Costa Group
Holdings Limited

# Annual Report
2019

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**Corporate Governance Statement**
Costa's Corporate Governance Statement for the financial year is located at
http://investors.costagroup.com.au/investor-centre/?page=corporate-governance

Costa Group Holdings Limited ABN 68 151 363 129

# Costa is Australia's leading grower, packer and marketer of premium quality fresh fruit and vegetables.

# Chairman's Report


The Board and management team have remained focused on building medium to long term profit growth through a number of strategic initiatives. These include our enlarged blueberry breeding program aimed to underpin our operations in Australia, Morocco and China, as well as licensing programs in the Americas, South Africa and China.

## Overview

The 2019 financial year saw Costa deliver a $28.4million underlying Net Profit After Tax (NPAT-S before material items) and in line with our amended forecast from late October 2019. This result reflects what was a very challenging year for the company in which we faced issues relating to drought and weather, and market conditions in some categories.

While it has clearly been important to address the immediate short- term challenges of the year just passed, the Board and management team have remained focused on building medium to long term profit growth through a number of strategic initiatives. These include our enlarged blueberry breeding program, aimed at developing sub-tropical and tropical varieties to underpin our operations in Australia, Morocco and China, as well as licensing programs in the Americas, South Africa and China. The IP we continue to develop, including the leading premium variety, Arana, gives us the advantage of superior product genetics and positions the company as the world's leading blueberry company.

In avocados we are trialling high density, trellised and protected cropping which has shown promising early results. This is designed to change the economic farming model with improvement in crop yield, quality, pollination, per unit water consumption and early cropping. Continuing automation of our citrus packing operations has seen the doubling of our Spectrim vision sorting line in our Renmark South Australia packhouse to 16 lanes as well as installing robotic carton consolidation and palletising. The Spectrim technology is proving very accurate with respect to colour and blemish and the co located infra-red system grades the quality of the fruit. This is crucial for markets such as the US, Japan, Korea and China where the appearance and taste of the fruit is a key differentiator for consumer preference.

Our international operations continue to grow both in plantings and market penetration. In China demand for 'super fruits' such as blueberries is gaining market share due to increased consumer awareness particularly amongst the Chinese middle class. Gaining an advantage in Morocco through superior varieties and seasonal extension in the south of the country remains a priority and this is where our varietal breeding program comes to the fore.

The investments we are making across our strategic priorities means we are confident of not only meeting current challenges but more importantly building a stronger and more resilient company as a result. Costa has undertaken five significant expansion programs since our IPO in July 2015, where we have invested over $400m in capex and M&A. In order to ensure we continue to deliver on these growth initiatives and maintain a strong balance sheet, the company undertook a $176 million capital raising in November through a fully underwritten accelerated renounceable pro-rata entitlement offer, with retail rights trading. Although Costa's strategy is growth oriented, management maintains a prudent and disciplined approach to capital deployment and generally targets a minimum return on capital of 20% on new investments in three to five years and typically the company targets a long term leverage range of 1.5 to two times net debt to EBITDA.

# Chairman's Report continued

## Results

Costa generated $1,048 million in full year revenue, a 5.8% increase on the prior comparative period.

EBITDA-SL was $98.3 million, a 21.5% reduction on the prior comparative period, while NPAT-SL before material items was $28.4 million.

Group cashflow from operations was solid for the year with the year end debt level being better than expected.

## Dividends

The Board declared a fully franked final dividend of 2.0 cents per share for the second half of CY2019, bringing the total dividend payment for CY2019 to 5.5 cents per share, fully franked.

## Our People

The Costa business relies on labour as the key input, and we are committed to maintaining a workplace that recognises, respects and protects the human rights of our employees. We strive to provide all employees and others who work with us safe and healthy working conditions. This includes providing a workplace where all people are treated without discrimination or harassment, and in which employees are free to associate with each other and participate or not participate in unions or other labour organisations, free from any coercion.

Costa is committed to respecting all internationally recognised human rights as relevant to our operations. Reflecting this commitment, in early 2019 the Board approved a Human Rights policy which applies across all of our locations and demonstrates our commitment to respecting internationally recognised human rights in a manner consistent with the UN Guiding Principles on Business and Human Rights and the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work. It sets out our expectations for the conduct of our employees and suppliers.

Costa also takes human rights considerations into account when selecting suppliers. We expect our suppliers to comply with our Supplier Code of Conduct, and we actively seek to work with third parties who support our approach and standards in this area.

The challenging 2019 year placed significant and relentless strain on our management and all employees, who were outstanding in their leadership and dedication across all of the business. On behalf of all of our stakeholders I want to recognise the tremendous effort of all who stood side by side to ensure our business remained resilient throughout the year.

## Community

Despite the challenging year it was more important than ever to maintain a positive presence in the communities in which we operate. We not only owed this to our employees, but also to the many local people who rely on our company to have both a positive economic and social impact on the communities in which we operate.

There are always a number of great initiatives that our business supports across the many locations in which we have a presence. Over the past year these included our berry category employees in Corindi New South Wales who donated funds raised from the recycling of scrap metal, cans and drink bottles to support the Woolgoolga OneWave Fluro Friday mental health awareness project, which involves getting together with friends and talking about the importance of mental health.

Our mushroom category sponsored the Multicultural Centre for Women's Health (MCWH) 40th anniversary celebrations. This was in recognition of the long-standing partnership between Costa and the MCWH through their Industry Visits Program at our Mernda Victoria mushroom farm where 70% of our 600 strong workforce are migrant females with English as a second language. The program is conducted in the workplace and is specifically designed for women from immigrant and refugee backgrounds. Using bilingual health educators from different countries, cultures and backgrounds who understand the issues immigrant and refugee women face when taking control of their own health, the program delivers health education sessions on many topics.

Our Far North Queensland avocado, banana and berry employees came together to build new vegetable gardens at the Walkamin State School, in addition to providing fresh fruit for the school's breakfast club. More than 30 of our employees volunteered their time and labour to install 11 new garden beds and an irrigation system. The school students use the vegetables for cooking classes where they learn about healthy eating and developing good food habits.

It is activities such as these which the company and our employees will continue to actively support and promote across our more than 50 sites located throughout regional and rural areas.

## Board

Consistent with the Board's view that its interaction with the company's operations adds real value in furthering our understanding of it at an operational level, the Board visited the China operations in April 2019 and the expanded Monarto mushroom facility in October last year.

The Board visited each of the farms in China and took the opportunity to talk to the local management and staff. There was ample farm activity for the Board to see, with harvest staff being drawn mainly from local villages. The Board also gained an appreciation of the positive impact our farms are having on local communities with respect to economic and social benefits as well as the high level of focus on workplace safety and training.

Meetings were also held with senior government officials from the Prefecture Government and the Provincial Government of Yunnan, the province in which our farms are located. It was clear to the Board that our team in China has established a strong and positive relationship with the various levels of Government in the region, which is the cornerstone of any successful operation within China.

Our team in China has done a fantastic job in establishing our farming presence in Yunnan Province. The Board was very impressed by what has been achieved in such a short period of time, and the way in which Costa's world leading agronomic practices and IP have been successfully adapted to the local conditions.

Frank Costa and Kevin Schwartz retired from the Board during the year. Frank spent a lifetime's work building Costa into a successful company that is highly respected as a major force in Australia's fresh produce industry. On behalf of the Board, I sincerely thank Frank for his invaluable contribution to the Board and the Costa business over so many decades. Kevin's deep understanding and insights into our industry, together with his investment skills, have been instrumental in guiding the company's growth agenda and establishing a sustainable platform and the Board also thanks him for his contribution.

Dr Jane Wilson was appointed to the Board as an Independent Non-executive Director in April 2019. Jane's extensive business experience across a range of sectors including technology, health and horticulture will provide valuable insights as the company continues to implement its domestic and international growth strategy.

## Update for CY2020

Despite the challenges of 2019, trading for January and February 2020 was in line with our plans. With the onset of COVID-19, under Federal and State government arrangements, agriculture and food production have been designated an essential service. The company is focussed on providing quality fresh produce to our markets, is committed to ensuring the health and safety of our people and doing all we can to prevent the further spread of the virus. This includes temperature testing of all employees, contractors and visitors to our sites and enforcement of strict hygiene protocols and social distancing measures.

In addition, the company is highly focussed on supporting the communities in which we operate, particularly by providing valuable jobs at this critical time.

The company remains intent on delivering value accretive growth, however given the industry's inherent forecasting challenges, and as advised to the ASX at the time of release of the annual financial statements, the company intends to transition to qualitative earnings guidance for future earnings periods commencing from CY2021.

**Neil Chatfield**
Chairman

# Managing Director's Review


In 2019, the company maintained its reputation as a fresh produce market leader in the face of a number of challenges. The Costa brand remains synonymous with growing and supplying fresh produce of the highest quality and consistency to the Australian consumer.

The 2019 year was one in which Costa and many other agricultural companies faced significant challenges, in particular relating to drought and other weather events. Despite these challenges the company's fundamentals remain strong. Our portfolio of market leading premium fresh produce, the utilisation of protected cropping across several categories and the geographical diversity of our production footprint, together with our growth program covering both domestic and international operations, will deliver meaningful benefits over the medium to long term.

A number of events over the year relating to a combination of cyclical, one off and structural issues impacted our performance across both our produce categories and the African Blue (Morocco) operation. Many of these events were unforeseen, including weather that delayed the timing of our Moroccan blueberry crop, a lack of rain reducing the yield and fruit size in avocados, blueberries and the later season citrus crop, discovery of a fruit fly at one of our Riverland citrus farms and a genetic issue with our leading Driscoll's raspberry variety which caused the berry to crumble and be unsuitable for sale.

There were also other market related factors which impacted our mushroom business, with the seasonality of the category being affected by a warmer autumn resulting in lower demand and pricing through the cooler months where mushroom demand is historically higher. This situation has been slow to recover and together with the full commissioning of our expanded state of the art production facility at Monarto in South Australia occurring in early 2020, it was decided to accelerate the closure of our aged, higher cost mushroom facilities in Queensland and Tasmania.

Blueberry performance was also impacted by industry peak volumes remaining higher than expected going into Costa's own peak volume period. These higher volumes resulted in pricing pressure and impacted revenue, however our premium Arana offering provided a positive offset to this and the pricing pressure also eased by year end. Drought across much of Australia including in our key growing locations remained the most significant issue for the company to address over 2019 and into 2020. The dry weather resulted in significantly higher water costs at our tomato glasshouses in Guyra, northern New South Wales and our citrus operations in the South Australian Riverland.

Our tomato team undertook extensive work to ensure continued operations during the year, including improving our use of recycled water in the glasshouses and the utilisation of bores. Due to water security concerns a decision was made to pause the construction of our new 10-hectare glasshouse until we have determined that we have sufficient water in order to supply the expanded site. In our citrus category, a strong early and mid-season harvest provided confidence for the full year outcome, however extended dry and hot conditions impaired fruit growth in the late season navel orange and mandarins, causing significantly lower fruit size and yield with lower pricing outcomes from smaller fruit grades. In avocados our New South Wales crop volumes were impacted by both drought conditions and a hail event at our Comboyne (New South Wales) farm in September.

Finally, in December due to the rainfall forecast at our Corindi New South Wales berry farm being lower than the average for the remainder of the 2019 year, it was decided to remove the majority of the annual raspberry crop and early prune some of the lower value blueberry varieties to conserve the priority crop.

Despite the challenging conditions there are also many positives to highlight particularly as the company continues to execute its growth program. Our strong export performance in citrus remains a highlight, with over 70% of our crop exported in 2019. Continued reductions in tariffs in the Korean market bodes well for greater volumes to be sold into that market in to the future. Trialling of protected citrus cropping continues to develop positive results, particularly with respect to fruit quality and water usage.

Our blackberry plantings are now of sufficient scale where we anticipate achieving 52-week production coverage in 2020 and the raspberry crumble issues have been substantially mitigated. The long cane raspberry and blackberry program is on track for commercialisation, enabling us to better match both supply and demand and level out seasonal peaks from 2020 onwards.

We also look forward to improvement in our Atherton Tableland (Far North Queensland) blueberry production, with 42 hectares replanted during 2019. The tropical variety program at Atherton aims to create a new range of blueberries suited to low latitude environments such as Far North Queensland, southern China, Agadir (Morocco) and central Mexico. Only three years old, the first two selections are undergoing early commercial

evaluation. Expansion of our premium Arana variety also continues, allowing us to differentiate our blueberry offering during both peak and shoulder periods.

The mushroom category in 2019 faced one of its most challenging year's in recent memory, however we are well placed to capitalise when the market rebounds with the expansion of our Monarto facility, where weekly production capacity will double from 120 tonne to 240 tonnes. A rationalisation of our mushroom operations also means we will capitalise on the Monarto facility having the lowest cost of production.

In avocados the continuing tree maturity on our farms will contribute to volume growth and see tray volumes increase. Our 2 million tray production target remains on course to be achieved over the next three to four years. Export opportunities continue to open up and we are well positioned to capitalise on this, including through upgrading of our Childers (Central Queensland) avocado packing facility which means greater packing capacity, allowing both Costa and our third party growers to expand production in the coming years to meet customer demand.

Despite the water issues encountered by our tomato category, it has performed strongly and has achieved some success in establishing a more diverse customer base. Our Perino brand snacking tomatoes remain a standout in their category and new branding and marketing will help it retain and build further on its market leading position.

Table grapes also made a positive contribution during 2019 and we are seeing the benefit of the investment and hard work that has gone into developing the Sun World proprietary table grape program. With respect to our own plantings, a further 43 hectares of permanent netting has been installed over our early season table grape farm at Mundubbera (Central Queensland) and by the end of 2020, 100% of the table grape crop is expected to be protected.

In our international segment, a varietal breeding program and seasonal extension program is well underway in Morocco. We now have a production presence in the south of the country at Agadir, with 66 hectares as at the end of 2019. From this we are producing a blueberry crop from December through March which is ahead of other growing regions and therefore provides an advantage with respect to early season supply into the European and UK markets. In total, we now have 314 hectares of blueberries in Morocco.

Our China footprint continues to grow with jumbo blueberries proving highly popular and delivering a strong price premium. We are working closely with our joint venture partner Driscoll's to better understand market needs and conditions that drive strategic and agronomic decision making. Overall our China rollout is tracking to the initial five-year plan.

Although 2019 was a challenging and disappointing year with performance below expectations due to the factors I have covered, the company will continue to work on and invest in sustainable commercial farming and major strategic initiatives. In agriculture we can never fully eliminate risk, only mitigate it and to this end we remain focused on actively addressing the risks associated with changing climatic conditions, improving our water security and efficiency of use, continuously implementing yield improvement, developing superior IP, removing waste from our harvest and post-harvest practices and ensuring we have a highly skilled workforce to execute our growth strategy.

I conclude by acknowledging the work and efforts of the entire Costa team who in the face of such challenging circumstances during 2019 continued to ensure the company maintained its reputation as a fresh produce market leader and that the Costa name and brand remains synonymous with growing and supplying fresh produce of the highest quality and consistency to the Australian consumer.

**Harry Debney**
Managing Director and CEO

# Company Profile

## About Us

Costa is Australia's leading horticultural company and is the largest fresh produce supplier to the major Australian food retailers. For the 12 months financial year ended December 2019, Costa's total revenue was $1,047.8 million (CY2018[1]: 990.2 million) and NPAT before SGARA[2,3] was $28.5 million (CY2018[1]: $56.5 million).

Costa's operations include approximately 4,500 planted hectares of farmland, 30 hectares of glasshouse facilities and three mushroom growing facilities across Australia, as well as six blueberry farms in Morocco and four berry farms in China.

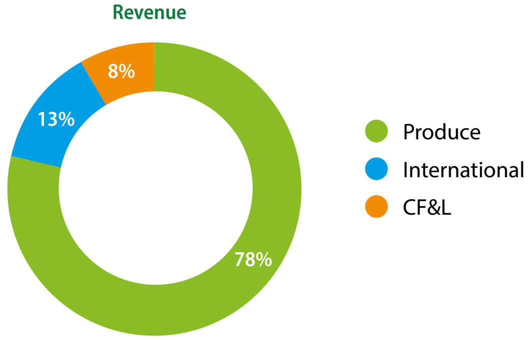
## Business Model

The Costa business model is built on the optimisation of a portfolio of integrated farming, packing and marketing activities.

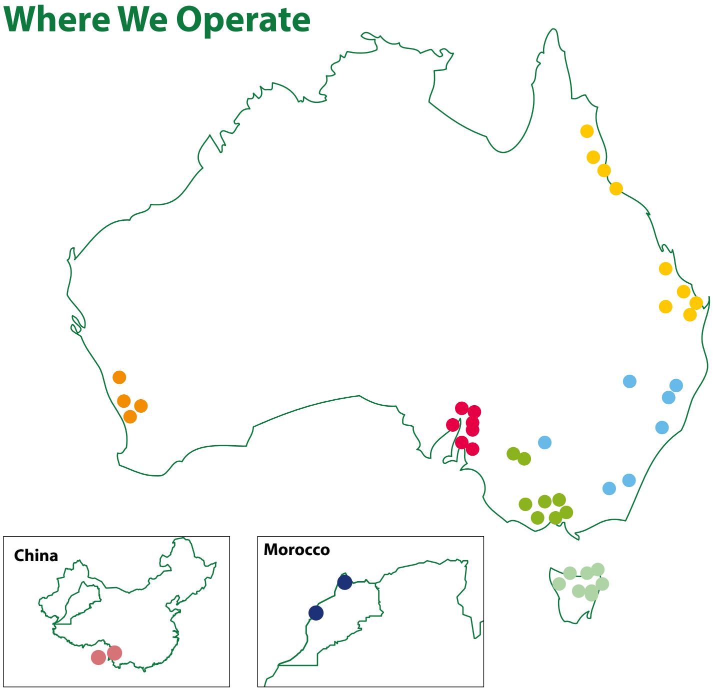
Costa's portfolio aims to be broad enough to mitigate agricultural and market risks while maintaining a strategic focus on high-growth and high-value fresh produce categories. Costa practises proactive risk management through diversification of categories and geographies, growing in protected cropping environments , using market leading technology, targeting produce categories with 52-week production and supply windows, and maintaining high hygiene standards, quality control systems and post-harvest protocols.

Costa's products are predominately grown and sourced from Costa's expansive foodprint of domestic and international farms, supplemented with produce sourced through a diverse network of third party growers.

Figure 1: Costa's revenue by segment for the 12 months financial year ended December 2019




## Where We Operate




Bailang – Yunnan Province
Manlai – Yunnan Province
Guangmen – Yunnan Province
Manhong – Yunnan Province

Moulay Bousselham/Laaouamra – Kenitra, Larache region
Massa – Agadir region

**Western Australia**

Berry Farm, Gingin
Mushroom Farm, Casuarina
Distribution Centre, Jandakot
Compost Facility, Mandurah

**New South Wales**

Berry Farm, Corindi
Tomato Glasshouse, Guyra
Distribution Centre, Eastern Creek
Distribution Centre Grapes, Euston
Berry Farm, Tumbarumba
Berry Farm, Rosewood
Avocado Farm, Comboyne

**South Australia**

Mushroom Farm, Monarto
Yandilla Citrus Farm and Packhouse, Renmark
Solora Citrus Farm, Loxton
Pike Creek Farm, Lyrup
Amaroo Citrus Farm, Murtho
Kangara Citrus Farm and Packhouse, Murtho
Adelaide Market, Pooraka

**Queensland**

Berry Farm, Tolga
Berry Farm, Atherton
Banana Farm, Walkamin
Banana Farm, Tully
Grape Farm, Mundubbera
Brisbane Market, Rocklea
Avocado Farm, Childers
Avocado Farm, Atherton
Berry Farm, Walkamin

**Victoria**

Mushroom Farm, Mernda
Compost Facility, Nagambie
Melbourne Market, Epping
Distribution Centre, Derrimut
Business Support Centre, Ravenhall
Mushroom Farm, Yarrambat
Citrus Farm, Colignan
Citrus Farm, Lindsey Point

**Tasmania**

Berry Farm, Sulphur Creek
Berry Farm, Wesley Vale
Berry Farm, East Devonport
Berry Farm, Dunorlan
Devonport Distribution Centre, Quoiba
Berry Distribution Centre and Packhouse, Devonport
Berry Farm, Lebrina

# Company Profile continued

## Operational Structure

Costa operates across three reportable segments:

### Produce

Operates principally in five core categories; berries, mushrooms, citrus, glasshouse-grown tomatoes and avocados

### International

Comprises licensing of proprietary blueberry varieties and expansion of berry farming in attractive international markets, such as Morocco and China

### Costa Farms and Logistics (CF&L)

Incorporates interrelated logistics, wholesale and marketing operations

## Strategy and Growth

Our diversified portfolio of market leading premium fresh produce, the utilisation of protected cropping across several categories and the geographical diversity of our production footprint, together with our IP, innovative agronomic practices and year-round production will deliver meaningful benefits over the medium to long term.

