



Costa Group Holdings Limited

Appendix 4E

Preliminary Final Report to the ASX

For the financial year ended 26 December 2021

ASX Listing Rule 4.3A

ABN 68 151 363 129

Contents

	Page
• Results for announcement to the market	1
• Directors' Report (including remuneration report)	3
• Auditor's Independence Declaration	39
• Financial Statements	40
• Notes to the Consolidated Financial Statements	45
• Directors' Declaration	94
• Auditor's Report	95

Reporting Period

Current reporting period:	Previous reporting period:
Financial year ended 26 December 2021	Financial year ended 27 December 2020

1. Results for announcement to the market

Key Information

	December 2021	December 2020	% change
	Results	Results	
	\$ '000	\$ '000	
Total revenue	1,220,597	1,164,916	4.8%
Profit for the period ¹	52,224	67,449	(22.6%)
Profit for the period attributable to owners of Costa Group Holdings Ltd ²	41,396	60,774	(31.9%)
Earnings before interest, tax, depreciation, amortisation, SGARA ³ , and material items (EBITDA-S) ⁴	218,210	197,187	10.7%
Net profit after tax before SGARA ³ , and material items (NPAT-S) ⁴	63,989	55,065	16.2%

Notes:

1. Represents the statutory profit for the period which includes the impact of SGARA and material items.
2. Represents the statutory profit for the period adjusted for non-controlling interests.
3. SGARA represents the fair value movements in biological assets.
4. EBITDA-S and NPAT-S disclosed are presented before material items. Refer note A3 on page 53 of the Consolidated Financial Statements for further details.

Explanation of results

Please refer to the Operating and Financial Review 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

	Cents per share	Franking %
Paid to ordinary shareholders		
Declared and paid during the year		
Final dividend – financial year ended 27 December 2020	5.0 cents	100% franked
Interim dividend – financial year ended 26 December 2021	4.0 cents	100% franked
Determined after end of year		
Final dividend – financial year ended 26 December 2021 ¹	5.0 cents	100% franked

Notes:

1. The final dividend was determined subsequent to balance date. The record date for determining an entitlement to receipt of the final dividend is 10 March 2022 and the Company expects to pay the dividend on 7 April 2022. This dividend has not been accrued for at year end.

There was no dividend reinvestment plan in operation during the years ended 26 December 2021 and 27 December 2020.

2. Earnings and Net Tangible Asset per Share

Please refer to note A4, page 53 of the notes to the Consolidated Financial Statements for Earnings per Share information.

	December 2021	December 2020
	Cents	Cents
Net tangible asset backing per ordinary share	123.22	101.57

3. Parent Entity and Subsidiaries

(a) Ultimate Parent

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

b) Subsidiaries

A list of the Group's subsidiaries can be found in note D2, page 80 of the Consolidated Financial Statements.

4. Joint Ventures and Associates

The Group's joint ventures and associates are included at note D1, page 79 of the Consolidated Financial Statements.

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 Operating and Financial Review in the Directors' Report on page 6.

6. Audit status

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

Costa Group Holdings Ltd

Directors' report

For the period ended 26 December 2021

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 26 December 2021 ('CY2021').

1. Directors

The directors of the Company at any time during or since the end of the period are set out below.

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 Horticultural Innovation and Technology Committee and Chair of the 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 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 Transurban Ltd (to October 2021), 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)

Non-Executive Director

Non-Executive Director since 1 July 2021. Chair of the Horticultural Innovation and Technology Committee and member of the Nomination Committee.

Harry was formerly the Company's CEO (from 2010) and Managing Director (from 2015) until his retirement from the Company's executive team in March 2021. During his time as CEO, Harry oversaw 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 Lite n' Easy 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 Non-Executive Chairman of Hazer Group Ltd and Angel Seafood Holdings Ltd.

Sean Hallahan BSc, MSc

Managing Director and CEO

Managing Director since 31 March and member of the Horticultural Innovation and Technology Committee.

Prior to being appointed as CEO and Managing Director, Sean was the Company's COO (since October 2017) and drove growth in the business through his leadership of consumer insight and innovation, brands, talent development and customer strategy.

Costa Group Holdings Ltd

Directors' report

For the period ended 26 December 2021

Before joining Costa, Sean was Managing Director of Tata Global Beverages - ANZ and Indonesia for 7 years, prior to which he held a number of senior sales and marketing roles with major companies including George Weston Foods, Simplot and SC Johnson. He has extensive experience in growing and integrating businesses, building high performing teams and developing brands.

Sean holds a Bachelor degree in Science and a Masters Degree in Sustainability.

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, Visit Victoria and KM Property Funds. Janette was previously a director of Nine Entertainment Ltd (to December 2018), Wellcom Group Ltd (to November 2019) and Australian VenueCo (to December 2021) 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 AO ***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 is also a director of Rugby Australia and ASX listed Transurban Ltd and Sonic Healthcare Ltd. In the early 2000s Dr Wilson was the Inaugural Chair of Horticulture Australia and served on the Council of Rural Research & Development Corporations' Chairs.

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 period ended 26 December 2021

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		Audit and Risk Committee		Remuneration and HR Committee		Horticultural Innovation and Technology Committee		Nomination Committee	
	<i>Held</i>	<i>Attended</i>	<i>Held</i>	<i>Attended</i>	<i>Held</i>	<i>Attended</i>	<i>Held</i>	<i>Attended</i>	<i>Held</i>	<i>Attended</i>
Neil Chatfield	12	12	6	6	6	6	5	5	2	2
Harry Debney	9 ²	9	3 ²	1 ¹	5 ²	3 ¹	5	5	1 ²	1
Tim Goldsmith	12	12	6	6	6	6	5	1 ¹	2	2
Janette Kendall	12	12	6	6	6	1 ¹	5	5	2	2
Peter Margin	12	12	6	6	6	6	5	2 ¹	2	2
Jane Wilson	12	12	6	2 ¹	6	6	5	5	2	2
Sean Hallahan	12	12 ³	6	6 ¹	6	6 ¹	5	5 ¹	2	2 ¹

Notes:

1. Not a member of the Committee at the time that meetings were held and attended the meeting as a guest
2. Harry Debney was not a director between 1 April and 30 June 2021. Only the meetings held while he was a director are shown.
3. Those Board meetings held in early 2021 prior to Sean Hallahan becoming a director were attended by Sean as a guest.

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's principal activities during the period 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.

6. Operating and financial review

Financial and business headlines

- Transacted sales¹ of \$1,659 million, an increase of 4%
- Revenue of \$1,221 million, an increase of 5%
- Net profit before SGARA and material items (NPAT-S²) of \$64 million an increase of 16%
- EBITDA before SGARA and material items (EBITDA-S²) of \$218 million an increase of 11%
- Operating cashflows of \$101 million, a \$16 million decrease
- Net debt of \$299 million at 26 December 2021, Leverage ratio 1.85x
- Three successfully integrated acquisitions: 2PH Farms, KW Orchards and Select Fresh
- Capital raise to fund the 2PH Farms acquisition
- Renegotiation of Vitalharvest leases

Summary of financial performance

Table 1: Summary of results for the financial year ended 26 December 2021 compared to CY2020

Consolidated income statement			
A\$m	CY2021	CY2020	Change \$
Revenue	1,183.6	1,140.8	42.8
Other revenue	37.0	24.2	12.8
Total Revenue	1,220.6	1,164.9	55.7
Raw materials, consumables and third party purchases	(407.7)	(408.2)	0.5
Employee benefits expense	(419.0)	(378.6)	(40.4)
Other operating expense	(185.6)	(189.9)	4.5
Share of associates profit	9.9	9.1	0.8
EBITDA-S²	218.2	197.2	21.0
<i>EBITDA-S margin</i>	17.9%	16.9%	1.0%
Fair value movements in biological assets	(7.5)	8.0	(15.5)
EBITDA	210.7	205.2	5.5
Depreciation and amortisation	(108.5)	(96.6)	(11.9)
Profit/(loss) on sale of assets and investments	0.5	(1.8)	2.3
Impairment losses	2.4	0.0	2.4
EBIT	105.1	106.8	(1.7)
Net interest expense	(25.0)	(25.6)	0.6
Net profit before tax	80.1	81.2	(1.1)
Income tax expense	(10.4)	(13.8)	3.4
Net profit after tax (before material items)	69.7	67.4	2.3
Material items (before tax)	(19.2)	0.0	(19.2)
Tax on material items	1.7	0.0	1.7
Non-controlling interest	(10.8)	(6.7)	(4.1)
Net profit after tax attributable to shareholders	41.4	60.8	(19.4)
Transacted sales ¹	1,658.9	1,598.6	60.3
NPAT-S ²	64.0	55.1	8.9

Notes:

1. Transacted Sales is a non-IFRS operating measure. See Table 9 for a reconciliation of Transacted Sales to revenue. Further details on Transacted Sales are provided in Table 8.
2. EBITDA-S and NPAT-S are non-IFRS financial measures. Further details on EBITDA-S and NPAT-S are provided in Table 8.

Costa Group Holdings Ltd
Directors' report
For the period ended 26 December 2021

Review of financial performance

CY2021 saw a record result from the International segment, with both African Blue and China posting impressive earnings growth on the prior year. This was largely attributable to higher volumes and pricing improvements in both these markets, with China benefitting from an increased footprint in CY21.

The acquisition of the Central Queensland based 2PH Farms in July, increased Costa's share of the Australian citrus export market, expanded key citrus growing regions from two to three, lengthened the overall growing season and opened access to new export markets and customers. Material items of \$17.5 million (after tax) which were recognised in the year related to transaction costs, stamp duty and integration costs for the acquisitions made during the year.

Domestic performance was mixed with a solid performance in the Berry category underpinned by favourable demand and strong pricing for blueberries over the second half of the year, in particular the Arana variety attracted a solid price premium. Avocados saw significant price deflation due to record high yields occurring across the year. In addition to the hail event in the first half of the year, the Citrus category faced COVID-related supply chain issues in the second half of the year which resulted in lower than expected export pricing being achieved. Lower than forecast production volumes meant that generally positive demand and pricing in the Mushroom and Tomato categories was not maximised.

COVID challenges continued to impact the operations of the Group both domestically and abroad. In Australia, costs for the movement and quarantine of harvest workers between states were incurred across several businesses. The global shipping disruptions negatively impacted citrus exports, to the US market in particular, with significant shipping delays along with vessel and lack of container availability resulting in reduced quality and revenues.

In December, the renegotiation of the Vitalharvest Citrus and Berry farm leases (seven farms in total) were concluded with the contracts extended to 2040. The change in terms resulted in the variable rent element of the legacy leases replaced by a fixed rent model, giving rise to an increased lease interest and right of use asset depreciation over the life of the leases.

Revenue

Revenue increased by \$55.7 million against the prior comparative period (CY2020) with the International segment seeing growth of 30% on the prior year, driven by the strong performance seen across both the China and Moroccan operations. Domestic performance was marginally higher as the contribution from acquisitions and one-off other income offset the impact of lower domestic revenues.

Operating expenses

Raw materials, consumables and third party purchase expenses decreased by \$0.5 million. Reduced operating costs from lower grape volumes, lower third party grower costs and one-off impacts of water saving measures adopted in CY2020 were partly offset by the increases in costs from acquisitions made in the year, the footprint growth in China and inflationary increases in freight and other input costs.

Employee related expenses increased by \$40.4 million. Key drivers were the growth in volumes seen from acquisitions, led by 2PH harvest labour cost, a mix change from third party to more own-grown tomatoes following the new glasshouse coming online and the increased volumes seen in avocados. COVID-related quarantine costs, increased cost pressures and inefficiencies associated with labour supply challenges impacted employee related costs significantly.

The \$4.5 million reduction in other operating expenses was achieved through reduced water costs in the Citrus category and variable rent expense savings in the Citrus and Berry categories.

Share of associates profit

Profits increased by 9%, as the Driscoll's Australia joint venture benefitted from a general increase in blueberry pricing.

EBITDA before SGARA (EBITDA-S¹)

EBITDA -S increased by \$21.2 million from CY2020 driven by:

- International segment performance led primarily by increased production footprint and improved pricing
- Profits from the acquisitions made during the year, 2PH Farms in particular
- Strong pricing in the domestic berry market

An increased contribution to EBITDA-S by the International category and 2PH Farms, saw the EBITDA-S margin improve by 1%.

Costa Group Holdings Ltd

Directors' report

For the period ended 26 December 2021

Fair value movements in biological assets

SGARA fair value movement was an expense of \$7.5 million during the year, this is largely due to the acquisition timing of 2PH Farms which saw the fair value of biological assets recognised at the date of acquisition reverse during the year as the harvest concluded post acquisition.

Depreciation and amortisation

The \$11.9 million increase in depreciation and amortisation expense is attributed to the footprint increase in China, the commencement of depreciation of the new tomato glasshouse facility in Guyra as well as the acquisitions made during the year.

Net interest expense

Net interest costs were lower by \$0.6 million from CY2020 following the expiry of out of money interest rate swaps during the year. This favourability was partly offset by a rise in lease interest as lease liabilities increased from acquisitions and lease extensions.

Tax expense

Lower tax expense is reflective of a higher mix of International earnings which attracts a lower effective tax rate.

NPAT-S¹

NPAT-S increased by \$8.9 million from CY2020 due to the earnings drivers described above. The increase in the mix of International earnings resulted in higher allocation of profits to non-controlling interests.

Dividends

The Board has determined a fully franked, final dividend of 5 cents per share for the financial year ended 26 December 2021. This brings the full year dividend payout to 9 cents per share (CY2020: 9 cents per share).

Notes:

1. EBITDA-S and NPAT-S are non-IFRS financial measures. Further details on EBITDA-S and NPAT-S are provided in Table 8.

Segment information

Produce

Table 2: Selected financial information for the Produce segment

Produce A\$m	CY2021	CY2020	Change
Transacted Sales	1,374.8	1,371.0	3.8
Revenue	929.5	930.2	(0.7)
EBITDA-S	126.6	124.9	1.7
EBITDA-S margin	13.6%	13.4%	0.2pts

Key factors impacting the revenue and profit drivers for the year were:

- Hail event at the start of the year which resulted in the loss of the Sunraysia table grape crop and damage to some citrus crop
- Quality issues from the global shipping disruption which affected export citrus sales
- Soft avocado pricing as a result of high industry yields and retail volumes seen across the year
- The contribution of the 2PH Farms acquisition following a season in line with forecast
- Strong pricing in berries, in particular premium blueberry varieties
- Increased contribution of pre-pack mushrooms to sales reflected in greater proportion of retail sales as a percentage of revenue

Costa Group Holdings Ltd
Directors' report
For the period ended 26 December 2021

Costa Farms and logistics

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

Costa Farms and Logistics			
A\$m	CY2021	CY2020	Change
Transacted sales	155.4	146.3	9.1
Revenue	159.4	150.4	9.0
EBITDA-S	14.6	14.8	(0.2)
<i>EBITDA-S margin</i>	9.2%	9.8%	-0.6pts

The underlying reduction in Logistic services revenue, was driven by the cessation of a key contract in the prior year and reduced activity in the markets due to the impact of lockdowns on demand from the restaurant and foodservice sector was largely offset by the increased revenues and profits generated from the Select Fresh business acquired during the year.

International

Table 4: Selected financial information for the International segment

International			
A\$m	CY2021	CY2020	Change
Transacted sales	174.6	133.7	40.9
Revenue	177.7	136.7	41.0
EBITDA-S	77.0	57.5	19.5
<i>EBITDA-S margin</i>	43.3%	42.1%	1.2pts

Results for the International segment were driven by double digit growth in both the China and Morocco businesses. Favourable growing conditions resulted in excellent quality and increased volumes. Both markets also benefitted from competitor countries undergoing major logistical disruptions resulting in less market competition and improved pricing. China's volume growth was also reflected in new plantings producing their first harvest during the year.

On a constant currency basis EBITDA-S improved \$25.4 million and revenue improved \$50.8 million compared to CY2020.

Costa Group Holdings Ltd
Directors' report
For the period ended 26 December 2021

Balance Sheet

Table 5: Selected consolidated balance sheet as at 26 December 2021

Selected Balance Sheet			
A\$m			
As at 26 December 2021	Dec-21	Dec-20	Change
Cash and cash equivalents	61.9	32.5	29.4
Receivables	109.3	100.9	8.4
Inventories	30.5	27.0	3.5
Biological assets	70.5	58.3	12.2
Equity accounted investments	27.2	21.6	5.6
Intangibles	289.1	209.5	79.6
Property, plant and equipment	799.9	515.7	284.2
ROU Assets	568.8	302.8	266.0
Other assets	45.4	37.2	8.2
Total Assets	2,002.6	1,305.5	697.1
Payables	149.3	135.1	14.2
Borrowings	361.1	176.3	184.8
Provisions	46.7	30.9	15.8
Lease Liabilities	583.0	318.1	264.9
Other liabilities	34.5	28.4	6.1
Total Liabilities	1,174.6	688.8	485.8
Net Assets	828.0	616.7	211.3

Net working capital¹

Net working capital decreased marginally by \$2.3 million during the year, with increases in receivables, inventories and payables balances due to acquisitions in the year.

