <sup>1</sup>

#### Notes in relation to Table 8.1

1. Linda Kow ceased to be a KMP on 1 May 2020. The table above does not reflect any change in her shareholding after she ceased to be a KMP, as she was no longer bound by the Company's Securities Trading Policy and was not obliged to notify the Company of trading in the Company's shares.

## Costa Group Holdings Ltd

### Directors' report

For the financial year ended 27 December 2020

### Remuneration report (audited)

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

The number of options over ordinary shares granted as compensation to KMP during CY2020 was as set out below. Shareholder approval for the issue of options to Harry Debney under the LTIP was obtained in accordance with ASX Listing Rule 10.14 at the Company's AGM held in May 2020 prior to the options being issued.

	Options granted during CY2020	Grant date	Fair Value per option \$	Exercise price per option \$	Expiry date
Harry Debney	372,604	1 June 2020 <sup>1</sup>	0.96	2.44	1 March 2025
Sean Hallahan	199,875	26 February 2020	0.96	2.44	1 March 2025
Wayne Johnston <sup>2</sup>	125,000	20 July 2020 <sup>1</sup>	0.96	2.44	1 March 2025
Linda Kow (ceased on 1 May 2020)	Nil	-	-	-	-

#### Notes in relation to Table 8.2

- The grant date for valuation purposes for all options granted to Executive KMP (including the CEO) during CY2020 was 26 February 2020, being the date on which the Board approved the establishment of the CY20 LTI Plan.
- Wayne Johnston was appointed as CFO on 29 June 2020 and accordingly the number of options granted for the year is pro-rated.

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

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

	Instrument	Number	Grant date	Vesting date	Exercise price
Harry Debney	Options	152,212 <sup>1</sup>	17 December 2018 <sup>2</sup>	1 March 2021	\$6.58
	Options	483,378	30 May 2019 <sup>2</sup>	1 March 2022	\$7.42
	Options	372,604	29 May 2020 <sup>2</sup>	1 March 2023	\$2.44
Sean Hallahan	Options	76,595 <sup>1</sup>	23 August 2018	1 March 2021	\$6.58
	Options	252,972	26 February 2019	1 March 2022	\$7.42
	Options	199,875	26 February 2020	1 March 2023	\$2.44
Wayne Johnston <sup>3</sup>	Options	125,000	20 July 2020 <sup>2</sup>	1 March 2023	\$2.44
Linda Kow	Options	62,678 <sup>1</sup>	23 August 2018	1 March 2021	\$6.58
(ceased on 1 May 2020)	Options	255,919	26 February 2019	1 March 2022	\$7.42

#### Notes in relation to Table 8.3

- This Table sets out the options held as at the end of the reporting period. However, as set out in Table 3.3.2, the Board has determined that all options subject to the EPS hurdle under the FY19 LTI plan will lapse, and 60% of the options subject to the growth hurdle under the FY19 LTI Plan will lapse, on 1 March 2021. The number of options held by Executive KMP under the FY19 LTI Plan that will vest on 1 March 2021 is set out in Table 3.3.2.
- The grant date for valuation purposes for options granted to Executive KMP (including the CEO) during CY20 was 26 February 2020, for options granted during CY19 was 26 February 2019 and for options granted during the prior 6 month transitional financial period was 23 August 2018, in each case being the dates on which the Board approved the respective LTI Plans.
- Wayne Johnston was appointed as CFO on 29 June 2020 and accordingly the number of options granted for the year is pro-rated.

## Costa Group Holdings Ltd

### Directors' report

For the financial year ended 27 December 2020

### Remuneration report (audited)

#### 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 30 December 2019	Granted as compensation	Exercised	Value of exercised options (at time of exercise) \$	Lapsed during the year	Held at 27 December 2020	Vested during the year	Vested and exercisable 27 December 2020
Harry Debney	1,109,658	372,604	-	-	317,233	1,165,029	35,248	156,835
Sean Hallahan	511,385	199,875	-	-	163,637	547,623	18,181	18,181
Wayne Johnston	Nil	125,000	-	-	-	125,000	Nil	Nil
Linda Kow (ceased on 1 May 2020)	572,538	-	-	-	440,393	132,145	17,371	69,467

#### 8.5 Key Management personnel transactions

The Group had the following transactions during the financial year ended December 2020:

##### *Mr Harry Debney*

- Payment of membership fee of \$200,000 to Australian Fresh Produce Alliance (AFPA) (CY19: \$200,000) of which Harry Debney is a Director, representing the Group. The AFPA is made up of Australia's major fresh produce growers and suppliers and serves as the industry body that retailers and government go to for discussion and outcomes on issues involving the growing and supply of fresh produce. Each member of AFPA is entitled to appoint a Director and each member has only one vote under AFPA's Constitution.
- Capital expenditure payment of \$1,360,000 to The Yield Pty Ltd (CY19: \$132,570), of which Harry Debney serves as Chairman of the Board, representing the Group. The Yield is an Australian agricultural technology company that invest, builds and secure scalable digital agriculture technology. The Yield's services were provided pursuant to written contract on arm's length terms and Harry abstained from the negotiation and all board discussions and voting in relation to entry into the contract.
- Income of \$37,500 from the Yield Pty Ltd (December 2019: \$50,000) on behalf of Harry Debney's services as Chairman of the Board.

#### 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 and whether there was at least 3 years between ceasing such employment and serving on the Board;
- receives performance-based remuneration (including options or performance rights) from, or participates in an employee incentive scheme of the Group;
- is, or has been within the last three years, in a material business relationship (eg as a supplier, professional adviser, consultant or customer) with the Group or is an officer of, or otherwise associated with, someone with such a relationship;
- is, represents, or is or has been within the last three years an officer or employee of, or professional adviser to, a substantial security holder of the Company;



**Remuneration report (audited)**

- 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 from management and substantial holders may have been compromised.

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

- Independent: Neil Chatfield, Tim Goldsmith, Janette Kendall, Peter Margin, and Dr Jane Wilson. 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.
- Not independent: Harry Debney (due to his executive role).

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



**Neil Chatfield**

Chairman

Dated at Melbourne 21 February 2021



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

To the Directors of Costa Group Holdings Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit of Costa Group Holdings Ltd for the financial year ended 27 December 2020 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

Gordon Sangster

*Partner*

Melbourne

21 February 2021

**Costa Group Holdings Ltd**  
**Consolidated Statement of Profit and Loss and Other Comprehensive Income**

For the financial year ended 27 December 2020

	Notes	December 2020 \$ '000	December 2019 (Restated)* \$ '000
<b>Revenue</b>			
Total revenue	A2	1,164,916	1,047,873
		<u>1,164,916</u>	<u>1,047,873</u>
<b>Less: expenses</b>			
Raw materials, consumables and third party purchases		(408,203)	(362,715)
Depreciation and amortisation expenses		(96,610)	(95,136)
Employee benefits expenses	A2	(378,649)	(379,565)
Occupancy expenses		(41,925)	(41,685)
Net finance costs	A2	(25,550)	(27,997)
(Loss)/Profit on sale of assets		(1,803)	1,397
Freight and cartage		(61,543)	(54,917)
Leasing expenses		(4,231)	(4,751)
Other expenses	A2	(81,543)	(73,721)
Gain on fair value adjustments - biological assets		8,015	4,270
Impairment loss/(gain) on trade receivables		(705)	-
Impairment losses		-	(51,023)
		<u>(1,092,747)</u>	<u>(1,085,843)</u>
Share of net profits of associates and joint ventures accounted for using the equity method	D1	9,070	4,101
<b>Profit/(Loss) before income tax expense</b>		<u>81,239</u>	<u>(33,869)</u>
Income tax expense	E2	(13,790)	(559)
<b>Profit/(Loss) for the period</b>		<u>67,449</u>	<u>(34,428)</u>
<b>Other comprehensive (loss)/income for the period</b>			
Foreign currency translation differences		(8,773)	248
Cash flow hedges - effective portion of changes in fair value		2,720	392
<b>Total other comprehensive (loss)/income for the period</b>		<u>(6,053)</u>	<u>640</u>
<b>Total comprehensive income/(loss) for the period</b>		<u>61,396</u>	<u>(33,788)</u>
Profit/(loss) attributable to:			
Owners of Costa Group Holdings Ltd		60,774	(36,071)
Non-controlling interests		6,675	1,643
		<u>67,449</u>	<u>(34,428)</u>
Total comprehensive income/(loss) attributable to:			
Owners of Costa Group Holdings Ltd		54,721	(35,431)
Non-controlling interests		6,675	1,643
		<u>61,396</u>	<u>(33,788)</u>
		<b>December 2020</b>	<b>December 2019</b>
		<b>Cents</b>	<b>(Restated)*</b>
<b>Earnings per share for profit attributable to ordinary equity holders:</b>			
Basic earnings per share	A4	15.16	(10.96)
Diluted earnings per share	A4	15.16	(10.96)

\*Comparative restated for IFRIC lease adjustment – refer to Note E6 for further detail.

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 27 December 2020

	Notes	December 2020 \$ '000	December 2019 (Restated)* \$ '000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	B1	32,450	35,962
Receivables	B2	96,900	88,338
Inventories	B3	26,987	24,430
Biological assets	B6	58,312	49,209
Other assets & financial assets	B5	13,258	10,454
Current tax assets	E2	-	5,186
<b>Total current assets</b>		<b>227,907</b>	<b>213,579</b>
<b>Non-current assets</b>			
Receivables	B2	4,024	4,088
Equity accounted investments	D1	21,567	16,672
Intangible assets	B8	209,450	213,351
Deferred tax assets	E2	23,894	18,161
Property, plant and equipment	B7	515,688	498,915
Right-of-use assets	B10	302,803	324,272
<b>Total non-current assets</b>		<b>1,077,426</b>	<b>1,075,459</b>
<b>Total assets</b>		<b>1,305,333</b>	<b>1,289,038</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Borrowings	C1	14,320	7,784
Payables	B4	135,100	113,498
Provisions	B11	22,123	23,711
Other financial liabilities	B4	879	3,657
Current tax liabilities	E2	10,526	-
Lease liabilities	B10	34,119	33,904
<b>Total current liabilities</b>		<b>217,067</b>	<b>182,554</b>
<b>Non-current liabilities</b>			
Borrowings	C1	162,013	207,033
Provisions	B11	8,766	7,851
Deferred tax liabilities	E2	16,976	14,000
Other financial liabilities	B4	-	986
Lease liabilities	B10	283,949	299,858
<b>Total non-current liabilities</b>		<b>471,704</b>	<b>529,728</b>
<b>Total liabilities</b>		<b>688,771</b>	<b>712,282</b>
<b>NET ASSETS</b>		<b>616,562</b>	<b>576,756</b>
<b>EQUITY</b>			
Share capital	C2	580,734	580,831
Other equity reserve		(13,117)	(13,093)
Other reserves	E1, C4	4,783	8,256
Profit reserve	C3	109,242	72,517
Accumulated losses		(92,692)	(92,692)
<b>Equity attributable to owners of the parent</b>		<b>588,950</b>	<b>555,819</b>
Non-controlling interests		27,612	20,937
<b>Total equity</b>		<b>616,562</b>	<b>576,756</b>

\*Comparative restated for IFRIC lease adjustment – refer to Note E6 for further detail.