The Company is working to not only mitigate the challenges we faced in 2019 but is also focused on major initiatives to ensure strong delivery from 2020, through 2022 and beyond.

### Berries

In our berry category, the raspberry and blackberry long cane program will be ramped up over 2020. Our premium Arana blueberry variety will reach circa 30% of Costa's total blueberry production, during 2020. The blueberry Variety Improvement Program at our Atherton Tableland site in Far North Queensland remains focused on the development of low-latitude tropical varieties for deployment into Far North Queensland, China, Morocco and the US through licensing.

### Citrus

Over 70% of our citrus crop is exported and continued reductions in Korean tariffs is a positive sign for greater volumes to be sold in that market into the future. Further automation of our packing operations has occurred, with robotic packing technology having been installed in our citrus packhouse at Renmark in South Australian Riverland. The investment that has gone into the development of our Sun World proprietary table grape program will see rapid over the coming years.

### Mushrooms

In the mushroom category, 2020 will see the completion of our Monarto facility expansion, with a doubling of our production capacity from 120 tonnes to 240 tonnes per week. Closure of aged facilities in Queensland and Tasmania in late 2019 have enabled optimisation of the overall category production base and sales planning. Our brown mushroom sub-category will play an important role in developing our overall category offering and capitalising on the premium pricing.

### Avocados

Continuing tree maturity on our avocado farms will contribute to volume growth, as tray volumes increase. Trialing of high density protected cropping is aimed at increasing yield ad production efficiencies. We are well positioned to capitalise on export opportunities as they continue to open up through our Lovacado brand. The upgrading of our Childers Central Queensland avocado packing facility will deliver greater packing capacity, allowing both Costa and our third-party growers to expand production in the coming years, to meet customer demand.

### Tomatoes

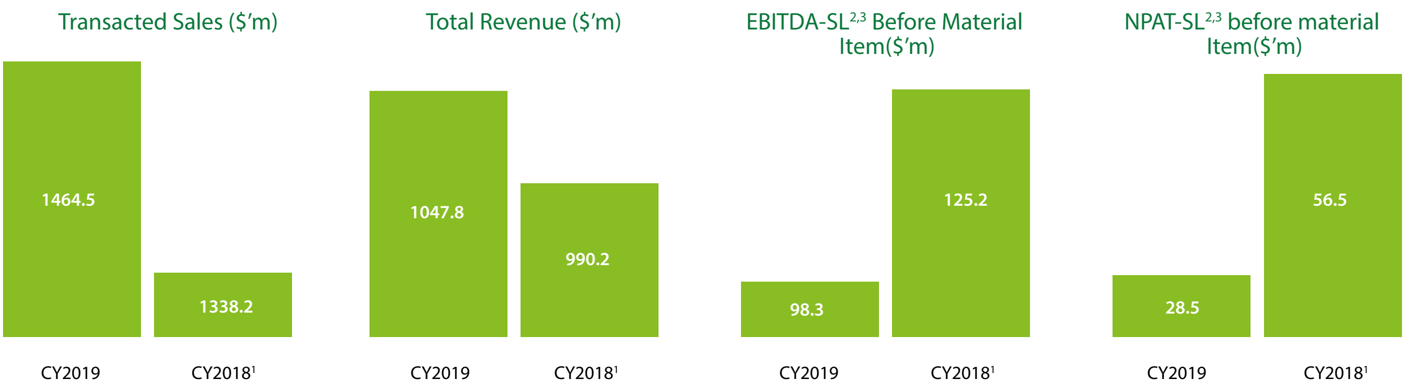
While our Perino brand snacking tomatoes remain a standout in that category, our new branding and marketing will ensure it retains and builds further on its market leading position, ongoing R&D evaluation of snacking and cocktail product lines continues, as well as opening up new sales channels beyond the retail setting.

### International

In our international segment, a seasonal extension program is well under way in Morocco. We now have a production presence in the south of the country, at Agadir, with 66 hectares at the end of 2019, producing a blueberry crop from December through to March. This is ahead of other growing regions, and therefore provides an advantage with respect to us as a supplier in both the European and UK markets. Early trials in a few tropical varieties are promising.

Our China production footprint is currently 237 hectares inclusive of a new development at Guangmen which is being planted and will be our fourth farm location. A new region has been selected for further expansion beyond the initial five-year plan, land selection is being finalised, with a likely production footprint of 50 hectares for planting in 2021. Varietal selection and improvement in agronomic practices for local conditions will continue in order to optimise existing operations.

Figure 2: Summary of Financial Performance




1 – Due to the change in financial year end, pro forma 12 months to December 2018 has been included as comparative to allow like-for-like analysis against CY2019.

2 – EBITDA before SGARA and leasing (EBITDA-SL) and NPAT before SGARA and leasing (NPAT-SL) are non-IFRS financial measures.

3 – EBITDA-SL and NPAT-SL are represented before material items.

# Harvest Calendar

| | Mushroom Browns | Mushroom Whites | Tomatoes Truss | Tomatoes Cocktail | Tomatoes Sweet Snacking | Oranges Valencia | Oranges Navels | Oranges Blood Orange | Grapefruit Marsh | Grapefruit Ruby Red | Lemons | Limes |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| January | ● | ● | ● | ● | ● | ● | | | | | ● | ● |
| February | ● | ● | ● | ● | ● | ● | | | | | ● | ● |
| March | ● | ● | ● | ● | ● | | | | | | | ● |
| April | ● | ● | ● | ● | ● | | ● | | | | | ● |
| May | ● | ● | ● | ● | ● | | ● | | ● | | ● | ● |
| June | ● | ● | ● | ● | ● | | ● | | | ● | ● | |
| July | ● | ● | ● | ● | ● | | ● | | | ● | ● | |
| August | ● | ● | ● | ● | ● | ● | ● | ● | | ● | ● | |
| September | ● | ● | ● | ● | ● | ● | ● | ● | | ● | ● | |
| October | ● | ● | ● | ● | ● | ● | ● | | | ● | ● | |
| November | ● | ● | ● | ● | ● | ● | ● | | | ● | ● | |
| December | ● | ● | ● | ● | ● | ● | | | | ● | ● | |

| | Avocados Hass | Avocados Reed | Avocados Shepard | Avocados Carmen | Avocados Maluma | Bananas Cavendish | Bananas Lady Fingers | Raspberries Corindi | Raspberries Gingin | Raspberries TAS |
|---|---|---|---|---|---|---|---|---|---|---|
| January | | ● | | | | ● | ● | ● | | ● |
| February | | | ● | | | ● | ● | ● | | ● |
| March | ● | | ● | ● | ● | ● | ● | ● | ● | ● |
| April | ● | | ● | ● | ● | ● | ● | ● | ● | ● |
| May | ● | | | ● | ● | ● | ● | ● | ● | |
| June | ● | | | | | ● | ● | ● | ● | |
| July | ● | | | | | ● | ● | ● | ● | |
| August | ● | | | | | ● | ● | ● | ● | |
| September | ● | | | | | ● | ● | ● | ● | |
| October | ● | | | | | ● | ● | ● | ● | |
| November | | ● | | | | ● | ● | ● | ● | |
| December | | ● | | | | ● | ● | ● | ● | |

| | Raspberries China | Blackberries China | Blueberries China | Blueberries Morocco |
|---|---|---|---|---|
| January | ● | ● | ● | ● |
| February | ● | ● | ● | ● |
| March | ● | ● | ● | ● |
| April | ● | ● | ● | ● |
| May | ● | ● | ● | ● |
| June | | | | |
| July | | | | |
| August | ● | | | |
| September | ● | | | |
| October | ● | | | |
| November | ● | ● | ● | ● |
| December | ● | ● | ● | ● |

| | Mandarins Satsuma | Mandarins Clementines | Mandarins Daisy | Mandarins Imperial | Mandarins Afourer | Mandarins Ellendale | Mandarins Honey Murcott | Mandarins Ortanique | Persimmons Jiro | Persimmons Fuyu | Tangelos |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | | |
| 2 | | | | | | | | | | | |
| 3 | ● | | | | | | | | | | |
| 4 | ● | ● | | | | | | | ● | ● | |
| 5 | | ● | ● | ● | | | | | | ● | |
| 6 | | ● | ● | ● | | | | | | | ● |
| 7 | | ● | | ● | ● | | | | | | ● |
| 8 | | | | ● | ● | | | | | | ● |
| 9 | | | | | ● | ● | ● | | | | ● |
| 10 | | | | | ● | | ● | | | | |
| 11 | | | | | | | ● | ● | | | |
| 12 | | | | | | | | | | | |

| | Blackberries TAS | Blueberries Corindi | Blueberries FNQ | Blueberries WA | Blueberries TAS | Blueberries Gingin | Strawberries TAS | Grapes Red | Grapes White | Grapes Black |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | ● | ● | | | ● | | ● | | | |
| 2 | ● | | | | ● | | ● | | | |
| 3 | ● | | | | ● | | ● | | | |
| 4 | | | | | ● | | ● | | | |
| 5 | ● | | ● | ● | | | ● | | | |
| 6 | | | ● | ● | | | | | | |
| 7 | | ● | ● | ● | | | | | | |
| 8 | | ● | | ● | | | | | | |
| 9 | | ● | | ● | | | | | | |
| 10 | | ● | | ● | | | | | | |
| 11 | | ● | | ● | | | | | | ● |
| 12 | | ● | | ● | | ● | ● | ● | ● | ● |


costa
well grown

# Directors' Report

## For the year ended 29 December 2019

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 29 December 2019.

## 1. Directors

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

### 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 and Nomination Committee.

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

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

#### Harry Debney BAppSc (Hons)

*Managing Director and Chief Executive Officer*

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

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

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

#### Tim Goldsmith BCom

*Independent Non-Executive Director*

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

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

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

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

*Independent Non-Executive Director*

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

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

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

# Directors' Report continued

For the year ended 29 December 2019

### 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 Chief Executive of Goodman Fielder Ltd and before that Chief Executive and Chief Operating Officer of National Foods Ltd. Peter has also held senior executive roles in Simplot Australia Pty Ltd, Pacific Brands Ltd, East Asiatic Company and HJ Heinz Company Australia Ltd and is currently Chairman of Asahi Beverages ANZ.

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

### Dr Jane Wilson

*Independent Non-Executive Director*

Director since 1 April 2019 and member of the Remuneration and Human Resources Committee.
Dr Wilson holds a medical degree from The University of Queensland and a Master of Business Administration from Harvard Business School. She is Co-Chair of the Federal Government's Australian Advisory Board on Technology and Healthcare Competitiveness. She was also a director of the General Sir John Monash Foundation until December 2019. In the early 2000s Dr Wilson was the Inaugural Chair of Horticulture Australia and served on the Council of Rural Research & Development Corporations' Chairs.

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

## Previous directors

### Frank Costa AO OAM

Frank Costa was a director from 8 June 2011 and member of the Remuneration and Human Resources Committee until his resignation on 4 July 2019.

### Kevin Schwartz BSc (Accountancy)

Kevin Schwartz was a director from 7 October 2011 until his resignation on 28 February 2019.

## 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.

## 3. Officers Who Were Previously Partners of the Audit Firm

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

## 4. Directors' Meetings

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

| | Board Meetings | | Audit and Risk Committee Meetings | | Remuneration and HR Committee Meetings | | Nomination Committee Meetings | |
|---|---|---|---|---|---|---|---|---|
| **Director** | **Held** | **Attended** | **Held** | **Attended** | **Held** | **Attended** | **Held** | **Attended** |
| Neil Chatfield | 14 | 13 | 6 | 6[1] | 4 | 3 | 2 | 2 |
| Harry Debney | 14 | 14 | 6 | 6[1] | 4 | 4[1] | 2 | 2[1] |
| Tim Goldsmith | 14 | 14 | 6 | 6 | 4 | - | 2 | 2 |
| Janette Kendall | 14 | 13 | 6 | 6 | 4 | 1[1] | 2 | 2 |
| Peter Margin | 14 | 14 | 6 | 6 | 4 | 4 | 2 | 2 |
| Jane Wilson[2] | 13 | 13 | 4 | 1[1] | 2 | 1[2] | 1 | - |
| **Previous directors** | | | | | | | | |
| Frank Costa[3] | 5 | 3 | 6 | - | 3 | 2 | 1 | - |
| Kevin Schwartz[4] | 1 | - | 6 | - | 4 | - | 1 | - |

Notes:

1. Not a member of the Committee. Attended the meeting as a guest.
2. Dr Jane Wilson was appointed as a director on 1 April 2019 and a member of the Remuneration and HR Committee on 4 July 2019. She attended all Remuneration and HR Committee meetings that were held while she was a member of that Committee.
3. Frank Costa ceased to be a director on 4 July 2019.
4. Kevin Schwartz ceased to be a director on 28 February 2019

## 5. Principal Activities

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

## 6. Significant Changes in State of Affairs During the Period

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

# Directors' Report continued

For the year ended 29 December 2019

## 7. Operating and Financial Review

### Results for Financial Year Ended 29 December 2019

Summary of Group Performance

| | CY2019 | vs CY2018[1] |
|---|---|---|
| **Transacted Sales** | 1,464.5 | ▲ 9.4% |
| **Revenue** | 1,047.8 | ▲ 5.8% |
| **EBITDA-SL**[3] | 98.3 | ▼ 21.5% |

- Revenue up on prior comparative period primarily due to citrus category with the addition of the new Colignan farm and increased table grape marketing volume
- EBITDA-SL reduction due to lower Produce segment earnings led by the Mushroom and Berry categories

Table 1: Summary of results for the financial year ended 29 December 2019 compared to CY20181

| Consolidated income statement<br>A$m | CY2019 | CY2018[1] | Change $ | FP2018 |
|---|---|---|---|---|
| Revenue | 1,030.8 | 972.5 | 58.3 | 468.7 |
| Other revenue | 17.1 | 17.8 | (0.7) | 8.9 |
| **Total Revenue** | **1,047.9** | **990.3** | **57.6** | **477.6** |
| Raw materials, consumables & third party purchases | (360.4) | (317.5) | (42.9) | (152.4) |
| Employee benefits expense | (370.2) | (342.8) | (27.4) | (181.1) |
| Other operating expense | (174.3) | (212.2) | 37.9 | (112.9) |
| Share of associates profit | 4.1 | 7.4 | (3.3) | 4.1 |
| **EBITDA-S** | **147.0** | **125.2** | **21.8** | **35.3** |
| EBITDA-S margin | 14.2% | 12.6% | | 7.4% |
| Fair value movements in biological assets | 4.3 | (6.1) | 10.3 | (1.5) |
| **EBITDA** | **151.3** | **119.1** | **32.2** | **33.8** |
| Depreciation & amortisation | (89.4) | (39.0) | (50.4) | (20.2) |
| Profit/(loss) on sale of assets and investments | 1.4 | 0.2 | 1.2 | 0.5 |
| Impairment losses | 0.0 | 0.2 | (0.2) | - |
| **EBIT** | **63.3** | **80.5** | **(17.2)** | **14.1** |
| Net interest expense | (26.0) | (8.4) | (17.6) | (4.2) |
| **Net profit/(loss) before tax** | **37.3** | **72.1** | **(34.8)** | **9.9** |
| Income tax expense | (9.2) | (17.5) | 8.3 | (2.8) |
| **NPAT (before material items)** | **28.2** | **54.7** | **(26.5)** | **7.1** |
| Material items (before tax) | (70.2) | (9.1) | (61.1) | (3.9) |
| Tax on material items | 8.3 | 1.7 | 6.6 | 0.8 |
| Non-controlling interest | (1.6) | (2.3) | 0.6 | 0.4 |
| **Net profit after tax attributable to shareholders** | **(35.4)** | **45.0** | **(80.4)** | **4.3** |
| | | | | |
| Transacted Sales[2] | 1,464.5 | 1,338.2 | 126.3 | 665.2 |
| EBITDA-SL[3] | 98.3 | 125.2 | (26.9) | 35.3 |
| NPAT-SL[3] | 28.5 | 56.6 | (28.1) | 8.6 |

Notes:

1. CY2018 has been included as a comparative to allow like-for-like period analysis against CY2019. Unless otherwise stated, all comparative references in the Operating and Financial Review are against CY2018. The comparative period for the statutory financial statements is 6 months to December 2018 (FP2018).
2. 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.
3. EBITDA-SL and NPAT-SL are non-IFRS financial measures and have been provided to allow for like-for-like comparison against CY2018 due to the implementation of the new lease accounting standard (AASB16). Further details on EBITDA-SL and NPAT-SL are provided in Table 8.

## Financial Highlights

### Revenue

Revenue increased by $57.6 million against prior comparative period (CY2018) driven by the Produce segment, primarily due to the citrus category with the acquisition of the new Colignan farm and increased grape marketing volume. This was slightly offset by lower sales in the mushroom category due to unfavourable channel mix with more volume sold into wholesale at reduced pricing.

### Operating expenses

Raw materials, consumables and 3rd party purchases expenses increased by $42.9 million in line with the increase in revenue in the Produce segment as described above.

Employee benefits expenses increased by $27.4 million from CY2018 driven by the incremental production growth across Produce and International segments.

Other operating expenses decreased $37.9 million driven by the removal of operating lease expenses of $49.0 million with the adoption of the new lease accounting standard (AASB16)1. This was moderately offset by an increase in:

- farm operating costs with the acquisition of the new Colignan farm in the citrus category; and
- costs associated with the procurement and securing of water in the Produce segment.

### Share of associates profit

Profits from associates decreased by $3.3 million due to lower earnings contribution from the Driscoll's Australia joint venture with the impact of the raspberry crumble issue proving to be more significant than initially anticipated.

### EBITDA before SGARA & leasing[2]

EBITDA before SGARA & leasing decreased by $26.9 million from CY2018 driven by the Produce segment with:

- soft consumer retail demand in the mushroom category resulting in an unfavourable sales channel mix with lower wholesale market pricing;
- prevailing drought conditions particularly in the second half of the year leading to reduced fruit sizing and yield in the late season citrus, berry and avocado crops;
- higher costs associated with the procurement and securing of water; and
- raspberry crumble issue more costly than initially anticipated.

### Fair value movements in biological assets

SGARA fair value movement was up $4.3 million during the year. Material fair value increases were recorded in the avocado category with higher pricing and volumes forecasted as compared to prior year and Costa Asia with increased blueberry plantings in Yunnan.

### Depreciation and amortisation

Depreciation and amortisation increased by $50.4 million with CY2019 including right-of-use asset depreciation of $40.7 million due to the initial application of the new lease accounting standard1. Additionally, depreciation on property, plant and equipment increased by $9.6 million reflective of the recent CAPEX investment in the Produce and International segments.

### Net interest expense

Net interest costs up $17.6 million with CY2019 including interest on lease liabilities of $16.2 million due to the initial application of the new lease accounting standard1. The balance of the increase reflects higher leverage during the year.

### Tax expense

Lower tax expense in line with the reduction in earnings, with an effective tax rate of 24.6% compared to 24.2% for CY2018.

### Material items & amortisation

Material items before tax were $70.2 million relating to:

- The mushroom impairment and restructuring provisions of $61.7 million; and
- Acquisition and integration expenses associated with the African Blue transaction. This includes amortisation of acquired intangibles of $6.8 million which have been fully written off by December 2019.

# Directors' Report continued

## For the year ended 29 December 2019

### NPAT-SL[2]

NPAT-SL decreased by $28.1 million from CY2018 due to the earnings drivers described above. The reduced EBITDA-SL and higher depreciation and interest charges were partially offset by lower tax expense for the period.

### Dividends

The Board has declared a final dividend of 2.0 cents per share on 26 February 2020 for the financial year ended 29 December 2019. Dividends are fully franked.

Note:

1. The Group has initially applied AASB 16 Leases at 31 December 2018, using the modified retrospective approach. Under this approach, comparative information and retained earnings is not restated at the date of initial application.
2. To enable like-for-like comparison against prior period, EBITDA-SL and NPAT-SL have been introduced as alternative performance measures. Refer Table 8 for further details.

## Segment Information

### Produce

Table 2: Selected financial information for the Produce segment

| Produce<br>A$m | CY2019 | CY2018 | Change | FP2018 |
|---|---|---|---|---|
| Transacted Sales | **1,291.1** | 1,175.7 | 115.4 | 615.7 |
| Revenue | **869.3** | 824.1 | 45.2 | 425.6 |
| EBITDA-SL | **69.2** | 98.2 | (29.0) | 38.8 |
| *EBITDA-SL margin* | ***8.0%*** | *11.9%* | *-3.9%* | *9.1%* |

Revenue increased $45.2 million on CY2018 mainly driven by:

- acquisition of the new Colignan farm and increased grape marketing volume in the citrus category;
- berry category with volumetric growth in blackberries; and
- growth in the tomato category underpinned by consistent quality and production growth across all key product lines.