Property, plant and equipment

Property, plant and equipment increased by \$284.2 million during the year and was largely driven by capital expenditure growth from the acquisitions as well as the continued international expansions and berry redevelopment programs.

ROU assets and lease liabilities

The increase in Right-of-use assets of \$266.0 million was largely attributable to the renegotiation and renewal of Berry and Citrus farm leases with Vitalharvest as well as property and water leases acquired as part of the Select Fresh and 2PH Farms acquisitions.

Biological assets

Biological assets increased by \$12.2 million is primarily as a result of the 2PH Farms acquisition.

Equity accounted investments

Equity accounted investment increased by \$5.6 million due to earnings contributions (net of dividends received) from the Driscoll's Australia marketing joint venture.

Intangible assets

Acquisitions in the year resulted in increases in goodwill of \$48.8 million, and \$29.0 million of water rights, customer relationships and brand names intangibles.

Other assets, liabilities and provisions

The increase in other assets include the creation of assets held for sale relating to a disused property for sale, and current income tax assets. Other liabilities increased by \$6.1 million mainly driven by in the recognition of deferred income tax liabilities relating to the business acquisitions in the year. An increase in provisions was primarily due to the recognition of Stage 1 of the Conaghans property acquisition described in note D6 of the Consolidated Financial Report.

Notes:

1. Net working capital calculated as receivables and inventories less payables.

Costa Group Holdings Ltd
Directors' report
For the period ended 26 December 2021

Net debt

Table 6: Consolidated net debt as at 26 December 2021

Net debt		
A\$m		
As at 26 Dec 2021	Dec-21	Dec-20
Bank loans	361.7	177.2
Capitalised loan establishment fees included in borrowings	(0.6)	(0.9)
Gross debt	361.1	176.3
Less: Cash and cash equivalents	(61.9)	(32.5)
Net debt	299.2	143.9
Leverage ratio¹	1.85x	0.99x

Notes:

1. Leverage ratio defined as net debt divided by EBITDA-S excluding the straight-lined lease expense calculated under the pre AASB 16 methodology.

Net debt as at 26 December 2021 increased by \$155.3 million to \$299.2 million as existing debt facilities assisted with funding the portion of the 2PH Farms acquisition not funded by the equity raising and further investments in growth projects such as the acquisition of KW Orchards and Select Fresh and the commencement of the avocado trellis project. The impact of the increased debt levels saw the leverage ratio increase from 0.99x to 1.85x which is still well within the Group's stated preferred ratio range of 1.5x to 2.0x.

Under the existing domestic banking facilities in place during the year, the Group was required to meet set covenant compliance ratio's which included total leverage ratio (TLR) and interest coverage ratio (ICR). The Group remains in compliance with all covenant measures.

Cash flow

Table 7: Cash flow showing movement in net debt

Consolidated cash flow		
A\$m	CY2021	CY2020
EBITDA-S before material items	218.2	197.2
Less: Share of profit of JVs	(9.9)	(9.1)
Dividends from JVs	4.2	4.2
Non-cash items in EBITDAS	1.1	(0.7)
Payment for leases	(61.5)	(52.6)
Change in working capital	(8.0)	6.1
Tax (Payment)/Refund	(23.1)	0.3
Borrowing Costs (excluding amortised costs)	(6.3)	(7.5)
Cashflow from Operating Activities	114.7	137.9
Maintenance capital expenditure	(43.2)	(28.6)
Productivity and growth capital expenditure	(84.4)	(50.3)
Payments for business acquisitions (incl material items)	(291.4)	-
Acquisition of non-controlling interest in subsidiary	(0.1)	-
Disposal of property, plant and equipment	1.1	1.1
Cashflow from Investing Activities	(418.0)	(77.8)
Proceeds from issue of shares	185.2	(0.3)
Payment of Dividends	(38.6)	(24.0)
Loans and Advances	1.7	-
Cashflow from Financing Activities	148.3	(24.3)
Total Net Debt Movement	(155.0)	35.8

Costa Group Holdings Ltd
Directors' report
For the period ended 26 December 2021

Dividends from joint ventures

Dividends from joint ventures were in line with CY2020 given consistent earnings from the Driscoll's Australia joint venture.

Working capital

The outflow in working capital of \$8.8 million for the year reflects increased activity at year end from business acquisitions.

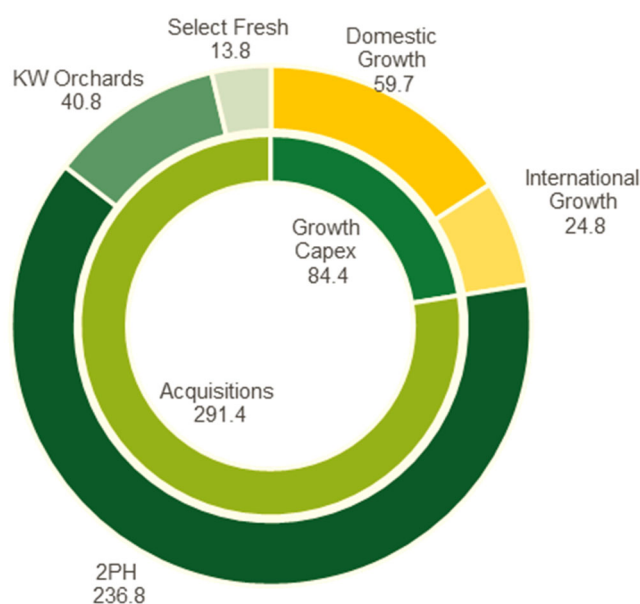
Capital expenditure and acquisitions

Maintenance capital expenditure increased by \$14.6 million against CY2020, driven largely by a packshed rebuild in Tumbarumba following bushfire damage in the prior year and continued capitalisation of farming expenditure related to developing orchards in the Citrus category (including new lots acquired as part of the 2PH Farms acquisition). Additionally, the prior year was impacted by conservative cashflow management in the early period of COVID-19 impacts.

Domestic growth capex over the year included completion of the new 10-hectare tomato glasshouse facility and 2.5 hectare nursery at Guyra. As mentioned, there was also the acquisition of quality citrus assets including 2PH Farms and KW Orchards, comprising land and orchards, which increases the domestic citrus production footprint from two to three main growing regions. International growth capex is largely attributed to the Agripark development in China.

Combined cashflows for growth capex and acquisitions amounted to \$375.8 million of which \$185.2 million was funded by an equity raise in the year for the 2PH Farms acquisition, and the remaining \$190.6 million being funded from a mix of operating cashflows and existing debt facilities.

Figure 1: Growth capital expenditure and acquisitions (A\$m)



Costa Group Holdings Ltd
Directors' report
For the period ended 26 December 2021

Non-IFRS measures

Throughout this report, the Group has included certain non-IFRS financial information, including EBITDA before SGARA & leasing, NPAT before SGARA and leasing, and Transacted Sales. The Group believes that these non-IFRS measures provide useful information to recipients for measuring the underlying operating performance of the 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 (SGARA) and material items. 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 SGARA is non-cash; therefore, EBITDA before SGARA is used in preference to EBITDA for Costa. Material items are acquisition and integration expenses, relating to acquisition of 2PH Farms, KW Orchards and Select Fresh in the period. Given the non-recurring and materiality of these expenses, the Group considers it appropriate to adjust the for these amounts in considering the underlying performance of the business.
NPAT before SGARA (NPAT-S)	Net profit attributable to members of Costa before fair value movements in biological assets and material items.

Non-IFRS operating measures	
Transacted Sales	<p>Transacted Sales are used by management as a key measure to assess the Group's sales and marketing performance and market share. Transacted sales represent the aggregate volume of sales in which the Group 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 the Group to be a revenue measure. There are material differences between the calculation of Transacted Sales and the way in which revenue is determined under IFRS.</p> <p>Transacted Sales comprise:</p> <ul style="list-style-type: none"> • statutory sales revenue; • gross invoiced value of agency sales of third-party produce; • royalty income from the licensing of Costa blueberry varieties in Australia, the Americas and Africa; and • 100% of the Driscoll's Australia joint venture sales after eliminating the Group's produce sales to the Driscoll's Australia JV. Prior to the formation of Driscoll's Australia JV in 2010, all of the Group's domestic sales and marketing activities for the berry category were managed by the Group.

Table 9: Reconciliation of Transacted Sales to revenue

Reconciliation of Transacted Sales			
A\$m	Note	CY2021	CY2020
Transacted Sales		1,658.9	1,598.6
Agency revenue adjustments	1	(93.0)	(87.4)
Driscoll's Australia Partnership consolidation adjustments	2	(373.4)	(362.9)
Other revenue	3	28.1	16.6
Total revenue		1,220.6	1,164.9

Notes:

1. Under IFRS, the invoiced value of agency sales is excluded from revenue with only the commission associated with the agency sales recognised.
2. 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.
3. Other revenue (with the exception of royalty income) not included in Transacted Sales.

Costa Group Holdings Ltd
Directors' report
For the period ended 26 December 2021

Table 10: Reconciliation EBITDA-S to profit for the period

Reconciliation of EBITDA-S to profit for the period		
A\$m	CY2021	CY2020
EBITDA-S	218.2	197.2
Fair value movements in biological assets	(7.5)	8.0
Material Items (before tax)	(19.2)	-
EBITDA	191.5	205.2
Depreciation and amortisation	(108.5)	(96.6)
Profit/(loss) on sale of assets	0.5	(1.8)
Impairment reversal	2.4	-
Net finance costs	(25.0)	(25.6)
Income tax expense	(8.7)	(13.8)
Profit for the period	52.2	67.4

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 2021, focus on the following risks, which are described in more detail in the table below, continues to be elevated due to COVID-19:

- **Health, safety and wellbeing** of workers as they continue 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, and associated disruption to global supply-chains.

From experiences dealing with COVID-19 at the beginning of the pandemic, the Group proactively established a COVID-19 Steering Committee early in 2020. This Committee continues to operate and is responsible for designing and implementing comprehensive and agile response practices to address the risks to the business from the pandemic, including but not limited to those described above.

Risk	Description	Mitigation
Weather:	Changes in weather can cause price and yield volatility for Costa. Severe weather events can also cause damage to operational assets of both Costa and key third party growers which could have an impact on Costa's financial performance.	Costa partially mitigates against weather risk by investing in weather protective growing environments and equipment. Approximately two-thirds of Costa's produce related EBITDA before SGARA is derived from crops 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. Costa's geographic diversification of its operations and third-party grower network (both within Australia and internationally) is also a key strategy in minimising the impact of this risk.
Water:	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 primarily 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, water capture and recycling. Costa also actively monitors the Group's water security position and water prices. Where appropriate forward water contracts are entered into to partially protect against the effect of potential water price increases.
Climate:	Changes in climate present physical risk to Costa's business primarily in the form of an increased frequency of severe weather events and changing temperatures, which could have an impact on Costa's production, assets and financial performance. Risk associated with transitioning to a low-carbon economy such as government actions to reduce the impacts of climate change may also impact Costa's operational costs.	Geographic diversification of Costa's operations plays a key role in minimising the impact of the physical risks of climate change, along with developing new crop varieties more suited to a changing climate, continually improving water security and management practices, finding new technological solutions, and adopting the use of renewable energy sources. Costa's Board committee – the Horticultural Innovation and Technology Committee – oversees strategies relating to horticultural innovation, with one of its areas of focus being the company's adaptation to the impacts of climate change. Costa utilises the TCFD framework as a tool to aid the analysis of the impacts of climate change and is continually developing and implementing strategies to manage this risk.
Supplier risk:	Costa relies on a number of suppliers to support the achievement of its objectives	Procurement, operations and Costa's Ethical Sourcing group work closely to manage and mitigate risks related to key

Costa Group Holdings Ltd
Directors' report
For the period ended 26 December 2021

Risk	Description	Mitigation
	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.	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 and ongoing engagement and relationship management; 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.
Brand risk:	Quality issues, product recall, contamination, public health issues, disputes or adverse media coverage could damage Costa's brands or reputation 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. During 2021 Costa also launched Costa Care - a culture program which builds on the Costa Values and People First ethos of the Company which is about all employees doing their very best for Costa's people, its produce and the community.
Customer risk:	Costa's top three customers comprised just over two thirds of Australian produce 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, within Australia, the nature of the market means that most customer arrangements are uncontracted. Costa actively explores alternative sales channels, both within Australia and internationally, with non-Australian customers comprising around one third of sales revenue.
Labour sourcing:	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. As the programme transitions to the Pacific Australia Labour Mobility programme Costa will maintain its Approved Employer status. Costa continually assesses its mix of employment models to ensure the most advantageous outcomes for the Group and for the workers who provide services to Costa. Accordingly, the Group is seeking to employ more of its workers directly and reduce its reliance on labour hire providers, which is expected to, over time, result in Costa having increased control over our labour sourcing.

Costa Group Holdings Ltd
Directors' report
For the period ended 26 December 2021

Risk	Description	Mitigation
Labour arrangements:	Costa uses labour hire firms to meet production and harvest peaks. 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 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.	Third party labour hire firms are processed by Costa through a rigorous pre-qualification process. Costa requires their employment practices and instruments satisfy all applicable employment laws and pay conditions and Costa monitors their compliance. In addition, Costa communicates Costa's Supplier Code of Conduct to each labour provider, and contractually obliges compliance with the Code. This Code seeks to ensure that human rights issues are understood, respected and upheld. 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.
Workplace health, safety and wellbeing:	Given the nature of the industry in which Costa operates, workers at Costa sites are at risk of workplace incidents. In addition to the potential for harm to any worker, the occurrence of workplace incidents has the potential to harm both the reputation and financial performance of Costa.	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 contractors, workers, employees and leaders on safety expectations. Costa's critical rules are communicated at all sites, informing workers of high-risk areas and safe work instructions are deployed throughout the workplace to reduce risk and hazards. 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. These protocols are updated regularly as the pandemic evolves.
Competition from new market entrants:	While Costa's operations currently benefit from scale and access to superior genetics, this competitive landscape may change over time. If one or more competitors or new market entrants obtained access to favourable genetic varieties which compete in the same categories as those of Costa, or if they achieve greater scale, this could have a material adverse impact on the financial performance and prospects of Costa.	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.
Changing market landscape:	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.	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.
Foreign exchange risk:	Costa is exposed to foreign exchange risk from a number of sources, namely from the export of produce to various countries, 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	Costa actively employs financial hedging strategies to manage this risk.

Costa Group Holdings Ltd
Directors' report
For the period ended 26 December 2021

Risk	Description	Mitigation
	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.	
Risks associated with international operations:	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.	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.
Environmental risk:	Costa's operations are subject to various environmental laws and regulations, and a range of licences and permits are required for Costa to operate its farming operations. If Costa is responsible for any environmental pollution or contamination or is found to be in breach of any of its licences or permits, Costa may incur substantial costs (including fines and remediation costs), its operations may be interrupted, and it may suffer reputational damage.	Costa actively seeks to reduce its environmental impact, including by applying measures across its business 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.
Community:	Costa operates in many regional communities and a failure to successfully integrate with those communities could impact on its operations.	Costa is actively involved in supporting the social fabric of the many regional communities in which it operates, 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. Community is one of three core elements of the 2021 launched Costa Care culture program which will continue to build on community engagement activity across our sites.
Plant and crop quality:	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.	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. 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 improving water security.

Costa Group Holdings Ltd
Directors' report
For the period ended 26 December 2021

Risk	Description	Mitigation
Intellectual Property ('IP') risk:	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.	Costa licenses its superior blueberry genetics to third parties 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.
Partner risk:	Costa has a number of joint venture and partnership agreements. If any of these key relationships break down, or agreements are terminated or amended in a manner unfavourable to Costa there could be an adverse impact on Costa's financial performance.	By their nature, joint ventures, partnerships and alliances present the possibility of diverging objectives between members. With key joint ventures and partnerships Costa aims to maintain close and mutually prosperous relationships through ongoing formal and informal communications and strong governance structures.
Information security/Cyber risk:	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.	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.
Restriction on movement of people or goods:	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. Additionally, prolonged supply chain disruptions could impact on Costa's operations.	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. Additionally, Costa's COVID-19 Steering Committee continues to plan for, monitor and take steps to mitigate supply chain disruptions.

7. Dividends

During the year ended 26 December 2021, Costa Group Holdings Ltd declared and paid a fully franked final dividend of 5.0 cents per share for CY2020 (as previously disclosed in the Directors Report for that period) and a fully franked interim dividend of 4.0 cents per share for CY2021.