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**  
For the financial year ended 27 December 2020

	Share capital	Other equity reserve	Other reserves				Profit reserve	Accumulated losses	Total	Non-controlling interests	Total equity
			Share-based payment reserve	Foreign currency translation reserve	Hedge reserve	General reserve					
Consolidated	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
<b>Balance as at 29 December 2019 (Restated)*</b>	<b>580,831</b>	<b>(13,093)</b>	<b>8,697</b>	<b>4,540</b>	<b>(251)</b>	<b>(4,730)</b>	<b>72,517</b>	<b>(92,692)</b>	<b>555,819</b>	<b>20,937</b>	<b>576,756</b>
Profit for the year	-	-	-	-	-	-	-	60,774	60,774	6,675	67,449
Other comprehensive (loss)/income	-	-	-	(8,773)	2,720	-	-	-	(6,053)	-	(6,053)
Transfer to profit reserve	-	-	-	-	-	-	60,774	(60,774)	-	-	-
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(8,773)</b>	<b>2,720</b>	<b>-</b>	<b>60,774</b>	<b>-</b>	<b>54,721</b>	<b>6,675</b>	<b>61,396</b>
<b>Transactions with owners in their capacity as owners:</b>											
Issue of shares (net of issue costs)	(296)	(111)	-	-	-	-	-	-	(407)	-	(407)
Net options forfeited during the year	-	-	(655)	-	-	-	-	-	(655)	-	(655)
Share options exercised	111	87	(87)	-	-	-	-	-	111	-	111
Dividend paid on ordinary shares	-	-	-	-	-	-	(24,049)	-	(24,049)	-	(24,049)
Tax effect of share plan payment through equity	-	-	164	-	-	-	-	-	164	-	164
Tax effect of equity raise	88	-	-	-	-	-	-	-	88	-	88
Exercise of put and call option	-	-	-	-	-	3,158	-	-	3,158	-	3,158
<b>Balance as at 27 December 2020</b>	<b>580,734</b>	<b>(13,117)</b>	<b>8,119</b>	<b>(4,233)</b>	<b>2,469</b>	<b>(1,572)</b>	<b>109,242</b>	<b>(92,692)</b>	<b>588,950</b>	<b>27,612</b>	<b>616,562</b>

\*Comparative restated for IFRIC lease adjustment – refer to Note E6 for further detail.

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**  
For the financial year ended 27 December 2020

	Share capital	Other equity reserve	Other reserves				Profit reserve	Accumulated losses	Total	Non-controlling interests	Total equity
			Share-based payment reserve	Foreign currency translation reserve	Hedge reserve	General reserve					
Consolidated	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
<b>Balance as at 31 December 2018<sup>1</sup></b>	<b>404,721</b>	<b>(11,558)</b>	<b>10,874</b>	<b>4,292</b>	<b>(643)</b>	<b>(6,788)</b>	<b>99,736</b>	<b>(56,621)</b>	<b>444,013</b>	<b>18,987</b>	<b>463,000</b>
(Loss)/Profit for the year (restated)*	-	-	-	-	-	-	-	(36,071)	(36,071)	1,643	(34,428)
Other comprehensive income	-	-	-	248	392	-	-	-	640	-	640
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>248</b>	<b>392</b>	<b>-</b>	<b>-</b>	<b>(36,071)</b>	<b>(35,431)</b>	<b>1,643</b>	<b>(33,788)</b>
<b>Transactions with owners in their capacity as owners:</b>											
Issue of shares (net of issue costs)	174,058	(3,270)	-	-	-	-	-	-	170,788	-	170,788
Share options exercised	382	1,735	(382)	-	-	-	-	-	1,735	-	1,735
Options granted during the year	-	-	1,135	-	-	-	-	-	1,135	-	1,135
Dividend paid on ordinary shares	-	-	-	-	-	-	(27,219)	-	(27,219)	-	(27,219)
Tax effect of share plan payment through equity	-	-	(2,930)	-	-	-	-	-	(2,930)	-	(2,930)
Tax effect of equity raise	1,670	-	-	-	-	-	-	-	1,670	-	1,670
Exercise of put and call option	-	-	-	-	-	2,058	-	-	2,058	-	2,058
Capital injected by non-controlling interest without change in control	-	-	-	-	-	-	-	-	-	307	307
<b>Balance as at 29 December 2019 (restated)*</b>	<b>580,831</b>	<b>(13,093)</b>	<b>8,697</b>	<b>4,540</b>	<b>(251)</b>	<b>(4,730)</b>	<b>72,517</b>	<b>(92,692)</b>	<b>555,819</b>	<b>20,937</b>	<b>576,756</b>

<sup>1</sup> The Group applied AASB 16 *Leases* at 31 December 2018, using the modified retrospective approach. Under this approach, comparative information and retained earnings are not restated at the date of initial application.

\*Comparative restated for IFRIC lease adjustment – refer to Note E6 for further detail.

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 financial year ended 27 December 2020

	Notes	December 2020 \$ '000	December 2019 (Restated)* \$ '000
<b>Cash flow from operating activities</b>			
Receipts from customers		1,153,378	1,062,409
Payments to suppliers and employees		(959,831)	(931,948)
Interest received		382	319
Interest paid		(25,778)	(26,587)
Dividends received		-	70
Income taxes received/(paid)		279	(5,735)
<b>Net cash provided by operating activities</b>	<b>B1</b>	<b>168,430</b>	<b>98,528</b>
<b>Cash flow from investing activities</b>			
Payments for property, plant and equipment		(78,921)	(147,064)
Proceeds from sale of investments		-	1,581
Dividends from equity accounted investments		4,175	1,850
Acquisition of non-controlling interest of a subsidiary		-	(742)
Proceeds from sale of property, plant and equipment		1,098	958
<b>Net cash used in investing activities</b>		<b>(73,648)</b>	<b>(143,417)</b>
<b>Cash flow from financing activities</b>			
Proceeds from exercise of share options		-	1,735
Proceeds from share issue, net of issue costs		(296)	174,058
Purchase of treasury shares, net of share issue		-	(3,270)
Dividend payments on ordinary shares		(24,049)	(27,219)
Capital injection by non-controlling interest		-	307
Loans and advances		6	(2,113)
Proceeds from borrowings		2,076,380	2,464,494
Repayment of borrowings		(2,115,000)	(2,539,000)
Payment of lease liability		(34,784)	(33,917)
<b>Net cash (used in)/provided by financing activities</b>		<b>(97,743)</b>	<b>35,075</b>
<b>Reconciliation of cash</b>			
Cash at beginning of year		35,962	45,802
Net decrease in cash held		(2,961)	(9,814)
Effect of movement in foreign exchange rate		(551)	(26)
<b>Cash at end of year</b>	<b>B1</b>	<b>32,450</b>	<b>35,962</b>

\*Comparative restated for IFRIC lease adjustment – refer to Note E6 for further detail.

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

# Costa Group Holdings Ltd

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## **OVERVIEW**

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### **Reporting entity**

Costa Group Holdings Ltd ('the Company') is a company limited by shares, incorporated and domiciled in Australia. The Company's shares are publicly traded on the Australian Securities Exchange. The Company and its controlled entities (referred to as "the Group") is a for profit entity. The nature of the operations and principal activities of the Group and its subsidiaries are described in the segment information.

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

### **Basis of preparation of the financial report**

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.

The financial report was authorised for issue by the directors on 21 February 2021.

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 activities both now and in the future.

*Group structure:* explains aspects of the Group's structure, including acquisitions and divestments during the period.

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

### **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)/Value Added Tax (VAT)**

Revenues, expenses, liabilities and assets are recognised net of the amount of GST/VAT, except where the amount of GST/VAT incurred is not recoverable from the Tax Office. In these circumstances the GST/VAT 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/VAT.

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

#### Financial reporting impacts of COVID-19

The onset of the COVID-19 pandemic in CY20 severely disrupted global supply chains, increased economic uncertainty and changed consumer behaviours. Governments across the world enacted unprecedented levels of restrictions, which included social distancing, closure of non-essential businesses and activities and stay at home orders.

The Group has considered the impact of the COVID-19 pandemic across its businesses. Details about the impact of COVID-19 are included in the following notes:

- Note A1 – Segment performance
- Note A2 – Revenue and expenses
- Note B2 – Receivables
- Note B6 – Biological assets
- Note B9 – Impairments

#### 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	59
Recoverability of goodwill	B8 - Intangible assets	64
Recoverability of non-financial assets other than goodwill	B8 - Intangible assets	64
Leases	B10 - Leases	68
Fair value measurement	C6 - Financial instruments – fair values and risk management	75
Income tax	E2 - Taxation	90

## **A. GROUP PERFORMANCE**

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### **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 Self Generating and Regenerating Assets ("SGARA"), material items & amortisation ("EBITDA-S"), 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 and respective International segment has its own localised business support costs.

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.

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

December 2020	Produce	CF&L	International	Adjustments and eliminations	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Revenue</b>					
External customers	885,060	143,110	136,746	-	1,164,916
Inter-segment	45,172	7,245	-	(52,417)	-
<b>Total revenue</b>	<b>930,232</b>	<b>150,355</b>	<b>136,746</b>	<b>(52,417)</b>	<b>1,164,916</b>
<b>EBITDA-S</b>	<b>124,872</b>	<b>14,805</b>	<b>57,510</b>	<b>-</b>	<b>197,187</b>

December 2019	Produce	CF&L	International	Adjustments and eliminations	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Revenue</b>					
External customers	818,263	137,922	91,688	-	1,047,873
Inter-segment	51,062	11,214	-	(62,276)	-
<b>Total revenue</b>	<b>869,325</b>	<b>149,136</b>	<b>91,688</b>	<b>(62,276)</b>	<b>1,047,873</b>
<b>EBITDA-S</b>	<b>105,931</b>	<b>15,219</b>	<b>25,895</b>	<b>-</b>	<b>147,045</b>

**Financial Reporting Impacts of COVID-19**

Demand for Costa's products in Australia remained strong throughout the pandemic mainly attributed to increased demand across the primary retail sales channel. This was partially offset with subdued demand and pricing across Europe/UK through most of the Moroccan season due to the heavy lockdown measures imposed by the respective nations.

Travel restrictions and border closures inhibited the movement of workers which led to several labour supply challenges across our domestic and Moroccan businesses. However, this was mitigated with the classification of fresh produce as an essential service allowing Costa to source labour more accessibly and complete harvesting activities with no significant adverse impacts to financial performance.