This was partially offset by reduction in the mushroom category due to unfavourable channel mix with more volume sold into wholesale at reduced pricing.

EBITDA-SL decreased by $29.0 million against CY2018 led by:

- soft consumer retail demand in the mushroom category resulting in an unfavourable sales channel mix with lower wholesale market pricing;
- prevailing drought conditions particularly in the second half of the year leading to reduced fruit sizing and yield in the late season citrus, berry and avocado crops;
- higher costs associated with the procurement and securing of water; and
- raspberry crumble issue more costly than initially anticipated in the Driscoll's Australia joint venture.

## Costa Farms & Logistics

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

| Costa Farms and Logistics<br>A$m | CY2019 | CY2018 | Change | FP2018 |
|---|---|---|---|---|
| Transacted sales | **144.0** | 151.6 | (7.7) | 76.6 |
| Revenue | **149.1** | 155.2 | (6.0) | 79.0 |
| EBITDA-SL | **6.5** | 5.8 | 0.7 | 3.6 |
| *EBITDA-SL margin* | ***4.3%*** | *3.7%* | *0.6%* | *4.5%* |

Revenue decreased by $6.0 million compared to CY2018, mainly due to lower wholesale pricing across the mushroom and avocado product lines. This was moderately offset by logistics revenue growth due to additional Sydney services leveraging the Eastern Creek facility.

EBITDA-SL increased a modest $0.7 million against CY2018. This was achieved through strong trading margin capture despite lower traded volume and ongoing improvement across logistics sites.

## International

Table 4: Selected financial information for the International segment

| International<br>A$m | CY2019 | CY2018 | Change | FP2018 |
|---|---|---|---|---|
| Transacted sales | **91.7** | 77.3 | 14.4 | 6.5 |
| Revenue | **91.7** | 77.4 | 14.3 | 6.6 |
| EBITDA-SL | **22.7** | 21.2 | 1.4 | (7.1) |
| *EBITDA-SL margin* | ***24.7%*** | *27.5%* | *(2.7%)* | *(107.5%)* |

Revenue up $14.3 million compared to CY2018 primarily due to additional 60 hectares under production this season in the Costa Asia joint venture and increased harvest volumes in African Blue.

EBITDA-SL increased by $1.4 million against CY2018 driven mainly by volumetric growth in the Costa Asia joint venture. However, delay in the African Blue harvest timing caused the majority of the crop to compete with peak Spanish production resulting in lower pricing and driving margin reduction in the International Segment.

## Balance Sheet

Table 5: Selected consolidated balance sheet as at 29 December 2019

| Selected Balance Sheet<br>A$m<br>As at 29 December 2019 | Dec-19 | Dec-18 | Change |
|---|---|---|---|
| Cash and cash equivalents | **36.0** | 45.8 | (9.8) |
| Receivables | **92.4** | 94.7 | (2.3) |
| Inventories | **24.4** | 25.4 | (0.9) |
| Property, plant and equipment | **498.9** | 414.2 | 84.7 |
| ROU assets | **285.2** | - | 285.2 |
| Intangible assets | **213.4** | 255.6 | (42.3) |
| Biological assets | **49.2** | 48.3 | 0.9 |
| Equity accounted investments | **16.7** | 14.4 | 2.3 |
| Other assets | **33.5** | 38.6 | (5.1) |
| **Total assets** | **1,249.7** | **937.0** | **312.7** |
| Payables | **113.5** | 130.2 | (16.7) |
| Provisions | **31.6** | 27.0 | 4.6 |
| Lease liabilities | **293.7** | - | 293.7 |
| Borrowings | **214.8** | 290.4 | (75.6) |
| Other liabilities | **18.6** | 26.3 | (7.7) |
| **Total liabilities** | **672.2** | **474.0** | **198.3** |
| **Net assets** | **577.4** | **463.0** | **114.4** |

### Net working capital

Net working capital increased by $1.6 million during the year, primarily driven by a decrease in trade payables due to timing of month-end vendor payments.

### Property, plant and equipment

Property, plant and equipment increased by $84.7 million driven by growth project expenditures across the Produce and International segments, including Monarto mushroom farm expansion, Guyra tomato glasshouse and the domestic and international berry growth programs.

### ROU assets

Right-of-use assets recognised in CY2019 of $285.2 million as a result of the Group adopting the new leasing accounting standard, AASB16. This effectively represents the capitalisation of operating lease commitments. The Group applied the modified retrospective approach on adoption, meaning the prior year comparative financial information is not adjusted.

### Biological assets

Biological assets increased $0.9 million from the uplift in fair value of the Avocado and China berry crop.

### Equity accounted investments

Equity accounted investment increased by $2.3 million due to earnings contribution from the Driscoll's Australia marketing joint venture.

Other assets decreased by $5.1 million due primarily to a decrease in prepayments in the Costa Asia and African Blue categories.

Other liabilities decreased by $7.7 million mainly due to a decrease in deferred tax liability resulting from the impairment of assets in the mushroom category and the unwinding of the put/call option liability associated with the African Blue transaction.

## Net Debt

Table 6: Consolidated net debt as at 29 December 2019

| Net debt<br>A$m<br>As at 29 Dec 2019 | Dec-19 | Dec-18 |
|---|---|---|
| Bank loans | **216.4** | 291.1 |
| Capitalised loan establishment fees included in borrowings | **(1.6)** | (0.7) |
| Gross debt | **214.8** | 290.4 |
| Less: Cash and cash equivalents | **(36.0)** | (45.8) |
| **Net debt** | **178.9** | **244.6** |
| **Leverage ratio**[1] | **1.82x** | **1.96x** |

Notes:

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

Net debt as at 29 December 2019 decreased by $65.7 million to $178.9 million primarily driven by the equity raise of $176 million which completed in November 2019. Net leverage decreased to 1.82x during the year which reflects the equity raise offset by the reduction in earnings contribution.

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

## Cash Flow

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

| Consolidated cash flow<br>A$m | CY2019 | CY2018 |
|---|---|---|
| **EBITDA-S before material items** | **147.0** | **125.2** |
| Less: Share of profit of JVs | **(4.1)** | (7.4) |
| Dividends from JVs | **1.9** | 3.8 |
| Non-cash items in EBITDAS | **1.3** | 2.4 |
| Payment for leases | **(50.1)** | - |
| Change in working capital | **(1.3)** | 14.1 |
| **Net cash flow from operating activities before interest, tax and material items** | **94.7** | **138.0** |
| Maintenance capital expenditure | **(26.0)** | (21.0) |
| **Free cash flow** | **68.7** | **117.0** |
| Productivity and growth capital expenditure | **(121.1)** | (99.9) |
| Payments for business acquisitions | **-** | - |
| Acquisition of non-controlling interest in subsidiary | **(0.7)** | (0.0) |
| Proceeds from sale of investments | **1.6** | - |
| Disposal of property, plant and equipment | **1.0** | 1.3 |
| **Net cash flow before financing, tax, dividends and material items** | **(50.6)** | **18.4** |
| Cash conversion ratio[1] | **47%** | 93% |

Notes:

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

### Dividends from joint ventures

Dividends from JVs decreased by $1.9 million from CY2018 reflective of lower earnings and cash retained to fund nursery expansion.

### Working capital

Increase in working capital mainly driven by reduction in trade payables with timing of month-end vendor payments.

### Capital expenditure

Maintenance capital expenditure increased by $5.0 million against CY2018, reflective of the increase in growth initiatives.

Productivity and growth capital expenditure was $121.1 million for the period and comprised mainly of:

- $38.7 million for the mushroom Monarto expansion project;
- $20.5 million for China joint venture;
- $40.4 million for the Tomato glasshouse project;
- $10.2 million for the domestic berry expansion projects; and
- $10.6 million for Morocco.

### Other significant items in cash flow

Proceeds from sale of investments of $1.6 million from the disposal of shares in the Adelaide and Brisbane wholesale markets.

## 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 to have greatest impact to the business and an outline of what Costa is doing to mitigate these risks.

| Risk | Description | Mitigation |
|---|---|---|
| **Weather and climate:** | Changes in weather and climate can cause price and yield volatility for Costa. | Costa partially mitigates against weather risk by investing in weather protective growing environments and equipment. Approximately two-thirds of Costa's produce related EBITDA before SGARA is derived from crops currently grown under cover indoors or under permanent tunnels. While protected cropping reduces the risk of disease and the impact of weather, this risk is still relevant. Changes in climate also have the potential to have an adverse impact on Costa's business. Costa has sought to manage the impact of this risk by increasing the geographic diversity of its operations (both within Australia and internationally). Costa is also continuing to develop and implement further strategies to manage this risk and will report on these strategies in future periods. |
| **Water:** | Water availability, whether due to drought or otherwise, and fluctuating water prices have the ability to impact on Costa's business | Costa has sought to manage the impact of this risk by increasing the geographic diversity of its operations (both within Australia and internationally). Costa also uses advanced irrigation technology and processes to improve the efficiency of water use and to minimise the amount of water required to grow its crops. Costa has significantly increased the dam capacity at its Corindi blueberry farm and is reviewing its available water sources and current water storage capacity at other locations in Australia and internationally. Costa actively monitors water prices and, where appropriate, enters into forward water contracts to partially protect against the effect of potential water price increases. |
| **Brand risk:** | Quality issues, product recall, contamination, public health issues, disputes or adverse media coverage could damage Costa's brands or their image which could adversely impact Costa's financial performance. | Costa has zero tolerance for circumstances which may result in food safety concerns and employs strict food safety and quality assurance standards across its business. 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 taken steps to ensure it is prepared to deal with foreign object contamination risks through the development and application of a foreign object control standard. Costa also reviewed its recall and withdrawal program during 2019, resulting in revised and new standards. |
| **Customer risk:** | Costa's top three customers comprised approximately two thirds of sales revenue. | Costa enters into contractual arrangements where possible with its major customers, with any such agreements typically having supply periods typically for 1 season or 1 to 2 years. However, the nature of the Australian market means that most customer arrangements are uncontracted. Costa also continues to actively explore alternative sales channels, both within Australia and internationally with non-Australian customers now comprising approximately one quarter of sales revenue. |

# Directors' Report continued

## For the year ended 29 December 2019

| Risk | Description | Mitigation |
|---|---|---|
| **Labour arrangements:** | Costa uses multiple employment models to meet the needs of growing and harvesting a product that is perishable. This includes using labour hire firms to meet production peaks including harvest periods. Costa has less direct control over employment arrangements for persons employed by labour hire firms than it does over its direct employees. | Third party labour hire firms are processed by Costa through a rigorous procurement process, and Costa requires their employment practices to satisfy all Australian employment laws. Costa also ensures that all employment instruments and agreements used by any third party labour hire firm engaged by Costa comply with legal pay and conditions. In addition Costa has communicated to each labour provider Costa's Supplier Code of Conduct. This Code seeks to ensure that human rights issues are understood, respected and upheld. Labour providers are contractually obliged to comply with the Code. Costa also conducts routine audits and interviews with labour hire staff to ensure compliance with Costa's expected standards. |
| **Work health and safety:** | Given the nature of the industry in which Costa operates, Costa's employees are at risk of workplace accidents and incidents. In addition to the potential for harm to any employee, the occurrence of workplace accidents has the potential to harm both the reputation and financial performance of Costa. | Costa has WHS Policy implemented with a strategic plan. A worker entering a work site of Costa is inducted and made aware of Costa WHS expectations and policy. Costa has implemented training across sites to employees and supervisors on safety expectations. Safe work instructions have been deployed through the workplace to reduce risk and hazards. Costa employees undertake hazard identification and near miss reporting, as well as tracking the time taken to mitigate those hazards identified. |
| **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. |
| **Foreign exchange risk:** | Costa is exposed to foreign exchange risk from a number of sources, namely from the export of produce to various countries including Japan and the United States, and through the earnings it generates from its international operations, including the African Blue and China joint ventures. Unfavourable movements in the foreign exchange rates between the Australian dollar and other currencies such as the US dollar, Japanese yen, Moroccan Dirham and Chinese Yuan can have a material adverse impact on the overall financial performance of Costa. | Costa actively employs hedging strategies to mitigate this risk. |
| **Risks associated with 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 constantly 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 which are designed to reduce waste and reduce migration of any nutrients applied to crops. In line with Costa's Sustainable Commercial Farming objective, Costa continues to review its operations to identify further ways in which it can minimise the environmental impact of its operations. |

| Risk | Description | Mitigation |
|---|---|---|
| **Community:** | Costa operates in many regional communities and a failure to successfully integrate with those communities could impact on its operations. | Costa is actively involved in supporting the social fabric of the many regional communities in which it operates. In addition to acting and behaving as a responsible corporate citizen, Costa works closely with communities so that they can benefit both economically and socially from Costa's presence. |
| **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 and synergies that give the business a competitive advantage will be reduced or lost. | Costa implements various strategies to mitigate cyber risk with a focus on employee education, network defence, enterprise-wide testing and disaster recovery. Costa also restricts and segregates sensitive data. These strategies are periodically reviewed and updated to maintain currency. |
| **Restrictions on movement of people or goods:** | Unplanned restrictions, such as those imposed due to widespread illness (eg Coronavirus) or the result of armed conflict or sudden geopolitical changes, have the potential to have a significant 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. |

## Non-IFRS measures

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

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

Table 8: Non-IFRS measures

| Non-IFRS Financial measures | |
|---|---|
| **EBIT** | Earnings before interest and tax |
| **EBITDA** | Earnings before interest, tax, depreciation and amortisation |
| **EBITDA before SGARA (EBITDA-S)** | EBITDA adjusted for fair value movements in biological assets. For horticultural companies, EBITDA is typically adjusted for fair value movements in biological assets due to the growing and harvesting cycles for fruit and vegetables, and the accounting treatment of live produce and picked produce. The fair value movement in self-generating or regenerating assets (SGARA) is non-cash; therefore, EBITDA before SGARA is used in preference to EBITDA for Costa. |
| **NPAT before SGARA (NPAT-S)** | Net profit attributable to members of Costa before fair value movements in biological assets and material items & amortisation. |
| **EBITDA before SGARA & leasing; and NPAT before SGARA & leasing** | On 31 December 2018, the Group adopted the new lease accounting standard AASB 16. Costa applied the modified retrospective approach which means that prior year comparatives were not adjusted for the impact of AASB16. As such, two alternative performance measures were introduced to assist with the transition year.<br>• EBITDA before SGARA & leasing (EBITDA-SL) is EBITDA-S as identified above adjusted for the impact of AASB16 and includes operating lease expense; and<br>• NPAT before SGARA and leasing (NPAT-SL) is NPAT-S as identified above adjusted for the impact of AASB16. It includes operating lease expense and excludes ROU asset depreciation and interest on lease liability. |

**Non-IFRS operating measures**

| | |
|---|---|
| Transacted Sales | Transacted Sales are used by management as a key measure to assess Costa's sales and marketing performance and market share. Transacted Sales represent the aggregate volume of sales in which Costa is involved in various capacities (including sales of third party-grown produce marketed by Costa under agency arrangements), as well as royalty income. Transacted Sales are not considered by Costa to be a revenue measure. There are material differences between the calculation of Transacted Sales and the way in which revenue is determined under AAS.<br><br>Transacted Sales comprise:<br>• statutory sales revenue;<br>• gross invoiced value of agency sales of third party produce;<br>• royalty income from the licensing of Costa blueberry varieties; and<br>• 100% of Driscoll's JV sales after eliminating Costa produce sales to the Driscoll's Australia JV. Prior to the formation of Driscoll's JV in 2010, all of Costa's domestic sales and marketing activities for the berry category were managed by Costa. |

Table 9: Reconciliation of Transacted Sales to revenue

| Reconciliation of Transacted Sales<br>A$m | Note | CY2019 | CY2018 | FP2018 |
|---|---|---|---|---|
| **Transacted Sales** | | **1,464.5** | **1,338.2** | **665.2** |
| Agency revenue adjustments | 1 | **(109.7)** | (92.6) | (42.9) |
| Driscoll's Australia Partnership consolidation adjustments | 2 | **(318.5)** | (267.9) | (150.3) |
| Other revenue | 3 | **11.6** | 12.6 | 5.6 |
| **Total revenue** | | **1,047.9** | **990.3** | **477.6** |

Notes:

1. Under AAS, the invoiced value of agency sales is excluded from revenue with only the commission associated with the agency sales recognised.
2. Costa owns 50% of the equity of Driscoll's Australia JV. Transacted Sales includes 100% of Driscoll's 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.

## 8. Dividends

During the year ended 29 December 2019, Costa Group Holdings Ltd declared and paid a fully franked final dividend of 5.0 cents per share for the 6 month financial period ending on 30 December 2018 (as previously disclosed in the Directors Report for that period) and a fully franked interim dividend of 3.5 cents per share for CY2019.

The Board has approved a final dividend for CY2019 of 2.0 cents per share with record date of 13 March 2020 and payment date of 8 April 2020. This dividend will be fully franked. As this dividend was approved after year end, it has not been accrued for as at 29 December 2019.

This brings the total dividend payment for CY2019 to 5.5 cents per share, which is reflective of the lower earnings during the year. CY2020 dividends will be determined after taking into account earnings performance during CY2020 and will be balanced against the company's need to fund growth objectives.

## 9. Likely Developments

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

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

## 10. Environmental Regulation

The Group is committed to conducting business activities and investing in farming practices that are innovative, cost efficient, promote sustainable horticulture and focus on the need for responsible environmental stewardship with respect to its use of natural resources, while continuing to meet expectations of shareholders, employees, customers and suppliers.

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

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

The Group publishes an annual Sustainability Report in which it reports on initiatives that are aimed at improving environmental performance. Reflecting the importance of its sustainable farming initiatives, Costa's 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.

## 11. Directors' Interests

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

| | Ordinary shares | Options over ordinary shares |
|---|---|---|
| Neil Chatfield | 375,000 | - |
| Harry Debney | 1,173,013 | 1,109,658 |
| Tim Goldsmith | 37,500 | - |
| Janette Kendall | 36,798 | - |
| Peter Margin | 66,117 | - |
| Dr Jane Wilson | 37,500 | - |

## 12. Share Options

### Unissued ordinary shares under options

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

| Number of unissued ordinary shares under option | Issue price of shares | Expiry date of the options |
|---|---|---|
| 50,000 | $1.45 | October 2024 |
| 361,904 | $2.25 | June 2020 |
| 397,201 | $2.78 | December 2021 |
| 1,521,700 | $4.82 | September 2022 |
| 702,248 | $6.58 | March 2023 |
| 2,339,520[1] | $7.42 | March 2024 |

Notes:

1. These options represent unvested options granted to management (including the CEO) during the period under the Group's LTI plan, including 483,378 options issued to Harry Debney, 255,919 options issued to Linda Kow and 252,972 options issued to Sean Hallahan, as KMP of the Company, and 97,305 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 616,944 shares as a result of the exercise of options by Harry Debney. The Company also issued 75,498 shares to members of its Executive management team (including the CEO) on the vesting of performance rights granted under the Company's FY18 Short Term Incentive Plan.

# Directors' Report continued

For the year ended 29 December 2019

## 13. Indemnification and Insurance of Directors and Officers

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

During the 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.

## 14. 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.

## 15. 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.
- During CY2019, KPMG provided certain taxation services, which are not expected to be recurring.

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.

| | 12 months financial year ended December 2019 | 6 month financial period ended December 2018 |
|---|---|---|
| **Audit and review services** | | |
| Services provided by KPMG Australia | **392** | 310 |
| Services provided by associate firms of KPMG Australia | **206** | 83 |
| | **598** | 393 |
| **Other services provided by KPMG** | | |
| Taxation compliance and other taxation advisory services (including R&D) | **213** | 165 |
| Other services | **56** | 12 |
| | **269** | 177 |

## 16. Rounding Off

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

## 17. Lead Auditor's Independence Declaration

The Lead auditor's independence declaration is set out on page 41 and forms part of the directors' report for the financial period ended 29 December 2019.

# Remuneration Report (Audited)

## 1. Introduction

The directors are pleased to present the Remuneration Report for the financial year commencing on 31 December 2018 and ending 29 December 2019 ("CY2019"), outlining the Board's approach to the remuneration for key management personnel (KMP).

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

| Name | Position Held |
|---|---|
| **Directors** | |
| Neil Chatfield | Chairman, Non-executive director |
| Tim Goldsmith | Non-executive director |
| Janette Kendall | Non-executive director |
| Peter Margin | Non-executive director |
| Dr Jane Wilson | Non-executive director |
| Harry Debney | Chief Executive Officer, Managing Director |
| Frank Costa | Non-executive director (ceased 4 July 2019) |
| Kevin Schwartz | Non-executive director (ceased 28 February 2019) |
| **Executives** | |
| Linda Kow | Chief Financial Officer |
| Sean Hallahan | Chief Operating Officer |

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

## 2. Corporate Governance

### 2.1 Remuneration and Human Resources Committee

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

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

- remuneration policies and practices for executives, and employees of the Group;
- incentive schemes and equity-based remuneration plans;
- diversity;
- human resource policy and practices across the Group; and
- shareholder and other stakeholder engagement in relation to the Group's remuneration policies and practices.