The Board has approved a final dividend for CY2021 of 5.0 cents per share with a record date of 10 March 2022 and payment date of 7 April 2022. This dividend will be fully franked. As this dividend was approved after year end, it has not been accrued for as at 26 December 2021.

This brings the total dividend payment for CY2021 to 9.0 cents per share. CY2022 dividends will be determined after taking into account earnings performance during CY2022 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. During CY2021, the Group paid a civil penalty due to the overflow of water from holding dams at the Monarto mushroom farm during a period of civil construction on the site. All of the water that overflowed from the dam was contained within the Monarto site.

The Group reports under the *National Greenhouse and Energy Reporting Act 2007* (Cth) and the key emissions target Costa is committed to achieving is net-zero carbon emissions by 2050. To assist in progressing towards this commitment, Costa plans to pledge to the Science Based Target Initiative (SBTi) and subsequently work with SBTi to have our emission reduction targets validated. The adoption of renewable energy sources and in particular solar energy together with other emerging technologies to reduce emissions will play a role in meeting this target. This includes at present the operation of a solar farm at the Group's Monarto mushroom farm and the use of solar arrays to power irrigation pumps.

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	464,242	-
Harry Debney	341,142	568,253
Tim Goldsmith	73,425	-
Sean Hallahan	30,118	737,382
Janette Kendall	42,612	-
Peter Margin	86,986	-
Dr Jane Wilson	43,425	-

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:

<i>Number of unissued ordinary shares under option</i>	<i>Issue price of shares</i>	<i>Expiry date of the options</i>
50,000	\$1.45	October 2024
151,141	\$4.77	September 2022
67,905	\$6.53	March 2023
1,856,615 ¹	\$7.37	March 2024
1,417,032	\$2.39	March 2025
1,432,528 ²	\$3.95	March 2026

Notes:

1. This represents the number of outstanding options under the Company's CY19 LTI Plan as at the date of this report. However, the Board has determined that the vesting conditions for the options granted under the CY19 LTI plan were not met and accordingly all of these options will lapse on 1 March 2022.
2. These options represent unvested options granted to management (including the CEO) during the period under the Group's CY21 LTI plan, including 258,695 options issued to Sean Hallahan, 150,469 options issued to Wayne Johnston and 81,521 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 187,389 shares as a result of the exercise of options by current and former members 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.

	CY2021 \$ '000	CY2020 \$ '000
Audit and review services		
Services provided by KPMG Australia	524	535
Services provided by associate firms of KPMG Australia	259	222
	783	757
Other services provided by KPMG		
Taxation compliance and other taxation advisory services (including R&D)	210	207
Other services	148	23
	358	230

15. Rounding off

The Consolidated 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 39 and forms part of the directors' report for the financial period ended 26 December 2021.

Costa Group Holdings Ltd

Directors' report

For the year ended 26 December 2021

Remuneration report (audited)

1. Introduction

The directors are pleased to present the Remuneration Report for the financial year commencing on 28 December 2020 and ending 26 December 2021 ("CY2021"), 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
Non-executive Directors	
Neil Chatfield	Chairman, Non-executive director
Tim Goldsmith	Non-executive director
Janette Kendall	Non-executive director
Peter Margin	Non-executive director
Dr Jane Wilson AO	Non-executive director
Harry Debney ¹	Non-executive Director (commenced on 1 July 2021)
Executive KMP	
Harry Debney ¹	Chief Executive Officer, Managing Director (ceased on 31 March 2021)
Sean Hallahan ²	Chief Executive Officer, Managing Director (commenced on 31 March 2021)
Wayne Johnston	Chief Financial Officer

Notes in relation to Table 1

1. Harry Debney was Chief Executive Officer and Managing Director until he ceased employment on 31 March 2021, at which time he ceased to form part of Executive KMP. He was subsequently appointed as a non-executive director from 1 July 2021.
2. Sean Hallahan commenced as Chief Executive Officer and Managing Director on 31 March 2021. Prior to that he was the Company's Chief Operating Officer. He formed part of Executive KMP for the full financial year.

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 Company 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.

Costa Group Holdings Ltd

Directors' report

For the year ended 26 December 2021

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. During CY2021, Costa did not receive any remuneration recommendations as defined in section 9B of the Corporations Act 2021.

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
Competitive Remuneration	Reward employees fairly and competitively for their contributions to the Group's success.	<ul style="list-style-type: none">Total remuneration is set having regard to the individual's capabilities and experience.Remuneration for CY2021 was set with regard to an appropriate comparator group of companies within the consumer discretionary and consumer staples sectors of the S&P/ASX Small Ordinaries Index.The Board may at times obtain independent advice on the appropriateness of total remuneration package.
Performance Driven	Executives are rewarded for achieving strategic goals that create sustainable growth in shareholder wealth.	<ul style="list-style-type: none">Significant 'at risk' reward ensures executives' interests remain aligned with creation of shareholder value..At risk rewards are driven by the Group's short and long term performance incentives. Performance measures are designed to ensure a focus on long term sustainable growth.Equity is used as a key element of the variable remuneration to align executives and shareholders.

Remuneration report (audited)

3.1.1 Remuneration Overview for CY2021

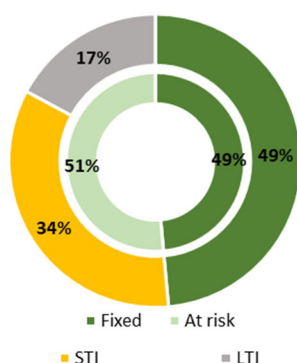
The remuneration for CY2021 for the Executive KMP comprised fixed remuneration, short-term incentives (STI) and long-term incentives (LTI) in the form of options over shares.

3.1.2 Remuneration Mix for CY2021

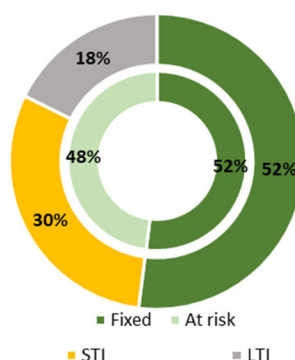
In CY2021, total remuneration for the Executive KMP included both fixed and 'at risk' reward components. The 'at risk' reward components included STI's (as outlined in section 3.2.2) and LTI's (as outlined in section 3.2.3), which are based on individual and group performance outcomes. Further details of the remuneration mix are outlined in *Section 7 – Directors' and Executive Officers' Remuneration*.

The remuneration potential for the Executive KMP for CY2021 (with the total at risk remuneration, including the maximum potential stretch STI benefit for CY2021) is set out below:

CEO remuneration - at 'potential'

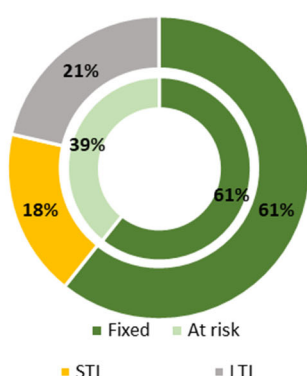


CFO remuneration - at 'potential'

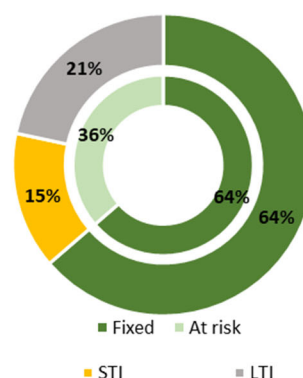


As noted in section 3.2.2 below, the STI minimum performance threshold for CY2021 was met and a partial STI payment was made for that period. In addition, it was determined that the earnings per share (EPS) hurdle that is applicable to the majority of the options under the CY19 LTI Plan (see section 3.3.1 below) was not met and that all of the options subject to the growth hurdle under that LTI Plan will be forfeited. This resulted in an accounting reversal of the associated share-based payments in CY2021, and hence a reduction in the amount of 'at risk' remuneration, for the Chief Executive Officer (CEO) and Chief Financial Officer (CFO). As a result, the mix of fixed versus variable 'at risk'¹ remuneration payable in respect of CY2021 for the Executive KMP was as follows:

CEO remuneration - at actual



CFO remuneration - at actual



Notes in relation to Figure 3.1.2

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

Harry Debney did not participate in the short term or long term incentive plans for CY2021, as he had announced his intention to retire as CEO and Managing Director prior to the commencement of CY2021.

Costa Group Holdings Ltd

Directors' report

For the year ended 26 December 2021

Remuneration report (audited)

3.2 CY2021 Remuneration Components

3.2.1 Fixed Remuneration

Total fixed remuneration ("TFR") for CY2021 comprised 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

CY21 STI Plan Overview

The CY21 STI Plan was designed to enable Executive KMP and other members of senior management to receive a performance-based incentive payment calculated as a percentage of TFR conditional on achieving Group EBIT-S hurdles as set out below.

The Group EBIT-S hurdles were:

- If the Group achieves less than 90% of budgeted Group EBIT-S 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-S and the participant satisfying their other STI performance measures, with pro rata payments for the EBIT-S component if Group EBIT-S is between 90% and 100% of budgeted Group EBIT-S.
- Stretch STI is payable if the Group achieves over 100% of budgeted Group EBIT-S, with the maximum STI being payable at 110% of budgeted Group EBIT-S (and the participant *meets expectations* of their individual performance STI measures). The stretch STI component is measured solely on Group EBIT-S and is calculated on a straight line basis between 100% and 110% of budgeted Group EBIT-S.

EBIT-S is a non-IFRS measure, which is calculated as earnings before interest, tax, fair value movement in biological assets (SGARA) and material items. For the purposes of assessing performance under the CY21 STI Plan, EBIT-S was calculated prior to any earnings from, and costs associated with, the acquisition of 2PH Farms. To provide meaningful comparison against the budgeted Group EBIT-S in determining the performance hurdles, it is considered appropriate to exclude the earnings and acquisition and integration related costs of 2PH Farms. The Company prefers the EBIT-S 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 material items. 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'.

CY21 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	CY2021
Opportunity	<ul style="list-style-type: none">• CEO – Target STI was 45% of TFR, with a maximum opportunity of 70% TFR for achieving stretch targets.• CFO - Target STI was 35% of TFR, with a maximum opportunity of 60% TFR for exceeding stretch targets.

Remuneration report (audited)

Performance Measures	<p>Consistent with prior years, STI was assessed against both financial and non-financial measures, and for the Executive KMP was weighted as follows:</p> <table border="1" data-bbox="430 425 1109 582"> <thead> <tr> <th>Measure</th><th>Weighting</th></tr> </thead> <tbody> <tr> <td>Group EBIT-S</td><td>50%</td></tr> <tr> <td>Cash Flow</td><td>30%</td></tr> <tr> <td>Individual Performance</td><td>20%</td></tr> </tbody> </table> <p>Individual Performance was measured against KPIs appropriate for the Executive's role and included key 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-S	50%	Cash Flow	30%	Individual Performance	20%
Measure	Weighting								
Group EBIT-S	50%								
Cash Flow	30%								
Individual Performance	20%								
Payment Method	<ul style="list-style-type: none"> • <u>Cash</u> - Two thirds of the STI payable will be paid in cash following the end of the performance year; and • <u>Deferred</u> - One third of the STI payable will be delivered in the form of performance rights on 1 March 2022. No dividends or voting rights are attached to performance rights, but cash payments equivalent to dividends will be paid to holders of performance rights. <p>A participant's performance rights will vest on 1 March 2023 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-S only, with the opportunity capped at 25% of the participant's TFR. Every 1% of actual Group EBIT-S over budgeted Group EBIT-S increases the incentive by 2.5%.</p> <p>The stretch STI component is calculated on a straight line basis between 100% and 110% of budgeted Group EBIT-S.</p>								
Calculations	<p>Each of the three measures (Group EBIT-S, Cash flow and Individual performance) has been evaluated. The outcome of the evaluation of these performance measures for each of the participants was as follows:</p> <p><u>Personal:</u></p> <p>The CEO assessed the individual performance of the CFO 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 substantially achieved their individual performance KPIs and received the majority of the individual performance component. In the case of the CEO the Board assessed that 80% of the personal component should be awarded, noting that the CEO was officially appointed to the role in March 2021.</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 CY2021, budget free cash flow was \$97.2 million and the actual free cash flow was \$100.8 million.</p> <p><u>Group EBIT-S:</u></p> <p>Budgeted Group EBIT-S for CY2021 was \$110.7 million. The actual Group EBIT-S for CY2021 (excluding the impact of the 2PH acquisition) was \$103.8 million, being 93.8% of budgeted Group EBIT-S.</p>								

Costa Group Holdings Ltd

Directors' report

For the year ended 26 December 2021

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	CY21 STI payable at target	CY21 STI payable if full stretch targets achieved	CY21 STI paid based on performance against Group and individual measures
Sean Hallahan	\$382,500	\$595,000	\$247,993
Wayne Johnston	\$173,040	\$296,640	\$117,381

3.2.3 CY21 LTI Plan

The CY21 LTI Plan that governs the LTI options issued during CY2021 is designed to reward the Executive KMP 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
Eligibility	CEO, CFO and selected senior management
Consideration for grant	Nil
Instrument	Options to acquire ordinary shares in Costa Group Holdings Limited
Number of options granted	The number of options was determined based on a set percentage of the participant's current TFR ("LTI Incentive Amount"), being 35% for each of the CEO and CFO. 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.
Exercise price	\$3.95 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 as subsequently adjusted to reflect the impact of the Company's entitlement offer in CY2021 (in accordance with the ASX announcement lodged on 29 November 2021).
Performance Period	The performance period is the three-year period commencing from 28 December 2020 to the end of the Company's 2023 financial year. The three-year performance period is consistent with performance periods adopted for previous LTI plans.
Performance Measure (EPS)	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:

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

Remuneration report (audited)

	may occur during the Performance Period). EPS will be measured using NPAT-S. The EPS growth threshold is considered commercially sensitive and will be disclosed following the end of the Performance Period.
Performance Measure (Growth)	<p>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.</p> <p>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.</p>
Entitlements	Options will not carry rights to dividends or voting rights prior to vesting.
Option exercise	<p>Vested options must be exercised prior to 1 March 2026 ("expiry date"). Prior to the expiry date, an option holder can exercise by either:</p> <ul style="list-style-type: none"> - 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. <p>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:</p> <p><i>(A minus B) divided by C, where:</i></p> <p><i>A = Number of Shares to which each Vested Option relates (ie. 1) x Number of Vested Options exercised x Market Price per Share</i></p> <p><i>B = Number of Vested Options exercised x Exercise Price per Option</i></p> <p><i>C = Market Price per Share, being an amount equal to the volume weighted average price of a Share recorded on the ASX over 10 ASX trading days immediately preceding the date on which the Market Price is to be calculated or, if no sale occurred during such period, the last sale price of a Share recorded on the ASX.</i></p>
Restrictions on Dealing	<p>Participants must not sell, transfer, encumber, hedge or otherwise deal with their options granted under the LTI Plan.</p> <p>Shares delivered on the exercise of 50% of the options will be subject to a restriction period (during which the shares cannot be sold or otherwise dealt with) for 12 months following vesting.</p>
Service conditions	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.
Change of Control	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 three-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. The performance period for the CY19 LTI Plan ended during CY2021.

Costa Group Holdings Ltd

Directors' report

For the year ended 26 December 2021

Remuneration report (audited)

3.3.1 CY19 LTI Plan

The performance period for the CY19 LTI Plan ended on 26 December 2021 and details of the relevant performance hurdles are as follows:

- 75% of the options issued under the CY19 LTI Plan were subject to a performance hurdle based on the Company's EPS (basic) compound annual growth rate ("CAGR") over the performance period. As the Company's EPS CAGR over the performance period was below the minimum 18% threshold that had been set at the time of the options being granted, all CY19 LTI Plan options subject to the EPS hurdle will lapse.
- 25% of the options issued under the CY19 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 implemented over the performance period. The Board noted that the Company had continued its growth agenda during the performance period, including the acquisition of the 2PH Farms business and continued growth in the China berry business. However, the Board recognised that expected returns from capital investment during the period had not yet been achieved. Based on this review of the performance hurdle, the Board (excluding the CEO) determined that all CY19 LTI Plan options subject to the growth hurdle will lapse.

The table below shows the vesting outcomes for the KMP's options granted under the CY19 LTI plan.

	CY19 EPS options held	CY19 EPS options vesting	CY19 Growth options held	CY19 Growth options vesting	Total CY19 LTI options lapsing
Harry Debney ¹	271,900	-	90,633	-	362,533
Sean Hallahan ²	189,729	-	63,243	-	252,972
Wayne Johnston ³	N/A	N/A	N/A	N/A	N/A

Notes in relation to Table 3.3.1

- Harry Debney was granted 362,534 EPS options and 120,844 growth options under the CY19 LTI Plan and forfeited 25% of those options upon his retirement, due to only serving 75% of the performance period. The option numbers shown above are after that earlier forfeiture of options.
- Options were granted to Sean Hallahan under the CY19 LTI Plan in February 2019, in his capacity as COO.
- Wayne Johnston commenced employment with the Group after 2019 and hence did not receive options under the CY19 LTI Plan.