**(c) Reconciliation of segment EBITDA-S to profit/(loss) for the period**

		December 2020	December 2019 (Restated)*
	Notes	\$ '000	\$ '000
<b>EBITDA-S for reportable segments</b>		197,187	147,045
Fair value movements in biological assets	B6	8,015	4,270
Depreciation and amortisation		(96,610)	(88,337)
Material items (before tax)	A3	-	(70,247)
(Loss)/Profit on sale of assets		(1,803)	1,397
Net finance costs		(25,550)	(27,997)
Income tax expense	E2	(13,790)	(559)
<b>Profit/(Loss) for the period</b>		<b>67,449</b>	<b>(34,428)</b>

\*Comparative restated for IFRIC lease adjustment – refer to Note E6 for further detail.

## Costa Group Holdings Ltd

### Notes to the Consolidated Financial Statements

#### (d) Geographical segment of non-current assets

	December 2020	December 2019 (Restated)*
	\$ '000	\$ '000
<b>Non-current assets excluding financial assets (including equity accounted investment) and deferred tax balance by geography</b>		
Australia	798,735	779,692
China	80,263	64,577
Morocco	149,009	153,633
	<u>1,028,007</u>	<u>997,902</u>

\*Comparative restated for IFRIC lease adjustment – refer to Note E6 for further detail.

## A2. Revenue and expenses

### REVENUE

	December 2020	December 2019
	\$ '000	\$ '000
Sale of goods and commissions received	1,111,767	1,006,638
Rendering of services	44,336	39,136
Rebates and discounts provided	(15,338)	(14,953)
Other revenue	24,151	17,052
<b>Total revenue</b>	<u>1,164,916</u>	<u>1,047,873</u>

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

Revenue from sale of goods is measured at the fair value of the consideration received or receivable. Revenue is recognised when performance obligations are satisfied, and control of the goods or services have passed or provided to the buyer.

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.

#### *Rendering of services*

Rendering of services revenue relates to logistics, farm and ripening services provided to customers. Similarly, revenue is recognised when performance obligation is satisfied or upon the delivery of the service to the customers.

#### *Rebates and discount provided*

Rebates and discounts include volume based rebates and discounts, including payment settlement discounts. These are recognised when earned.

#### *Other revenue*

Other revenue includes dividends, rental income and royalty income.

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.

Rental income is recognised on a straight line basis over the rental term. These are for operating leases.

Royalty income is recognised on an accruals basis in accordance with the substance of the relevant agreements. Royalty income is

## Costa Group Holdings Ltd

### Notes to the Consolidated Financial Statements

recognised in relation to rights provided to entities external to the Group to sell plants and produce that arise from the Group's operations.

Insurance recoveries and proceeds are recognised when realisation is certain. It is accounted separately as other revenue and not offset with associated losses and expenses.

All revenue is stated net of the amount of GST/VAT.

#### EXPENSES

##### Net finance costs

		December 2020	December 2019
			(Restated)*
	Note	\$ '000	\$ '000
Interest income		(422)	(132)
Interest expense on borrowings		7,156	8,950
Interest expense on lease liabilities	B10	17,856	18,222
Amortisation of borrowing costs		960	957
		<u>25,550</u>	<u>27,997</u>

\*Comparative restated for IFRIC lease adjustment – refer to Note E6 for further detail.

##### 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.

##### Borrowing costs

Borrowing costs can include interest, amortisation of discounts or premiums relating to borrowings, interest on lease liabilities, 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 of \$2.7 million have been capitalised in prior periods and amortised over the life of the loan facility. Establishment costs relating to loans extinguished during the reporting period are expensed. There were no new loan establishment cost for the year ended December 2020 or December 2019.

##### Employee benefits expenses

	December 2020	December 2019
	\$ '000	\$ '000
Salaries, contractors and wages (including on-costs)	345,358	343,365
Superannuation costs	17,596	19,240
Leave entitlements	10,727	9,762
Other employee expenses	4,968	7,198
	<u>378,649</u>	<u>379,565</u>

##### Other expenses

	December 2020	December 2019
	\$ '000	\$ '000
Repair and maintenance expenses	21,709	20,801
Legal and consulting expenditure	7,860	9,600
Insurance	11,709	8,400
Other*	40,265	34,920
	<u>81,543</u>	<u>73,721</u>

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

## Costa Group Holdings Ltd

### Notes to the Consolidated Financial Statements

#### Financial Reporting Impacts of COVID-19

The Group did not receive any JobKeeper payments during the financial year ended December 2020.

#### A3. Material items

Material items are those items where their nature and amount are considered material to the Financial Statements. Such items are included within the Group's Consolidated Statement of Profit and Loss and Other Comprehensive Income, and are detailed below:

	December 2020 \$ '000	December 2019 \$ '000
<b>Individually material items included in profit before income tax:</b>		
African Blue acquisition and integration expenses <sup>1</sup>	-	(8,529)
Mushroom impairment and restructure provisions <sup>2</sup>	-	(61,718)
<b>Total material items (before tax)</b>	-	(70,247)
Tax effect of material items	-	8,329
<b>Total material items (after tax)</b>	-	(61,918)

<sup>1</sup> African Blue acquisition and integration expenses, and amortisation of acquired intangibles relating to customer contracts and re-acquired rights arising from the acquisition (these amounts had been fully written-off by December 2019).

<sup>2</sup> Mushroom impairment and restructure provisions, including: accelerated closure of its aging high cost sites in Queensland and Tasmania, and optimisation of its Western Australia operations.

#### A4. Earnings per share

	December 2020 Cents per share	December 2019 (Restated)* Cents per share
<i>Basic EPS</i>		
Basic EPS (cents) based on net profit/(loss) attributable to members of Costa Group Holdings Limited	15.16	(10.96)
<i>Diluted EPS</i>		
Diluted EPS (cents) based on net profit/(loss) attributable to members of Costa Group Holdings Limited	15.16	(10.96)
	<b>Number ( '000)</b>	<b>Number ( '000)</b>
<i>Weighted average number of shares</i>		
Weighted average number of ordinary shares on issue used in the calculation of basic EPS	400,822	329,215
<i>Effect of potentially dilutive securities</i>		
Equity-settled share options	74	54
Weighted average number of ordinary shares on issue used in the calculation of diluted EPS	400,896	329,269
	<b>\$ '000</b>	<b>\$ '000</b>
<b>Earnings reconciliation</b>		
<i>Basic and diluted EPS</i>		
Net profit/(loss) attributable to owners of Costa Group Holdings Limited	60,774	(36,071)

\*Comparative restated for IFRIC lease adjustment – refer to Note E6 for further detail.



## Costa Group Holdings Ltd

### Notes to the Consolidated Financial Statements

#### Calculation of earnings per share

Earnings per share is the amount of post-tax profit/(loss) 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. In the comparative year, the impact of the dilutive effect of share options is excluded from the calculation because they are anti-dilutive given a Loss for the Period in CY2019 was reported.

#### A5. Subsequent events

##### Dividends

On 21 February 2021, the directors determined a final dividend of 5.0 cents per ordinary shares payable on 8 April 2021. The dividends have not been provided for and there are no income tax consequences

Except for the matters disclosed in the preceding paragraph, there are no matters or circumstances that have arisen since the financial year ending 27 December 2020, that have significantly affected, or may affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial years.

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

**B. OPERATING ASSETS AND LIABILITIES**

**B1. Cash and cash equivalents**

	December 2020	December 2019
	\$ '000	\$ '000
Cash on hand	44	37
Cash at bank	32,342	35,856
Cash on deposit	64	69
	<u>32,450</u>	<u>35,962</u>

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

	December 2020	December 2019 (Restated)*
	\$ '000	\$ '000
<b>Profit/(loss) for the year</b>	67,449	(34,428)
<i>Non-cash adjustments to reconcile profit/(loss) for the year to net cash flows:</i>		
Depreciation and amortisation	96,610	95,136
Loss/(Profit) on sale of assets	1,803	(1,397)
Borrowing costs written-off/amortised	780	595
Impairment loss	-	51,023
Foreign exchange differences	(2,969)	264
Gain on fair value adjustments - biological assets	(8,015)	(4,270)
Share-based payments (benefit)/expense	(656)	1,135
Share of profit of equity-accounted investees, net of tax	(9,070)	(4,101)
	<u>145,932</u>	<u>103,956</u>
<i>Change in working capital and tax balances:</i>		
(Increase)/decrease in inventories	(2,731)	933
(Increase)/decrease in receivables	(9,309)	4,149
(Increase)/decrease in biological assets	(1,312)	3,296
(Increase)/decrease in other assets	(671)	3,093
Increase/(decrease) in interest payable	(631)	1,730
Increase/(decrease) in payables	24,558	(21,097)
Increase/(decrease) in provisions	(663)	7,619
(Increase)/decrease in deferred taxes	(2,211)	(1,719)
Increase/(decrease) in current tax payables	15,468	(3,432)
<b>Net cash generated from operating activities</b>	<u>168,430</u>	<u>98,528</u>

\*Comparative restated for IFRIC lease adjustment – refer to Note E6 for further detail.

**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

	December 2020 \$ '000	December 2019 \$ '000
CURRENT		
Trade debtors	69,336	66,835
Less: Allowance for impairment losses on trade receivables	(652)	(482)
	<u>68,684</u>	<u>66,353</u>
Other receivables	<u>28,216</u>	<u>21,985</u>
	<u>96,900</u>	<u>88,338</u>
NON CURRENT		
Other receivables	<u>4,024</u>	<u>4,088</u>

#### Recognition and measurement

##### Trade receivables

Trade receivables are recognised initially at invoice value (fair value) and subsequently measured at amortised cost, using the effective interest method, less a loss allowance. They generally have credit terms between 15-60 days depending on the nature of the transaction.

##### Impairment of trade and other receivables.

The Group assesses the expected credit losses associated with its trade and other receivables on a forward looking basis. The Group applies the simplified approach to measuring expected credit losses, as disclosed in detail in Note C6 (c).

##### Other receivables

Other current and non-current receivables relates to amounts generally arising from transactions outside the usual operating activities of the Group. It is expected that these other balances will be received when due.

Also included in other receivables is sales tax receivable. A portion of the sales tax receivable includes value added tax credits sold with recourse to a bank for cash proceeds by the Group's subsidiary, African Blue. These value added tax credits have not been derecognised from the Statement of Financial Position, because African Blue retains substantially all of the risk and rewards – primarily credit risk. The amount received on transfer has been recognised as a secured bank loan (refer note C1).

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

	Note	December 2020 \$ '000	December 2019 \$ '000
Carrying amount of other receivables transferred to a bank		2,580	2,655
Carrying amount of associated liabilities	C1	(2,580)	(2,655)

#### Financial Reporting Impacts of COVID-19

The Group's primary sales channel is retail. Demand in general for Costa's products has remained strong across this channel during the pandemic, resulting in this segment performing strongly during the COVID-19 pandemic. As such, COVID-19 has had no material impact on the credit losses allowances recognised at the end of the period.

## Costa Group Holdings Ltd

### Notes to the Consolidated Financial Statements

#### B3. Inventories

	December 2020 \$ '000	December 2019 \$ '000
CURRENT		
<i>At cost</i>		
Raw materials	17,884	17,019
Finished goods	9,103	7,411
	<u>26,987</u>	<u>24,430</u>

#### Recognition and measurement

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

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.