A full charter outlining the Remuneration and Human Resources Committee's responsibilities is available at:

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

### 2.2 Use of Remuneration Consultants

The Remuneration and Human Resources Committee can engage remuneration consultants to provide it with information on current market practice, and other matters to assist the Committee in the performance of its duties. The Remuneration and Human Resources Committee engaged Ernst & Young to undertake a review of the Short Term Incentive Plan ("STI Plan") and Long Term Incentive Plan ("LTI Plan") for periods incorporating CY2019. The objectives in the review included benchmarking and market positioning of the incentive plans to align participant performance with the Group's growth and business strategy delivering shareholder value. In addition, the review sought to structure the incentive plans in a manner that best supported the transition to calendar financial year reporting periods.

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

### 2.3 Associated Policies

The Group has established a number of policies to support a strong governance framework, including a Whistleblower Policy, Anti-Bribery and Anti-Corruption Policy, Diversity 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.

## Remuneration Report (Audited) continued

## 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. | • Total remuneration is set having regard to the individual's capabilities and experience.<br>• Remuneration for CY2019 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.<br>• 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. | • Significant 'at risk' reward ensures executive's interests remain aligned with creation of shareholder value. Equity is used as a key element of the variable remuneration to align executives and shareholders.<br>• 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.<br>• Equity is used as a key element of the variable remuneration to align executives and shareholders. |

#### 3.1.1 Remuneration Overview for CY2019

The remuneration for CY2019 for the CEO, CFO and COO ("Executive KMP") included a combination of fixed remuneration, short-term incentives and long-term incentives in the form of options over shares.

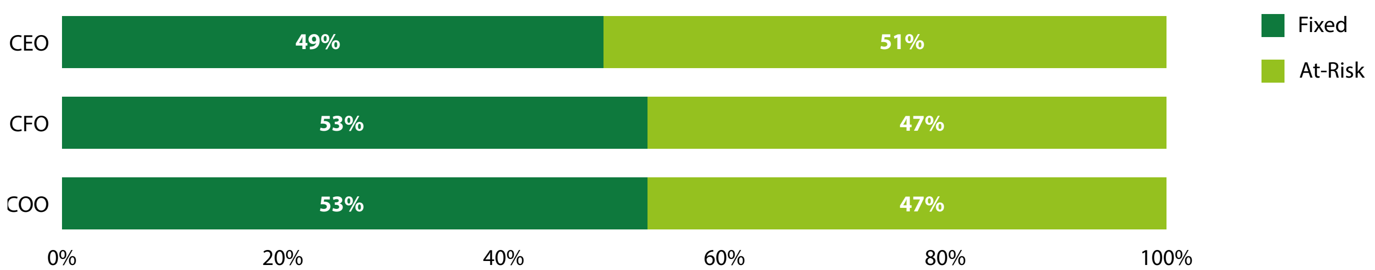
#### 3.1.2 Remuneration Mix for CY2019

Total remuneration for the Executive KMP includes both fixed and 'at risk' reward components. 'At risk' reward includes short and long term incentives, which are based on individual and group performance outcomes. In CY2019, the Executive KMPs' remuneration included fixed remuneration, together with the following 'at risk' components:

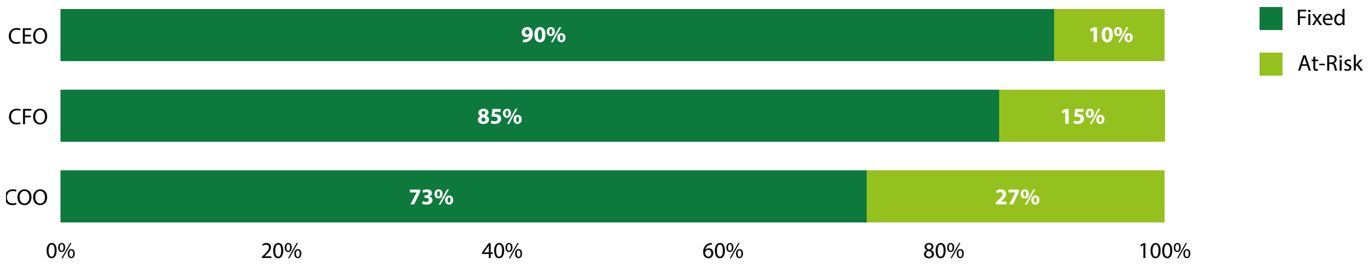
- short term incentives, as outlined in section 3.2.2; and
- long term incentives, as outlined in section 3.2.3,

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

The remuneration potential for the Executive KMPs for CY2019 (with the total at risk remuneration, including the maximum potential stretch STI benefit for CY2019) is set out below:



As noted in section 3.2.2 below, the FY19 STI plan covered an 18 month period, finishing on 29 December 2019, and the performance hurdles were not met, meaning that an STI payment was not made for that period. Additionally, part of the options issued to the CEO and CFO under the FY17 LTI Plan lapsed during the year (refer Section 3.3), resulting in an accounting reversal of the share-based payments in CY2019 (and hence a reduction in the amount of 'at risk' remuneration for those individuals). As a result, the mix of fixed versus variable 'at risk'[1] remuneration payable in respect of CY2019 for the Executive KMP was as follows:




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

## 3.2 CY2019 Remuneration Components

### 3.2.1 Fixed Remuneration

Total fixed remuneration ("TFR") for CY2019 comprised of cash salary, superannuation contributions, and other non-monetary benefits such as car leasing arrangements and additional superannuation contributions. TFR is reviewed annually by the Remuneration and Human Resources Committee with regard to individual and Group performance. The Committee's review of TFR takes into account the Executive KMP's total remuneration package.

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

#### FY2019 STI Plan Overview

The FY19 STI Plan covered CY2019 and the prior 6 month financial period ("FP2018"). The FY19 STI Plan was designed to enable Executive KMP and other members of senior management to receive an incentive payment calculated as a percentage of TFR conditional on achieving Group EBIT hurdles as set out below. Solely for the purposes of this section 3.2.2 all references to "Group EBIT" means management EBIT-SL, ie. statutory EBIT before the impact of movement in SGARA and before the impact of AASB 16 (Leases), which Costa adopted part way through the 18 month period over which the STI was measured.

The Group EBIT hurdles were:

- If the Group achieves less than 90% of budgeted Group EBIT for the 18 month period, no STI will be paid.
- Target STI is paid to a participant on the Group achieving 100% of budgeted Group EBIT and the participant satisfying their other STI performance measures, with pro rata payments if Group EBIT is between 90% and 100% of budgeted Group EBIT.
- Stretch STI is payable if the Group achieves over 100% of budgeted Group EBIT, with the maximum STI being payable at 110% of budgeted Group EBIT (and the participant *meets expectations* of their individual performance STI measures). The stretch STI component is measured solely on Group EBIT and is calculated on a straight line basis between 100% and 110% of budgeted Group EBIT.

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

Under the FY19 STI Plan, participants would have been entitled to an STI award which was calculated as a percentage of their current annual TFR and then multiplied by 1.5 to take into account the 18 month performance period.

At the end of the 18 month period, performance was tested against the STI performance hurdles for the 18 month performance period. As the Group achieved less than 90% of budgeted Group EBIT for the 18 month period, no STI payments were made. The STI outcome for the period is described further below:

| Participant | CY2019 STI payable at target | CY2019 STI payable if stretch targets achieved | CY2019 STI paid based on Group performance |
|---|---|---|---|
| Harry Debney | $689,850 | $1,073,100 | $0 |
| Sean Hallahan | $315,000 | $540,000 | $0 |
| Linda Kow | $324,653 | $486,979 | $0 |

## Remuneration Report (Audited) continued

### 3.2.3 CY2019 LTI Plan

The CY2019 LTI Plan that governs the LTI options issued during CY2019 is designed to reward the Executive KMP (including the CEO) and other senior executives for long term performance and long term value creation for shareholders. The features of this LTI Plan are as follows:

| Term | Description |
|---|---|
| **Eligibility** | CEO, CFO, COO 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 the CEO and CFO and 30% for the COO. The options were indicatively valued by an independent external valuer (Ernst & Young). The number of options issued to each participant was determined by dividing that participant's LTI Incentive Amount by the indicative value per Option as determined by the independent valuer. The final fair value of the options was determined on the grant date. |
| **Exercise price** | $7.42 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. |
| **Performance Period** | The performance period is the 3 year period commencing from 31 December 2018 to the end of the Company's 2021 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:<br><br>Company's EPS CAGR over performance period — Percentage of LTIP Options (subject to the EPS hurdle) that will vest:<br>Less than 18% — 0%<br>18% — 50%<br>Between 18% and 22% — 50%-100%, on a straight line sliding scale<br>At or above 22% — 100%<br><br>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 and if measured over the 4 years commencing calendar 2017, the hurdle is consistent with that target. The Board retains discretion to adjust the calculation of EPS (for example, to exclude the impact of significant events that may occur during the Performance Period). EPS will be measured using NPAT-SL and prior to the adoption of IFRS16. |
| **Performance Measure (Growth)** | 25% of the options ("Growth Target Options") are subject to a performance hurdle based on geographic and category diversification and growth designed to support sustainable long term value creation linked to return on capital. The number of Growth Target Options that vest will be determined by the Board (with the Managing Director not voting) based on an assessment of the Company's performance during the Performance Period against the growth and diversification targets set by the Board.<br><br>The Company considers the performance targets for this hurdle to be commercially sensitive, with the result that publication of that information prior to the end of the Performance Period may be prejudicial to the interests of the Company. Accordingly, complete details regarding the outcomes of vesting will be disclosed at the end of the Performance Period. |
| **Entitlements** | Options will not carry rights to dividends or voting rights prior to vesting. |

| Term | Description |
|---|---|
| **Option exercise** | Vested options must be exercised prior to 1 March 2024 ("**expiry date**"). Prior to the expiry date, an optionholder can exercise by either:<br>• 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<br>• electing a cashless exercise in respect of some or all of his/her options.<br><br>If an optionholder provides the exercise price, he/she will be issued with one share per exercised option. If an optionholder elects a cashless exercise, he/she will be issued with a lower number of shares, calculated in accordance with the following formula:<br>*(A minus B) divided by C, where:*<br>*A = Number of Shares to which each Vested Option relates (ie. 1) x Number of Vested Options exercised x Market Price per Share*<br>*B = Number of Vested Options exercised x Exercise Price per Option*<br>*C = Market Price per Share, being an amount equal to the volume weighted average price of a Share recorded on the ASX over 10 ASX trading days immediately preceding the date on which the Market Price is to be calculated or, if no sale occurred during such period, the last sale price of a Share recorded on the ASX.* |
| **Restrictions on Dealing** | Participants must not sell, transfer, encumber, hedge or otherwise deal with their options granted under the LTI Plan.<br><br>Shares delivered on the exercise of 50% of the options will be subject to a restriction period (during which the shares cannot be sold or otherwise dealt with) for 12 months following vesting. |
| **Service conditions** | Any unvested options granted under the LTI Plan will be forfeitedwhere 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 3 year performance period, meaning that the performance period for a prior LTI Plan will end, and the associated performance hurdles will be tested, during each financial year. The performance period for the FY17 LTI Plan ended on 30 June 2019 and the relevant performance hurdles were measured as follows:

- 75% of the options issued under the FY17 LTI Plan were subject to a performance hurdle based on the Company's Earnings Per Share (basic) compound annual growth rate ("CAGR") over the performance period. As the Company's EPS CAGR over the performance period was below the minimum 8% threshold that had been set at the time of the options being granted, all FY17 LTI Plan options subject to the EPS hurdle lapsed.
- 25% of the options issued under the FY17 LTI Plan were subject to a performance hurdle based on geographic and category diversification and growth designed to support sustainable long term value creation. Diversification included two new domestic and/or international geographic locations and one new major category pillar. For testing of the performance hurdle, the Board reviewed the current and expected investment returns in relation to those diversification measures, including for the China berry business and the establishment of the avocado category. Over the performance period, the China expansion progressed in line with Company's strategic plan with a total of 174ha planted across 4 farms, and plans well advanced to complete the 5th year of planting at Guangmen. The China operations became a meaningful contributor to EBITDA during 2019, and projected returns from established and projected expansions are above Costa's 15% after tax target ROIC. In the Avocado category, Costa had commenced the expansion into the category from 2017 with a number of completed acquisitions establishing a strategic footprint across four regions providing Costa with near full year production coverage. With projected maturity of these farms the avocado category is also expected to achieve returns in excess of Costa's hurdle rates over the longer term, with 20% of the options lapsing due to the longer ramp up timing of the Avocado investment returns. Based on this review of the performance hurdle, the Board (excluding the CEO) determined that 80% of the options subject to the strategic growth hurdle would vest (being 20% of the overall options granted under the FY17 LTI plan), with the balance to lapse.

# Directors' Report continued

For the year ended 29 December 2019

## Remuneration Report (Audited) continued

-The table below shows the vesting outcomes for the KMP's options granted under the FY17 LTI plan. As these options have an exercise price of $2.78 and the closing price for the Company's shares at the end of CY19 was $2.61, the KMP will only benefit from these options if the diversification and growth initiatives implemented during the performance period drive an increase in shareholder value.

| | FY17 EPS options held | FY17 EPS options vested | FY17 Growth options held | FY17 Growth options vested | Total FY17 LTI options lapsed |
|---|---|---|---|---|---|
| Harry Debney | 455,954 | - | 151,984 | 121,587 | 486,351 |
| Linda Kow | 195,365 | - | 65,121 | 52,096 | 208,390 |
| Sean Hallahan^ | Nil | N/A | N/A | N/A | N/A |

^ Sean Hallahan commenced employment with the Group after FY17 and hence did not receive options under the FY17 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.

## 4. Executive Remuneration Disclosure

### 4.1 Executives' Contract Terms

A summary of the key terms of employment for executives as at 29 December 2019 is presented in the below table:

| Executive | Role | Notice by the Group | Notice on Resignation |
|---|---|---|---|
| Harry Debney | Chief Executive Officer | 6 Months | 6 Months |
| Linda Kow | Chief Financial Officer | 3 Months | 3 Months |
| Sean Hallahan | Chief Operating Officer | 3 Months | 3 Months |

## 5. Non-executive Directors

The details of fees paid to non-executive directors in CY2019 are included in Section 7 of this report. Non-executive directors' fees were fixed and they did not receive any performance based remuneration. There has been no change in fees paid during the course of CY2019.

The table below outlines the fee structure for non-executive directors in CY2019. 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.

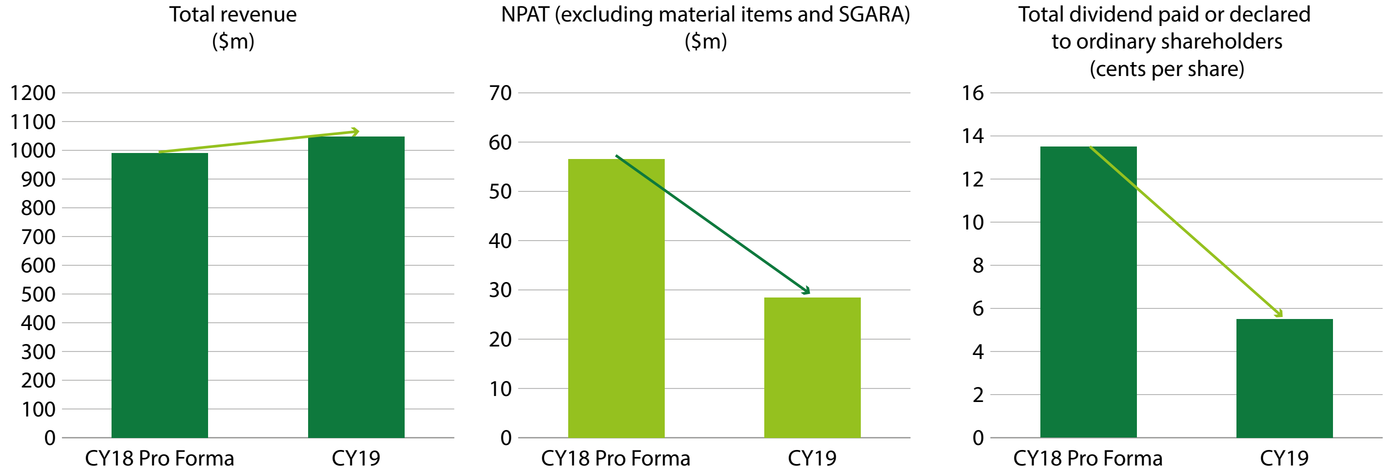
| Board/Committee | Annual Chairman Fee ($) | Annual Member Fee ($) |
|---|---|---|
| Board base fee | 249,921 (inclusive of committee fees) | 108,279 |
| Audit and Risk Committee | 21,712 | 10,856 |
| Remuneration and Human Resources Committee | 16,284 | 8,142 |
| Nomination Committee | - | - |

## 6. Relationship Between Remuneration Policy and Group Performance

| Key performance indicator | FY2016 | FY2017 | FY2018 | CY2018[1] | CY2019 |
|---|---|---|---|---|---|
| Revenue ($'000) | 821,861 | 909,108 | 1,002,027 | 990,282 | **1,047,873** |
| Statutory EBIT-S ($'000) | 46,128 | 79,651 | 156,064 | 77,466 | **(11,210)** |
| EBIT-SL before material items ($'000) | 65,558 | 87,711 | 115,797 | 86,578 | **51,035** |
| NPAT-SL before material items ($'000) | 44,230 | 60,713 | 76,551 | 56,538 | **28,488** |
| Dividend paid or declared to ordinary shareholders (cents per ordinary share) | 9.0 | 11.0 | 13.5 | 13.5 | **5.5** |

1. CY2018 (Calendar year beginning 1 Jan 2018 ending 30 December 2018) has been included as a comparative to allow like for like analysis against CY2019. The 6 month financial period ending 30 December 2018 has not been separately listed as it is included in CY2018.

## CY2018 (pro-forma) vs CY2019 performance




From the time of the Company's ASX listing in FY2016, the Board 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 above sets out information about the Group's performance, earnings and dividend for CY2019 compared to CY2018 (pro forma).

As noted in section 3.2.2, the STI plan covering CY2019 commenced on 2 July 2018 and concluded on 29 December 2019. As performance hurdles based on Group EBIT performance for that 18 month period were not met, an STI payment was not made to the CEO or other KMP.