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.

Costa Group Holdings Ltd

Directors' report

For the year ended 26 December 2021

Remuneration report (audited)

4. Executive KMP Contract Terms

4.1 Executive KMP Contract Terms

A summary of the key terms of employment for Executive KMP as at 26 December 2021 is presented in the below table:

Executive	Role	Notice by the Group	Notice on Resignation
Sean Hallahan	Chief Executive Officer	6 Months	6 Months
Wayne Johnston	Chief Financial Officer	6 Months	6 Months

5. Non-executive Directors

The details of fees paid to Non-executive Directors in CY2021 are included in Section 7 of this report. Non-executive Directors' fees were fixed and they did not receive any performance-based remuneration.

During CY2021 the Company undertook a benchmarking exercise for non-executive director fees, which had not been subject to a review since the Company's listing in July 2015, and as result the fees were increased with effect from 1 October 2021. The table below outlines the revised annual fees for non-executive directors following that review. 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.

Board/Committee	Annual Chairman Fee (\$)	Annual Member Fee (\$)
Board base fee	275,000 (inclusive of committee fees)	130,000
Audit and Risk Committee	28,000	14,000
Remuneration and Human Resources Committee	25,000	12,500
Horticultural Innovation and Technology Committee	20,000	10,000
Nomination Committee	-	-

Remuneration report (audited)

6. Relationship between remuneration policy and Group performance

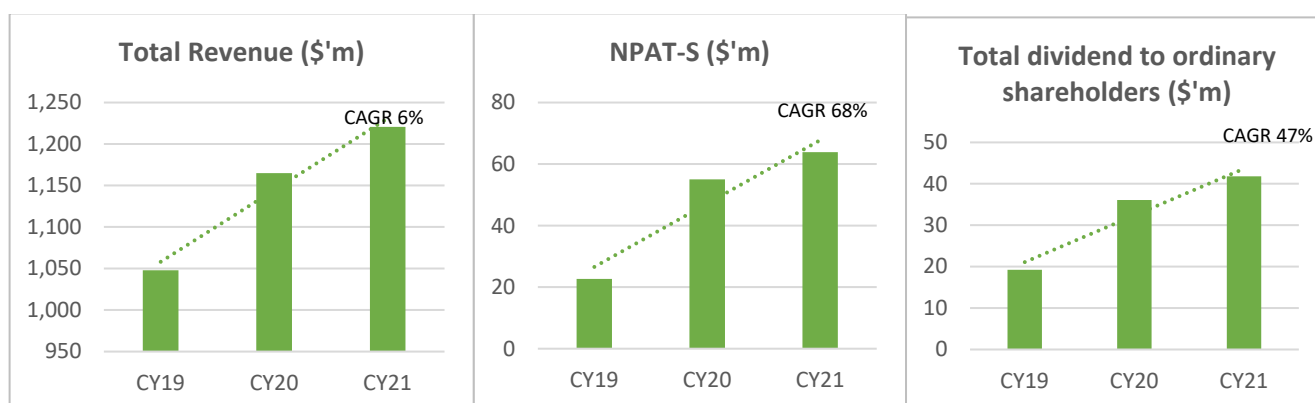
Key performance indicator

	CY2018 ¹	CY2019 ²	CY2020 ²	CY2021 ²
Revenue (\$'000)	990,282	1,047,873	1,164,916	1,220,597
Statutory EBIT ³ (\$'000)	77,466	(10,142)	106,787	85,813
EBIT-S ³ (\$'000)	86,578	59,037	98,774	112,593
NPAT-S ⁴ (\$'000)	56,538	22,664	55,065	63,989
Dividend paid or determined to ordinary shareholders (\$'000)	43,186	19,238	36,075	41,794

Notes in relation to Table 6

1. The CY2018 information represents a proforma period from 1 January 2018 to 30 December 2018 as the Group changed its reporting period from a June year end to a December year end in 2018 and have been included to allow a comparative against subsequent calendar years. The amounts disclosed for Revenue, Statutory EBIT, EBIT-S and NPAT-S are consequentially unaudited results. Additionally, the CY2018 amounts are prior to the adoption of AASB16 Leases.
2. CY2019 onwards reflects the adoption of AASB 16 leases.
3. EBIT is defined as earnings before interest and tax. EBIT-S is calculated as EBIT before fair value movements in biological assets and material items.
4. NPAT-S is net profit after tax attributable to ordinary shareholders but excluding impacts of fair value movements in biological assets and material items.

CY2019 to CY2021 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 set out information about the Group's performance, earnings and dividend for CY2021 compared to the preceding year and CY2019.

Group EBIT-S performance for CY2021 was higher than the 90% threshold but less than budgeted EBIT-S, a partial STI payment was made to the CEO and Executive KMP for this period. This highlights a close alignment between the Group's financial performance and remuneration policy for Executive KMP.

Remuneration report (audited)

7. Directors' and Executive Officers' Remuneration Outcomes

Details of the nature and amount of each major element of remuneration¹ 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 and fees	STI (cash)	Non-monetary benefits	Other Monetary Benefits	Total	Superannuation benefits	Long service leave	Termination benefits		
Non-executive Directors		\$	\$	\$	\$	\$	\$	\$	\$	\$	
Neil Chatfield	CY2021	252,404	-	-	-	252,404	9,679	-	-	-	262,083
	CY2020	243,424	-	-	-	243,424	7,001	-	-	-	250,425
Harry Debney ²	CY2021	313,532	-	4,983	-	318,515	12,858	-	-	(74,350)	261,097
	CY2020	1,001,413	353,326	-	-	1,354,739	25,814	16,723	-	(161,716)	1,235,560
Peter Margin	CY2021	134,862	-	-	-	134,862	13,177	-	-	-	148,039
	CY2020	123,670	-	-	-	123,670	11,749	-	-	-	135,419
Janette Kendall	CY2021	125,544	-	-	-	125,544	12,264	-	-	-	137,808
	CY2020	109,419	-	-	-	109,419	10,395	-	-	-	119,814
Tim Goldsmith	CY2021	144,132	-	-	-	144,132	2,093	-	-	-	146,225
	CY2020	125,031	-	-	-	125,031	5,639	-	-	-	130,669
Jane Wilson	CY2021	123,313				123,313	12,047				135,360
	CY2020	106,940				106,940	10,159				117,099

Notes in relation to table 7:

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. Harry Debney's remuneration includes remuneration as CEO and Managing Director for the period until 31 March 2021 and as non-executive director for the period from 1 July 2021.
3. Sean Hallahan was appointed as Managing Director (previously Chief Operating Officer) from 31 March 2021.

Costa Group Holdings Ltd

Directors' report

For the year ended 26 December 2021

Remuneration report (audited)

		Short-term				Post-employment	Long-term benefits	Termination	Share-based payments	Total
		Salary and fees	STI (cash)	Non-monetary benefits	Other Monetary Benefits	Total	Superannuation benefits	Long service leave	Termination benefits	
		\$	\$	\$	\$	\$	\$	\$	\$	\$
Current										
Managing Director and Executive Officers										
Sean Hallahan	CY2021	792,365	165,328	-	2,615	960,309	22,631	25,019	-	99,711
	CY2020	636,021	185,400	-	-	821,421	21,348	10,897	-	(100,668)
Wayne Johnston	CY2021	477,191	78,254	-	943	556,388	22,631	7,943	-	130,709
	CY2020	233,029	66,893	-	-	299,922	11,183	3,896	-	46,816
Former										
Executive Officers										
Linda Kow (resigned 1 May 2020)	CY2021	-	-	-	-	-	-	-	-	-
	CY2020	175,521	-	-	-	175,521	8,489	2,826		(225,293)

Notes in relation to table 7:

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. Harry Debney's remuneration includes remuneration as CEO and Managing Director for the period until 31 March 2021 and as non-executive director for the period from 1 July 2021.
3. Sean Hallahan was appointed as Managing Director (previously Chief Operating Officer) from 31 March 2021.

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 28 December 2020	Shares acquired	Shares sold	Shares delivered under STI or LTI plans	Held at 26 December 2021
Neil Chatfield	375,000	89,242	-	-	464,242
Tim Goldsmith (indirectly held)	37,500	35,925	-	-	73,425
Janette Kendall (indirectly held)	36,798	5,814	-	-	42,612
Peter Margin (indirectly held)	75,118	11,868	-	-	86,986
Dr Jane Wilson	37,500	5,925	-	-	43,425
Harry Debney (directly and indirectly held)	723,013	46,542	550,000 ¹	121,587	341,142
Sean Hallahan (directly and indirectly held)	10,990	19,128	-	-	30,118
Wayne Johnston	-	-	-	-	-

Notes in relation to Table 8.1:

1. Shares were sold by Harry Debney at a time when he was not a KMP, namely after he had ceased to be CEO and Managing Director and prior to his appointment as non-executive director.

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 CY2021 was as set out below. Shareholder approval for the issue of options to Sean Hallahan under the LTIP was obtained in accordance with ASX Listing Rule 10.14 at the Company's AGM held in May 2021 prior to the options being issued.

	Options granted during CY2021	Grant date	Fair Value per option \$	Exercise price per option \$	Expiry date
Sean Hallahan	258,695	1 June 2021 ¹	1.15	3.95	1 March 2026
Wayne Johnston	150,469	19 February 2021	1.15	3.95	1 March 2026

Notes in relation to Table 8.2:

1. The grant date for valuation purposes for all options granted to Executive KMP (including the CEO) during CY2021 was 19 February 2021, being the date on which the Board approved the establishment of the CY21 LTI Plan.

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 ¹	Grant date	Vesting date	Exercise price
Harry Debney	Options	362,533	30 May 2019 ²	1 March 2022	\$7.37
	Options	155,251	29 May 2020 ²	1 March 2023	\$2.39
	Performance Rights	38,758	1 March 2021	1 March 2022	N/A
Sean Hallahan	Options	252,972	26 February 2019	1 March 2022	\$7.37
	Options	199,875	26 February 2020	1 March 2023	\$2.39
	Options	258,695	1 June 2021 ²	1 March 2024	\$3.95
	Performance Rights	20,337	1 March 2021	1 March 2022	N/A
Wayne Johnston	Options	125,000	20 July 2020 ²	1 March 2023	\$2.39
	Options	150,469	19 February 2021	1 March 2024	\$3.95
	Performance Rights	7,337	1 March 2021	1 March 2022	N/A

Notes in relation to Table 8.3

1. This Table sets out the options held as at the end of the reporting period. However, as set out in Table 3.3.1, the Board has determined that all of the options that were due to vest on 1 March 2022 will lapse on that date.
2. The grant date for valuation purposes for options granted to Executive KMP (including the CEO) during CY2021 was 19 February 2021, for options granted during CY2020 was 26 February 2020 and for options granted during CY2019 was 26 February 2019.

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 27 December 2020	Granted as compensation	Exercised	Value of exercised options (at time of exercise) \$	Forfeited / lapsed during the year	Held at 26 December 2021	Vested during the year	Vested and exercisable at 26 December 2021
Harry Debney	1,165,029	-	121,587	190,892	475,189	568,253	15,221	50,469
Sean Hallahan	547,623	258,695	-	-	68,936	737,382	7,659	25,840
Wayne Johnston	125,000	150,469	-	-	-	275,469	Nil	Nil

8.5 Key Management personnel transactions

There were no transactions between members of the Group and any KMP (or their related parties) that resulted in any personal financial benefit to the KMP. The Group had certain transactions during the financial year with companies of which the KMP were directors. These transactions were on arm's length terms and were entered into for the benefit of the Group, at the request of the Group's Board of Directors. These are disclosed in note D4 of the financial statements.

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 (e.g. 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;
- 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 former executive role) and Sean Hallahan (due to his current executive role).

Costa Group Holdings Ltd
Directors' report
For the year ended 26 December 2021

Remuneration report (audited)

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

A handwritten signature in black ink, appearing to read 'Neil Chatfield', with a stylized flourish at the end.

Neil Chatfield

Chairman

Dated at Melbourne 21 February 2022



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 26 December 2021 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 2022

Costa Group Holdings Ltd
Consolidated Statement of Profit and Other Comprehensive Income
For the financial year ended 26 December 2021

	Notes	December 2021 \$ '000	December 2020 \$ '000
Revenue			
Total revenue	A2	1,220,597	1,164,916
		<u>1,220,597</u>	<u>1,164,916</u>
Less: expenses			
Raw materials, consumables and third-party purchases		(407,710)	(408,203)
Depreciation and amortisation expenses		(108,459)	(96,610)
Impairment reversal	B7, B8	2,357	-
Employee benefits expenses	A2	(420,284)	(378,649)
Occupancy expenses		(30,630)	(41,925)
Net finance costs	A2	(24,986)	(25,550)
Profit/(loss) on sale of assets		484	(1,803)
Freight and cartage		(69,600)	(61,543)
Leasing expenses		(5,264)	(4,231)
Other expenses	A2	(78,582)	(81,543)
(Loss)/gain on fair value adjustments - biological assets		(7,498)	8,015
Impairment loss on trade receivables		(198)	(705)
Business acquisitions and integration costs	A3, D3	(19,188)	-
		<u>(1,169,558)</u>	<u>(1,092,747)</u>
Share of net profits of joint ventures and associates accounted for using the equity method	D1	9,881	9,070
Profit before income tax expense		<u>60,920</u>	<u>81,239</u>
Income tax expense	E2	(8,696)	(13,790)
Profit for the period		<u>52,224</u>	<u>67,449</u>
Other comprehensive income/(loss) for the period			
Foreign currency translation differences		12,335	(8,773)
Cash flow hedges - effective portion of changes in fair value		(2,292)	2,720
Total other comprehensive income/(loss) for the period		<u>10,043</u>	<u>(6,053)</u>
Total comprehensive income for the period		<u>62,267</u>	<u>61,396</u>
Profit attributable to:			
Owners of Costa Group Holdings Ltd		41,396	60,774
Non-controlling interests		10,828	6,675
		<u>52,224</u>	<u>67,449</u>
Total comprehensive income attributable to:			
Owners of Costa Group Holdings Ltd		51,439	54,721
Non-controlling interests		10,828	6,675
		<u>62,267</u>	<u>61,396</u>
		December 2021	December 2020
		Cents	Cents
Earnings per share for profit attributable to ordinary equity holders:			
Basic earnings per share	A4	9.47	15.16
Diluted earnings per share	A4	9.47	15.16

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

Costa Group Holdings Ltd
Consolidated Statement of Financial Position
As at 26 December 2021

		December 2021	December 2020
	Notes	\$ '000	\$ '000
ASSETS			
Current assets			
Cash and cash equivalents	B1	61,887	32,450
Receivables	B2	108,032	96,900
Inventories	B3	30,538	26,987
Biological assets	B6	70,543	58,312
Other assets and financial assets	B5	12,700	13,258
Current tax assets	E2	8,554	-
Assets held for sale	B8	3,207	-
Total current assets		295,461	227,907
Non-current assets			
Receivables	B2	1,274	4,024
Equity accounted investments	D1	27,248	21,567
Intangible assets	B9	289,146	209,450
Deferred tax assets	E2	21,302	23,894
Property, plant and equipment	B7	799,933	515,688
Right-of-use assets	B11	568,751	302,803
Total non-current assets		1,707,654	1,077,426
Total assets		2,003,115	1,305,333
LIABILITIES			
Current liabilities			
Borrowings	C1	13,704	14,320
Payables	B4	149,310	135,100
Provisions	B12	21,011	22,123
Other financial liabilities	B4	-	879
Current tax liabilities	E2	542	10,526
Lease liabilities	B11	64,125	34,119
Total current liabilities		248,692	217,067
Non-current liabilities			
Borrowings	C1	347,419	162,013
Provisions	B12	25,652	8,766
Deferred tax liabilities	E2	34,467	16,976
Lease liabilities	B11	518,927	283,949
Total non-current liabilities		926,465	471,704
Total liabilities		1,175,157	688,771
NET ASSETS		827,958	616,562
EQUITY			
Share capital	C2	768,074	580,734
Other equity reserve	C2	(13,422)	(13,117)
Other reserves	C4, E1	15,602	4,783
Profit reserve	C3	112,021	109,242
Accumulated losses		(92,692)	(92,692)
Equity attributable to owners of the parent		789,583	588,950
Non-controlling interests		38,375	27,612
Total equity		827,958	616,562