#### B4. Payables and other financial liabilities

	December 2020 \$ '000	December 2019 \$ '000
CURRENT		
<i>Unsecured liabilities</i>		
Trade creditors	59,007	51,952
Sundry creditors and accruals	76,093	61,546
	<u>135,100</u>	<u>113,498</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).

Other financial liabilities	December 2020 \$ '000	December 2019 \$ '000
CURRENT		
Put and call options liability	493	3,657
Interest rate swap	386	-
	<u>879</u>	<u>3,657</u>
NON-CURRENT		
Interest rate swap	-	986
	<u>-</u>	<u>986</u>

#### Recognition and measurement

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

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

**B5. Other assets & financial assets**

	December 2020 \$ '000	December 2019 \$ '000
CURRENT		
Prepayments	10,426	9,742
Forward exchange contracts	2,832	712
	<u>13,258</u>	<u>10,454</u>

**B6. Biological assets**

	December 2020 \$ '000	December 2019 \$ '000
CURRENT		
Produce at fair value	52,267	43,625
Produce at cost	6,045	5,584
Total biological assets	<u>58,312</u>	<u>49,209</u>

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

Opening balance	49,208	48,328
Gain arising from changes in fair value	8,015	4,270
Increases due to purchases	214,200	187,108
Decreases due to harvest	(213,111)	(190,497)
Closing balance	<u>58,312</u>	<u>49,209</u>

**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 and 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 estimated market prices of the product.

**Critical accounting estimate and judgement**

**Valuation of biological assets**

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

**Measurement of fair values**

*Fair value hierarchy*

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

## Costa Group Holdings Ltd

### Notes to the Consolidated Financial Statements

#### 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.

#### 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.	Discounted cash flows: The valuation model considers the present value of the net cash flows expected to be generated by the plantation. The cash flow projections include specific estimates for one year. The expected net cash flows are discounted using a risk-adjustment factor to factor in volatility for weather, production and pricing and future farming costs.	Inclusive of: - Estimated future crop prices. - Estimated cash inflows based on forecasted sales. - Estimated yields per hectare. - Estimated remaining farming, harvest and transportation costs. - Risk adjustment factor.	The estimated fair value would increase (decrease) if: - the estimated fruit prices were higher (lower); - the estimated yields per hectare were higher (lower); - the estimated harvest and transportation costs were lower (higher); or - the risk-adjusted discount rates were lower (higher).

#### Measurement of biological assets at cost

Short lived crops (mushrooms and strawberries) 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.

#### Financial Reporting Impacts of COVID-19

Demand and pricing for Costa's products have remained strong throughout the pandemic. Risks associated with any labour supply/harvest challenges have been factored into the biological asset fair value calculations, where appropriate. Overall, COVID-19 has not had a material impact on the fair value of the Group's hanging crop.

## 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.

## B7. Property, plant and equipment

	December 2020 \$ '000	December 2019 \$ '000
Land and buildings at cost	228,919	207,524
Accumulated depreciation and impairment	(63,753)	(54,363)
	165,166	153,161
Assets Under Construction at cost	82,464	93,991
Plant and equipment at cost	399,075	359,600
Accumulated depreciation and impairment	(197,014)	(170,401)
	202,061	189,199
Improvements at cost	42,047	38,672
Accumulated depreciation and impairment	(13,661)	(10,966)
	28,386	27,706
Bearer plants at cost	64,816	56,390
Accumulated depreciation and impairment	(27,205)	(21,532)
	37,611	34,858
Total property, plant and equipment	515,688	498,915

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

**Reconciliations**

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

	December 2020 \$ '000	December 2019 \$ '000
<i>Land and buildings</i>		
Opening carrying amount	153,161	111,552
Additions	1,780	677
Disposals	(392)	(685)
Depreciation expense	(7,874)	(6,954)
Impairment of assets	-	(5,365)
Transfers, reclassifications and adjustments and effect of movement in FX rate	18,492	53,936
Closing carrying amount	165,166	153,161
<i>Assets Under Construction</i>		
Opening carrying amount	93,991	82,796
Additions	56,573	145,452
Disposals	(149)	-
Transfers, reclassifications and adjustments and effect of movement in FX rate	(67,951)	(134,257)
Closing carrying amount	82,464	93,991
<i>Plant and equipment</i>		
Opening carrying amount	189,199	172,191
Additions	3,618	8,389
Disposals	(1,691)	(1,020)
Depreciation expense	(34,991)	(31,757)
Impairment of assets	-	(8,626)
Transfers, reclassifications and adjustments and effect of movement in FX rate	45,926	50,022
Closing carrying amount	202,061	189,199
<i>Leasehold Improvements</i>		
Opening carrying amount	27,706	21,631
Additions	768	666
Disposals	(33)	-
Depreciation expense	(2,869)	(2,430)
Impairment of assets	-	(1,420)
Transfers, reclassifications and adjustments and effect of movement in FX rate	2,813	9,259
Closing carrying amount	28,386	27,706
<i>Bearer Plants</i>		
Opening carrying amount	34,858	26,018
Additions	8,356	4,978
Disposals	(285)	(57)
Depreciation expense	(8,834)	(6,364)
Transfers, reclassifications and adjustments and effect of movement in FX rate	3,516	10,283
Closing carrying amount	37,611	34,858



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

	<b>December 2020</b>	<b>December 2019</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<i>Total property, plant and equipment</i>		
Opening carrying amount	498,915	414,188
Additions	71,096	160,162
Disposals	(2,550)	(1,762)
Depreciation expense	(54,568)	(47,505)
Impairment of assets	-	(15,411)
Transfers, reclassifications and adjustments and effect of movement in FX rate	2,795	(10,757)
Closing carrying amount	<u>515,688</u>	<u>498,915</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	4% - 33%	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 27 December 2020, the Group has capital commitments amounting to \$25.8 million (December 2019: \$47.6 million) in relation to the purchase of property, plant and equipment, which are contracted for but not provided for.

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

**B8. Intangible assets**

	<b>December 2020</b>	<b>December 2019</b>
	<b>\$ '000</b>	<b>\$ '000</b>
Goodwill at cost, less accumulated impairment	198,165	201,073
Brand names at cost	3,137	3,169
Lease premiums at cost	2,955	3,011
Water rights at cost	3,796	3,796
Capitalised software costs	9,852	9,414
Accumulated amortisation and impairment	(8,455)	(7,112)
	1,397	2,302
Reacquired rights at cost	3,600	3,600
Accumulated amortisation and impairment	(3,600)	(3,600)
	-	-
Customer relationship at cost	11,700	11,700
Accumulated amortisation and impairment	(11,700)	(11,700)
	-	-
Total intangible assets	209,450	213,351

**Reconciliations**

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

	<b>December 2020</b>	<b>December 2019</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<i>Goodwill</i>		
Opening balance	201,073	236,052
Impairment loss	-	(35,093)
Net exchange differences on translation of foreign subsidiaries	(2,908)	114
Closing balance	198,165	201,073
<i>Capitalised software costs</i>		
Opening balance	2,302	2,807
Additions	31	-
Amortisation expense	(1,265)	(1,195)
Transfers, reclassifications and adjustments	328	690
Closing balance	1,397	2,302
<i>Brand names</i>		
Opening balance	3,169	3,184
Net exchange differences on translation of foreign subsidiaries	(32)	(15)
Opening balance / closing balance	3,137	3,169
<i>Lease premiums</i>		
Opening balance	3,011	3,008
Net exchange differences on translation of foreign subsidiaries	(56)	3
Closing balance	2,955	3,011

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

	December 2020 \$ '000	December 2019 \$ '000
<i>Water rights</i>		
Opening balance	3,796	3,796
Closing balance	3,796	3,796
<i>Reacquired rights</i>		
Opening balance	-	1,433
Amortisation expense <sup>(1)</sup>	-	(1,433)
	-	-
<i>Customer relationship</i>		
Opening balance	-	5,363
Amortisation expense <sup>(1)</sup>	-	(5,363)
	-	-
<i>Total Intangibles assets</i>		
Opening carrying amount	213,351	255,643
Additions	31	-
Impairment loss	-	(35,093)
Amortisation expense	(1,265)	(7,991)
Transfers, reclassifications and adjustments	329	690
Net exchange differences on translation of foreign subsidiaries	(2,996)	102
Closing carrying amount	209,450	213,351

(1) Amortisation expense on re-acquired rights and customer relationships associated with the African Blue acquisition has been treated as material items (refer Note A3)

**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.

**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.

**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.

## Costa Group Holdings Ltd

### Notes to the Consolidated Financial Statements

#### **Capitalised Software Costs**

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

#### **Reacquired rights**

Reacquired rights arise when the acquirer has granted a right to the acquiree to use one or more of the acquirer's assets, such as intellectual property. Reacquired rights are measured initially at fair value of the remaining contractual term of the contract and amortised over the remaining contractual period.

#### **Customer relationship assets**

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

#### **Acquisitions**

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

Internally generated intangible assets are capitalised when the Group is certain that there are future economic benefits that will arise from these assets. Other internally generated intangible assets that do not fit this recognition criteria are charged against the Consolidated Statement of Profit and Loss and Comprehensive Income in the reporting period in which the expenditure is incurred.

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

#### **Allocation of goodwill**

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

December 2020 \$'000	Produce	CF&L	International	Total
<b>Goodwill</b>				
Carrying amount at start of year	96,390	1,674	103,009	201,073
Net exchange differences on translation of foreign subsidiaries	-	-	(2,908)	(2,908)
Carrying amount at end of year	96,390	1,674	100,101	198,165

December 2019 \$'000	Produce	CF&L	International	Total
<b>Goodwill</b>				
Carrying amount at start of year	131,483	1,674	102,895	236,052
Impairment loss	(35,093)	-	-	(35,093)
Net exchange differences on translation of foreign subsidiaries	-	-	114	114
Carrying amount at end of year	96,390	1,674	103,009	201,073

## **B9. Impairment**

### ***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 Group. 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.

### ***Goodwill***

Goodwill and indefinite life intangible assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. 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.

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 of 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.

### ***Useful life***

Intangibles with indefinite useful life are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

## **Critical accounting estimate and judgement**

### ***Projected cash flows***

Goodwill is allocated to CGUs according to applicable business operations. The recoverable amount of the Group's Australian CGUs are based on value in use calculations. For the African Blue CGU, the recoverable amount was determined through a fair value less costs to sell calculation. This approach has changed from prior years and allows for a longer forecast period to better reflect the impacts of the Morocco growth strategy and replanting programs. The fair value measurement was categorised as a Level 3 fair value based on the inputs in the valuation technique used (refer Note C6 for further details on fair value measurements).

The recoverable amounts are based on financial budgets approved by the Board for CY2021 together with detailed management forecasts for future years:

- For the Australian CGUs, cash flow forecasts are projected over a 5-year period
- For the African Blue CGU, cash flow forecasts are projected over a 10-year period

## Costa Group Holdings Ltd

### Notes to the Consolidated Financial Statements

Management's determination of cash flow projections and gross margins are based on past performance and its expectation for the future.