# Directors' Report continued

For the year ended 29 December 2019

## Remuneration Report (Audited) continued

## 7. Directors' and Executive Officers' Remuneration

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

| | | Short-term | | | | |
|---|---|---|---|---|---|---|
| | | Salary & fees | STI (cash) | Non-monetary benefits | Other Monetary Benefits | Total |
| **Non-executive Directors** | | $ | $ | $ | $ | $ |
| Neil Chatfield | **CY2019** | **229,154** | - | - | - | **229,154** |
| | FP2018 | 114,377 | - | - | - | 114,377 |
| Peter Margin | **CY2019** | **123,670** | - | - | - | **123,670** |
| | FP2018 | 61,835 | - | - | - | 61,835 |
| Janette Kendall | **CY2019** | **108,799** | - | - | - | **108,799** |
| | FP2018 | 54,400 | - | - | - | 54,400 |
| Tim Goldsmith | **CY2019** | **118,713** | - | - | - | **118,713** |
| | FP2018 | 39,571 | - | - | - | 39,571 |
| Dr Jane Wilson (appointed 01.04.19) | **CY2019** | **77,801** | - | - | - | **77,801** |
| | FP2018 | - | - | - | - | - |
| Kevin Schwartz (ceased 28.02.19) | **CY2019** | - | - | - | - | - |
| | FP2018 | 52,428 | - | - | - | 52,428 |
| Frank Costa (ceased 04.07.19) | **CY2019** | **53,585** | - | - | - | **53,585** |
| | FP2018 | 53,160 | - | - | - | 53,160 |
| **Managing Director and Executive Officers** | | | | | | |
| Harry Debney | **CY2019** | **1,001,413** | - | - | **1,284** | **1,002,697** |
| | FP2018 | 500,706 | - | - | 2,184 | 502,890 |
| Linda Kow | CY2019 | 520,556 | - | - | 594 | 521,150 |
| | FP2018 | 260,278 | - | - | 1,010 | 261,288 |
| Sean Hallahan | **CY2019** | **616,536** | - | - | **604** | **617,140** |
| | FP2018 | 289,815 | - | - | 1,027 | 290,842 |

**Notes:**

- 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.
- The financial year of the Group was changed from a June to December year-end in the prior period. As a result, the comparative information is for the transitional six-month financial period ended 30 December 2018.

| Post-employment | Long-term benefits | Termination | Share-based payments | Total |
|---|---|---|---|---|
| Superannuation benefits | Long service leave | Termination benefits | | |
| $ | $ | $ | $ | $ |
| **20,767** | **-** | **-** | **-** | **249,921** |
| 10,266 | - | - | - | 124,642 |
| **11,749** | **-** | **-** | **-** | **135,419** |
| 5,874 | - | - | - | 67,710 |
| **10,336** | **-** | **-** | **-** | **119,135** |
| 5,168 | - | - | - | 59,568 |
| **11,278** | **-** | **-** | **-** | **129,991** |
| 3,759 | - | - | - | 43,330 |
| **7,391** | **-** | **-** | **-** | **85,192** |
| - | - | - | - | - |
| **-** | **-** | **-** | **-** | **-** |
| - | - | - | - | 52,428 |
| **5,050** | **-** | **-** | **-** | **58,635** |
| 5,050 | - | - | - | 58,210 |
| | | | | |
| **25,232** | **16,677** | **-** | **119,327** | **1,163,933** |
| 12,498 | 11,586 | - | 248,818 | 775,793 |
| 25,232 | 8,669 | - | 94,863 | 649,914 |
| 12,498 | 6,903 | - | 121,810 | 402,499 |
| **20,767** | **10,549** | **-** | **240,696** | **889,152** |
| 10,266 | 4,859 | - | 96,571 | 402,537 |

## Remuneration Report (Audited) continued

## 8. Equity Instruments

### 8.1 Movements in shares

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

| | Held at 31 December 2018 | Shares acquired | Shares sold | Shares delivered under STI or LTI plans | Held at 29 December 2019 |
|---|---|---|---|---|---|
| Neil Chatfield (directly held) | 260,000 | 115,000 | - | - | **375,000** |
| Frank Costa[1] (ceased 4 July 2019) | 5,005,248 | - | - | - | **5,005,248[2]** |
| Tim Goldsmith | - | 37,500 | - | - | **37,500** |
| Janette Kendall (indirectly held) | 19,191 | 17,607 | - | - | **36,798** |
| Peter Margin (indirectly held) | 42,893 | 23,224 | - | - | **66,117** |
| Dr Jane Wilson (appointed 1 April 2019) | - | 37,500 | - | - | **37,500** |
| Harry Debney (directly & indirectly held) | 1,357,326 | 5,761 | 825,000 | 634,926 | **1,173,013** |
| Linda Kow (directly & indirectly held) | 299,872 | 12,990 | 69,927 | 8,318 | **251,253** |
| Sean Hallahan | 2,025 | 507 | - | 8,458 | **10,990** |

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

1. Frank Costa's interests represented an indirect interest in approximately 31.67% of the ordinary shares held by Costa AFR Pty Ltd as trustee for the Costa AFR Unit Trust as a result of his shareholding in a series of other entities.
2. Frank Costa ceased to be a director on 4 July 2019. The table above does not reflect any change in his shareholding after his Appendix 3Z was lodged with the ASX on 11 July 2019.

### 8.2 Options over equity instruments granted as compensation

The number of options over ordinary shares granted as compensation to KMP during CY2019 was as set out below. Shareholder approval for the issue of options to Harry Debney under the LTIP was obtained in accordance with ASX Listing Rule 10.14 at the Company's AGM held in May 2019 prior to the options being issued.

| | Options granted during CY2019 | Grant date | Fair Value per option $ | Exercise price per option $ | Expiry date |
|---|---|---|---|---|---|
| Harry Debney | 483,378 | 30 May 2019[1] | 0.89 | 7.42 | 1 March 2024 |
| Linda Kow | 255,919 | 26 February 2019 | 0.89 | 7.42 | 1 March 2024 |
| Sean Hallahan | 252,972 | 26 February 2019 | 0.89 | 7.42 | 1 March 2024 |

**Notes in relation to Table 8.2 (Options over equity instruments granted as compensation)**

1. The grant date for valuation purposes for all options granted to Executive KMP (including the CEO) during CY2019 was 26 February 2019, being the date on which the Board approved the offer of the options.

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

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

| | Instrument | Number | Grant date | Vesting date | Exercise price |
|---|---|---|---|---|---|
| Harry Debney | Options | 352,481 | 20 November 2017[1] | 1 September 2020 | $4.82 |
| | Options | 152,212 | 17 December 2018[1] | 1 March 2021 | $6.58 |
| | Options | 483,378 | 30 May 2019[1] | 1 March 2022 | $7.42 |
| Linda Kow | Options | 183,936 | 24 August 2017 | 1 September 2020 | $4.82 |
| | Options | 80,587 | 23 August 2018 | 1 March 2021 | $6.58 |
| | Options | 255,919 | 26 February 2019 | 1 March 2022 | $7.42 |
| Sean Hallahan | Options | 181,818 | 9 October 2017 | 1 September 2020 | $4.82 |
| | Options | 76,595 | 23 August 2018 | 1 March 2021 | $6.58 |
| | Options | 252,972 | 26 February 2019 | 1 March 2022 | $7.42 |

**Notes in relation to Table 8.3**

1. The grant date for valuation purposes for options granted to Executive KMP (including the CEO) during CY19 was 26 February 2019, for options granted during the prior 6 month transitional financial period was 23 August 2018 and for options granted during FY2018 was 24 August 2017, in each case being the dates on which the Board approved the respective offers of the options.

## 8.4 LTI grants and movement during the year

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

| | Held at 30 December 2018 | Granted as compen-sation | Exercised | Value of exercised options (at time of exercise) $ | Lapsed | Held at 29 December 2019 | Vested during the year | Vested and exercisable 29 December 2019 |
|---|---|---|---|---|---|---|---|---|
| Harry Debney | 1,729,575 | 483,378 | 616,944 | 1,534,648 | 486,351 | **1,109,658** | **121,587** | **121,587** |
| Linda Kow | 525,009 | 255,919 | - | - | 208,390 | **572,538** | **52,096** | **52,096** |
| Sean Hallahan | 258,413 | 252,972 | - | - | - | **511,385** | **-** | **-** |

## 8.5 Key Management personnel transactions

The Group incurred the following transactions during the financial year ended December 2019:

### Mr Harry Debney

- Payment of membership fee of $200,000 to Australian Fresh Produce Alliance (AFPA) of which Harry Debney is a Director, representing the Group. The AFPA is made up of Australia's major fresh produce growers and suppliers and serves as the industry body that retailers and government go to for discussion and outcomes on issues involving the growing and supply of fresh produce. Each member of AFPA is entitled to appoint a Director and each member has only one vote under AFPA's Constitution.
- Capital expenditure payment of $132,570 to The Yield Pty Ltd (6 months ended December 2018: $250,000), of which Harry Debney serves as Chairman of the Board, representing the Group. The Yield is an Australian agricultural technology company that invests, builds and secures scalable digital agriculture technology. The Yield's services were provided pursuant to written contract on arm's length terms and Harry abstained from the negotiation and all board discussions and voting in relation to entry into the contract.
- Income of $50,000 payable to the Group from the Yield Pty Ltd on behalf of Harry Debney's services as Chairman of the Board.

### Mr Frank Costa (Director for part of CY19)

- Payment of rent by Costa's Pty Ltd to Frank Costa for the lease of 1111 Aviation Road, Werribee of AUD $1 (2018: AUD $1). This property is leased to Costa's Pty Ltd until 2076 at AUD $1 per annum and is subleased to an unrelated third party on standard commercial terms, with an arms-length commercial rent payable to Costa's Pty Ltd. The Board considers this arrangement to be beneficial, given that it generates revenue greater than the expenses that are incurred in respect of the property.
- Payment of services fees of $31,042 to Frank Costa for the provision of advisory services to the Board from the time of his resignation as a Director (4 July 2019). The services were provided pursuant to a written contract on arms length terms and ceased on 1 December 2019.

## 8.6 Director independence

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

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

## Remuneration Report (Audited) continued

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. At the time of his resignation on 28 February 2019, Kevin Schwartz was regarded as independent.
- Not independent: Harry Debney (due to his executive role). At the time of his resignation on 4 July 2019, Frank Costa was regarded as not independent (due to his longstanding relationship with the Company).

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

**Neil Chatfield**
Chairman

Dated at Melbourne 26 February 2020

# Auditor's Independence Declaration

## 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 29 December 2019 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 |
| | 26 February 2020 |

# Consolidated Statement of Profit and Loss and Other Comprehensive Income

For the financial year ended 29 December 2019

| | Notes | 12 months ended December 2019 | 6 months ended December 2018[1,2] |
|---|---|---|---|
| | | $ '000 | $ '000 |
| **Revenue** | | | |
| Total revenue | A2 | **1,047,873** | 477,604 |
| | | | |
| **Less: expenses** | | | |
| Raw materials, consumables and third party purchases | | **(362,715)** | (152,393) |
| Depreciation and amortisation expenses | | **(96,203)** | (24,079) |
| Employee benefits expenses | A2 | **(379,565)** | (181,090) |
| Occupancy expenses | | **(41,685)** | (41,369) |
| Net finance costs | A2 | **(25,979)** | (4,216) |
| Profit on sale of assets | | **1,397** | 454 |
| Freight and cartage | | **(54,917)** | (26,698) |
| Leasing expenses | | **(4,751)** | (5,328) |
| Other expenses | A2 | **(73,722)** | (39,074) |
| Gain/(loss) on fair value adjustments – biological assets | | **4,270** | (1,485) |
| Loss on fair value of derivatives | | **-** | (23) |
| Impairment loss on trade receivables | | **-** | (455) |
| Impairment losses | A3 | **(51,023)** | - |
| | | **(1,084,893)** | (475,756) |
| Share of net profits of associates and joint ventures accounted for using the equity method | D1 | **4,101** | 4,119 |
| **(Loss)/Profit before income tax expense** | | **(32,919)** | 5,967 |
| Income tax expense | E2 | **(844)** | (2,030) |
| **(Loss)/Profit for the period** | | **(33,763)** | 3,937 |
| | | | |
| **Other comprehensive income/(loss) for the period** | | | |
| Foreign currency translation differences | | **248** | 4,046 |
| Cash flow hedges – reclassified to profit or loss | C4 | **-** | 39 |
| Cash flow hedges – effective portion of changes in fair value | C4 | **392** | (47) |
| **Total other comprehensive income/(loss) for the period** | | **640** | 4,038 |
| **Total comprehensive (loss)/income for the period** | | **(33,123)** | 7,975 |
| | | | |
| (Loss)/Profit attributable to: | | | |
| Owners of Costa Group Holdings Ltd | | **(35,406)** | 4,325 |
| Non-controlling interests | | **1,643** | (388) |
| | | **(33,763)** | 3,937 |
| | | | |
| Total comprehensive (loss)/income attributable to: | | | |
| Owners of Costa Group Holdings Ltd | | **(34,766)** | 8,363 |
| Non-controlling interests | | **1,643** | (388) |
| | | **(33,123)** | 7,975 |

| | Notes | 12 months ended December 2019 | 6 months ended December 2018[1,2] |
|---|---|---|---|
| | | Cents | Cents |
| **Earnings per share for profit attributable to ordinary equity holders:** | | | |
| Basic earnings per share | A4 | **(10.75)** | 1.35 |
| Diluted earnings per share | A4 | **(10.75)** | 1.35 |

1. The Group has initially applied AASB 16 Leases at 31 December 2018, using the modified retrospective approach. Under this approach, comparative information and retained earnings are not restated at the date of initial application. Refer Note E6.
2. The financial year of the Group was changed from a June to December year-end in the prior period. As a result, the comparative information is for the transitional six-month financial period ended 30 December 2018.

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

# Consolidated Statement of Financial Position

As at 29 December 2019

| | Notes | December 2019 | December 2018[1] |
|---|---|---|---|
| | | $ '000 | $ '000 |
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | B1 | **35,962** | 45,802 |
| Receivables | B2 | **88,338** | 92,510 |
| Inventories | B3 | **24,430** | 25,376 |
| Biological assets | B6 | **49,209** | 48,328 |
| Other assets & financial assets | B5 | **10,454** | 14,422 |
| Current tax assets | E2 | **5,186** | 3,016 |
| **Total current assets** | | **213,579** | 229,454 |
| | | | |
| **Non-current assets** | | | |
| Receivables | B2 | **4,088** | 2,210 |
| Other financial assets | | **-** | 244 |
| Equity accounted investments | D1(b) | **16,672** | 14,421 |
| Intangible assets | B8 | **213,351** | 255,643 |
| Deferred tax assets | E2 | **17,876** | 20,798 |
| Property, plant and equipment | B7 | **498,915** | 414,189 |
| Right-Of-Use assets | E6 | **285,177** | - |
| **Total non-current assets** | | **1,036,079** | 707,505 |
| **Total assets** | | **1,249,658** | 936,959 |
| | | | |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Borrowings | C1 | **7,784** | 428 |
| Payables | B4 | **113,498** | 130,237 |
| Provisions | B10 | **23,711** | 17,323 |
| Other financial liabilities | B4 | **3,657** | 3,821 |
| Lease liabilities | E6 | **33,904** | - |
| **Total current liabilities** | | **182,554** | 151,809 |
| | | | |
| **Non-current liabilities** | | | |
| Borrowings | C1 | **207,033** | 290,014 |
| Provisions | B10 | **7,852** | 9,662 |
| Deferred tax liabilities | E2 | **14,000** | 18,844 |
| Other financial liabilities | B4 | **986** | 3,630 |
| Lease liabilities | E6 | **259,812** | - |
| **Total non-current liabilities** | | **489,683** | 322,150 |
| **Total liabilities** | | **672,237** | 473,959 |
| **NET ASSETS** | | **577,421** | 463,000 |
| | | | |
| **EQUITY** | | | |
| Share capital | C2 | **580,831** | 404,721 |
| Other equity reserve | | **(13,093)** | (11,558) |
| Other reserves | E1, C4 | **8,256** | 7,735 |
| Profit reserve | C3 | **72,517** | 99,736 |
| Accumulated losses | | **(92,027)** | (56,621) |
| Equity attributable to owners of the parent | | **556,484** | 444,013 |
| Non-controlling interests | | **20,937** | 18,987 |
| **Total equity** | | **577,421** | 463,000 |

1. The Group has initially applied AASB 16 Leases at 31 December 2018, using the modified retrospective approach. Under this approach, comparative information and retained earnings are not restated at the date of initial application. Refer Note E6.

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

# Consolidated Statement of Changes in Equity

For the financial year ended 29 December 2019

| | | | Other reserves | | | |
|---|---|---|---|---|---|---|
| | Share capital | Other equity reserve | Share-based payment reserve | Foreign currency translation reserve | Hedge reserve | General reserve |
| **Consolidated** | **$ '000** | **$ '000** | **$ '000** | **$ '000** | **$ '000** | **$ '000** |
| **Balance as at 31 December 2018**[1] | **404,721** | **(11,558)** | **10,874** | **4,292** | **(643)** | **(6,788)** |
| **(Loss)/Profit for the year** | - | - | - | - | - | - |
| **Other comprehensive income/(loss)** | - | - | - | **248** | **392** | - |
| **Total comprehensive income for the year** | - | - | - | **248** | **392** | - |
| **Transactions with owners in their capacity as owners:** | | | | | | |
| Issue of shares (net of issue costs) | **174,058** | **(3,270)** | - | - | - | - |
| Share options exercised | - | **1,735** | - | - | - | - |
| Options granted during the year | - | - | **1,135** | - | - | - |
| Settlement of share-based payments | **382** | - | **(382)** | - | - | - |
| Dividend paid on ordinary shares | - | - | - | - | - | - |
| Tax effect of share plan payment through equity | - | - | **(2,930)** | - | - | - |
| Tax effect of equity raise | **1,670** | - | - | - | - | - |
| Exercise of put and call option | - | - | - | - | - | **2,058** |
| Capital injected by non-controlling interest without change in control | - | - | - | - | - | - |
| **Balance as at 29 December 2019** | **580,831** | **(13,093)** | **8,697** | **4,540** | **(251)** | **(4,730)** |
| **Balance as at 2 July 2018**[1] | 403,410 | (11,558) | 12,000 | 246 | (635) | (7,272) |
| **Profit for the period**[2] | - | - | - | - | - | - |
| **Other comprehensive income/(loss)** | - | - | - | 4,046 | (8) | - |
| Transfer to profit reserve | - | - | - | - | - | - |
| **Total comprehensive income for the year** | - | - | - | 4,046 | (8) | - |
| **Transactions with owners in their capacity as owners:** | | | | | | |
| Options granted during the year | - | - | 843 | - | - | - |
| Performance rights granted during the year | - | - | 220 | - | - | - |
| Settlement of share-based payments | 1,311 | - | (1,311) | - | - | - |
| Dividend paid on ordinary shares | - | - | - | - | - | - |
| Valuation of put & call option of subsidiary | - | - | - | - | - | 484 |
| Tax effect of share plan payment through equity | - | - | (878) | - | - | - |
| Exercise of put and call option | - | - | - | - | - | - |
| Capital injected by non-controlling interest without change in control | - | - | - | - | - | - |
| **Balance as at 30 December 2018**[1,2] | **404,721** | **(11,558)** | **10,874** | **4,292** | **(643)** | **(6,788)** |

1. The Group has initially applied AASB 16 Leases at 31 December 2018, using the modified retrospective approach. Under this approach, comparative information and retained earnings are not restated at the date of initial application. Refer Note E6.
2. The financial year of the Group was changed from a June to December year-end in the prior period. As a result, the comparative information is for the transitional six-month financial period ended 30 December 2018.

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

| Profit reserve | Accumulated losses | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|
| $ '000 | $ '000 | $ '000 | $ '000 | $ '000 |
| **99,736** | **(56,621)** | **444,013** | **18,987** | **463,000** |
| | | | | |
| **-** | **(35,406)** | **(35,406)** | **1,643** | **(33,763)** |
| **-** | **-** | **640** | **-** | **640** |
| **-** | **(35,406)** | **(34,766)** | **1,643** | **(33,123)** |
| | | | | |
| **-** | **-** | **170,788** | **-** | **170,788** |
| **-** | **-** | **1,735** | **-** | **1,735** |
| **-** | **-** | **1,135** | **-** | **1,135** |
| **-** | **-** | **-** | **-** | **-** |
| **(27,219)** | **-** | **(27,219)** | **-** | **(27,219)** |
| **-** | **-** | **(2,930)** | **-** | **(2,930)** |
| **-** | **-** | **1,670** | **-** | **1,670** |
| **-** | **-** | **2,058** | **-** | **2,058** |
| **-** | **-** | **-** | **307** | **307** |
| **72,517** | **(92,027)** | **556,484** | **20,937** | **577,421** |
| | | | | |
| 122,600 | (56,621) | 462,170 | 17,097 | 479,267 |
| | | | | |
| - | 4,325 | 4,325 | (388) | 3,937 |
| - | - | 4,038 | - | 4,038 |
| 4,325 | (4,325) | - | - | - |
| 4,325 | - | 8,363 | (388) | 7,975 |
| | | | | |
| - | - | 843 | - | 843 |
| - | - | 220 | - | 220 |
| - | - | - | - | - |
| (27,189) | - | (27,189) | - | (27,189) |
| - | - | 484 | - | 484 |
| - | - | (878) | - | (878) |
| - | - | - | (163) | (163) |
| - | - | - | 2,441 | 2,441 |
| **99,736** | **(56,621)** | **444,013** | **18,987** | **463,000** |

# Consolidated Statement of Cash Flows

For the financial year ended 29 December 2019

| | Notes | 12 months to December 2019 | 6 months to December 2018[1,2] |
|---|---|---|---|
| | | **$ '000** | **$ '000** |
| **Cash flow from operating activities** | | | |
| Receipts from customers | | **1,062,409** | 506,605 |
| Payments to suppliers and employees | | **(931,948)** | (461,487) |
| Interest received | | **319** | 41 |
| Interest paid | | **(26,587)** | (5,838) |
| Dividends received | | **70** | 43 |
| Income taxes paid | | **(5,735)** | (17,356) |
| **Net cash provided by operating activities** | **B1(a)** | **98,528** | **22,008** |
| | | | |
| **Cash flow from investing activities** | | | |
| Payments for property, plant and equipment | | **(147,064)** | (67,403) |
| Proceeds from sale of investments | | **1,581** | - |
| Dividends from equity accounted investments | | **1,850** | 1,100 |
| Acquisition of non-controlling interest of a subsidiary | | **(742)** | - |
| Proceeds from sale of property, plant and equipment | | **958** | 740 |
| **Net cash used in investing activities** | | **(143,417)** | **(65,563)** |
| | | | |
| **Cash flow from financing activities** | | | |
| Proceeds from exercise of share options | | **1,735** | - |
| Proceeds from share issue, net of issue costs | | **174,058** | - |
| Purchase of treasury shares, net of share issue | | **(3,270)** | - |
| Dividend payments on ordinary shares | | **(27,219)** | (27,189) |
| Capital injection by non-controlling interest | | **307** | 2,441 |
| Loans and advances | | **(2,113)** | - |
| Proceeds from borrowings | | **2,464,494** | 1,205,393 |
| Repayment of borrowings | | **(2,539,000)** | (1,152,000) |
| Payment of lease liability | | **(33,917)** | - |
| **Net cash provided by financing activities** | | **35,075** | **28,644** |
| | | | |
| **Reconciliation of cash** | | | |
| Cash at beginning of year | | **45,802** | 60,394 |
| Net decrease in cash held | | **(9,814)** | (14,911) |
| Effect of movement in foreign exchange rate | | **(26)** | 320 |
| **Cash at end of year** | **B1** | **35,962** | **45,802** |

1. The Group has initially applied AASB 16 Leases at 31 December 2018, using the modified retrospective approach. Under this approach, comparative information and retained earnings is not restated at the date of initial application. Refer Note E6.
2. The financial year of the Group was changed from a June to December year-end in the prior period. As a result, the comparative information is for the transitional six-month financial period ended 30 December 2018.