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 26 December 2021

	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
Balance as at 27 December 2020	580,734	(13,117)	8,119	(4,233)	2,469	(1,572)	109,242	(92,692)	588,950	27,612	616,562
Profit for the year	-	-	-	-	-	-	-	41,396	41,396	10,828	52,224
Other comprehensive income/(loss)	-	-	-	12,335	(2,292)	-	-	-	10,043	-	10,043
Transfer to profit reserve	-	-	-	-	-	-	41,396	(41,396)	-	-	-
Total comprehensive income for the year	-	-	-	12,335	(2,292)	-	41,396	-	51,439	10,828	62,267
Transactions with owners in their capacity as owners:											
Issue of shares (gross)	190,083	-	-	-	-	-	-	-	190,083	-	190,083
Costs of equity raise (net of tax)	(3,680)	-	-	-	-	-	-	-	(3,680)	-	(3,680)
Shared-based payment expense during the period	-	-	1,056	-	-	-	-	-	1,056	-	1,056
Share options exercised	937	(305)	(300)	-	-	-	-	-	332	-	332
Dividend paid on ordinary shares	-	-	-	-	-	-	(38,617)	-	(38,617)	-	(38,617)
Dividend paid to NCI	-	-	-	-	-	-	-	-	-	(65)	(65)
Tax effect of share plan payment through equity	-	-	20	-	-	-	-	-	20	-	20
Balance as at 26 December 2021	768,074	(13,422)	8,895	8,102	177	(1,572)	112,021	(92,692)	789,583	38,375	827,958

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 26 December 2021

	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
Balance as at 29 December 2019	580,831	(13,093)	8,697	4,540	(251)	(4,730)	72,517	(92,692)	555,819	20,937	576,756
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)	-	-	-
Total comprehensive income for the year	-	-	-	(8,773)	2,720	-	60,774	-	54,721	6,675	61,396
Transactions with owners in their capacity as owners:											
Issue of shares (net of issue costs)	(296)	(111)	-	-	-	-	-	-	(407)	-	(407)
Net options forfeited during the period	-	-	(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
Balance as at 27 December 2020	580,734	(13,117)	8,119	(4,233)	2,469	(1,572)	109,242	(92,692)	588,950	27,612	616,562

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 26 December 2021

	Notes	December 2021 \$ '000	December 2020 \$ '000
Cash flow from operating activities			
Receipts from customers		1,223,442	1,154,164
Payments to suppliers and employees		(1,022,071)	(959,831)
Interest received		66	382
Interest paid		(24,553)	(25,778)
Income taxes paid		(23,090)	(507)
Net cash provided by operating activities	B1	153,794	168,430
Cash flow from investing activities			
Payments for property, plant and equipment		(127,583)	(78,921)
Dividends from equity accounted investments		4,200	4,175
Dividends paid to non-controlling interest		(65)	-
Acquisition of businesses	D3	(291,387)	-
Proceeds from sale of property, plant and equipment		1,134	1,098
Net cash used in investing activities		(413,701)	(73,648)
Cash flow from financing activities			
Proceeds from share issue, net of issue costs		185,167	(296)
Dividend payments on ordinary shares		(38,617)	(24,049)
Loans and advances		1,722	6
Proceeds from borrowings		2,321,965	2,076,380
Repayment of borrowings		(2,139,090)	(2,115,000)
Payment of lease liability		(43,341)	(34,784)
Net cash provided by/(used in) financing activities		287,806	(97,743)
Reconciliation of cash			
Cash at beginning of year		32,450	35,962
Net increase/(decrease) in cash held		27,899	(2,961)
Effect of movement in foreign exchange rate		1,538	(551)
Cash at end of year	B1	61,887	32,450

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

Costa Group Holdings Ltd

Notes to the Consolidated Financial Statements

Index to Notes

OVERVIEW

Reporting entity
Basis of preparation
Financial reporting impacts of COVID-19
Critical accounting estimates and judgements

NOTE INDEX

A. Group Performance

A1. Segment performance
A2. Revenue and expenses
A3. Material items
A4. Earnings per share
A5. Subsequent events

B. Operating assets and liabilities

B1. Cash and cash equivalents
B2. Receivables
B3. Inventories
B4. Payables and other financial liabilities
B5. Other assets and financial assets
B6. Biological assets
B7. Property, plant and equipment
B8. Assets held for sale
B9. Intangible assets
B10. Impairment
B11. Leases
B12. Provisions
B13. Contingent liabilities

C. Capital structure and financing

C1. Borrowings
C2. Share capital
C3. Profit reserve
C4. Other reserves
C5. Dividends
C6. Financial instruments – fair values and risk management

D. Group Structure

D1. Joint ventures and associates
D2. List of subsidiaries
D3. Business acquisitions
D4. Related party disclosures
D5. Parent entity disclosures
D6. Deed of cross guarantee

E. Other

E1. Share-based payments
E2. Taxation
E3. New accounting standards
E4. Auditor's remuneration
E5. Other accounting policies

Costa Group Holdings Ltd

Notes to the Consolidated Financial Statements

OVERVIEW

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 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 consolidated financial report

The consolidated 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 consolidated financial report complies with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board.

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

The notes to the consolidated 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 consolidated 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 and the business acquisitions that are required to be recorded on acquisition at fair value.

Rounding

The consolidated 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 consolidated 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 relevant 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 Consolidated Statement of Financial Position are shown inclusive of GST/VAT.

Cash flows are presented in the Consolidated 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 consolidated 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 joint ventures and associates are accounted for under the equity method and are initially recognised at cost. The cost of the investment includes transaction costs. The consolidated 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 consolidated 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 consolidated 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 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.

Subsidiaries 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 has continued to severely disrupt 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 B10 – Impairments

Critical accounting estimates and judgements

The preparation of the consolidated 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	57
Recoverability of goodwill	B9 - Intangible assets	62
Recoverability of non-financial assets other than goodwill	B9 - Intangible assets	62
Leases	B11 - Leases	66
Fair value measurement	C6 - Financial instruments – fair values and risk management	72
Fair value measurement	D3 - Business Acquisitions	81
Income tax	E2 - Taxation	89

A. GROUP PERFORMANCE

A1. Segment performance

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

(a) Basis for segmentation

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

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

Produce

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

Costa Farms and 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 the Group'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 EBITDA¹ before Self Generating and Regenerating Assets ("SGARA") and material items ("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 to allocate any direct attributable Business Support costs to the respective segment. Any unallocated or not directly attributable costs are allocated to the produce segment.

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.

Notes:

1. Earnings before interest, tax, depreciation and amortisation.

Costa Group Holdings Ltd

Notes to the Consolidated Financial Statements

December 2021		Produce	CF&L	International	Adjustments and eliminations	Total
	Notes	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue						
External customers		891,195	151,745	177,657	-	1,220,597
Inter-segment		38,304	7,644	-	(45,948)	-
Total revenue		<u>929,499</u>	<u>159,389</u>	<u>177,657</u>	<u>(45,948)</u>	<u>1,220,597</u>
EBITDA-S		<u>126,640</u>	<u>14,577</u>	<u>76,993</u>	<u>-</u>	<u>218,210</u>
Fair value movements in biological assets	B6	(12,634)	-	5,136	-	(7,498)
Material items (before tax)	A3	(18,376)	(812)	-	-	(19,188)
EBITDA		<u>95,630</u>	<u>13,765</u>	<u>82,129</u>	<u>-</u>	<u>191,524</u>

December 2020		Produce	CF&L	International	Adjustments and eliminations	Total
	Notes	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue						
External customers		885,060	143,110	136,746	-	1,164,916
Inter-segment		45,172	7,245	-	(52,417)	-
Total revenue		<u>930,232</u>	<u>150,355</u>	<u>136,746</u>	<u>(52,417)</u>	<u>1,164,916</u>
EBITDA-S		<u>124,872</u>	<u>14,805</u>	<u>57,510</u>	<u>-</u>	<u>197,187</u>
Fair value movements in biological assets	B6	5,708	-	2,307	-	8,015
Material items (before tax)	A3	-	-	-	-	-
EBITDA		<u>130,580</u>	<u>14,805</u>	<u>59,817</u>	<u>-</u>	<u>205,202</u>

Financial Reporting Impacts of COVID-19

COVID-19 challenges continued to impact the operations of the group both domestically and abroad. Demand for the Group's products and services remained largely unaffected by the ongoing pandemic.

In Australia, costs for the movement and quarantine of harvest workers between states were incurred across several businesses. The global shipping disruptions negatively impacted citrus exports with significant shipping delays along with vessel and container availability resulting in reduced quality and revenues.

Internationally, major logistical disruptions in competitor countries resulted in less market competition and improved pricing across both the Chinese and Moroccan businesses

(c) Reconciliation of segment EBITDA to profit for the period

	Notes	December 2021 \$ '000	December 2020 \$ '000
EBITDA for reportable segments		191,524	205,202
Depreciation and amortisation		(108,459)	(96,610)
Profit/(loss) on sale of assets		484	(1,803)
Impairment reversal	B7	2,357	-
Net finance costs		(24,986)	(25,550)
Income tax expense	E2	(8,696)	(13,790)
Profit for the period		<u>52,224</u>	<u>67,449</u>

Costa Group Holdings Ltd

Notes to the Consolidated Financial Statements

(d) Geographical segment of non-current assets

	December 2021	December 2020
	\$ '000	\$ '000
Non-current assets excluding financial assets (including equity accounted investment) and deferred tax balance by geography		
Australia	1,399,662	798,735
China	102,622	80,263
Morocco	155,546	148,943
	<u>1,657,830</u>	<u>1,027,941</u>
Reconciliation of segment non-current assets to Statement of Financial Position		
Non-current assets	1,707,654	1,077,426
Deduct:		
Equity accounted investments	(27,248)	(21,567)
Deferred tax assets	(21,302)	(23,894)
Non-current receivables	(1,274)	(4,024)
	<u>1,657,830</u>	<u>1,027,941</u>

A2. Revenue and expenses

REVENUE

	December 2021	December 2020
	\$ '000	\$ '000
Sale of goods and commission income received	1,158,028	1,111,767
Rendering of services	41,937	44,336
Rebates and discounts provided	(16,408)	(15,338)
Other income	37,040	24,151
Total revenue	<u>1,220,597</u>	<u>1,164,916</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 factors indicate 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, and payment settlement discounts are recognised when earned.

Other income

Other income includes dividends, rental income, royalty income, insurance income and net foreign exchange gains or losses.

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.

Insurance income is recognised when recovery is virtually certain.

Costa Group Holdings Ltd

Notes to the Consolidated Financial Statements

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

Foreign exchange gain or losses are recognised when monetary assets or liabilities denominated in foreign currency are settled or are translated at rates different from those at which they were translated when initially recognised.

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

EXPENSES

Net finance costs

		December 2021 \$ '000	December 2020 \$ '000
	Note		
Interest income		(72)	(422)
Interest expense on borrowings		6,113	7,156
Interest expense on lease liabilities	B11	18,191	17,856
Amortisation of borrowing costs		754	960
		<u>24,986</u>	<u>25,550</u>

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. To determine the amount of borrowing costs to be capitalised, the Group uses the interest rate applicable to its outstanding borrowings during the period. For the year ended December 2021, the borrowing costs capitalised as part of property, plant and equipment was \$0.8 million using a weighted average interest rate of 2.54% (December 2020: \$1.4 million, 2.99%).

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. Loan establishment costs of \$0.3 million (December 2020: Nil) were recognised during the period.

Employee benefits expenses

	December 2021 \$ '000	December 2020 \$ '000
Salaries, contractors and wages (including on-costs)	383,961	345,358
Superannuation costs	19,508	17,596
Leave entitlements	11,194	10,727
Other employee expenses	5,621	4,968
	<u>420,284</u>	<u>378,649</u>

Other expenses

	December 2021 \$ '000	December 2020 \$ '000
Repair and maintenance expenses	23,826	21,709
Legal and consulting expenditure	6,709	7,860
Insurance	12,715	11,709
Other ¹	35,332	40,265
	<u>78,582</u>	<u>81,543</u>

Notes:

1. 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 incentive payments from the Australian Federal Government during the period (December 2020: Nil).

A3. Material items

Material items are acquisition and integration expenses which are one-off costs as a result of the 2PH Farms, KW Orchards and Select Fresh acquisition, refer to note D3 for further details.

A4. Earnings per share

	December 2021	December 2020
	Cents per share	Cents per share
<i>Basic EPS</i>		
Basic EPS (cents) based on net profit attributable to members of Costa Group Holdings Limited	9.47	15.16
<i>Diluted EPS</i>		
Diluted EPS (cents) based on net profit attributable to members of Costa Group Holdings Limited	9.47	15.16
	Number ('000)	Number ('000)
<i>Weighted average number of shares</i>		
Weighted average number of ordinary shares on issue used in the calculation of basic EPS	437,291	400,822
<i>Effect of potentially dilutive securities</i>		
Equity-settled share options	30	74
Weighted average number of ordinary shares on issue used in the calculation of diluted EPS	437,321	400,896
	\$ '000	\$ '000
Earnings reconciliation		
<i>Basic and diluted EPS</i>		
Net profit attributable to owners of Costa Group Holdings Limited	41,396	60,774

Calculation of earnings per share

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

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

A5. Subsequent events

Dividends

On 21 February 2022, the directors determined a final dividend of 5.0 cents per ordinary shares payable on 7 April 2022. 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 26 December 2021, 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.

B. OPERATING ASSETS AND LIABILITIES

B1. Cash and cash equivalents

	December 2021	December 2020
	\$ '000	\$ '000
Cash on hand	42	44
Cash at bank	61,781	32,342
Cash on deposit	64	64
	61,887	32,450

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

	December 2021	December 2020
	\$ '000	\$ '000
Profit for the period	52,224	67,449
<i>Costs associated with non-operating activities</i>		
Acquisition and integration costs	19,188	-
<i>Non-cash adjustments to reconcile profit for the period to net cash flows:</i>		
Depreciation and amortisation	108,459	96,610
(Profit)/Loss on sale of assets	(484)	1,803
Borrowing costs written-off/amortised	605	780
Impairment reversal	(2,357)	-
Foreign exchange differences	1,840	(2,969)
Loss/(Gain) on fair value adjustments - biological assets	7,498	(8,015)
Share-based payments expense/(benefit)	1,056	(656)
Share of profit of equity-accounted investees, net of tax	(9,881)	(9,070)
	178,148	145,932
<i>Change in working capital and tax balances:</i>		
Increase in inventories	(1,167)	(2,731)
Increase in receivables	(5,882)	(9,309)
Increase in biological assets	(964)	(1,312)
Increase in other assets	(1,912)	(671)
Decrease in interest payable	(72)	(631)
Increase in payables	918	24,558
Decrease in provisions	(1,003)	(663)
Decrease/(Increase) in deferred taxes	2,250	(2,211)
(Decrease)/Increase in current tax payables	(16,522)	15,468
Net cash generated from operating activities	153,794	168,430

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 Consolidated 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 2021 \$ '000	December 2020 \$ '000
CURRENT		
Trade debtors	74,669	69,336
Less: Allowance for impairment losses on trade receivables	(582)	(652)
	74,087	68,684
Other receivables	33,945	28,216
	108,032	96,900
NON-CURRENT		
Other receivables	1,274	4,024

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 relate 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 Consolidated 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 2021 \$ '000	December 2020 \$ '000
Carrying amount of other receivables transferred to a bank		2,660	2,580
Carrying amount of associated liabilities	C1	(2,660)	(2,580)

Financial Reporting Impacts of COVID-19

The Group's primary sales channel is retail. Demand in general for the Group'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 2021 \$ '000	December 2020 \$ '000
CURRENT		
<i>At cost</i>		
Raw materials	23,740	17,884
Finished goods	6,798	9,103
	<u>30,538</u>	<u>26,987</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

Payables	December 2021 \$ '000	December 2020 \$ '000
CURRENT		
<i>Unsecured liabilities</i>		
Trade creditors	68,929	59,007
Sundry creditors and accruals ¹	80,381	76,093
	<u>149,310</u>	<u>135,100</u>

Notes:

1. Includes deferred consideration for business acquisitions of \$3.1 million, refer to note D3 for further details

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 2021 \$ '000	December 2020 \$ '000
CURRENT		
Put and call options liability	-	493
Interest rate swap	-	386
	<u>-</u>	<u>879</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 and financial assets

	December 2021 \$ '000	December 2020 \$ '000
CURRENT		
Prepayments	12,448	10,426
Forward exchange contracts	252	2,832
	<u>12,700</u>	<u>13,258</u>

B6. Biological assets

	December 2021 \$ '000	December 2020 \$ '000
CURRENT		
Produce at fair value	64,201	52,267
Produce at cost	6,342	6,045
Total biological assets	<u>70,543</u>	<u>58,312</u>

Reconciliation of changes in carrying amount of biological assets:	Note		
Opening balance		58,312	49,208
(Loss)/Gain arising from changes in fair value		(7,498)	8,015
Increases due to purchases		211,539	214,200
Increase resulting from business acquisitions	D3	18,839	-
Decreases due to harvest		(210,649)	(213,111)
Closing balance		<u>70,543</u>	<u>58,312</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 Consolidated Statement of Profit 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.