#### **Terminal growth rate**

The terminal growth rate represents estimates of the CGU's growth to perpetuity. This ranges between the country's inflation and GDP growth rate.

#### **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.

#### **Sensitivity Analysis**

Increases in discount rates or changes in other key assumptions, such as operating conditions or financial performance, may cause the recoverable amount to fall below carrying values.

For the African Blue CGU, the recoverable amount exceeds the carrying value by \$10 million. As such, any material adverse changes to the key assumptions as outlined above could lead to an impairment.

The Mushroom CGU recognised an impairment in December 2019. As such, a reduction in cash flow forecast of more than 24% for all years in the forecast period and also in the terminal year would reduce the CGU's headroom to nil. There are no reasonably possible changes in the discount rate that would result in an impairment.

For the Group's remaining CGUs, based on current economic conditions and CGU performances, there are no reasonably possible changes to key assumptions used in the determination of CGU recoverable amounts that would result in an impairment to the Group.

The ranges of rates used in determining recoverable amounts of the rest of the business are set out below:

	2020	2019
Terminal growth rate	2.5% - 3.0%	2.5% - 3.0%
Pre-tax discount rate (Australian CGU)	10.0% - 13.0%	10.0% - 13.0%
Pre-tax discount rate (African Blue CGU)	10.0% - 13.0%	12.0% - 15.0%

#### **Financial Reporting Impacts of COVID-19**

There is significant degree of uncertainty associated with the impacts of COVID-19. The Group has considered the impacts of COVID-19 in its budgeting and planning process. COVID-19 related cost such as protective equipment, increased cleaning and sanitary cost, and labour arrangements have been included in the budgets and projected cash flows.

#### **B10. Leases**

The Group leases various properties, equipment and motor vehicles. Rental contracts are typically made for fixed periods and may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but lease assets may not be used as security for borrowing purposes.

The Group assesses whether a contract is or contains a lease at inception of the contract. A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period in exchange for consideration.

The Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

## Costa Group Holdings Ltd

### Notes to the Consolidated Financial Statements

The Group recognises leases as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use. Each lease payment is allocated between the liability and finance costs. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Assets and liabilities arising from a lease are initially measured on a present value basis.

#### Lease liabilities

Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate;
- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that options

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the group's incremental borrowing rate.

The lease liability is subsequently measured at amortised cost using the effective interest method. It is remeasured when there is:

- Change in future lease payments arising from a change in an index or rate;
- Change in the Group's estimate of the amount expected to be payable under a residual value guarantee;
- Changes in Group's assessment of whether it will exercise a purchase, extension or termination option; or
- Revision of in-substance fixed lease payments.

#### Right-of-use assets

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration or dismantling costs

Subsequently, the right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The assets are tested for impairment in accordance with policy adopted for non-financial assets as disclosed in Note B9.

	December 2020	December 2019 (Restated)*
	\$'000	\$'000
<b>Right-of-use Assets</b>		
Opening carrying amount	324,272	350,683
Depreciation expenses	(40,777)	(39,641)
Additions	19,853	13,706
Impairment of right-of-use asset	-	(519)
Effect of foreign exchange rates	(545)	43
Closing carrying amount	302,803	324,272

Right-of-use asset consist of \$290.1 million (2019: \$308 million) relating to property and \$12.7 million (2019: \$16.3 million) relating to vehicle and equipment leases.

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

	December 2020	December 2019 (Restated)*
	\$'000	\$'000
<b>Lease liabilities</b>		
Opening carrying amount	333,762	351,764
Interest expense	17,856	18,222
Additions	19,853	13,706
Repayments	(52,840)	(49,973)
Effect of foreign exchange rates	(563)	43
Closing carrying amount	318,068	333,762

	December 2020	December 2019 (Restated)*
	\$'000	\$'000
<b>Lease liabilities</b>		
Current	34,119	33,904
Non-current	283,949	299,858
	318,068	333,762

\*Comparative restated for IFRIC lease adjustment – refer to Note E6 for further detail.

**Financial Reporting Impacts of COVID-19**

There has been no impairment on the Group's right-of-use assets or onerous leases, nor any rent concessions received as a result of COVID-19.

The following table sets out the maturity analysis of lease payments, showing the undiscounted lease payments to be paid after the reporting date.

	December 2020	December 2019 (Restated)*
	\$'000	\$'000
<b>Lease liabilities</b>		
Payable		
- not later than one year	50,072	51,394
- later than one year and not later than five years	169,378	181,317
- later than five years	210,058	248,814
	429,508	481,525

\*Comparative restated for IFRIC lease adjustment – refer to Note E6 for further detail.

**Commitment for leases not yet commenced**

On 18 December 2020, the Company announced that it had entered into a Lease Implementation Deed ('Deed') with Macquarie Infrastructure and Real Assets ('MIRA') for the seven farms currently leased from Vitalharvest. The Deed will only take effect if MIRA's offer is successful to either acquire 100% of the issued units in Vitalharvest by way of a trust scheme, or all the assets of Vitalharvest if the trust scheme is not approved.

The Deed with MIRA provides for a fixed rent lease agreement for each of the seven farms, for twenty years plus a ten-year option. The new lease agreements will replace existing fixed and variable rent component leases that expire in CY2026.

As the MIRA proposal to acquire Vitalharvest is subject to a vote of Vitalharvest unitholders and as at balance date and also at the time of signing these accounts, the vote had not yet occurred, the Group's financial statements for the year ended 27 December 2020 include no adjustment to reflect the Deed. The financial statements continue to reflect a CY2026 expiry date for the seven leases.



## Costa Group Holdings Ltd

### Notes to the Consolidated Financial Statements

#### Short term leases, low-value assets and variable lease payments not based on index or rate

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term. Variable lease payments not based on index or rate are expensed when incurred. The amounts recognised as at 27 December 2020 is \$4.2 million (29 December 2020: \$4.7 million).

#### B11. Provisions

		December 2020 \$ '000	December 2019 \$ '000
CURRENT			
Employee benefits	(a)	18,479	16,220
Other	(b)	3,644	7,491
		<u>22,123</u>	<u>23,711</u>
NON CURRENT			
Employee benefits	(a)	6,777	5,807
Other	(b)	1,989	2,044
		<u>8,766</u>	<u>7,851</u>

##### (a) Employee benefits liability

These consist of liabilities recognised for benefits accruing to employees in respect of annual leave and long service leave.

##### (b) Other provisions

This relates to provision for closure costs in relation to the Mushroom sites and lease make good.

##### (c) Reconciliations

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

	December 2020 \$ '000	December 2019 \$ '000
<i>Employee benefits</i>		
Opening balance	22,027	22,001
Amounts used	(7,049)	(5,772)
Additional amounts recognised	10,278	5,798
Closing balance	<u>25,256</u>	<u>22,027</u>
<i>Other provisions</i>		
Opening balance	9,535	1,944
Amounts used	(3,902)	-
Additional amounts recognised	-	7,591
Closing balance	<u>5,633</u>	<u>9,535</u>

#### 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.

## Costa Group Holdings Ltd

### Notes to the Consolidated Financial Statements

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.

### **B12. 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**

	December 2020 \$ '000	December 2019 \$ '000
<b>CURRENT</b>		
<i>Secured liabilities</i>		
Bank loans	1,807	-
<i>Unsecured liabilities</i>		
Bank loans	12,513	7,784
	<u>14,320</u>	<u>7,784</u>
<b>NON-CURRENT</b>		
<i>Secured liabilities</i>		
Bank loans	4,385	8,227
<i>Unsecured liabilities</i>		
Bank loans	157,628	198,806
	<u>162,013</u>	<u>207,033</u>
<b>Total borrowings</b>	<u><u>176,333</u></u>	<u><u>214,817</u></u>

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

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

**Secured**

- Secured bank loan with \$7.2 million facility that can be drawn upon as required. This facility matures in November 2023.
- Secured bank loan of \$2.6 million that matures in January 2023
- The above secured bank loans are secured over buildings and VAT receivables (see Note B2)

**Unsecured**

During the prior year, the Group renewed and expanded its syndicated debt facility from a \$350 million facility maturing in 2020 and 2021 to a \$450 million facility that is split as below:

- Facility A – \$300 million facility that can be drawn upon as required. This facility matures in August 2022.
- Facility B – \$150 million facility that can be drawn upon as required. This facility matures in August 2023.

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.

**Bank guarantees**

The Group maintains bank guarantees of \$9.6 million (December 2019: \$13.0 million) that could be called up at any time in the event of a breach of our financial obligations. Costa does not expect any payments will eventuate under these financial guarantees as the Group expects to meet its 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.

## Costa Group Holdings Ltd

### Notes to the Consolidated Financial Statements

#### C2. Share Capital

	December 2020		December 2019	
	Number '000	\$ '000	Number '000	\$ '000
<b>Ordinary shares</b>				
Opening balance	400,792	580,831	319,937	404,721
Ordinary shares issued (net of issue costs)	-	(208)	80,162	175,728
Settlement of share-based payment	39	111	693	382
At reporting date	400,831	580,734	400,792	580,831

#### Ordinary shares

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

At members' meetings, each ordinary share is entitled to one vote when a poll is called; otherwise each member 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 is \$109.2 million (December 2019: \$72.5 million).

#### C4. Other reserves

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

##### Other equity reserve

Other equity reserve comprises the payments made to meet the Group's obligation through acquisition of shares on market for the purpose of options or performance rights exercised by eligible executives under the LTI and STI plan.

##### Share-based payment reserve

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

##### Foreign currency translation reserve

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

##### Cash flow hedge reserve

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

##### General reserve

General reserve consists of put and call option as part of the acquisition of African Blue, measured under the present-access method. Refer note C6 for further details.

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

**C5. Dividends**

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

<b>Declared and paid during the 12 months ended 27 December 2020</b>	<b>Cents per share</b>	<b>Total amount \$'000</b>	<b>Date of payment</b>
Final December 2019 ordinary	2.0	8,016	8 April 2020
Interim December 2020 ordinary	4.0	16,033	8 October 2020

**Determined after end of year**

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

	<b>Cents per share</b>	<b>Total amount \$'000</b>	<b>Date of payment</b>
Final December 2020 ordinary	5.0	20,042	8 April 2021

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

**(A) Valuation of financial instruments**

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

	<b>Fair value hierarchy</b>	<b>December 2020 \$ '000</b>	<b>December 2019 \$ '000</b>
<b>Financial assets</b>			
<i>Amortised costs</i>			
Current receivables	-	96,900	88,338
Non-current receivables	-	4,024	4,088
Cash and cash equivalents	-	32,450	35,962
		<u>133,374</u>	<u>128,388</u>
<i>Fair value through other comprehensive income</i>			
Forward exchange contracts	Level 2	<u>2,832</u>	<u>712</u>
<b>Financial liabilities</b>			
<i>Fair value through other comprehensive income</i>			
Interest rate swaps	Level 2	<u>386</u>	<u>986</u>
		<u>386</u>	<u>986</u>
<i>Other financial liabilities not measured at fair value</i>			
Payables	-	135,100	113,498
Bank loans	-	176,334	214,817
Put and call options	-	493	3,656
		<u>311,927</u>	<u>331,971</u>

## Costa Group Holdings Ltd

### Notes to the Consolidated Financial Statements

#### Recognition, classification and measurement

On initial recognition, the Group classifies its financial assets and liabilities into the following categories: amortised costs, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification depends on the purpose for which the instruments were acquired. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

##### ***Amortised costs***

Financial assets or liability with contractual cash flows that comprise the payment of principal and interest only and which are held in a business model whose objective is to collect their cash flows are measured at amortised costs.