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

# Notes to the Consolidated Financial Statements

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# Notes to the Consolidated Financial Statements
continued

## Overview

### Reporting entity

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

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

### Basis of preparation of the financial report

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

The financial report was authorised for issue by the directors on 26 February 2020.

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

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

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

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

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

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

This is the Group's first annual financial report where AASB 16 Leases has been applied. Changes to significant accounting policies are described in Note E6.

### Comparative Period

The financial year of the Group was changed from a June to December year-end in prior period. As a result, the comparative in the consolidated profit and loss and other comprehensive income, consolidated statement of changes in equity and the consolidated cash flow statement is for the transitional six-month financial period to 30 December 2018.

### Historical Cost Convention

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

### Rounding

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

### Going concern

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

### Goods and services tax (GST)

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

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

## Basis of consolidation

### Subsidiaries

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

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

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

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

### Transactions eliminated on consolidation

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

## Foreign currency translations and balances

### Functional and presentation currency

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

### Transactions and balances

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

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

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

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

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

# Critical accounting estimates and judgements

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

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

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

| Accounting estimates and judgements | Note | Page |
|---|---|---|
| Valuation of biological assets | B6 – Biological assets | 57 |
| Recoverability of goodwill | B8 – Intangible assets | 61 |
| Recoverability of non-financial assets other than goodwill | B8 – Intangible assets | 61 |
| Fair value measurement | C6 – Financial instruments – fair values and risk management | 69 |
| Income tax | E2 – Taxation | 82 |
| Leases | E6 – Change in accounting policies | 85 |

# Notes to the Consolidated Financial Statements
## continued

## A. Group Performance

### A1. Segment performance

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

#### (a) Basis for segmentation

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

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

**Produce**

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

**Costa Farms & Logistics ("CF&L")**

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

**International**

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

#### (b) Information about reportable segments

Performance is measured based on segment EBITDA before Self Generating and Regenerating Assets ("SGARA"), material items & amortisation ("EBITDA-S"), as included in the internal management reports that are reviewed by the Group's CEO.

Group financing costs and income taxes are managed at the Group level and are not allocated to operating segments. The information presented to the CEO does not report on segment assets and liabilities and as such is not presented in this report.

It is the Group's policy that business support costs that are not directly attributable to a specific segment are allocated to the Produce segment, which is the Group's largest reportable segment, on the basis that it utilises the majority of these resources.

Inter-segment revenue is eliminated on consolidation, however, is shown within the segment revenue to reflect segment level performance. Inter-segment transactions are on commercial terms. Information regarding the results of each reportable segment is included below.

| 12 months ended December 2019 | Produce | CF&L | International | Adjustments and eliminations | Total segment | Unallocated/ Corporate | Consolidated |
|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Revenue** | | | | | | | |
| External revenue | 818,253 | 137,922 | 91,688 | - | 1,047,873 | - | 1,047,863 |
| Other revenue | - | - | - | - | - | 10 | 10 |
| Intersegment revenue | 51,062 | 11,214 | - | (62,276) | - | - | - |
| **Total revenue** | 869,315 | 149,136 | 91,688 | (62,276) | 1,047,873 | 10 | 1,047,873 |
| **EBITDA-S** | 119,829 | 15,219 | 25,895 | - | 160,943 | (13,898) | 147,045 |

| 6 months ended December 2018 | Produce | CF&L | International | Adjustments and eliminations | Total segment | Unallocated/ Corporate | Consolidated |
|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Revenue** | | | | | | | |
| External customers | 396,811 | 74,213 | 6,581 | - | 477,605 | - | 477,605 |
| Other revenue | - | - | - | - | - | (1) | (1) |
| Inter-segment | 28,751 | 4,813 | - | (33,563) | - | - | - |
| **Total revenue** | **425,562** | **79,025** | **6,581** | **(33,563)** | **477,605** | **-** | **477,604** |
| **EBITDA-S**[1] | **48,557** | **3,555** | **(7,073)** | **-** | **45,040** | **(9,723)** | **35,316** |

1. The Group has initially applied AASB 16 Leases at 31 December 2018, using the modified retrospective approach. Under this approach, comparative information and retained earnings is not restated at the date of initial application.

The Group principally supplies fresh produce to the major supermarkets in Australia, including Coles, Woolworths and ALDI, which collectively comprise approximately 71% of the Group's Australian based produce sales in the 12 months ended December 2019 (6 months ended December 2018: 71%).

## (c) Reconciliation of segment EBITDA-S to (loss)/profit after tax

| | Notes | 12 months ended December 2019 | 6 months ended December 2018 |
|---|---|---|---|
| | | $ '000 | $ '000 |
| **EBITDA-S for reportable segments** | | **147,045** | 35,316 |
| Fair value movements in biological assets | B6 | **4,270** | (1,485) |
| Depreciation and amortisation | | **(89,405)** | (20,154) |
| Material items (before tax)[1] | A3 | **(70,247)** | (3,925) |
| Profit on sale of assets | | **1,397** | 454 |
| Net finance costs | | **(25,979)** | (4,216) |
| Loss on fair value of derivatives | | **-** | (23) |
| Income tax expense | E2 | **(844)** | (2,030) |
| **(Loss)/Profit after tax** | | **(33,763)** | **3,937** |

1. Included in Material items (before tax) are amortisation of African blue intangibles of $6.8m as disclosed in Note A3.

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

| | December 2019[1] | December 2018 |
|---|---|---|
| | $ '000 | $ '000 |
| **Non-current assets excluding financial assets (including equity accounted investment) and deferred tax balance by geography** | | |
| Australia | **793,360** | 490,964 |
| China | **64,577** | 30,811 |
| Morocco | **153,633** | 148,417 |
| | **1,011,570** | **670,192** |

1. The Group has initially applied AASB 16 Leases at 31 December 2018, using the modified retrospective approach. Under this approach, comparative information are not restated at the date of initial application for increase in right-of-use asset. Refer Note E6.

# Notes to the Consolidated Financial Statements
continued

## A2. Revenue and expenses

### Revenue

| | 12 months ended December 2019 | 6 months ended December 2018 |
|---|---|---|
| | $ '000 | $ '000 |
| Sale of goods and commissions received | 1,006,638 | 455,410 |
| Rebates and discounts provided | (14,953) | (6,955) |
| Rendering of services | 39,136 | 20,261 |
| Other revenue | 17,052 | 8,888 |
| **Total revenue** | **1,047,873** | **477,604** |

### Sale of goods

Revenue from sale of goods is recognised when it transfers control over goods to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenue is usually recognised when goods are despatched or at the time of delivery of the goods to the customer when the title is transferred.

### Rendering of services

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

### Dividends

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

### Interest income

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

### Rental income

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

### Royalty income

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

### Commission income

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

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

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

### Expenses

| | Note | 12 months ended December 2019 | 6 months ended December 2018 |
|---|---|---|---|
| | | $ '000 | $ '000 |
| **Net finance costs** | | | |
| Interest income | | (132) | (211) |
| Interest expense on borrowings | | 8,950 | 4,168 |
| Interest expense on lease liabilities[1] | E6 | 16,204 | - |
| Amortisation of borrowing costs | | 957 | 259 |
| | | 25,979 | 4,216 |

1. This relates to the interest expense on lease liabilities due to implementation of AASB 16 Leases – refer to Note E6 for further detail.

### Borrowing costs

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

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

Loan establishment costs of $2.7 million have been capitalised and amortised over the life of the loan facility. Establishment costs relating to loans extinguished during the reporting period have been expensed.

| | 12 months ended December 2019 | 6 months ended December 2018 |
|---|---|---|
| | **$ '000** | **$ '000** |
| **Employee benefits expenses** | | |
| Salaries, contractors and wages (including on-costs) | **343,365** | 162,501 |
| Superannuation costs | **19,240** | 9,983 |
| Leave entitlements | **9,762** | 5,244 |
| Other employee expenses | **7,198** | 3,362 |
| | **379,565** | **181,090** |

| | 12 months ended December 2019 | 6 months ended December 2018 |
|---|---|---|
| | **$ '000** | **$ '000** |
| **Other expenses** | | |
| Repair and maintenance expenses | **20,801** | 8,514 |
| Legal and consulting expenditure | **9,600** | 5,287 |
| Insurance | **8,400** | 4,017 |
| Other* | **34,950** | 21,256 |
| | **73,751** | **39,074** |

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

## A3. Material items

Material items are those items where their nature and amount are considered material to the Financial Statements. Such items are included within the Group's consolidated statement of profit and loss and other comprehensive income, and are detailed below:

| | 12 months ended December 2019 | 6 months ended December 2018 |
|---|---|---|
| | **$ '000** | **$ '000** |
| **Individually material items included in profit before income tax:** | | |
| African Blue acquisition and integration expenses[1] | **(8,529)** | (3,925) |
| Mushroom impairment and restructure provisions[2] | **(61,718)** | - |
| **Total material items (before tax)** | **(70,247)** | **(3,925)** |
| Tax effect of material items | **8,329** | 785 |
| **Total material items (after tax)** | **(61,918)** | **(3,140)** |

1. African Blue acquisition and integration expenses

   The following items associated with acquisition and integration are disclosed as material items:

   - transaction and integration related costs such as legal, consulting, travel and other expenses associated with the integration of the African Blue JV; and
   - amortisation of acquired intangibles relating to customer contracts and re-acquired rights arising from the acquisition. These amounts have been fully written-off by December 2019.

2. Mushroom impairment and restructure provisions

   With the challenging trading conditions experienced by the mushroom category in 2019, a review of the category's operations resulted in:

   - accelerated closure of its aging high cost sites in Queensland and Tasmania; and
   - optimisation of its Western Australia operations.

# Notes to the Consolidated Financial Statements
## continued

The financial impact of this is summarised below, which has been disclosed as material items:

| | Notes | 12 months ended December 2019 |
|---|---|---|
| | | **$'000** |
| Impairment of goodwill | B8 | **35,093** |
| Impairment of assets[1] | B7, E6 | **15,930** |
| **Total impairment losses** | | **51,023** |
| Restructuring provision | | **10,695** |
| **Total Mushroom impairment and restructure provisions** | | **61,718** |

1. Included in the impairment of assets are $15.4m for impairment of property, plant and equipment (Note B7) and $0.5m for impairment of right-of-use asset (Note E6).

## A4. Earnings per share

| | 12 months ended December 2019 | 6 months ended December 2018 |
|---|---|---|
| | **Cents per share** | **Cents per share** |
| **Basic EPS** | | |
| Basic EPS (cents) based on net (loss)/profit attributable to members of Costa Group Holdings Limited | **(10.75)** | 1.35 |
| **Diluted EPS** | | |
| Diluted EPS (cents) based on net (loss)/profit attributable to members of Costa Group Holdings Limited | **(10.75)** | 1.35 |

| | 12 months ended December 2019 Number | 6 months ended December 2018 Number |
|---|---|---|
| | **('000)** | **('000)** |
| **Weighted average number of shares** | | |
| Weighted average number of ordinary shares on issue used in the calculation of basic EPS | **329,215** | 319,831 |
| **Effect of potentially dilutive securities** | | |
| Equity-settled share options | **54** | 835 |
| Weighted average number of ordinary shares on issue used in the calculation of diluted EPS | **329,269** | 320,666 |
| | **$ '000** | **$ '000** |
| **Earnings reconciliation** | | |
| Basic and diluted EPS | | |
| Net (loss)/profit attributable to owners of Costa Group Holdings Limited | **(35,406)** | 4,325 |

### Calculation of earnings per share

Earnings per share is the amount of post-tax (loss)/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 26 February 2020, the Directors declared a final dividend of 2.0 cents per ordinary shares payable on 8 April 2020. 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 29 December 2019, 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 2019 | December 2018 |
|---|---|---|
| | $ '000 | $ '000 |
| Cash on hand | **37** | 129 |
| Cash at bank | **35,856** | 45,615 |
| Cash on deposit | **69** | 58 |
| | **35,962** | **45,802** |

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

| | 12 months ended December 2019 | 6 months ended December 2018 |
|---|---|---|
| | $ '000 | $ '000 |
| **(Loss)/Profit for the year** | **(33,763)** | **3,937** |
| Non-cash adjustments to reconcile (loss)/profit before tax to net cash flows: | | |
| Depreciation and amortisation | **96,203** | 24,078 |
| Profit on sale of assets | **(1,397)** | (454) |
| Borrowing cost written-off/amortised | **595** | 259 |
| Impairment loss | **51,023** | - |
| (Gain)/loss on fair value adjustments – biological assets | **(4,270)** | 1,485 |
| (Gain)/loss on fair value of derivatives | **-** | 23 |
| Share-based payments expense | **1,135** | 1,063 |
| Share of profit of equity-accounted investees, net of tax | **(4,101)** | (4,119) |
| | **105,425** | **26,272** |
| Change in working capital and tax balances: | | |
| (Increase)/decrease in inventories | **933** | 606 |
| (Increase)/decrease in receivables | **4,149** | 17,633 |
| (Increase)/decrease in biological assets | **3,296** | (1,708) |
| (Increase)/decrease in other assets | **3,093** | (3,606) |
| Increase/(decrease) in interest payable | **(288)** | (1,841) |
| Increase/(decrease) in payables | **(20,833)** | (785) |
| Increase/(decrease) in provisions | **7,619** | 862 |
| (Increase)/decrease in deferred taxes | **(1,434)** | 331 |
| Increase/(decrease) in current tax payables | **(3,432)** | (15,756) |
| **Net cash generated from operating activities** | **98,528** | **22,008** |

### Recognition and measurement

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

# Notes to the Consolidated Financial Statements
continued

## B2. Receivables

| | December 2019 | December 2018 |
|---|---|---|
| | $ '000 | $ '000 |
| **CURRENT** | | |
| Trade debtors | 66,835 | 74,047 |
| Less: Allowance for impairment losses on trade receivables | (482) | (678) |
| | 66,353 | 73,369 |
| Other receivables | 21,985 | 19,141 |
| | 88,338 | 92,510 |
| **NON CURRENT** | | |
| Other receivables | 4,088 | 2,210 |

Other current and non-current receivables relates to sales tax receivable and amounts generally arising from transactions outside the usual operating activities of the Group. They do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

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

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

| | Note | December 2019 | December 2018 |
|---|---|---|---|
| | | $ '000 | $ '000 |
| Carrying amount of other receivables transferred to a bank | | 2,655 | 2,652 |
| Carrying amount of associated liabilities | C1 | (2,655) | (2,652) |

### Recognition and measurement

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

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

## B3. Inventories

| | December 2019 | December 2018 |
|---|---|---|
| | $ '000 | $ '000 |
| **CURRENT** | | |
| At cost | | |
| Raw materials | 17,019 | 15,333 |
| Finished goods | 7,411 | 10,043 |
| | 24,430 | 25,376 |

### Recognition and measurement

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

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

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

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

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

## B4. Payables and other liabilities

| | December 2019 | December 2018 |
|---|---|---|
| | $ '000 | $ '000 |
| CURRENT | | |
| Unsecured liabilities | | |
| Trade creditors | **51,952** | 65,095 |
| Sundry creditors and accruals | **61,546** | 65,142 |
| | **113,498** | **130,237** |

### 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 2019 | December 2018 |
|---|---|---|
| | $ '000 | $ '000 |
| **CURRENT** | | |
| Forward exchange contracts | **-** | 415 |
| Put and call options liability | **3,657** | 3,406 |
| | **3,657** | **3,821** |
| | | |
| **NON-CURRENT** | | |
| Interest rate swap | **986** | 251 |
| Put and call options liability | **-** | 3,379 |
| | **986** | **3,630** |

### Recognition and measurement

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

## B5. Other assets and financial assets

| | December 2019 | December 2018 |
|---|---|---|
| | $ '000 | $ '000 |
| **CURRENT** | | |
| Prepayments | **9,742** | 14,422 |
| Forward exchange contracts | **712** | - |
| | **10,454** | **14,422** |

## B6. Biological assets

| | December 2019 | December 2018 |
|---|---|---|
| | $ '000 | $ '000 |
| **CURRENT** | | |
| Produce at fair value | **43,625** | 42,137 |
| Produce – at cost | **5,584** | 6,191 |
| **Total biological assets** | **49,209** | **48,328** |
| | | |
| **Reconciliation of changes in carrying amount of biological assets** | | |
| Opening balance | **48,328** | 47,839 |
| Gain/(loss) arising from changes in fair value | **4,270** | (1,485) |
| Increases due to purchases | **187,108** | 132,367 |
| Decreases due to harvest | **(190,497)** | (135,577) |
| Increase resulting from acquisitions | **-** | 5,184 |
| **Closing balance** | **49,209** | **48,328** |

# Notes to the Consolidated Financial Statements
## continued

### Recognition and measurement

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

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

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

| 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, blackberries 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:<br>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:<br>• Estimated future crop prices.<br>• Estimated cash inflows based on forecasted sales.<br>• Estimated yields per hectare.<br>• Estimated remaining farming, harvest and transportation costs.<br>• Risk adjustment factor. | The estimated fair value would increase (decrease) if:<br>• the estimated fruit prices were higher (lower);<br>• the estimated yields per hectare were higher (lower);<br>• the estimated harvest and transportation costs were lower (higher); or<br>• the risk-adjusted discount rates were lower (higher). |

#### Measurement of biological assets at cost

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

### 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 2019 | December 2018 |
|---|---|---|
| | **$ '000** | **$ '000** |
| Land and buildings at cost | **207,524** | 164,484 |
| Accumulated depreciation and impairment | **(54,363)** | (52,932) |
| | **153,161** | **111,552** |
| Assets Under Construction at cost | **93,991** | 82,796 |
| Plant and equipment at cost | **359,600** | 317,735 |
| Accumulated depreciation and impairment | **(170,401)** | (145,543) |
| | **189,199** | **172,192** |
| Improvements at cost | **38,672** | 30,718 |
| Accumulated depreciation and impairment | **(10,966)** | (9,087) |
| | **27,706** | **21,631** |
| Bearer plants at cost | **56,390** | 40,670 |
| Accumulated depreciation and impairment | **(21,532)** | (14,652) |
| | **34,858** | **26,018** |
| Total property, plant and equipment | **498,915** | **414,189** |

# Notes to the Consolidated Financial Statements
## continued

### (a) Reconciliations

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

| | December 2019 | December 2018 |
|---|---|---|
| | **$ '000** | **$ '000** |
| **Land and buildings** | | |
| Opening carrying amount | **111,552** | 113,675 |
| Additions | **677** | 472 |
| Disposals | **(685)** | - |
| Depreciation expense | **(6,954)** | (2,736) |
| Impairment of assets[1] | **(5,365)** | - |
| Transfers, reclassifications and adjustments and effect of movement in FX rate | **53,936** | 141 |
| **Closing carrying amount** | **153,161** | **111,552** |
| | | |
| **Assets Under Construction** | | |
| Opening carrying amount | **82,796** | 43,184 |
| Additions | **145,452** | 59,632 |
| Disposals | **-** | (1,624) |
| Transfers, reclassifications and adjustments and effect of movement in FX rate | **(134,257)** | (18,396) |
| **Closing carrying amount** | **93,991** | **82,796** |
| | | |
| **Plant and equipment** | | |
| Opening carrying amount | **172,191** | 165,693 |
| Additions | **8,389** | 8,458 |
| Acquisitions through business combinations | **-** | (1,028) |
| Disposals | **(140)** | (517) |
| Depreciation expense | **(31,757)** | (13,762) |
| Impairment of assets[1] | **(8,626)** | - |
| Transfers, reclassifications and adjustments and effect of movement in FX rate | **49,142** | 13,348 |
| **Closing carrying amount** | **189,199** | **172,191** |
| | | |
| **Leasehold Improvements** | | |
| Opening carrying amount | **21,631** | 21,467 |
| Additions | **666** | 133 |
| Depreciation expense | **(2,430)** | (850) |
| Impairment of assets[1] | **(1,420)** | - |
| Transfers, reclassifications and adjustments and effect of movement in FX rate | **9,259** | 881 |
| **Closing carrying amount** | **27,706** | **21,631** |
| | | |
| **Bearer Plants** | | |
| Opening carrying amount | **26,018** | 20,564 |
| Additions | **4,978** | 1,453 |
| Disposals | **(57)** | - |
| Depreciation expense | **(6,364)** | (2,240) |
| Transfers, reclassifications and adjustments and effect of movement in FX rate | **10,283** | 6,241 |
| **Closing carrying amount** | **34,858** | **26,018** |
| | | |
| **Total property, plant and equipment** | | |
| Opening carrying amount | **414,188** | 364,583 |
| Additions | **160,162** | 70,147 |
| Acquisitions through business combinations | **-** | (1,028) |
| Disposals | **(882)** | (2,141) |
| Depreciation expense | **(47,505)** | (19,588) |
| Impairment of assets[1] | **(15,411)** | - |
| Transfers, reclassifications and adjustments and effect of movement in FX rate | **(11,637)** | 2,215 |
| **Closing carrying amount** | **498,915** | **414,188** |

1. Impairment of assets are in relation to Mushroom impairment and restructure. Refer Note A3 for details.

### Recognition and measurement

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

*Depreciation*

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

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

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

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

### Capital commitments

As at 29 December 2019, the Group has capital commitments amounting to $41,683,013 (December 2018: $19,706,827) in relation to the purchase of property, plant and equipment, which are contracted for but not provided for.