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.

Costa Group Holdings Ltd

Notes to the Consolidated Financial Statements

Measurement of fair values (Continued)

Type	Description	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Hanging crop (citrus, grapes, avocados, tomatoes, blueberries, raspberries and bananas)	These are crops from trees and bushes that have an annual crop production cycle and a reasonably stable development cycle.	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 the Group'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 2021 \$ '000	December 2020 \$ '000
Land and buildings at cost	398,878	228,919
Accumulated depreciation and impairment	(73,292)	(63,753)
	325,586	165,166
Assets Under Construction at cost	88,309	82,464
Plant and equipment at cost	505,788	399,075
Accumulated depreciation and impairment	(238,251)	(197,014)
	267,537	202,061
Improvements at cost	46,338	42,047
Accumulated depreciation and impairment	(17,044)	(13,661)
	29,294	28,386
Bearer plants at cost	100,664	64,816
Bearer plants in progress at cost	25,167	-
Accumulated depreciation and impairment	(36,624)	(27,205)
	89,207	37,611
Total property, plant, and equipment	799,933	515,688

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.

	Note	December 2021 \$ '000	December 2020 \$ '000
<i>Land and buildings</i>			
Opening carrying amount		165,166	153,161
Additions		15,115	1,780
Assets acquired through business combination	D3	106,848	-
Disposals		(17)	(392)
Depreciation expense		(9,202)	(7,874)
Impairment reversal		1,370	-
Transfers to assets held for sale	B8	(2,220)	-
Other transfers, reclassifications and adjustments and effect of movement in FX rate ³		48,526	18,491
Closing carrying amount		325,586	165,166
<i>Assets Under Construction</i>			
Opening carrying amount		82,464	93,991
Additions ^{1, 2}		89,783	56,573
Disposals		(10)	(149)
Other transfers, reclassifications and adjustments and effect of movement in FX rate ³		(83,928)	(67,951)
Closing carrying amount		88,309	82,464
<i>Plant and equipment</i>			
Opening carrying amount		202,061	189,199
Additions		27,054	3,618
Assets acquired through business combination	D3	39,611	-
Disposals		(596)	(1,691)
Depreciation expense		(42,472)	(34,991)
Impairment reversal		987	-
Transfers to assets held for sale	B8	(987)	-
Other transfers, reclassifications and adjustments and effect of movement in FX rate ³		41,879	45,926
Closing carrying amount		267,537	202,061
<i>Leasehold Improvements</i>			
Opening carrying amount		28,386	27,706
Additions		3,212	768
Assets acquired through business combination	D3	311	-
Disposals		-	(33)
Depreciation expense		(3,239)	(2,869)
Transfers, reclassifications and adjustments and effect of movement in FX rate		624	2,814
Closing carrying amount		29,294	28,386
<i>Bearer Plants</i>			
Opening carrying amount		37,611	34,858
Additions		13,132	8,356
Mature bearer plants acquired through business combination	D3	21,280	-
Immature bearer plants, acquired through business combination	D3	25,167	-
Disposals		(214)	(285)
Depreciation expense		(8,913)	(8,834)
Transfers, reclassifications and adjustments and effect of movement in FX rate		1,144	3,516
Closing carrying amount		89,207	37,611

Notes:

- Includes Conaghans asset acquisition \$15.9 million. Refer notes B11 and D3 for details.
- Includes capitalised borrowing costs of \$0.8 million (December 2020: \$1.4 million). Refer note A2 for details.
- Includes completion and transfer of Glasshouse 4 of \$79.5m from asset under construction to buildings, plant and equipment in 2021.

Costa Group Holdings Ltd

Notes to the Consolidated Financial Statements

	Note	December 2021 \$ '000	December 2020 \$ '000
<i>Total property, plant, and equipment</i>			
Opening carrying amount		515,688	498,915
Additions ^{1,2}	A2, D3	148,296	71,096
Assets acquired through business combination	D3	193,217	
Disposals		(837)	(2,550)
Depreciation expense		(63,826)	(54,568)
Impairment reversal		2,357	-
Transfers to assets held for sale		(3,207)	
Transfers, reclassifications and adjustments and effect of movement in FX rate		8,245	2,795
Closing carrying amount		<u>799,933</u>	<u>515,688</u>

Notes:

1. Includes Conaghans asset acquisition \$15.9 million. Refer note D3 for details.
2. Includes capitalised borrowing costs of \$0.8 million (December 2020: \$1.4 million). Refer note A2 for details.
3. Includes completion and transfer of Glasshouse 4 of \$79.5m from asset under construction to buildings, plant and equipment.

Recognition and measurement

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

Depreciation

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

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

Class of fixed asset	Depreciation rates	Depreciation basis
Land and buildings at cost	0% - 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 and other commitments

As at 26 December 2021, the Group has capital commitments amounting to \$52.1 million (December 2020: \$25.8 million) in relation to the purchase of property, plant and equipment, which are contracted for but not provided for. Note that included in the above capital commitment amount is:

- a. Deferred consideration relating to business acquisitions of \$3.1 million is included in above capital commitment, refer to note D3 for further details.
- b. Conaghans property put and call option of \$31.4 million. Management believes the put and call option is highly probable and likely to be exercised and included such amount in the commitment above, even though the put and call option is only exercisable in 2023 and value subject to certain conditions. \$15.9m of the value has been recognised as other commitments and balance to be recognised when option is exercised. Refer note D3 for further details.

Costa Group Holdings Ltd
Notes to the Consolidated Financial Statements

B8. Assets held for sale

	Note	December 2021 \$ '000	December 2020 \$ '000
Assets held for sale	B7	3,207	-

During the year, the Group commenced an active program to sell a disused property. The Group is actively seeking a buyer and expects to complete a sale of the disused property in the next 12 months. Therefore, the Consolidated Financial Statements for the period included a reversal of impairment to the extent where the reversal did not exceed the carrying amount that would have been determined (net of depreciation), had no impairment loss been recognised in CY2019. Accordingly, the associated assets have been reclassified to Assets held for sale from Property, plant and equipment.

B9. Intangible assets

	December 2021 \$ '000	December 2020 \$ '000
Goodwill at cost, less accumulated impairment	250,060	198,165
Brand names at cost	14,984	3,137
Lease premiums at cost	3,015	2,955
Water rights at cost	11,631	3,796
Capitalised software costs	10,068	9,852
Accumulated amortisation and impairment	(9,057)	(8,455)
	1,011	1,397
Reacquired rights at cost	3,600	3,600
Accumulated amortisation and impairment	(3,600)	(3,600)
	-	-
Customer relationship at cost	20,700	11,700
Accumulated amortisation and impairment	(12,255)	(11,700)
	8,445	-
Total intangible assets	289,146	209,450

Reconciliations

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

	Note	December 2021 \$ '000	December 2020 \$ '000
<i>Goodwill</i>			
Opening balance		198,165	201,073
Acquired through business combinations	D3	48,778	-
Net exchange differences on translation of foreign subsidiaries		3,117	(2,908)
Closing balance		250,060	198,165
<i>Capitalised software costs</i>			
Opening balance		1,397	2,302
Additions		213	31
Amortisation expense		(598)	(1,265)
Transfers, reclassifications, and adjustments		(1)	329
Closing balance		1,011	1,397

Costa Group Holdings Ltd

Notes to the Consolidated Financial Statements

		December 2021 \$ '000	December 2020 \$ '000
<i>Brand names and trademarks</i>			
Opening balance		3,137	3,169
Acquired through business combinations	D3	12,200	-
Amortisation expense		(353)	-
Net exchange differences on translation of foreign subsidiaries		-	(32)
Closing balance		14,984	3,137
<i>Lease premiums</i>			
Opening balance		2,955	3,011
Net exchange differences on translation of foreign subsidiaries		60	(56)
Closing balance		3,015	2,955
<i>Water rights</i>			
Opening balance		3,796	3,796
Additions		35	-
Acquired through business combinations	D3	7,800	-
Closing balance		11,631	3,796
<i>Customer relationships</i>			
Opening balance		-	-
Acquired through business combinations	D3	9,000	-
Amortisation expense		(555)	-
Closing balance		8,445	-
<i>Total Intangible assets</i>			
Opening carrying amount		209,450	213,351
Additions		248	31
Acquired through business combinations	D3	77,778	-
Amortisation expense		(1,506)	(1,265)
Transfers, reclassifications and adjustments		(1)	329
Net exchange differences on translation of foreign subsidiaries		3,101	(2,996)
Closing carrying amount		289,146	209,450

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 and trademarks

Brand names are measured initially at their cost of acquisition. Brand names, except for trademarks, 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. Trademarks are amortised on a straight-line basis over their useful lives ranging between 15 to 25 years and tested for impairment whenever there is an indication that they may be impaired.

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.

Costa Group Holdings Ltd

Notes to the Consolidated Financial Statements

Water rights

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

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 software development expenditure is recognised as an expense when incurred.

Customer relationships

Customer relationships assets are measured at cost less accumulated amortisation and impairment losses. Where acquired in a business combination, cost represents the fair value at the date of acquisition. The Group customer relationships assets are amortised over period ranging between five to ten years.

Acquisitions

Intangible assets acquired separately are capitalised at cost. Intangible assets acquired through a business combination are recognised 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 recognised 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 Other 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 Consolidated Statement of Profit and Other 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 2021 \$'000	Note	Produce	CF&L	International	Total
Goodwill					
Carrying amount at start of year		96,390	1,674	100,101	198,165
Acquired through business combinations	D3	39,991	8,787	-	48,778
Net exchange differences on translation of foreign subsidiaries		-	-	3,117	3,117
Carrying amount at end of year		136,381	10,461	103,218	250,060

December 2020 \$'000	Produce	CF&L	International	Total
Goodwill				
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

B10. Impairment

Recoverability of non-financial assets other than goodwill

All non-current 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 or 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 CGU's. Subject to an operating segment ceiling test, CGU's 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 Consolidated Statement of Profit and Other Comprehensive Income. Impairment losses recognised in respect of CGU's 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 CGU's) 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 CGU's according to applicable business operations. The recoverable amount of the Group's Australian CGU's 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 using a detailed 10 year-cash flow financial model, with management best estimate to determine 'mature state' for the CGU's terminal year. 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 2022 together with detailed management forecasts for future years:

- For the Australian CGU's, 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

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.

Costa Group Holdings Ltd

Notes to the Consolidated Financial Statements

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 \$35.7 million. A reasonable possible change to the financial performance above in terms of pricing and discount rate could lead to an impairment.

For the Group's remaining CGU's, 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:

	2021	2020
Terminal growth rate	2.5% - 3.0%	2.5% - 3.0%
Pre-tax discount rate (Australian CGU's)	11%	11%
Pre-tax discount rate (African Blue CGU)	12%	12%

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 costs such as protective equipment, increased cleaning and sanitary cost, and labour arrangements have been included in the budgets and projected cash flows.

B11. 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 leased 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.

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.

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 and lease premiums, 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 B10.

Lease liabilities

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

- Fixed payments (including in-substance fixed payments) and lease premiums, less any lease incentives receivable;
- Amounts expected to be payable by the lessee under residual value guarantees;

Costa Group Holdings Ltd

Notes to the Consolidated Financial Statements

- 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 those options

The lease payments are discounted using the Group's incremental borrowing rate, adjusted for geographical risk, asset type and tenure and is reviewed on an annual basis.

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.

		December 2021 \$'000	December 2020 \$'000
Right-of-use Assets	Note		
Opening carrying amount		302,803	324,272
Depreciation expenses		(43,127)	(40,777)
Additions ¹		270,822	19,853
Acquired through business combination	D3	36,668	-
Effect of foreign exchange rates		1,585	(545)
Closing carrying amount		568,751	302,803

Right-of-use assets consist of \$554.9 million (2020: \$290.1 million) relating to property and \$13.9 million (2020: \$12.7 million) relating to vehicle and equipment leases.

		December 2021 \$'000	December 2020 \$'000
Lease liabilities	Note		
Opening carrying amount		318,068	333,762
Interest expense		18,191	17,856
Additions ¹		270,822	19,853
Acquired through business combination	D3	36,151	-
Repayments		(62,145)	(52,840)
Effect of foreign exchange rates		1,965	(563)
Closing carrying amount		583,052	318,068

		December 2021 \$'000	December 2020 \$'000
Lease liabilities			
Current ²		64,125	34,119
Non-current		518,927	283,949
		583,052	318,068

Notes

1. As a consequence of Macquarie Asset Management acquiring 100% of Vitalharvest Unit Trust during the period, the Group renegotiated the existing leases with Vitalharvest that resulted in the old leases being surrendered and replaced with fixed rent lease agreements. The lease modification resulted in an addition of \$252.2 million during the period of Right of Use Assets and Lease Liabilities during the period.
2. Increase in current lease liability also reflects 53 weeks in period ending December 2022 (December 2021: 52 weeks)

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

	December 2021 \$'000	December 2020 \$'000
Lease liabilities		
Payable		
- not later than one year	92,996	50,072
- later than one year and not later than five years	207,779	169,378
- later than five years	533,226	210,058
	834,001	429,508

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.

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 26 December 2021 are \$5.3 million (December 2020: \$12.9 million).

B12. Provisions

		December 2021 \$ '000	December 2020 \$ '000
CURRENT			
Employee benefits	(a)	20,093	18,479
Other	(b)	918	3,644
		<u>21,011</u>	<u>22,123</u>
NON-CURRENT			
Employee benefits	(a)	6,909	6,777
Other commitments	(c)	15,941	-
Other	(b)	2,802	1,989
		<u>25,652</u>	<u>8,766</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 closure costs in relation to the Mushroom sites and lease make good.

(c) Other commitments

The other commitments relates to the Conaghans property put and call option. Despite the put and call option is yet to be exercised, the Group has recognised an asset and provision for Stage 1 of this development given it has control of this stage. Refer note D3 for details.

(d) Reconciliations

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

	Note	December 2021 \$ '000	December 2020 \$ '000
<i>Employee benefits</i>			
Opening balance		25,256	22,027
Amounts used		(10,753)	(7,049)
Acquired through business acquisitions	D3	818	-
Additional amounts recognised		11,681	10,278
Closing balance		<u>27,002</u>	<u>25,256</u>
<i>Other commitments</i>			
Opening balance		-	-
Amounts used		-	-
Additional amounts recognised ¹		15,941	-
Closing balance		<u>15,941</u>	<u>-</u>
<i>Other provisions</i>			
Opening balance		5,633	9,535
Amounts used		(2,745)	(3,902)
Additional amounts recognised		832	-
Closing balance		<u>3,720</u>	<u>5,633</u>

Notes:

1. Relates to Conaghans asset acquisition of \$15.9 million. Refer notes B7 and D3 for details.

Costa Group Holdings Ltd

Notes to the Consolidated Financial Statements

Recognition and measurement

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

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance and/or supplier 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.

B13. Contingent Liabilities

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

C. CAPITAL STRUCTURE AND FINANCING

C1. Borrowings

	December 2021 \$ '000	December 2020 \$ '000
CURRENT		
<i>Secured liabilities</i>		
Bank loans	1,863	1,807
<i>Unsecured liabilities</i>		
Bank loans	11,841	12,513
	<u>13,704</u>	<u>14,320</u>
NON-CURRENT		
<i>Secured liabilities</i>		
Bank loans	2,660	4,385
<i>Unsecured liabilities</i>		
Bank loans	344,759	157,628
	<u>347,419</u>	<u>162,013</u>
Total borrowings	<u><u>361,123</u></u>	<u><u>176,333</u></u>

Terms and conditions relating to the above financial instruments

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

Secured

- Secured bank loan with \$7.4 million facility drawn down to \$1.9 million as at 26 December 2021 and can be further drawn upon as required. This facility matures in November 2023.
- Secured bank loan of \$2.7 million that is currently fully drawn and matures in January 2023

The above secured bank loans are secured over buildings and VAT receivables (see note B2)

Unsecured

- A \$450m syndicated debt facility is split as below:
 - Facility A – \$300 million facility that can be drawn upon as required. During the period the Group extended this facility's maturity date from August 2022 to August 2023.
 - Facility B – \$150 million facility that can be drawn upon as required. This facility matures in August 2023.

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 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 Leverage Ratio.

- A \$20.2 million term loan facility with \$9.1 million maturing in July 2022 and \$11.1 million maturing in July 2023.