##### ***Fair value through other comprehensive income (FVOCI)***

Financial assets or liability with contractual cash flows that comprise the payment of principal and interest only and which are held in a business model whose objective is to both collect their cash flows and sell them are measured at FVOCI; and

##### ***Fair value through profit or loss (FVTPL)***

Other financial assets or liability that do not fall in the above categories are measured at FVTPL

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

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

##### ***Derivative financial instruments***

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

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

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

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

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

## Costa Group Holdings Ltd

### Notes to the Consolidated Financial Statements

#### ***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 prescribed above.

#### ***Other Financial liabilities***

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

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

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

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

On 27 November 2017, the Group acquired an 86% interest in African Blue SA (African Blue). As part of the agreement, the Group will make further payments to the existing shareholders on reaching certain earnings targets over the three years from acquisition date, by way of a put and call option, which also increases the Group's interest in African Blue by 4% over three years.

The put and call option has been measured at present value using management best estimates of these targets being met and has been treated as a financial liability. Since Costa has applied the present-access method to account for the put and call option, the liability does not form part of the consideration transferred and is recognised against General reserve in equity. The fair value of the put option recognised at 27 December 2020 is \$0.5m (Dec 2019: \$3.6m). Any subsequent changes to the fair value of these options will be recognised in equity in accordance with Costa's policy on accounting for such options.

#### ***Impairment***

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

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

At each reporting date, the Group assesses whether a loss allowance is required for financial assets carried at amortised costs, using the expected credit loss model. Any losses are recognised in the Consolidated Statement of Profit and Loss and Other 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 Consolidated Statement of Profit and Loss and other Comprehensive Income.

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

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

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

## Costa Group Holdings Ltd

### Notes to the Consolidated Financial Statements

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:

	December 2020 \$ '000	December 2019 \$ '000
<b>Variable rate instruments</b>		
<b>Assets</b>		
Cash and cash equivalents	32,450	35,962
<b>Liabilities</b>		
Bank loans <sup>(1)</sup>	(126,333)	(164,817)
<b>Net financial liabilities exposed to interest rate risk</b>	<b>(93,883)</b>	<b>(128,855)</b>

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

At 27 December 2020, if interest rates had changed by +/- 100 basis points from the year end rates with all other variables held constant, profit would have increased/(decreased) by:

	December 2020 \$ '000	December 2019 \$ '000
Increase of 100 basis points in interest rate <sup>(1)</sup>	(939)	(1,289)
Decrease of 100 basis points in interest rate <sup>(1)</sup>	939	1,289

<sup>(1)</sup> The Group has taken \$50 million of interest rate swaps to hedge a portion of the variable rate exposure on the bank loans. These have been excluded for the purpose of the above analysis.

#### *Foreign currency risk*

The Group's exposure to the risk of changes in foreign exchanges rates relates to the Group's operating activities and investments in foreign joint ventures. The Group imports and exports produce and is exposed to foreign exchange risk, primarily movements in exchange rates of US dollar (USD) and Japanese Yen (JPY). In addition, it is also exposed to exchange rate movements in Moroccan Dirhams (MAD) and Chinese Yuan (CNY) through its investment in these international subsidiaries. The Group also makes purchases and capital expenditure that expose it to movements in exchange rates of USD, Euro (EUR), and British Pound (GBP). The Group enters into forward contracts to hedge some of its exposure against foreign currency risk.



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

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

<b>December 2020</b>	<b>USD</b>	<b>JPY</b>	<b>EUR</b>	<b>GBP</b>	<b>CNY</b>	<b>MAD</b>
	<b>\$ '000</b>	<b>\$ '000</b>	<b>\$ '000</b>	<b>\$ '000</b>	<b>\$ '000</b>	<b>\$ '000</b>
Cash	824	287	658	74	8,797	6,989
Trade and other receivables	1,501	156	-	1,947	2,905	4,712
Trade and other payables	(457)	-	(240)	(0)	(86)	(6,436)
Derivative financial assets	1,561	1,270	-	-	-	-
<b>Net exposure</b>	<b>3,429</b>	<b>1,713</b>	<b>418</b>	<b>2,021</b>	<b>11,616</b>	<b>5,265</b>

<b>December 2019</b>	<b>USD</b>	<b>JPY</b>	<b>EUR</b>	<b>GBP</b>	<b>CNY</b>	<b>MAD</b>
	<b>\$ '000</b>	<b>\$ '000</b>	<b>\$ '000</b>	<b>\$ '000</b>	<b>\$ '000</b>	<b>\$ '000</b>
Cash	953	1,028	1,317	122	4,552	3,342
Trade and other receivables	1,619	41	176	400	3,300	2,046
Trade and other payables	(9)	-	(596)	-	(791)	(5,996)
Derivative financial assets	97	609	-	-	-	-
<b>Net exposure</b>	<b>2,660</b>	<b>1,678</b>	<b>897</b>	<b>522</b>	<b>7,061</b>	<b>(608)</b>

*Sensitivity analysis*

At 27 December 2020, had the Australian dollar weakened/strengthened by 10% against these currencies with all other variables held constant, the impact to profit or loss and equity would be an increase/(decrease) of:

	<b>USD</b>	<b>JPY</b>	<b>EUR</b>	<b>GBP</b>	<b>CNY</b>	<b>MAD</b>
	<b>\$ '000</b>	<b>\$ '000</b>	<b>\$ '000</b>	<b>\$ '000</b>	<b>\$ '000</b>	<b>\$ '000</b>
Australian Dollar Weakened by 10%	343	171	42	202	1,162	527
Australian Dollar Strengthened 10%	(343)	(171)	(42)	(202)	(1,162)	(527)

**(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.

As at reporting date, unused Australian credit facilities net of bank guarantees of the Group was \$290.4 million. In addition, the Group maintains a domestic overdraft facility of \$3.0 million.

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

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

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.

<b>December 2020</b>	<b>Less than 6 months \$'000</b>	<b>6 - 12 months \$'000</b>	<b>1 - 5 years \$'000</b>	<b>Over 5 years \$'000</b>	<b>Total \$'000</b>
<b>Non-derivative financial liabilities</b>					
Bank loans*	158,479	14,320	4,385	-	177,184
Trade payables	135,100	-	-	-	135,100
	<u>293,579</u>	<u>14,320</u>	<u>4,385</u>	<u>-</u>	<u>312,284</u>
<b>Derivative financial liabilities</b>					
Interest rate swaps	386	-	-	-	386
	<u>386</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>386</u>
<b>December 2019</b>	<b>Less than 6 months \$'000</b>	<b>6 - 12 months \$'000</b>	<b>1 - 5 years \$'000</b>	<b>Over 5 years \$'000</b>	<b>Total \$'000</b>
<b>Non-derivative financial liabilities</b>					
Bank loans*	208,664	7,784	-	-	216,448
Trade payables	113,498	-	-	-	113,498
	<u>322,162</u>	<u>7,784</u>	<u>-</u>	<u>-</u>	<u>329,946</u>
<b>Derivative financial liabilities</b>					
Interest rate swaps	-	-	986	-	986
	<u>-</u>	<u>-</u>	<u>986</u>	<u>-</u>	<u>986</u>

\*Bank loans consist of commercial bills. For domestic loans, 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.

**(c) Credit Risk**

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

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

The maximum exposure to credit risk is as follows:

	<b>December 2020 \$ '000</b>	<b>December 2019 \$ '000</b>
Cash and cash equivalents	32,450	35,962
Receivables	100,924	92,426
Forward exchange contracts	2,832	-
	<u>136,206</u>	<u>128,388</u>

## Costa Group Holdings Ltd

### Notes to the Consolidated Financial Statements

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.

	December 2020	December 2019
	\$ '000	\$ '000
Neither past due nor impaired	48,704	49,749
Past due 1 - 30 days	14,785	13,924
Past due 31 - 60 days	1,452	1,259
Past due over 60 days	4,394	1,903
	<u>69,335</u>	<u>66,835</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 37% of the Group's trade debtors at 27 December 2020.

#### Expected credit loss assessment for trade receivables

The Group uses an allowance matrix to measure the Expected Credit Losses (ECL) of trade receivables from individual customers. Loss rates are calculated using combination of estimated potential bad debts for debts past due more than 90 days and actual write-offs in the past three years.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows.

	December 2020	December 2019
	\$ '000	\$ '000
Movements in the accumulated impairment losses were:		
Opening balance	(482)	(678)
Impairment loss (recognised) / reversed	(383)	124
Amounts written off	213	72
Closing balance	<u>(652)</u>	<u>(482)</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 Company.

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.

## 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
		December 2020 %	December 2019 %		
<b>Associates</b>					
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

	Polar Fresh Partnership	Driscoll's Australia Partnership	Total
	\$ '000	\$ '000	\$ '000
Reconciliation of carrying amount in joint ventures and associates:			
Opening balance	92	16,580	16,672
Total share of profit	-	9,070	9,070
Dividends received	-	(4,175)	(4,175)
Closing balance	92	21,475	21,567

#### (a) Polar Fresh Partnership

The Polar Fresh Partnership is a provider of cold storage, warehousing and distribution solutions. As previously disclosed, Polar Fresh Partnership's final contract was completed in October 2017 and operations have now ceased and is in the process of winding down.

#### (b) Driscoll's Australia Partnership

In 2010, an entity of the Group entered into a partnership with Driscoll's Inc. to form Driscoll's Australia Partnership, which is an Australian berry marketing business. The majority of the Group's Australian grown berries are marketed in Australia through the Driscoll's brand. In the financial year ended December 2020, gross sales revenue for the Driscoll's Australia Partnership was \$532.8 million (December 2019: \$482.7 million), and net assets were \$42.9 million (December 2019: \$33.1 million).