## B8. Intangible assets

| | December 2019 | December 2018 |
|---|---|---|
| | $ '000 | $ '000 |
| Goodwill at cost | **201,073** | 236,052 |
| Brand names at cost | **3,169** | 3,184 |
| Lease premiums at cost | **3,011** | 3,008 |
| Water rights at cost | **3,796** | 3,796 |
| Capitalised software costs | **9,414** | 8,724 |
| Accumulated amortisation and impairment | **(7,112)** | (5,917) |
| | **2,302** | **2,807** |
| Reacquired rights at cost | **3,600** | 3,600 |
| Accumulated amortisation and impairment | **(3,600)** | (2,167) |
| | **-** | **1,433** |
| Customer relationships at cost | **11,700** | 11,700 |
| Accumulated amortisation and impairment | **(11,700)** | (6,337) |
| | **-** | **5,363** |
| Total intangible assets | **213,351** | **255,643** |

# Notes to the Consolidated Financial Statements
## continued

### Reconciliations

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

| | December 2019 | December 2018 |
|---|---|---|
| | $ '000 | $ '000 |
| *Goodwill* | | |
| Opening balance | 236,052 | 232,704 |
| Acquisitions through business combinations | - | 999 |
| Impairment loss[1] | (35,093) | - |
| Net exchange differences on translation of foreign subsidiaries | 114 | 2,349 |
| Closing balance | 201,073 | 236,052 |
| | | |
| *Capitalised software costs* | | |
| Opening balance | 2,807 | 3,373 |
| Additions | - | - |
| Amortisation expense | (1,195) | (566) |
| Transfers, reclassifications and adjustments | 690 | - |
| Closing balance | 2,302 | 2,807 |
| | | |
| *Brand names* | | |
| Opening balance | 3,184 | 3,182 |
| Additions | - | 2 |
| Net exchange differences on translation of foreign subsidiaries | (15) | - |
| Opening balance/closing balance | 3,169 | 3,184 |
| | | |
| *Lease premiums* | | |
| Opening balance/closing balance | 3,008 | 2,924 |
| Net exchange differences on translation of foreign subsidiaries | 3 | 84 |
| Closing balance | 3,011 | 3,008 |
| | | |
| *Water rights* | | |
| Opening balance | 3,796 | 2,924 |
| Additions | - | 872 |
| Closing balance | 3,796 | 3,796 |
| | | |
| *Reacquired rights* | | |
| Opening balance | 1,433 | 2,433 |
| Amortisation expense[2] | (1,433) | (1,000) |
| | - | 1,433 |
| | | |
| *Customer relationships* | | |
| Opening balance | 5,363 | 8,287 |
| Amortisation expense[2] | (5,363) | (2,924) |
| | - | 5,363 |
| | | |
| *Total Intangibles assets* | | |
| Opening carrying amount | 255,643 | 255,827 |
| Additions | - | 874 |
| Impairment loss | (35,093) | - |
| Acquisitions through business combinations | - | 999 |
| Amortisation expense | (7,991) | (4,490) |
| Transfers, reclassifications and adjustments | 690 | - |
| Net exchange differences on translation of foreign subsidiaries | 102 | 2,433 |
| Closing carrying amount | 213,351 | 255,643 |

1. Goodwill impairment relates to Mushroom impairment and restructure exercise. Refer Note A3 for details.
2. Amortisation expense in relation to intangible assets is included within depreciation and amortisation expenses in the statement of profit or loss and other comprehensive income. Amortisation expense on re-acquired rights and customer relationships associated with the African Blue acquisition has been treated as material items (refer Note A3).

## Recognition and measurement

### Goodwill

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

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

### Brand names

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

### Lease premiums

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

### Water rights

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

### Software

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

### Reacquired rights

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

### Customer relationship assets

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

### Acquisitions

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

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

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

# Notes to the Consolidated Financial Statements
## continued

### Allocation of goodwill

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

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

| December 2018 | Produce | CF&L | International | Total |
|---|---|---|---|---|
| **$'000** | | | | |
| **Goodwill** | | | | |
| Carrying amount at start of year | 131,483 | 1,674 | 99,547 | 232,704 |
| Acquisitions through business combinations | - | - | 999 | 999 |
| Net exchange differences on translation of foreign subsidiaries | - | - | 2,349 | 2,349 |
| Carrying amount at end of year | **131,483** | **1,674** | **102,895** | **236,052** |

## B9. Impairment

### Recoverability of non-financial assets other than goodwill

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

### Goodwill

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

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

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

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

### Useful life

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

### Critical accounting estimate and judgement

#### Projected cash flows

Goodwill is allocated to CGUs according to applicable business operations. The recoverable amount of a CGU is based on value in use calculations that are based on the board approved budget covering a one year period together with management prepared cash flows through to CY2022. For CY2023 onwards, the Group assumes a long-term growth rate to allow for organic growth on the existing asset base. Management's determination of cash flow projections and gross margins are based on past performance and its expectation for the future.

#### Long-term growth rate

Long-term growth rates are based on past experience, expectations of external market operating conditions and other assumptions which take account of the specific feature of the Group or each business unit.

### Terminal growth rate

The terminal growth rate represents estimates of the CGU's growth to perpetuity. This ranges between country's inflation and GDP growth rate. The Australian CGUs terminal growth rate has been lowered during the year to 2.5% (December 2018: 3.0%) to reflect current economic conditions. The International CGUs terminal growth rate remains consistent with prior year at 3%.

### 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.

## Recognised Impairment

### Impairment of the mushroom category goodwill

Goodwill in the mushroom business is tested at the category CGU level. The mushroom category was tested for impairment at June 2019 with Management indicating that any reasonable possible change in forecasted earnings growth rate could lead to a potential impairment.

Trading conditions for the remainder of 2019 continued to be challenging. Consequently, Management has tested the category for impairment at December 2019, with the recoverable value calculated using probability weighted cash flows. It was determined that the carrying value of the mushroom category of $172.2m, exceeded its recoverable value by approximately $35.1m, resulting in a goodwill impairment.

The key assumptions used in determining the mushroom category's value in use are provided below:

- Projected cash flows have been calculated using the expected cash flow approach, which uses multiple scenario-based probability-weighted cash flow forecasts.
- A pre-tax discount rate of 10.9% was used.
- A terminal value growth rate of 2.5% has been used for CY2024.

Following the impairment loss recognised in the Mushrooms CGU, the recoverable amount was equal to the carrying amount. Any adverse movement in a key assumption or cash flows would lead to further impairment.

### Sensitivity Analysis

Management has identified that a reasonable possible change in forecasted earnings growth rate, could cause the carrying amount to exceed the recoverable amount for the African Blue CGU.

| **Percentage decrease required for carrying amount to equal recoverable amount** | **African Blue CGU** |
|---|---|
| Forecasted EBITDA growth rate (CY2019 to CY2022) | (8.7%) |

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

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

| | **2019** | **2018** |
|---|---|---|
| Long term growth rate | **2.5%** | 2.5% |
| Terminal growth rate | **2.5% – 3.0%** | 3.0% |
| Pre-tax discount rate (domestic) | **10.0% – 13.0%** | 10.0% – 13.0% |
| Pre-tax discount rate (international) | **12.0% – 15.0%** | 14.0% – 17.0% |

# B10. Provisions

| | | **December 2019** | **December 2018** |
|---|---|---|---|
| | | **$ '000** | **$ '000** |
| **CURRENT** | | | |
| Employee benefits | (a) | **16,220** | 16,095 |
| Onerous leases | (b) | **-** | 1,228 |
| Other | (c) | **7,491** | - |
| | | **23,711** | **17,323** |
| **NON-CURRENT** | | | |
| Employee benefits | (a) | **5,807** | 5,906 |
| Onerous leases | (b) | **-** | 1,812 |
| Other | (c) | **2,045** | 1,944 |
| | | **7,852** | **9,662** |

# Notes to the Consolidated Financial Statements
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### (a) Employee benefits liability

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

### (b) Onerous leases

The Group currently holds a long-term lease for the Eastern Creek warehouse in New South Wales. The lease expires in CY2026. A provision has been recognised for the fact that the unavoidable lease expenses are higher than the economic benefits available from the site. The obligation for the discounted future payments, net of expected economic benefits, has been provided for. Under AASB16, this has been reclassed to right-of-use assets (refer to Note E6).

### (c) Other provisions

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

### (d) Reconciliations

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

| | December 2019 | December 2018 |
|---|---|---|
| | **$ '000** | **$ '000** |
| *Employee benefits* | | |
| Opening balance | **22,001** | 20,723 |
| Amounts used | **(5,772)** | (4,387) |
| Additional amounts recognised | **5,798** | 5,665 |
| Closing balance | **22,027** | **22,001** |
| *Onerous leases* | | |
| Opening balance | **3,040** | 3,654 |
| Amounts used | **-** | (614) |
| Adjustment to ROU asset[1] | **(3,040)** | - |
| Closing balance | **-** | **3,040** |
| *Other provisions* | | |
| Opening balance | **1,944** | 1,749 |
| Amounts used | **-** | (4) |
| Additional amounts recognised | **7,592** | 199 |
| Closing balance | **9,536** | **1,944** |

1. In accordance with the new lease accounting standard AASB 16, onerous lease liabilities are adjusted against right-of-use asset on transition.

### Recognition and measurement

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

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

#### Short-term employee benefit obligations

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

#### Long-term employee benefit obligations

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

## B11. 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 2019 | December 2018 |
|---|---|---|
| | $ '000 | $ '000 |
| **Current liabilities** | | |
| *Secured liabilities* | | |
| Bank loans | - | 428 |
| *Unsecured liabilities* | | |
| Bank loans | 7,784 | - |
| | 7,784 | 428 |
| **Non-current liabilities** | | |
| *Secured liabilities* | | |
| Bank loans | 8,227 | 9,669 |
| *Unsecured liabilities* | | |
| Bank loans | 198,806 | 280,345 |
| | 207,033 | 290,014 |
| Total borrowings | 214,817 | 290,442 |

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

Bank loans consist of commercial bills. The Group expects to and has the discretion to refinance or rollover the bank loans for at least 12 months after the end of the reporting period under the existing banking facility. The key terms of the Group's banking facilities detailed as below:

#### Secured

- Secured bank loan with $7.5m facility that can be drawn upon as required. This facility matures in November 2023.
- Secured bank loan of $2.6m that matures in January 2023.
- The above secured bank loans are secured over buildings and VAT receivables (see Note B2).

#### Unsecured

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

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

The nominal rate for each facility consists of a floating cash rate plus a margin dependant on the amount of leverage. Lending covenants for both facilities include Interest Cover Ratio and Total Gearing Ratio.

### Bank guarantees

The Group maintains bank guarantees of $13.0 million (December 2018: $12.5 million) that could be called up at any time in the event of a breach of our financial obligations. Costa does not expect any payments will eventuate under these financial guarantees as the Group expects to meet its respective obligations to the beneficiaries of these guarantees. The financial guarantees are applied against the available drawdown limit for Facility A as detailed above.

### Recognition and measurement

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

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

Borrowings are presented net of capitalised loan establishment costs.

## C2. Share Capital

| | December 2019 | December 2018 |
|---|---|---|
| | $ '000 | $ '000 |
| *Issued and paid-up capital* | | |
| Ordinary shares | **578,030** | 401,673 |
| Transaction costs directly transferred to equity (net of tax) | **(10,986)** | (7,087) |
| Tax effect on legacy share options | **3,566** | 3,566 |
| Settlement of share-based payments | **10,221** | 6,569 |
| | **580,831** | **404,721** |

| | December 2019 | | December 2018 | |
|---|---|---|---|---|
| | Number '000 | $ '000 | Number '000 | $ '000 |
| **Ordinary shares** | | | | |
| Opening balance | **319,937** | **404,721** | 319,698 | 403,410 |
| Ordinary shares issued (net of issue costs)[1] | **80,162** | **175,728** | - | - |
| Settlement of share-based payment | **693** | **382** | 239 | 1,311 |
| At reporting date | **400,792** | **580,831** | **319,937** | **404,721** |

1. During the year, the Group undertook a capital raising through a rights issue to all shareholders. An accelerated institutional offer closed on 30 October 2019 while the retail entitlement offer closed on 22 November 2019, jointly issuing 80.2 million ordinary shares raising $174.1 million, net of issue cost (net tax).

### Ordinary shares

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

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

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

## C3. Profit reserve

The profit reserve comprises the transfer of net profit for the year and characterises profits available for distribution as dividends in future years. The profit reserve balance as at balance sheet date (in thousands) is $72,517 (December 2018: $99,736).

## C4. Other reserves

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

### Other equity reserve

Other equity reserve comprises the treasury shares in Costa Group Holdings Limited that are held by the Employee share Trust for the purpose of issuing shares under the employee share scheme and the executive short-term incentive (STI) scheme. Shares issued to employees are recognised on first-in-first out basis. As at 29 December 2019, no shares were held by the Trust.

### Share based payment reserve

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

### Foreign currency translation reserve

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

### Cash flow hedge reserve

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

### General reserve

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

## C5. Dividends

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

| Declared and paid during the 12 months ended 29 December 2019 | Cents per share | Total amount $'000 | Date of payment |
|---|---|---|---|
| Final December 2018 ordinary | 5.0 | 15,997 | 12 April 2019 |
| Interim December 2019 ordinary | 3.5 | 11,222 | 3 October 2019 |

### Declared after end of year

After the balance sheet date, the following dividends were proposed by the directors. 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 2019 ordinary | 2.0 | 8,016 | 8 April 2020 |

## 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 2019 | December 2018 |
|---|---|---|---|
| | | **$ '000** | **$ '000** |
| **Financial assets** | | | |
| *Amortised costs* | | | |
| Current receivables | - | **88,338** | 92,510 |
| Non-current receivables | - | **4,088** | 2,210 |
| Cash and cash equivalents | - | **35,962** | 45,802 |
| | | **128,388** | **140,522** |
| *Fair value through profit & loss* | | | |
| Shares in other corporations | Level 2 | **-** | 244 |
| Fair value through other comprehensive income | | | |
| Forward exchange contracts | Level 2 | **712** | - |
| **Financial liabilities** | | | |
| *Fair value through other comprehensive income* | | | |
| Forward exchange contracts | Level 2 | **-** | 415 |
| Interest rate swaps | Level 2 | **986** | 251 |
| | | **986** | **666** |
| *Other financial liabilities not measured at fair value* | | | |
| Payables | - | **113,498** | 130,237 |
| Bank loans | - | **214,817** | 290,442 |
| Put and call options | - | **3,656** | 6,785 |
| | | **331,971** | **427,464** |

## Recognition, classification and measurement

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

### Amortised costs

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

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

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

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

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

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

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

## Derivative financial instruments

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

### Cash flow hedges

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

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

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

## Non-derivative financial instruments

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

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

### Other Financial liabilities

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

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

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

### Put and call options

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

The put and call option have been measured at present value using management best estimates of these targets being met and has been treated as a financial liability. Since Costa has applied the present-access method to account for the put and call options, the liability does not form part of the consideration transferred and is recognised against 'general reserve' in equity. The fair value of the put options recognised at 29 December 2019 is $3.6m (Dec 2018: $6.8m). Any subsequent changes to the fair value of these options will be recognised in equity in accordance with Costa's policy on accounting for such options.

### Impairment

*Non-derivative financial assets*

*Financial assets measured at amortised cost*

The new impairment model using expected credit loss under AASB 9 applies to financial assets measured at amortised cost. The Group has applied the required model as disclosed in credit risk section of this note. Any losses are recognised in the consolidated statement of profit and loss and other comprehensive income and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment was recognised causing the amount of the impairment loss to decrease, the decrease in impairment loss is reversed through the consolidated statement of profit and loss and other comprehensive income.

## (b) Risk management

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

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

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

### (i) Market risk

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

*Interest rate risk*

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

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

| | December 2019 | December 2018 |
|---|---|---|
| | **$ '000** | **$ '000** |
| **Variable rate instruments** | | |
| **Assets** | | |
| Cash and cash equivalents | **35,962** | 45,802 |
| **Liabilities** | | |
| Bank loans[1] | **(164,817)** | (241,097) |
| Net financial liabilities exposed to interest rate risk | **(128,855)** | **(195,295)** |

# Notes to the Consolidated Financial Statements
## continued

*Sensitivity analysis for variable rate instruments*

At 29 December 2019, if interest rates had changed by -/+ 100 basis points from the year end rates with all other variables held constant, profit or loss would have increased/(decreased) by:

| | December 2019 | December 2018 |
|---|---|---|
| | $ '000 | $ '000 |
| Increase of 100 basis points in interest rate[1] | (1,289) | (1,953) |
| Decrease of 100 basis points in interest rate[1] | 1,289 | 1,953 |

1. The Group has taken $50m of interest rate swaps to hedge a portion of the variable rate exposure on the bank loans. These have been excluded for the purpose of the above analysis.

*Foreign currency risk*

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

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

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

| December 2018 | USD | JPY | EUR | GBP | CNY | MAD |
|---|---|---|---|---|---|---|
| | $ '000 | $ '000 | $ '000 | $ '000 | $ '000 | $ '000 |
| Cash | 683 | 444 | 233 | - | 4,324 | 1,740 |
| Trade and other receivables | 1,897 | 292 | 83 | - | 2,054 | 1,606 |
| Trade and other payables | (51) | - | (175) | - | (2,088) | (11,007) |
| Derivative financial assets/(liabilities) | (71) | (272) | (54) | - | - | - |
| **Net exposure** | **2,458** | **464** | **88** | **-** | **4,289** | **(7,661)** |

*Sensitivity analysis*

At 29 December 2019, had the Australian dollar weakened/strengthened by 10% against these currencies with all other variables held constant, the impact to profit or loss and equity would be an increase/(decrease) of:

| | USD | JPY | EUR | GBP | CNY | MAD |
|---|---|---|---|---|---|---|
| | $ '000 | $ '000 | $ '000 | $ '000 | $ '000 | $ '000 |
| Australian Dollar Weakened by 10% | 266 | 168 | 90 | 52 | 706 | (61) |
| Australian Dollar Strengthened 10% | (266) | (168) | (90) | (52) | (706) | 61 |

### (ii) 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 $244.8 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 2019 | Less than 6 months | 6 – 12 months | 1 – 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Non-derivative financial liabilities** | | | | | |
| Bank loans* | 208,664 | 7,784 | - | - | 216,448 |
| Trade payables | 113,498 | - | - | - | 113,498 |
| | 322,162 | 7,784 | - | - | 329,946 |
| **Derivative financial liabilities** | | | | | |
| Interest rate swaps | - | - | 986 | - | 986 |
| | - | - | 986 | - | 986 |

| December 2018 | Less than 6 months | 6 – 12 months | 1 – 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Non-derivative financial liabilities** | | | | | |
| Bank loans* | 291,097 | - | - | - | 291,097 |
| Trade payables | 130,237 | - | - | - | 130,237 |
| | **421,334** | **-** | **-** | **-** | **421,334** |
| **Derivative financial liabilities** | | | | | |
| Forward exchange contracts | 415 | - | - | - | 415 |
| Interest rate swaps | - | - | 251 | - | - |
| | **415** | **-** | **251** | **-** | **415** |

* 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.