Bank guarantees

The Group maintains bank guarantees of \$12.0 million (December 2020: \$9.6 million) that could be called up at any time in the event of a breach of our financial obligations. The Group 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 2021		December 2020	
	Number	\$ '000	Number	\$ '000
Ordinary shares				
Opening balance	400,830,387	580,734	400,791,811	580,831
Ordinary shares issued (net of issue costs) ¹	63,360,845	186,403	-	(208)
Settlement of share-based payment	187,389	937	38,576	111
At reporting date	464,378,621	768,074	400,830,387	580,734

- During the period, the Company undertook a capital raising through a rights issues to all shareholders. A fully underwritten pro rata accelerated institutional entitlement offer, retail entitlement offer and retail shortfall bookbuild completed, jointly issuing 63.4 million ordinary shares and, raising \$186.4 million (net of issue costs and tax).

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.

Other equity reserve

The 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 long-term and short-term incentive plans.

C3. Profit reserve

The profit reserve comprises the transfer of net profit of \$41.4 million for the period and characterises available profits to enable payment of franked dividends in future years. The profit reserve balance as at balance sheet date is \$112.0 million (December 2020: \$109.2 million).

C4. Other reserves

The nature and purpose of other reserves is as follows:

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

The general reserve consists of put and call option as part of the acquisition of African Blue measured under the present-access method and legal reserve. 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:

Declared and paid during the 12 months ended 26 December 2021	Cents per share	Total amount \$'000	Date of payment
Final December 2020 ordinary	5.0	20,042	8 April 2021
Interim December 2021 ordinary	4.0	18,575	7 October 2021

Determined after end of year

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

	Cents per share	Total amount \$'000	Date of payment
Final December 2021 ordinary	5.0	23,219	7 April 2022

C6. Financial instruments – fair values and risk management

(A) Valuation of financial instruments

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

	Fair value hierarchy	December 2021 \$ '000	December 2020 \$ '000
Financial assets			
<i>Amortised costs</i>			
Current receivables	-	108,032	96,900
Non-current receivables	-	1,274	4,024
Cash and cash equivalents	-	61,887	32,450
		<u>171,193</u>	<u>133,374</u>
<i>Fair value through other comprehensive income</i>			
Forward exchange contracts	Level 2	<u>252</u>	<u>2,832</u>
Financial liabilities			
<i>Fair value through other comprehensive income</i>			
Interest rate swaps	Level 2	<u>-</u>	<u>386</u>
<i>Other financial liabilities not measured at fair value</i>			
Payables	-	149,310	135,100
Bank loans	-	361,123	176,333
Put and call options	-	-	493
		<u>510,433</u>	<u>311,926</u>

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.

Costa Group Holdings Ltd

Notes to the Consolidated Financial Statements

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.

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.

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.

Costa Group Holdings Ltd

Notes to the Consolidated Financial Statements

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.

African Blue 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 was required to make further payments to the existing shareholders, if certain earnings targets were achieved 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 final payment of \$0.4 million was made in January 2021 bring the Group's interest in African Blue to 90%. No further payments are required under the option.

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 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 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 monitors the Group's exposure to any of these financial risks and regularly reports to the Board.

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

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

(a) Market risk

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

Interest rate risk

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

Costa Group Holdings Ltd

Notes to the Consolidated Financial Statements

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

	December 2021 \$ '000	December 2020 \$ '000
Variable rate instruments		
Assets		
Cash and cash equivalents	61,887	32,450
Liabilities		
Bank loans ¹	(361,123)	(126,333)
Net financial liabilities exposed to interest rate risk	(299,236)	(93,883)

Sensitivity analysis for variable rate instruments

At 26 December 2021, 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 2021 ¹ \$ '000	December 2020 \$ '000
Increase of 100 basis points in interest rate	(2,992)	(939)
Decrease of 100 basis points in interest rate	2,992	939

Notes:

1. As at reporting date, the Group has no hedging for interest rate risk (December 2020: \$50.0 million)

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

December 2021	USD \$ '000	JPY \$ '000	EUR \$ '000	GBP \$ '000	CNY \$ '000	MAD \$ '000
Cash	3,542	131	507	927	18,474	18,915
Trade and other receivables	4,531	138	103	2,416	6,741	1,310
Trade and other payables	(291)	-	(320)	(59)	(249)	(6,778)
Derivative financial assets	90	162	-	-	-	-
Net exposure	7,872	431	290	3,284	24,966	13,447

December 2020	USD \$ '000	JPY \$ '000	EUR \$ '000	GBP \$ '000	CNY \$ '000	MAD \$ '000
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)	-	(86)	(6,436)
Derivative financial assets	1,561	1,270	-	-	-	-
Net exposure	3,429	1,713	418	2,021	11,616	5,265

Costa Group Holdings Ltd

Notes to the Consolidated Financial Statements

Sensitivity analysis

At 26 December 2021, had the Australian dollar weakened/strengthened by 10% against these currencies with all other variables held constant, the impact to profit or loss and equity would be an increase/(decrease) of:

	USD \$ '000	JPY \$ '000	EUR \$ '000	GBP \$ '000	CNY \$ '000	MAD \$ '000
Australian Dollar Weakened by 10%	787	43	29	328	2,497	1,345
Australian Dollar Strengthened 10%	(787)	(43)	(29)	(328)	(2,497)	(1,345)

(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 \$100.9 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.

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.

December 2021	Less than 6 months \$'000	6 - 12 months \$'000	1 - 5 years \$'000	Over 5 years \$'000	Total \$'000
Non-derivative financial liabilities					
Bank loans	340,855	9,288	10,980	-	361,123
Trade payables	149,310	-	-	-	149,310
Interest payable	865	-	-	-	865
	491,030	9,288	10,980	-	511,298
Derivative financial liabilities					
Interest rate swaps	-	-	-	-	-
	-	-	-	-	-
December 2020					
	Less than 6 months \$'000	6 - 12 months \$'000	1 - 5 years \$'000	Over 5 years \$'000	Total \$'000
Non-derivative financial liabilities					
Bank loans	158,479	14,320	4,385	-	177,184
Trade payables	135,100	-	-	-	135,100
Interest payable	592	-	-	-	592
	294,171	14,320	4,385	-	312,876
Derivative financial liabilities					
Interest rate swaps	386	-	-	-	386
	386	-	-	-	386

Costa Group Holdings Ltd

Notes to the Consolidated Financial Statements

(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 continually monitored. 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:

	December 2021 \$ '000	December 2020 \$ '000
Cash and cash equivalents	61,887	32,450
Receivables	109,306	100,924
Forward exchange contracts	252	2,832
	<u>171,445</u>	<u>136,206</u>

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

	December 2021 \$ '000	December 2020 \$ '000
Neither past due nor impaired	58,928	48,705
Past due 1 - 30 days	6,832	14,785
Past due 31 - 60 days	1,105	1,452
Past due over 60 days	7,804	4,394
	<u>74,669</u>	<u>69,336</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. At 26 December 2021, major Australian retailers, including Coles, Woolworths, Aldi and IGA comprise approximately 41% of the Group's trade debtors.

Expected credit loss assessment for trade receivables

The Group uses an allowance matrix to measure the expected credit losses 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 period was as follows.

	December 2021 \$ '000	December 2020 \$ '000
Movements in the accumulated impairment losses were:		
Opening balance	(652)	(482)
Impairment loss recognised	(1)	(383)
Amounts written off	71	213
Closing balance	<u>(582)</u>	<u>(652)</u>

Costa Group Holdings Ltd

Notes to the Consolidated Financial Statements

(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 joint ventures and associates

	Equity instrument	Ownership interest	Ownership interest	Measurement basis	Principal place of business and country of incorporation
		December 2021 %	December 2020 %		
Joint Ventures					
Driscoll's Australia Partnership	Ordinary shares	50	50	Equity Accounted	Victoria, Australia
Associates					
Polar Fresh Partnership	Ordinary shares	50	50	Equity Accounted	Victoria, Australia

(b) Summarised financial information for joint ventures and associates

	December 2021 \$ '000	December 2020 \$ '000
Reconciliation of carrying amount in joint ventures and associates:		
Opening balance	21,567	16,672
Total share of profit	9,881	9,070
Dividends received	(4,200)	(4,175)
Closing balance	27,248	21,567

(a) Driscoll's Australia Partnership

In 2010, an entity of the Group entered 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 by this joint venture. In the period, gross sales revenue for the Driscoll's Australia Partnership was \$542.5 million (12 months ended December 2020: \$532.8 million), and net assets were \$54.3 million (December 2020: \$42.9 million).

(b) 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 service contract was completed in October 2017 and operations have now ceased and is in the process of winding down.

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 2021	December 2020
		%	%
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 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	90	89
Sweet Berry S.A.	Morocco	90	89
Blue Flavor	Spain	81	80
African Blue (UK) Ltd	United Kingdom	81	80

Costa Group Holdings Ltd

Notes to the Consolidated Financial Statements

D3. Business Acquisitions

Acquisition of 2PH farms

On 23 June 2021, the Group entered into a binding agreement with the Pressler group of entities (Vendors) to acquire the business and assets of 2PH Farms Pty Ltd and its related entities (2PH), a Central Queensland based citrus grower for an upfront consideration of \$220.8 million. In addition, the Group will pay an additional \$31.4 million in July 2023 for the purchase of the 'Conaghans' property, where a new citrus crop is currently being planted by the vendor, subject to exercise of put or call options.

The transaction was funded by \$190 million (pre costs) in equity by way of a fully underwritten 1 for 6.33 pro rata accelerated renounceable entitlement offer, and the balance by existing debt facilities. Refer note C2 for further details on the capital raising. The acquisition completed on 19 July 2021.

Acquisition of KW Orchards

On 19 April 2021, the Group acquired the farming operations of KW Orchards and an associated packing operation, EJT citrus packing facility for a total consideration of \$40.0 million. The acquired business represents an institutional scale citrus farming business located in Trentham Cliffs, NSW Australia and further adds to the Group's citrus category's growing footprint in the Sunraysia region. The acquisition completed on 19 April 2021.

Acquisition of Select Fresh

On 7 June 2021, the Group entered into an agreement to acquire Select Fresh, a leading Western Australian based wholesale and distribution business specialising in the supply of fresh produce to foodservice and independent supermarkets for a total consideration of \$12.9 million. The acquisition completed on 1 July 2021

These acquisitions involve taking control of the assets and operations of the acquired businesses (land and buildings, plant and equipment, intangible assets (brand names and customer relationships) biological assets, organised workforce amongst others). The acquisition did not involve acquiring any equity interest of the vendor companies.

The following table summarises the fair value of consideration transferred, net assets and liabilities acquired and resulting goodwill on acquisition date:

	2PH Farms \$'000	KW Orchard \$'000	Select Fresh \$'000	Total \$'000
Consideration transferred				
Cash paid ¹	220,852	38,457	12,890	272,199
Deferred consideration	1,620 ²	1,530 ³	-	3,150
Total consideration	222,472	39,987	12,890	275,349
Identifiable assets acquired and liabilities assumed				
Property plant and equipment	162,960	29,417	840	193,217
Right-of-use assets	32,240	-	4,428	36,668
Intangible assets	15,800	7,800	5,400	29,000
Biological assets	17,611	1,228	-	18,839
Receivables	2,782	-	16	2,798
Inventories	1,156	641	168	1,965
Lease liabilities	(31,723)	-	(4,428)	(36,151)
Employee entitlements	(272)	(77)	(469)	(818)
Accruals and provisions	(650)	(500)	(512)	(1,662)
Deferred tax liabilities	(14,798)	(1,147)	(1,340)	(17,285)
Net identifiable assets and liabilities acquired	185,106	37,362	4,103	226,571
Goodwill	37,366	2,625	8,787	48,778

Costa Group Holdings Ltd

Notes to the Consolidated Financial Statements

Notes:

1. The cash paid on acquisition in the Consolidated Statement of Cash Flows of \$291.4 million, includes the \$272.2 million cash paid and business acquisition and integration costs of \$19.2 million as disclosed below (Material item – acquisition related costs).
2. 2PH Farms deferred consideration relates to planting retention held by the Group, pending completion of 36 hectares of Phoenix citrus trees by the Vendor. This is expected to be completed by 30 June 2022.
3. KW Orchards deferred consideration relates to two lots of land pending subdivision. The Group is currently operating on the land and has controls over the relevant lots. Conversion and settlement of the deferred consideration is expected to occur in the next 12 months.

Measurement of fair values

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

Property, plant, and equipment (excluding bearer plants) and Intangible assets (water licenses)

For property, plant and equipment and intangible assets, the market comparison technique and cost technique were used. The valuation considers market prices for similar items when they are available, and depreciated replacement costs when appropriate. Depreciated replacement cost reflects adjustment for physical deterioration as well as functional and economic obsolescence.

Bearer plants

For bearer plants, the valuation model considers cost of acquiring the plants as well as any directly attributable cost incurred for planting. These include soil preparation, labour, costs of pots and soil mix. Further, the aging profile of the plants are taken into consideration to arrive at final valuations.

Intangible assets

For brand names and customer relationships, the relief-from-royalty method (RRM) and multi-period excess earnings method (MEEM) is used respectively. RRM considers the discounted estimated royalty payments that are expected to be avoided as a result of the patents being owned. The MEEM considers the present value of net cash flows expected to be generated by the customer relationships, by excluding any cash flows related to contributory assets.

Biological assets

For biological assets, the valuation is based on fair value less cost to sell determined as the net present value of cash flows expected to be generated by the crops. Where fair value cannot be measured reliably, biological assets are measured at costs.

Inventories

Market comparison technique where the fair value is determined based on the estimate selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort require to complete and sell the inventories.

Receivables

Trade receivables comprises gross contractual amounts due, net of claims provisions (export) at date of acquisition.

Goodwill

The goodwill is attributable mainly to the skills and technical talent of the acquirees workforce and the synergies expected to be achieved from integrating the respective farms and businesses into the Group's existing category portfolio. None of the goodwill recognised is expected to be deductible for tax purposes.

The asset and liabilities acquired above have been provisionally accounted and are subject to review for up to 12 months from the date of the acquisition. If new information obtained within one year of the date of acquisition identifies adjustments to the above amounts, the acquisition accounting will be revised accordingly.

Conaghans property and put and call options

On the same day the 2PH Farms were acquired, the Group entered into a put and call deed (Deed) with the vendor for the potential future acquisition of the Conaghans property. The Deed specifies that the purchase price payable upon exercise of the put and call option is \$31.4 million exercisable in 2023. This value is further subject to certain conditions including that the development of activities are to be performed by the Vendor in accordance with the Deed.

Costa Group Holdings Ltd

Notes to the Consolidated Financial Statements

The put and call option of the Conaghans property does not meet the definition of a financial derivative or financial instrument and will be accounted as an asset acquisition separately from the business acquisition of 2PH Farms above. The Deed further distinguishes Stage 1 and Stage 2 of the property as follows:

- Stage 1: Developed portion of the property covering 216 hectares of immature citrus trees planted and includes the associated water and ancillary infrastructure works; and
- Stage 2: In-development portion of the property whereby the vendor will plant an additional 210 hectares of Citrus and includes the associated water and ancillary infrastructure works required to support the plantings.

The Group has been given access and control by the Vendor over Stage 1 plantings and is responsible for maintaining the plantings and infrastructure, even though the Deed will be exercisable in 2023. Resultingly, the Group has accounted for Stage 1 as a stand-alone asset acquisition with estimated value of \$15.9 million and a corresponding other commitment as disclosed in note B11.

Material items - Acquisition related costs

Material items fully relate to acquisition and integration expenses, relating to the 2PH Farms, KW Orchards and Select Fresh acquisitions. This includes one-off costs such as stamp duty, consulting and valuation costs, and salaries for time spent on integration and site visits. The before and after tax impact of material items are as follow:

	December 2021 \$ '000	December 2020 \$ '000
Individually material items included in profit before income tax:		
Acquisition and integration expenses	(19,188)	-
Total material items (before tax)	(19,188)	-
Tax effect of material items	1,728	-
Total material items (after tax)	(17,460)	-

Pro forma revenue and profit and losses

From the date of acquisition to 26 December 2021, the acquisitions above contributed revenue of \$67.9 million and EBITDA-S of \$14.8 million to the Group's results. Had the acquisition occurred on 28 December 2020, management estimates that the consolidated revenue would have been \$1,268.2 million and EBITDA-S of \$228.2 million. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisitions would have been the same if the acquisitions had occurred on the commencement of the period on 28 December 2020.