### 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 subsidiaries:

Subsidiaries of Costa Group Holdings Ltd:	Country of incorporation	Ownership interest held by the Group	
		December 2020	December 2019
		%	%
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
Blueberry Investments Africa Pty Ltd (formerly 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 Group Holdings Ltd**  
**Notes to the Consolidated Financial Statements**

**Subsidiaries of Costa Group Holdings Ltd:**

	Country of incorporation	Ownership interest held by the Group	
		December 2020	December 2019
Costa Asia Ltd	Hong Kong	100	100
Costa China (Hong Kong) Ltd	Hong Kong	70	70
Costa (Honghe) Fruit Planting Co. Ltd	China	70	70
Costa (Yunnan) Agricultural Development Co. Ltd	China	70	70
Costa (Baoshan) Agricultural Development Co Ltd	China	70	70
African Blue S.A.	Morocco	89	89
Sweet Berry S.A.	Morocco	89	89
Blue Flavor	Spain	80	80
African Blue (UK) PLC	United Kingdom	80	80

## 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 financial year ended December 2020 as follows:

- Driscoll's Australia Partnership - Commission paid on sale of berries \$25.1 million (December 2019: \$24.0 million)
- Driscoll's Australia Partnership - Sales of produce \$187.6 million (December 2019: \$178.8 million)
- Driscoll's Australia Partnership - Receivable of \$12.5 million (December 2019: \$12.8 million) for sale of produce and logistic services.
- Driscoll's Australia Partnership - Dividends received amounting to \$4.2 million (December 2019: \$1.9 million)

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

###### Mr Harry Debney

The Group incurred the following transactions during the financial year ended December 2020:

- Payment of membership fee of \$200,000 to Australian Fresh Produce Alliance (AFPA) (December 2019: \$200,000) of which Harry Debney is a Director, representing the Group. The AFPA is made up of Australia's major fresh produce growers and suppliers and serves as the industry body that retailers and government go to for discussion and outcomes on issues involving the growing and supply of fresh produce.
- Capital expenditure payment of \$1,360,000 to The Yield Pty Ltd (December 2019: \$132,570), of which Harry Debney serves as Chairman of the Board. The Yield is an Australian agricultural technology company that invest, builds and secure scalable digital agriculture technology.
- Income of \$37,500 from the Yield Pty Ltd (December 2019: \$50,000) on behalf of Harry Debney's services as Chairman of the Board.

###### Key Management Personnel

	December 2020 \$ '000	December 2019 \$ '000
Compensation received by key management personnel of the group:		
- Short-term employee benefits	2,651	2,139
- Post-employment benefits	67	71
- Other monetary benefits	-	2
- Long-term employee benefits	34	36
- Share-based payment benefits <sup>(1)</sup> /expenses	(441)	455
	<u>2,311</u>	<u>2,703</u>

- (1) The share-based payment benefits for the year ended December 2020 includes reversal of previously accrued share based payment expense, due to the non-achievement performance hurdles of the FY18 and FY19 LTIs.

**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**

	December 2020 \$ '000	December 2019 \$ '000
<b>Assets</b>		
Current assets	167	200
Non-current assets	709,194	672,191
<b>Total assets</b>	<b>709,361</b>	<b>672,391</b>
<b>Liabilities</b>		
Current liabilities	4,862	9,907
Non-current liabilities	135,508	105,379
<b>Total liabilities</b>	<b>140,370</b>	<b>115,286</b>
<b>Net assets</b>	<b>568,991</b>	<b>557,105</b>
<b>Equity</b>		
Contributed equity	580,734	580,831
Share-based payment reserve	8,119	8,697
Profit reserve	38,750	26,189
Accumulated losses	(58,612)	(58,612)
<b>Total equity</b>	<b>568,991</b>	<b>557,105</b>

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

	December 2020 \$ '000	December 2019 \$ '000
Profit/(Loss) for the period	36,610	(7,315)
Total comprehensive profit/(loss) for the period	<b>36,610</b>	<b>(7,315)</b>

**(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 Australian wholly owned subsidiaries listed in Note D2 (excluding Hillston Investments Pty Ltd, Agri Exchange Farm Management Pty Ltd, and Costa Group Finance Pty Ltd) are parties to a deed of cross guarantee under which each company guarantees the debts of the others.

Pursuant to *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785*, the wholly-owned subsidiaries listed in Note D2 (excluding Hillston Investments Pty Ltd, Agri Exchange Farm Management Pty Ltd, and Costa Group Finance Pty Ltd ) are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports, and directors' report.

A Consolidated Statement of Profit or Loss and Other Comprehensive Income and a consolidated statement of financial position for the financial year ended 27 December 2020, comprising the above listed parties to the deed which represent the "closed group", are set out below:

#### (a) Consolidated Statement of Profit or Loss and Other Comprehensive Income of the closed group

	December 2020	December 2019 (Restated)*
	\$ '000	\$ '000
Revenue	1,000,870	924,250
Less: Expenses	(959,325)	(972,145)
Share of net profits of associates and joint ventures accounted for using the equity method	9,070	4,101
<b>Profit/(Loss) before income tax expense</b>	<b>50,615</b>	<b>(43,794)</b>
Income tax (expense)/benefit	(13,396)	1,358
<b>Profit/(Loss) for the year</b>	<b>37,219</b>	<b>(42,436)</b>
<b>Other comprehensive (loss)/income for the year</b>		
Foreign currency translation differences	(8,773)	248
Cash flow hedges – effective portion of changes in fair value	2,720	392
<b>Total other comprehensive (loss)/income for the year</b>	<b>(6,053)</b>	<b>640</b>
<b>Total comprehensive income/(loss) for the year</b>	<b>31,166</b>	<b>(41,796)</b>

\*Comparative restated for IFRIC lease adjustment – refer to Note E6 for further detail.

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

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

	December 2020	December 2019
	\$ '000	(Restated)*
	\$ '000	\$ '000
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	16,094	27,261
Receivables	87,489	124,978
Inventories	20,814	19,625
Biological assets	43,219	36,199
Other assets & financial assets	10,954	7,688
Current tax asset	-	8,270
<b>Total current assets</b>	<b>178,570</b>	<b>224,021</b>
<b>Non-current assets</b>		
Receivables	3,958	3,963
Other financial assets	28,247	95,333
Equity accounted investments	21,567	35,602
Intangible assets	207,476	106,921
Deferred tax assets	20,630	17,727
Property, plant and equipment	412,187	404,355
Right-of-use assets	279,930	304,949
<b>Total non-current assets</b>	<b>973,995</b>	<b>968,850</b>
<b>Total assets</b>	<b>1,152,565</b>	<b>1,192,871</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Payables	119,823	92,542
Provisions	21,534	22,862
Other financial liabilities	879	-
Current tax liabilities	5,374	-
Lease liabilities	34,119	32,314
<b>Total current liabilities</b>	<b>181,729</b>	<b>147,718</b>
<b>Non-current liabilities</b>		
Borrowings	149,149	190,369
Provisions	8,765	7,852
Deferred tax liabilities	16,836	14,000
Other financial liabilities	-	986
Lease liabilities	261,683	283,242
<b>Total non-current liabilities</b>	<b>436,433</b>	<b>496,449</b>
<b>Total liabilities</b>	<b>618,162</b>	<b>644,167</b>
<b>NET ASSETS</b>	<b>534,403</b>	<b>548,704</b>
<b>EQUITY</b>		
Share capital	580,734	580,831
Other equity reserve	(13,117)	(13,093)
Other reserves	8,130	8,446
Profit reserve	85,908	42,022
Accumulated losses	(127,252)	(69,502)
<b>Total equity</b>	<b>534,403</b>	<b>548,704</b>

\*Comparative restated for IFRIC lease adjustment – refer to Note E6 for further detail.

## E. OTHER

### E1. Share-based payments

	December 2020 \$ '000	December 2019 \$ '000
Share-based payments reserve	8,119	8,697

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 the financial year ended December 2020, a total of 1,826,631 options (financial year ended December 2019: 2,339,520 options) have been granted to key management personnel and the executive team under new option plans.

There were no performance rights granted in the current and comparative year to key management personnel and the executive team.

#### 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.

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.

The amount recognised as expense over the vesting period is adjusted to reflect the actual number of options that vest except where forfeiture is due to failure to achieve market-based performance indicators.

#### Measurement of Fair Values

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

Employee share option programs	December 2020			December 2019
	KMP and executives			KMP and executives
Grant date	27/10/2020	23/07/2020	26/02/2020	26/02/2019
Number issued	6,550	125,000	1,695,081	2,339,520
Fair value at grant date	\$0.96	\$0.96	\$0.96	\$0.89
Share price at grant date	\$3.55	\$3.10	\$2.86	\$5.20
Exercise price	\$2.44	\$2.44	\$2.44	\$7.42
Expected volatility	44%	44%	44%	40%
Expected dividend yield	2.80%	2.80%	2.80%	2.80%
Risk-free rate	0.63%	0.63%	0.63%	1.69%

## Costa Group Holdings Ltd

### Notes to the Consolidated Financial Statements

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.

There were no performance rights issued in the 2020 financial year or the comparative year.

#### Reconciliation of outstanding share options

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

	December 2020		December 2019	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Opening balance	5,372,573	\$5.84	5,416,717	\$3.87
Disposed for cash or settled for shares during the year	(178,571)	\$2.25	(616,944)	\$2.81
Forfeited during the year	(2,011,356)	\$4.97	(1,766,720)	\$2.95
Granted during the year	1,826,631	\$2.44	2,339,520	\$7.42
Closing balance	5,009,277	\$5.08	5,372,573	\$5.84
Exercisable at year end	598,342	\$3.18	809,105	\$2.46

The options outstanding as at 27 December 2020, which have not vested, have an average exercise price of \$5.32 (Dec 2019: \$6.42).

## E2. Taxation

	December 2020	December 2019 (restated)*
	\$ '000	\$ '000
<b>(a) Components of tax expense</b>		
Current tax	19,165	5,927
Deferred tax	(2,351)	(5,104)
Over provision in prior years	(3,024)	(264)
	13,790	559
Profit/(loss) before income tax	81,239	(33,869)
Prima facie income tax expense on profit before income tax at 30.0%	24,372	(10,161)
- Effect of tax rates in foreign jurisdictions	(7,029)	(990)
Tax effect of:		
Non-deductible goodwill impairment	-	10,528
Non-deductible expenses/assessable income	691	1,974
Net deferred tax asset (recognised)/ unrecognised	(307)	189
Non-creditable foreign withholding tax	125	95
Over provision in prior years	(3,024)	(263)
Research and development tax credits	(800)	(800)
non-assessable income	(238)	(13)
Income tax expense attributable to profit	13,790	559

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

	December 2020	December 2019 (restated)*
	\$ '000	\$ '000
<b>(b) Current tax</b>		
Current tax relates to the following:		
<i>Current tax liabilities/(assets)</i>		
Opening balance	(5,186)	(3,016)
Current year tax expense	19,165	5,927
Tax payments	279	(5,735)
Foreign withholding tax credits claimable	(786)	(463)
Under provisions	(2,946)	(1,900)
Closing balance	10,526	(5,186)
<b>(c) Deferred tax</b>		
Deferred tax relates to the following:		
<b><i>Deferred tax assets</i></b>		
The balance comprises:		
Provisions	10,158	9,530
Trade and other payables	6,826	2,962
Inventories	41	39
Capital (black hole) deductions (section 40-880)	1,138	1,376
Borrowings	30	-
Equity Accounted Investments	332	488
Future deductible share plan trust payment	477	39
Tax losses – foreign subsidiaries	-	244
Lease assets and liabilities	4,765	3,013
Property, plant and equipment	127	470
	23,894	18,161
<b><i>Deferred tax liabilities</i></b>		
The balance comprises:		
Biological assets	11,676	9,625
Property, plant and equipment	610	3,413
Intangible assets	1,647	1,919
Trade and other receivables	2,923	2,266
Other financial liabilities	120	190
	16,976	14,000
Net deferred tax assets	6,918	4,161
<b>(d) Deferred tax expense included in income tax comprises</b>		
(Increase)/decrease in deferred tax assets	(3,723)	643
Increase/(decrease) in deferred tax liabilities	1,372	(5,747)
	(2,351)	(5,104)
<b>(e) Deferred tax movement</b>		
Opening balance – net deferred tax asset	4,161	1,954
Under provision in prior years	(78)	(1,637)
Increase in deferred tax asset recognised in profit or loss	2,350	5,104
Increase/(decrease) in deferred tax asset recognised in equity	253	(1,259)
FX revaluation	232	(1)
Closing balance – net deferred tax asset	6,918	4,161

\*Comparative restated for IFRIC lease adjustment – refer to Note E6 for further detail.

The Company's franking account balance as at 27 December 2020 is \$293,781 (29 December 2019 is \$11,641,776).

## Costa Group Holdings Ltd

### Notes to the Consolidated Financial Statements

#### Recognition and measurement

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

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

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

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

#### ***Tax Consolidation***

The Company and its Australian wholly owned 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 company 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.

## Costa Group Holdings Ltd

### Notes to the Consolidated Financial Statements

#### 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:

Effective Date	New Standards or amendments	Reference
1 June 2020	COVID-19 Related Rent Concessions (Amendment to AASB 16)	AASB 16
1 January 2021	Interest Rate Benchmark Reform – Phase 2 (Amendments to AASB 9, AASB 139, AASB 7, AASB 4 and AASB 16)	Various
1 January 2022	Onerous Contracts – Cost of Fulfilling a Contract (Amendments to AASB 137)	AASB 137
	Annual Improvement to IFRS Standards 2018 – 2020	Various
	Property, plant and equipment: Proceeds before intended use (amendments to AASB 116)	AASB 116
	Reference to Conceptual Framework (Amendments to IFRS 3)	AASB 3
	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	AASB 10 and AASB 128
1 January 2023	Classification of liabilities as current or non-current (Amendments to AASB 1)	AASB 1
	AASB 17 Contracts and amendments to AASB 17 Insurance contracts	AASB 17

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

#### E4. Auditor's remuneration

	December 2020 \$ '000	December 2019 \$ '000
<b>Audit and review services</b>		
Services provided by KPMG Australia	535	392
Services provided by associate firms of KPMG Australia	222	206
	<u>757</u>	<u>598</u>
<b>Other services provided by KPMG Australia</b>		
Taxation compliance and other taxation advisory services (including R&D)	207	213
Other services	23	56
	<u>230</u>	<u>269</u>
<b>Total remuneration of KPMG</b>	<u><u>987</u></u>	<u><u>867</u></u>

## Costa Group Holdings Ltd

### Notes to the Consolidated Financial Statements

#### E5. Other accounting policies

##### Research and development expenditure

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

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

Other development expenditure is recognised as an expense when incurred.

##### Bonus plan

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

##### Government grants

Government grants are initially recognised as deferred income at fair value when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Subsequently, they are recognised in the Consolidated Statement of Profit and Loss and Other Comprehensive Income to offset the applicable expenses incurred by the Group as stated in the provisions of the government grant.

#### E6. Change in accounting policies

In November 2019, the International Financial Reporting Standards Interpretations Committee (IFRIC) provided clarification on cancellable or renewable leases in the application of AASB 16 *Leases*. This had implication on the assessment of lease term, whereby the lease term could be assessed to be enforceable beyond the initial lease term and entities are required to determine whether it is reasonably certain to exercise options to extend the lease.

Due to the timing of the clarification, management were still in the process of reviewing and assessing its' impact during the December 2019 financial year. The assessment has now been completed and it was determined that some leases should have included the renewable options as part of the initial lease term. As a consequence, a restatement of the comparative right-of-use asset, lease liabilities and associated depreciation and lease interest expense respectively is required. The following table summarises the impact on the Group financial statements.



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

	December 2019	Adjustment	Restated December 2019
Consolidated statement of financial position	\$'000	\$'000	\$'000
Right-of-use asset	285,177	39,095	324,272
Non-current lease liabilities	(259,812)	(40,045)	(299,857)
Deferred tax assets	17,876	285	18,161
Accumulated losses	92,027	665	92,692

	December 2019	Adjustment	Restated December 2019
Consolidated statement of profit and loss and other comprehensive income	\$'000	\$'000	\$'000
Depreciation	(96,203)	1,067	(95,136)
Net finance costs	(25,979)	(2,018)	(27,997)
Income tax expense	(844)	285	(559)
Loss for the period	(33,763)	(665)	(34,428)

As a result of the changes above, the Group's earnings per share has been restated as per Note 7 and summarised below:

	December 2019	Restated December 2019
Earnings per share for profit attributable to ordinary equity holders	\$'000	\$'000
Basic earnings per share	(10.75)	(10.96)
Diluted earnings per share	(10.75)	(10.96)

## 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 27 December 2020 and of its performance, for the financial period year on that date; and
    - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2 There are reasonable grounds to believe that the Company and the Group entities identified in Note D5 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those Group entities pursuant to ASIC Corporations (Wholly owned Companies) Instrument 2016/785.
- 3 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the 12 months ended 27 December 2020.
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 21<sup>st</sup> day of February 2021.



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Harry Debney  
Managing Director & CEO



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Neil Chatfield  
Chairman



# Independent Auditor's Report

To the shareholders of Costa Group Holdings Ltd

## Report on the audit of the Financial Report

### Opinion

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

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

- giving a true and fair view of the **Group's** financial position as at 27 December 2020 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated Statement of Financial Position as at 27 December 2020
- Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity, and Consolidated Statement of Cash Flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The **Group** consists of the 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 (including Independence Standards)* (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

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.

This matter was 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 this matter.

### Recoverability of non-current assets including property, plant and equipment (\$515.7m AUD) and intangible assets (\$209.5m AUD)

Refer to Note B7. Property, plant and equipment, Note B8. Goodwill and Intangible Assets and Note B9. Impairment to the Financial Report.

The key audit matter	How the matter was addressed in our audit
<p>A key audit matter for us was the Group's assessment of the recoverability of non-current assets, including annual testing of goodwill for impairment, given the size of the balances (being 56% of total assets) and the level of judgement required by us when evaluating the evidence available. In addition, the ongoing COVID-19 global pandemic increases estimation uncertainty when applying forward-looking assumptions.</p> <p>We focussed on the significant forward-looking assumptions the Group applied in their Value In Use (VIU) and Fair Value Less Costs of Disposal (FVLCD) models (the cash flow models), including:</p> <ul style="list-style-type: none"> <li>forecast operating cash flows, impacted by pricing, yield, growth rates and terminal growth rates - the Group's models are sensitive to changes in these assumptions, potentially reducing available headroom or indicating possible impairment. This drives additional audit effort specific to their feasibility and consistency of application.</li> <li>discount rates – these are complicated in nature and vary according to the conditions and environment the specific CGU is subject to from time to time. The Group's modelling is sensitive to small changes in the discount rate. We involved our valuation specialists with this</li> </ul>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>We considered the appropriateness of the value in use and fair value less costs of disposal methods applied by the Group to perform the test of non-current assets for impairment against the requirements of the accounting standards.</li> <li>We assessed the integrity of the cash flow models used, including the accuracy of the underlying calculation formulas.</li> <li>We compared the forecast cash flows and capital expenditure contained in the cash flow models to Board approved forecasts.</li> <li>We challenged the Group's significant forecast cash flow and growth assumptions considering past performance of each CGU, and the forecast impact on cash flows from the Moroccan growth and replanting strategy and the Tomatoes Glasshouse 4 project. We compared key events to the Board approved plan and strategy. We compared forecast growth rates and terminal growth rates to published studies of industry trends and expectations and considered differences for the Group's operations. We used our knowledge of the Group, its past performance, business and customers, and our experience regarding the feasibility of these in the industry in which they operate.</li> <li>We assessed the accuracy of previous Group</li> </ul>

<p>assessment.</p> <ul style="list-style-type: none"> <li>• forecast capital expenditure – the African Blue CGU recoverable amount was determined through a FVLCS model, inclusive of significant forecast capital expenditure to reflect the Morocco growth strategy and replanting program. There is also significant capital expenditure within the Tomatoes CGU associated with the Glasshouse 4 project. Our testing focussed on the implications of these plans and their impact on the cash flow model.</li> </ul> <p>The Group uses complex models to assess non-current assets for impairment. The models are largely manually developed, use adjusted historical performance, and a range of internal and external sources as inputs to the assumptions.</p> <p>The Group's CGUs have not always met prior forecasts, increasing our focus on the reliability of current forecasts. Complex modelling, using forward-looking assumptions tends to be prone to greater risk for potential bias, error and inconsistent application. These conditions necessitate additional scrutiny by us, in particular to address the objectivity of sources used for assumptions, and their consistent application.</p>	<p>forecasts to inform our evaluation of forecasts incorporated in the cash flow models.</p> <ul style="list-style-type: none"> <li>• We considered the sensitivity of the models by varying key assumptions, such as forecast growth rates and terminal growth rates, pricing, and discount rates, within a reasonably possible range. We did this to identify those CGUs at higher risk of impairment, assumptions at higher risk of bias or inconsistency in application and to focus our further procedures.</li> <li>• Working with our valuation specialists, we: <ul style="list-style-type: none"> <li>• analysed the Group's discount rates against publicly available data of a group of comparable entities. We independently developed a discount rate range considered comparable using publicly available market data for comparable entities, adjusted by risk factors specific to the Group and the industry it operates in;</li> <li>• compared the implied multiples from comparable market transactions to the implied multiple from the Group's fair value less costs of disposal model; and</li> <li>• compared the Group's terminal growth rates against publicly available market data for each relevant geography.</li> </ul> </li> <li>• We assessed the disclosures in the financial report using our understanding of the matter obtained from our testing and against the requirements of the accounting standards.</li> </ul>
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## Other Information

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

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report including the Remuneration Report. The Chairman's Report, Managing Director's Review,



Company Profile, Harvest Calendar, Shareholder Information and Corporate Directory are expected to be made available to us after the date of the Auditor's Report.

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

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

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

### Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

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

Our objective is:

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

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

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

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at:

[http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our Auditor's Report.

## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of Costa Group Holdings Ltd for the year ended 27 December 2020 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 the Directors' report for the year ended 27 December 2020.

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



KPMG



Gordon Sangster

*Partner*

Melbourne

21 February 2021