D4. Related party disclosures

(a) Transactions with joint ventures and associates

The Group transacted with jointly controlled entities during the period as follows:

- Driscoll's Australia Partnership - Commission paid on sale of berries \$25.3 million (December 2020: \$25.1 million)
- Driscoll's Australia Partnership - Sales of produce \$189.2 million (December 2020: \$187.6 million)
- Driscoll's Australia Partnership - Receivable of \$7.5 million (December 2020: \$12.5 million) for sale of produce and logistic services.
- Driscoll's Australia Partnership - Dividends received amounting to \$4.2 million (December 2020: \$4.2 million)

Costa Group Holdings Ltd

Notes to the Consolidated Financial Statements

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

There were no transactions between members of the Group and any KMP (or their related parties) that resulted in any personal financial benefit to the KMP. The Group had the following transactions during the financial year ended December 2021, all of which were on arm's length terms and were entered into for the benefit of the Company, at the request of the Company's Board of Directors:

Mr Harry Debney

- Capital expenditure payment of \$1,670,000 to The Yield Technology Solutions Pty Ltd (CY2020: \$1,360,000), of which Harry Debney served as Chairman of the Board, representing the Group until 22 April 2021. 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.
- No income was received from the Yield Technology Solutions Pty Ltd (CY2020: \$37,500) on behalf of Harry Debney's services as Chairman of the Board. As Harry Debney's services were provided to The Yield on behalf of the Group, any income for these services was received by the Group rather than by Mr Debney personally.

Mr Sean Hallahan

- Payment of membership fee of \$200,000 to Australian Fresh Produce Alliance (AFPA) (CY2020: \$200,000) of which Sean Hallahan 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.

Key Management Personnel

	December 2021 ¹	December 2020
	\$ '000	\$ '000
Compensation received by key management personnel of the group:		
- Short-term employee benefits	1,767	2,651
- Post-employment benefits	46	67
- Other monetary benefits	4	-
- Long-term employee benefits	33	34
- Share-based payment expenses/benefits ⁽²⁾	230	(441)
	<u>2,080</u>	<u>2,311</u>

Notes:

- 1 Included in the compensation received for the year ended December 2021 is Harry Debney's three-month salary as CEO prior to his retirement.
- 2 The share-based payment benefits for the period ended December 2021 includes reversal of previously accrued share-based payment expense, due to the non-achievement performance hurdles of prior years' long-term incentive plans

Costa Group Holdings Ltd

Notes to the Consolidated Financial Statements

D5: Parent entity disclosures

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

	December 2021 \$ '000	December 2020 \$ '000
Assets		
Current assets	8,754	167
Non-current assets	990,835	709,194
Total assets	999,589	709,361
Liabilities		
Current liabilities	630	4,862
Non-current liabilities	186,273	135,508
Total liabilities	186,903	140,370
Net assets	812,686	568,991
Equity		
Contributed equity	768,074	580,734
Share-based payment reserve	8,895	8,119
Profit reserve	94,329	38,750
Accumulated losses	(58,612)	(58,612)
Total equity	812,686	568,991

(b) Summarised statement of comprehensive income

	December 2021 \$ '000	December 2020 \$ '000
Profit/(Loss) for the period	94,188	36,610
Total comprehensive profit for the period	94,188	36,610

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

The Company 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 D6.

D6. 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.

Hillston Investments Pty Ltd, Agri Exchange Farm Management Pty Ltd, and Costa Group Finance Pty Ltd are non-trading, dormant subsidiaries.

Costa Group Holdings Ltd

Notes to the Consolidated Financial Statements

A Consolidated Statement of Profit and Other Comprehensive Income and a Consolidated Statement of Financial Position for the financial year ended 26 December 2021 for the deed of cross guarantee group are set out below:

(a) Consolidated Statement of Profit or Loss and Other Comprehensive Income of the deed of cross guarantee group

	December 2021	December 2020
	\$ '000	\$ '000
Revenue	1,006,237	1,000,870
Less: Expenses	(1,006,450)	(959,325)
Share of net profits of associates and joint ventures accounted for using the equity method	9,881	9,070
Profit before income tax expense	9,668	50,615
Income tax (expense)/benefit	(5,765)	(13,396)
Profit for the year	3,903	37,219
Other comprehensive income/(loss) for the year		
Foreign currency translation differences	12,335	(8,773)
Cash flow hedges – effective portion of changes in fair value	(2,292)	2,720
Total other comprehensive income/(loss) for the year	10,043	(6,053)
Total comprehensive income for the year	13,946	31,166

Costa Group Holdings Ltd
Notes to the Consolidated Financial Statements

(b) Consolidated Statement of Financial Position of the deed of cross guarantee group

	December 2021	December 2020
	\$ '000	\$ '000
ASSETS		
Current assets		
Cash and cash equivalents	23,064	16,094
Receivables	90,786	87,489
Inventories	22,860	20,814
Biological assets	50,389	43,219
Other assets & financial assets	8,038	10,954
Current tax asset	8,554	-
Asset held for sale	3,207	-
Total current assets	206,898	178,570
Non-current assets		
Receivables	1,177	3,958
Other financial assets	28,239	28,247
Equity accounted investments	27,248	21,567
Intangible assets	284,368	207,476
Deferred tax assets	20,353	20,630
Property, plant and equipment	674,186	412,187
Right-of-use assets	542,162	279,930
Total non-current assets	1,577,733	973,995
Total assets	1,784,631	1,152,565
LIABILITIES		
Current liabilities		
Payables	126,724	119,823
Provisions	20,404	21,534
Other financial liabilities	-	879
Current tax liabilities	-	5,374
Lease liabilities	64,125	34,119
Total current liabilities	211,253	181,729
Non-current liabilities		
Borrowings	336,439	149,149
Provisions	25,652	8,765
Deferred tax liabilities	33,205	16,836
Lease liabilities	493,673	261,683
Total non-current liabilities	888,969	436,433
Total liabilities	1,100,222	618,162
NET ASSETS	684,409	534,403
EQUITY		
Share capital	768,074	580,734
Other equity reserve	(13,422)	(13,117)
Other reserves	7,151	8,130
Profit reserve	60,019	85,908
Accumulated losses	(137,413)	(127,252)
Total equity	684,409	534,403

E. OTHER

E1. Share-based payments

	December 2021	December 2020
	\$ '000	\$ '000
Share-based payments reserve	8,895	8,119

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

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

Recognition and measurement

The Group provides benefits to its employees 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 and performance rights that vest except where forfeiture is due to failure to achieve market-based performance indicators.

Share-Based Payment Plan – Employee Share Option Plan

During the period, a total of 1,542,433 options (December 2020: 1,826,631 options) have been granted under new option plans.

Measurement of fair values of options

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 2021	December 2020		
	KMP and executives	KMP and executives		
Grant date	19/02/2021	27/10/2020	23/07/2020	26/02/2020
Number issued	1,542,433	6,550	125,000	1,695,081
Fair value at grant date	\$1.15	\$0.96	\$0.96	\$0.96
Share price at grant date	\$4.01	\$3.55	\$3.10	\$2.86
Exercise price	\$3.95	\$2.39	\$2.39	\$2.39
Expected volatility	44%	44%	44%	44%
Expected dividend yield	2.80%	2.80%	2.80%	2.80%
Risk-free rate	0.35%	0.63%	0.63%	0.63%

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

Costa Group Holdings Ltd

Notes to the Consolidated Financial Statements

Measurement of fair values of performance rights

The fair value of the performance rights issued in the period under the short-term incentive plan was based on the 5-day market volume weighted average price of the shares of the Costa Group Holdings Ltd ending on 26 February 2021. Details are as follows:

	December 2021	December 2020
	KMP and Executives	KMP and Executives
Numbers issued	167,845	-
Fair value at grant date	\$4.49	-

Reconciliation of outstanding share options

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

	December 2021		December 2020	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Opening balance	5,009,277	\$5.08	5,372,573	\$5.84
Disposed for cash or settled for shares during the year	(342,348)	\$2.73	(178,571)	\$2.25
Forfeited during the year	(1,234,141)	\$5.11	(2,011,356)	\$4.97
Granted during the year	1,542,433	\$3.95	1,826,631	\$2.39
Closing balance	4,975,221	\$4.88	5,009,277	\$5.08
Exercisable at year end	269,046	\$4.60	598,342	\$3.18

The options outstanding as at 26 December 2021, which have not vested, have an average exercise price of \$4.83 (December 2020: \$5.32).

E2. Taxation

	December 2021 \$ '000	December 2020 \$ '000
(a) Components of tax expense		
Current tax	8,145	19,165
Deferred tax	2,451	(2,351)
Over provision in prior years	(1,900)	(3,024)
	8,696	13,790
Profit before income tax	60,920	81,239
Prima facie income tax expense on profit before income tax at 30.0%	18,276	24,372
- Effect of tax rates in foreign jurisdictions	(11,649)	(7,029)
Tax effect of:		
Non-deductible expenses	5,957	691
Net deferred tax asset recognised	(596)	(307)
Non-creditable foreign withholding tax	115	125
Over provision in prior years	(1,900)	(3,024)
Research and development tax credits	(800)	(800)
Non-assessable income	(707)	(238)
Income tax expense attributable to profit	8,696	13,790

Costa Group Holdings Ltd
Notes to the Consolidated Financial Statements

	December 2021 \$ '000	December 2020 \$ '000
(b) Current tax		
Current tax relates to the following:		
<i>Current tax liabilities/(assets)</i>		
Opening balance	10,526	(5,186)
Current year tax expense	8,145	19,165
Tax payments	(21,718)	279
Foreign withholding tax credits claimable	(1,372)	(786)
Tax benefits recognised against equity	(2)	-
Over provisions	(3,591)	(2,946)
Closing balance	(8,012)	10,526

	December 2021 \$ '000	December 2020 \$ '000
(c) Deferred tax		
Deferred tax relates to the following:		
Deferred tax assets		
The balance comprises:		
Provisions	9,899	10,158
Trade and other payables	3,786	6,826
Inventories	105	41
Capital deductions (section 40-880)	2,089	1,138
Borrowings	30	30
Equity Accounted Investments	423	332
Future deductible share plan trust payment	281	477
Leased assets and liabilities	4,537	4,765
Property, plant and equipment	152	127
	21,302	23,894

Deferred tax liabilities		
The balance comprises:		
Biological assets	14,125	11,676
Property, plant and equipment	10,978	610
Intangible assets	7,644	1,647
Trade and other receivables	1,645	2,923
Other financial liabilities	75	120
	34,467	16,976
Net deferred tax (liability)/assets	(13,165)	6,918

(e) Deferred tax expense included in income tax comprises		
Decrease/(increase) in deferred tax assets	2,784	(3,723)
(Decrease)/increase in deferred tax liabilities	(333)	1,372
	2,451	(2,351)

(f) Deferred tax movement		
Opening balance – net deferred tax asset	6,918	4,161
Under provision in prior years	(1,777)	(78)
Increase in net deferred tax asset recognised in profit or loss	(2,451)	2350
Increase in net deferred tax liability as a result of acquisitions	(17,285)	-
Increase/(decrease) in deferred tax asset recognised in equity	1,516	253
FX revaluation	(86)	232
Closing balance – net deferred tax (liability)/asset	(13,165)	6,918

Costa Group Holdings Ltd

Notes to the Consolidated Financial Statements

The Company's franking account balance as at 26 December 2021 is \$1,128,845 (December 2020: \$293,781).

The Company has unrecognised deferred tax assets relating to carried forward capital losses, because it is not probable that future taxable profit will be available against which the Company can use the benefits therefrom. The unrecognised deferred tax assets on capital losses in Australia is \$2.5 million (2020: \$2.5 million). The Company does not have any carried forward revenue losses.

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 formed a tax consolidated group. The Company 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 Company 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 Company 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 April 2021	COVID-19 Related Rent Concessions beyond 30 June 2021 (Amendment to AASB 16)	AASB 16
1 January 2022	Onerous Contracts – Cost of Fulfilling a Contract (Amendments to AASB 137) Annual Improvement to IFRS Standards 2018 – 2020 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to AASB 10 and AASB 128) Property, plant and equipment: Proceeds before intended use (amendments to AASB 116)	AASB 137 Various AASB 10 and AASB 128 AASB 116
1 January 2023	Classification of liabilities as current or non-current (Amendments to AASB 1) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	AASB 1, AASB 10 and AASB 128
	Disclosure of Accounting Policies (Amendments to AASB 1 and IFRS Practise Statement 2)	Various
	Definition of accounting estimates (Amendments to AASB 108)	AASB 108
	Deferred tax related to Assets and Liabilities arising from a single transaction (Amendments to AASB 112)	AASB 112

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

E4. Auditor's remuneration

	December 2021 \$ '000	December 2020 \$ '000
Audit and review services		
Services provided by KPMG Australia	524	535
Services provided by associate firms of KPMG Australia	259	222
	783	757
Other services provided by KPMG Australia		
Taxation compliance and other taxation advisory services (including R&D)	210	207
Other services ¹	148	23
	358	230
Total remuneration of KPMG	1,141	987

Notes:

1. Includes business acquisition due diligence services of \$138,297

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 Other Comprehensive Income to offset the applicable expenses incurred by the Group as stated in the provisions of the government grant.

Costa Group Holdings Ltd

Notes to the Consolidated Financial Statements

Directors' Declaration

- 1 In the opinion of the directors of Costa Group Holdings Ltd ("the Company"):
 - (a) the consolidated financial report and notes A1 to E5 and the Remuneration Report in the Directors' Report, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 26 December 2021 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 D6 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 26 December 2021.
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 21st day of February 2022.



Neil Chatfield
Chairman



Sean Hallahan
Managing Director & CEO



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 26 December 2021 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 26 December 2021
- 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

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

- Recoverability of non-current assets including property, plant and equipment and intangible assets
- Business acquisitions

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

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

Recoverability of non-current assets including property, plant and equipment (\$799.9m AUD) and intangible assets (\$289.1m AUD)

Refer to Note B7. Property, plant and equipment and Note B8. Goodwill and Intangible Assets 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 54% 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"> • 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. • 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 	<p>Our procedures included:</p> <ul style="list-style-type: none"> • 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. • We assessed the integrity of the cash flow models used, including the accuracy of the underlying calculation formulas. • We compared the forecast cash flows and capital expenditure contained in the cash flow models to Board approved forecasts. • 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. 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.

<p>the discount rate. We involved our valuation specialists with this assessment.</p> <ul style="list-style-type: none"> • 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. Our testing focussed on the implications of these plans and their impact on the cash flow model. <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, to address the objectivity of sources used for assumptions, and their consistent application.</p>	<ul style="list-style-type: none"> • We assessed the accuracy of previous Group forecasts to inform our evaluation of forecasts incorporated in the cash flow models. • 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. • Working with our valuation specialists, we: <ul style="list-style-type: none"> • 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; • compared the implied multiples from comparable market transactions to the implied multiple from the Group's fair value less costs of disposal model; and • compared the Group's terminal growth rates against publicly available market data for each relevant geography. • 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.
--	---

Business acquisitions (\$275.4m AUD)	
Refer to Note D3. Business acquisitions to the Financial Report.	
The key audit matter	How the matter was addressed in our audit
<p>During 2021 the Group acquired 2PH Farms, Trentham (KW Orchards) and Select Fresh for considerations of \$222.5m, \$40m and \$12.9m respectively, resulting in \$48.8m of total goodwill acquired.</p> <p>This is a key audit matter due to the:</p> <ul style="list-style-type: none"> • Significant impact on the financial statements. The acquisitions resulted in an increase in total assets of \$275.4m. • Judgement involved in estimating the fair value of assets and liabilities acquired, in particular the identifiable intangible assets such as customer relationships and trade names, and property, plant and equipment acquired. <p>The Group engaged external experts to advise on the identification and measurement of acquired assets and liabilities, in particular determining the allocation of purchase consideration to goodwill, separately identifiable intangible assets and certain items of property, plant and equipment.</p> <p>We involved our valuation specialists to supplement our senior team members in assessing this key audit matter.</p>	<p>Working with our valuation specialists, our procedures included:</p> <ul style="list-style-type: none"> • Reading the transaction documents to understand the key terms and conditions of the acquisitions. • Evaluating the methodologies used for the acquisitions accounting against accounting standard requirements. • Assessing the scope, competency, and objectivity of the external experts engaged by the Group to advise on the identification and valuation of relevant assets. • Assessing the appropriateness of the methodology applied by the Group to account for deferred consideration against the requirements of the accounting standards. • Evaluating the valuation methodology used by the Group to determine the fair value of assets and liabilities acquired, considering accounting standard requirements, and observed industry practices. • Challenging the key assumptions used by the Group and their external experts in determining the fair value of assets acquired by: <ul style="list-style-type: none"> ◦ Assessing the useful life allocated to identified assets, using our knowledge of the Group, its business and customers, and our industry experience. ◦ Comparing the inputs used by the independent expert to underlying documentation. ◦ Analysing the discount rates applied against our knowledge of the industry and publicly available data of comparable entities. ◦ Assessing the competence, experience, skills, and independence of the independent experts. • Assessing the adequacy of the Group's

	disclosures in respect of the acquisitions based on accounting standard requirements, using understanding obtained from our audit testing.
--	--

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:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.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 26 December 2021 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 26 December 2021.

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 2022