### (iii) Credit Risk

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

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

The maximum exposure to credit risk is as follows:

| | December 2019 | December 2018 |
|---|---|---|
| | $ '000 | $ '000 |
| Cash and cash equivalents | 35,962 | 45,802 |
| Shares in other Corporations | - | 244 |
| Receivables | 88,338 | 92,510 |
| | 124,300 | **138,556** |

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 2019 | December 2018 |
|---|---|---|
| | $ '000 | $ '000 |
| Neither past due nor impaired | 49,749 | 56,702 |
| Past due 1 – 30 days | 13,924 | 10,172 |
| Past due 31 – 60 days | 1,259 | 2,352 |
| Past due over 60 days | 1,903 | 4,821 |
| | 66,835 | **74,047** |

Management believes that the unimpaired amounts that are past due by more than 30 days are still collectible in full, based on historical payment behaviour and extensive analysis of customer credit risk, including underlying customers' credit ratings if they are available. Major Australian supermarkets, including Coles, Woolworths, Aldi and IGA comprise approximately 41% of the Group's trade debtors at 29 December 2019.

# Notes to the Consolidated Financial Statements
## continued

*Expected credit loss assessment for trade receivables*

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

| | December 2019 | December 2018 |
|---|---|---|
| | **$ '000** | **$ '000** |
| Movements in the accumulated impairment losses were: | | |
| Opening balance at 30 December 2018 | **(678)** | (435) |
| Impairment loss (recognised)/reversed | **124** | (381) |
| Amounts written off | **72** | 138 |
| Closing balance at 29 December 2019 | **(482)** | **(678)** |

### (iv) Capital management

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

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

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

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

# D. Group Structure

## D1. Joint ventures and associates

### (a) Details of Associates and Joint Ventures

| | Equity instrument | Ownership interest December 2019 | Ownership interest December 2018 | Measurement basis | Principal place of business and country of incorporation |
|---|---|---|---|---|---|
| | | % | % | | |
| **Associates** | | | | | |
| Polar Fresh Partnership | Ordinary shares | **50** | 50 | Equity Accounted | Victoria, Australia |
| **Joint Ventures** | | | | | |
| Driscoll's Australia Partnership | Ordinary shares | **50** | 50 | Equity Accounted | Victoria, Australia |

### (b) Summarised financial information for associates and joint ventures

| | Polar Fresh Partnership | Driscoll's Australia Partnership | Total |
|---|---|---|---|
| | $ '000 | $ '000 | $ '000 |
| Reconciliation of carrying amount in joint ventures and associates: | | | |
| Opening balance at 31 December 2018 | 92 | 14,329 | 14,421 |
| Total share of profit/(loss) | - | 4,101 | 4,101 |
| Dividends paid | - | (1,850) | (1,850) |
| Closing balance at 29 December 2019 | **92** | **16,580** | **16,672** |

#### (i) Polar Fresh Partnership

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

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

In 2010, the Group entered into a partnership with Driscoll's Inc. to form Driscoll's Australia Partnership, which is an Australian berry marketing business. The majority of the Group's Australian grown berries are marketed in Australia through the Driscoll's brand. In the 12 months ended December 2019, gross sales revenue for the Driscoll's Australia Partnership was $482,668,026 (6 months ended December 2018: $234,749,373), and net assets were $33,170,157 (6 months ended December 2018: $28,659,130).

### 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.

# Notes to the Consolidated Financial Statements
## continued

### D2. List of subsidiaries

The following are the Group's significant subsidiaries:

| Subsidiaries of Costa Group Holdings Ltd: | Country of incorporation | Ownership interest held by the group December 2019 | December 2018 |
|---|---|---|---|
| | | % | % |
| 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** | - |
| African Blue S.A. | Morocco | **89** | 86 |
| Sweet Berry S.A. | Morocco | **89** | 86 |
| Blue Flavor | Spain | **80** | 77 |
| African Blue (UK) PLC | United Kingdom | **80** | - |

## D3. Related party disclosures

### (a) Transactions with associates and joint ventures

The Group transacted with jointly controlled entities during the 12 months ended December 2019 as follows:

- Driscoll's Australia Partnership – Commission paid on sale of berries $24,014,775 (6 months ended December 2018: $11,231,680)
- Driscoll's Australia Partnership – Sales of produce $178,780,029 (6 months ended December 2018: $92,855,626)
- Driscoll's Australia Partnership – Receivable of $12,828,115 (6 months ended December 2018: $18,681,318) for sale of produce and logistic services.
- Driscoll's Australia Partnership – Dividends received amounting to $1,850,000 (6 months ended December 2018: $1,100,000)

### (b) Transactions with key management personnel of the entity or its parent

The Group incurred the following transactions during the financial year ended December 2019:

#### Mr Harry Debney

- Payment of membership fee of $200,000 to Australian Fresh Produce Alliance (AFPA) of which Harry Debney is a Director, representing the Group. The AFPA is made up of Australia's major fresh produce growers and suppliers and serves as the industry body that retailers and government go to for discussion and outcomes on issues involving the growing and supply of fresh produce. Each member of AFPA is entitled to appoint a Director and each member has only one vote under AFPA's Constitution.
- Capital expenditure payment of $132,570 to The Yield Pty Ltd (6 months ended December 2018: $250,000), of which Harry Debney serves as Chairman of the Board, representing the Group. The Yield is an Australian agricultural technology company that invests, builds and secures scalable digital agriculture technology. The Yield's services were provided pursuant to written contract on arm's length terms and Harry abstained from the negotiation and all board discussions and voting in relation to entry into the contract.
- Income of $50,000 payable to the Group from the Yield Pty Ltd on behalf of Harry Debney's services as Chairman of the Board.

#### Mr Frank Costa (Director for part of the financial year ended December 2019)

- Payment of leasing fee to Frank Costa paid by Costa's Pty Ltd for 1111 Aviation Road, Werribee of AUD $1 (6 months ended December 2018: $1). This property is leased to Costa's Pty Ltd until 2076 at $1 per annum and is subleased to an unrelated third party on standard commercial terms, with an arms-length commercial rent payable to Costa's Pty Ltd. The Board considers this arrangement to be beneficial, given that it generates revenue greater than the expenses that are incurred in respect of the property.
- Payment of services fees of $31,042 to Frank Costa for the provision of advisory services to the Board from the time of his resignation as a Director (4 July 2019). The services were provided pursuant to a written contract on arms length terms and ceased on 1 December 2019.

#### Key Management Personnel

| | December 2019 | December 2018 |
|---|---|---|
| | **$ '000** | **$ '000** |
| Compensation received by executive key management personnel of the group: | | |
| • Short-term employee benefits | **2,139** | 1,446 |
| • Post-employment benefits | **71** | 67 |
| • Other monetary benefits | **2** | 4 |
| • Long-term employee benefits | **36** | 23 |
| • Share-based payment benefits | **455** | 467 |
| | **2,703** | **2,007** |

# Notes to the Consolidated Financial Statements
continued

## D4: Parent entity disclosures

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

| | December 2019 | December 2018 |
|---|---|---|
| | **$ '000** | **$ '000** |
| **Assets** | | |
| Current assets | **200** | 256 |
| Non-current assets | **672,191** | 480,744 |
| Total assets | **672,391** | **481,000** |
| **Liabilities** | | |
| Current liabilities | **9,906** | 3,316 |
| Non-current liabilities | **105,379** | 59,978 |
| Total liabilities | **115,285** | **63,294** |
| **Net assets** | **557,106** | 417,706 |
| **Equity** | | |
| Contributed equity | **580,832** | 404,721 |
| Profit reserve | **26,189** | 53,408 |
| Share-based payment reserve | **8,697** | 10,874 |
| Accumulated losses | **(58,612)** | (51,297) |
| **Total equity** | **557,106** | **417,706** |

### (b) Summarised statement of comprehensive income

| | December 2019 | December 2018 |
|---|---|---|
| | **$ '000** | **$ '000** |
| Profit/(Loss) for the period | **(7,315)** | (2,895) |
| Total comprehensive profit/(loss) for the period | **(7,315)** | **(2,895)** |

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

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

## D5. Deed of cross guarantee

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

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

A consolidated statement of profit or loss and other comprehensive income and a consolidated statement of financial position for the financial year ended 29 December 2019, comprising the above listed parties to the deed which represent the "closed group", are set out below:

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

| | 12 months ended December 2019 | 6 months ended December 2018 |
|---|---|---|
| | **$ '000** | **$ '000** |
| Revenue | **924,250** | 474,389 |
| Less: Expense | **(971,195)** | (468,951) |
| Share of net profits of associates and joint ventures accounted for using the equity method | **4,101** | 4,119 |
| **Profit before income tax expense** | **(42,844)** | 9,557 |
| Income tax expense | **1,073** | (2,110) |
| **Profit for the period** | **(41,771)** | 7,447 |
| | | |
| **Other comprehensive income/(loss) for the period** | | |
| Foreign currency translation differences | **248** | - |
| Cash flow hedges – reclassified to profit or loss | **-** | 39 |
| Cash flow hedges – effective portion of changes in fair value | **392** | (47) |
| **Total other comprehensive income/(loss) for the period** | **640** | (8) |
| | | |
| **Total comprehensive income for the year** | **(41,131)** | **7,439** |

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

| | December 2019 | December 2018 |
|---|---|---|
| | $ '000 | $ '000 |
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | **27,261** | 38,951 |
| Receivables | **125,605** | 131,420 |
| Inventories | **19,625** | 21,076 |
| Biological assets | **36,199** | 39,241 |
| Other assets & financial assets | **7,686** | 6,731 |
| Current tax assets | **8,270** | 4,479 |
| **Total current assets** | **224,646** | **241,898** |
| | | |
| **Non-current assets** | | |
| Receivables | **3,963** | 1,850 |
| Other financial assets | **95,343** | 125,361 |
| Equity accounted investments | **35,602** | 14,421 |
| Intangible assets | **106,921** | 142,519 |
| Deferred tax assets | **17,442** | 3,266 |
| Property, plant and equipment | **404,355** | 345,402 |
| ROU assets | **265,854** | - |
| **Total non-current assets** | **929,480** | **632,819** |
| **Total assets** | **1,154,126** | **874,717** |
| | | |
| **LIABILITIES** | | |
| Current liabilities | | |
| Borrowings | **-** | - |
| Payables | **92,542** | 116,044 |
| Provisions | **22,863** | 17,323 |
| Other financial liabilities | **-** | 415 |
| Lease liabilities | **32,314** | - |
| **Total current liabilities** | **147,719** | **133,782** |
| | | |
| **Non-current liabilities** | | |
| Borrowings | **190,369** | 280,300 |
| Provisions | **7,852** | 9,662 |
| Deferred tax liabilities | **14,000** | - |
| Other financial liabilities | **986** | 253 |
| Lease liabilities | **243,197** | - |
| **Total non-current liabilities** | **456,404** | **290,215** |
| **Total liabilities** | **604,122** | **423,997** |
| | | |
| **NET ASSETS** | **550,005** | 450,720 |
| | | |
| **EQUITY** | | |
| Share capital | **569,253** | 404,721 |
| Other equity reserve | **(13,093)** | (11,558) |
| Other reserves | **8,445** | 10,231 |
| Profit reserve | **42,022** | 105,992 |
| Accumulated losses | **(56,622)** | (58,666) |
| **Total equity** | **550,005** | **450,720** |

# E. Other

## E1. Share-based payments

| | December 2019 | December 2018 |
|---|---|---|
| | $ '000 | $ '000 |
| Share-based payments reserve | **8,697** | 10,874 |

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

### Share-Based Payment Plan – Employee Share Option Plan

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

During the financial year ended December 2019, a total of 2,339,520 options (financial period ended December 2018: 784,762 options) have been granted to key management personnel and the executive team under new option plans.

The Group granted nil (financial period ended December 2018: 75,498) performance rights to key management personnel and the executive team during the year ended December 2019.

### Recognition and measurement

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

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

#### Measurement of Fair Values

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

| Employee share option programs | December 2019 | December 2018 | |
|---|---|---|---|
| | KMP and executives | KMP and executives | |
| Grant date | **26/02/2019** | 23/08/2018 | 22/11/2018 |
| Number issued | **2,339,520** | 739,975 | 44,787 |
| Fair value at grant date | **$0.89** | $2.79 | $1.33 |
| Share price at grant date | **$5.20** | $8.74 | $6.59 |
| Exercise price | **$7.42** | $6.58 | $6.58 |
| Expected volatility | **40%** | 30% | 30% |
| Expected dividend yield | **2.80%** | 2.20% | 2.20% |
| Risk-free rate | **1.69%** | 2.06% | 2.14% |

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

There were no performance rights issued under current year STI plan. Prior year fair value of the performance rights issued under STI plan was based on the 10 day market volume weighted average price of the shares of Costa Group Holdings Ltd ending on 22 August 2018. Details are as follows:

| Employee performance rights program | December 2019 | December 2018 |
|---|---|---|
| | KMP and executives | KMP and executives |
| Numbers issued | - | 75,498 |
| Fair value at grant date | - | 8.38 |

# Notes to the Consolidated Financial Statements
## continued

### Reconciliation of outstanding share options

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

| | December 2019 | | December 2018 | |
|---|---|---|---|---|
| | **Number of options** | **Weighted average exercise price** | **Number of options** | **Weighted average exercise price** |
| Opening balance | **5,416,717** | **$4.02** | 4,798,546 | $3.46 |
| Disposed for cash or settled for shares during the year | **(616,944)** | **$2.81** | - | - |
| Forfeited during the year | **(1,766,720)** | **$0.00** | (166,591) | - |
| Granted during the year | **2,339,520** | **$7.42** | 784,762 | $6.58 |
| Closing balance | **5,372,573** | **$6.96** | 5,416,717 | $4.02 |
| Exercisable at year end | **809,105** | **$2.46** | 1,028,848 | $2.55 |

The options outstanding as at 29 December 2019, which have not been vested, have an average exercise price of $6.42 (Dec 2018: $4.06).

## E2. Taxation

### (a) Components of tax expense

| | **12 months to December 2019** | **6 months to December 2018** |
|---|---|---|
| | **$ '000** | **$ '000** |
| Current tax | **5,927** | 5,246 |
| Deferred tax | **(4,819)** | (2,140) |
| Under/(Over) provision in prior years | **(264)** | (1,076) |
| | **844** | **2,030** |
| Profit/(loss) before income tax | **(32,920)** | 5,967 |
| Prima facie income tax expense on profit before income tax at 30.0% | **(9,876)** | 1,790 |
| • Effect of tax rates in foreign jurisdictions[1] | **(990)** | 730 |
| Tax effect of: | | |
| Non-deductible goodwill impairment | **10,528** | - |
| Non-deductible expenses/assessable income | **1,974** | 1,164 |
| Net deferred tax asset unrecognised | **189** | - |
| Non-creditable foreign withholding tax | **95** | (515) |
| Under/(over) provision in prior years | **(263)** | (1,076) |
| Research and development tax credits | **(800)** | - |
| Non-assessable income | **(13)** | (63) |
| Income tax expense attributable to profit | **844** | **2,030** |

### (b) Current tax

| | **December 2019** | **December 2018** |
|---|---|---|
| | **$ '000** | **$ '000** |
| Current tax relates to the following: | | |
| *Current tax liabilities/(assets)* | | |
| Opening balance | **(3,016)** | 12,709 |
| Current year tax expense | **5,927** | 5,246 |
| Tax payments | **(5,735)** | (16,986) |
| Foreign withholding tax credits claimable | **(462)** | (319) |
| Over provisions | **(1,900)** | (3,616) |
| Share plan payments – tax effect recognised through equity | **-** | (50) |
| Closing balance | **(5,186)** | **(3,016)** |

## (c) Deferred tax

| | December 2019 $'000 | December 2018 $'000 |
|---|---|---|
| Deferred tax relates to the following: | | |
| **Deferred tax assets** | | |
| The balance comprises: | | |
| Provisions | **9,530** | 8,299 |
| Trade and other payables | **2,962** | 3,821 |
| Inventories | **39** | 39 |
| Capital (black hole) deductions (section 40-880) | **1,376** | 2,899 |
| Borrowings | **-** | 73 |
| Equity Accounted Investments | **488** | 588 |
| Other financial liabilities | **-** | 9 |
| Future deductible share plan trust payment | **39** | 4,831 |
| Tax losses – foreign subsidiaries | **244** | 239 |
| Lease assets and liabilities | **2,728** | - |
| Property, plant and equipment | **470** | - |
| | **17,876** | **20,798** |
| **Deferred tax liabilities** | | |
| The balance comprises: | | |
| Biological assets | **9,625** | 9,421 |
| Property, plant and equipment | **-** | 3,413 |
| Intangible assets | **1,919** | 3,432 |
| Trade and other receivables | **2,266** | 2,578 |
| Other financial liabilities | **190** | - |
| | **14,000** | **18,844** |
| Net deferred tax assets | **3,876** | **1,954** |

## (d) Deferred tax expense included in income tax comprises

| | December 2019 $'000 | December 2018 $'000 |
|---|---|---|
| (Increase)/decrease in deferred tax assets | **928** | (339) |
| Increase/(decrease) in deferred tax liabilities | **(5,747)** | (1,801) |
| | **(4,819)** | **(2,140)** |

## (e) Deferred tax movement

| | December 2019 $'000 | December 2018 $'000 |
|---|---|---|
| Opening balance – net deferred tax asset | **1,954** | 2,897 |
| Over provision in prior years | **(1,637)** | (2,512) |
| Increase in deferred tax asset recognised in profit or loss | **4,819** | 2,140 |
| Increase/(decrease) in deferred tax liability as a result of acquisitions | **-** | 382 |
| Increase/(decrease) in deferred tax asset recognised in equity | **(1,259)** | (928) |
| FX revaluation | **(1)** | (25) |
| Closing balance – net deferred tax asset | **3,876** | **1,954** |

1. Losses incurred in foreign jurisdictions with tax rates lower than 30% will result in an increasing tax effect to reflect the actual tax benefit available at a tax rate less than 30%.

The Group's franking account balance as at 29 December 2019 is $11,166,958 (30 December 2018: $17,877,899).

# Notes to the Consolidated Financial Statements
continued

### Recognition and measurement

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

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

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

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

#### Tax Consolidation

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

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

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

### Critical accounting estimate and judgement

#### Income Tax

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

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

## E3. New accounting standards

### 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:

| Reference | Title | Application |
|---|---|---|
| Framework | *Amendments to References to Conceptual Framework in IFRS Standards* | 1 January 2020 |
| AASB 3 | *Definition of a Business (Amendments to AASB 3)* | 1 January 2020 |
| Various | *Definition of Material (Amendments to AASB 101 and AASB 108)* | 1 January 2020 |
| AASB 1059 | *Service Concession Arrangements: Grantor* | 1 January 2020 |
| AASB 17 | *Insurance Contracts* | 1 January 2021 |
| AASB 128 | *Sale or Contribution of Assets between and Investor and its Associate or Joint Venture (Amendments to IFRS 10 and AASB 128)* | 1 January 2022 |

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

## E4. Auditor's remuneration

| | 12 months ended December 2019 | 6 months ended December 2018 |
|---|---|---|
| | $'000 | $'000 |
| **Audit and review services** | | |
| Services provided by KPMG Australia | **392** | 310 |
| Services provided by associate firms of KPMG Australia | **206** | 83 |
| | **598** | **393** |
| **Other services provided by KPMG Australia** | | |
| Taxation compliance and other taxation advisory services (including R&D) | **213** | 165 |
| Other services | **56** | 12 |
| | **269** | **177** |
| **Total remuneration of KPMG** | **867** | **570** |

## E5. Other accounting policies

### Research and development expenditure

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

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

Other development expenditure is recognised as an expense when incurred.

### Bonus plan

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

### Government grants

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

## E6. Change in accounting policies

The Group has initially adopted AASB 16 *Leases* from 31 December 2018. AASB 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its right to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group has applied AASB 16 using the modified retrospective approach, under which and therefore the comparative information has not been restated and continues to be reported under AASB 117 and AASB Interpretation 4.

In November 2019, the International Financial Reporting Standards Interpretations Committee (IFRIC) issued a final agenda decision, Lease Term and Useful Life of Leasehold Improvements, on how lease term of a cancellable or renewable lease should be determined for both the lessor and lessee when applying AASB 16 Leases. IFRIC clarifies that the broader economics and not only the contractual termination payments should be considered in determining lease terms. The adoption of this clarification may increase ROUA and lease liabilities in the Statement of Financial Position as well as an increase in depreciation and interest expense in the Statement of Comprehensive Income.

As at 29 December 2019, Costa has not adopted this IFRIC Agenda Decision. The impact of the change is not reasonably estimable as Costa has yet to complete its assessment of the impact of the IFRIC Agenda Decision. Costa expects to adopt this Agenda Decision in its half year financial statements ending on 28 June 2020.

The remaining details of the changes in accounting policies as a result of applying AASB 16 are disclosed below:

### (a) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under Interpretation 4 *Determining Whether an Arrangement contains* a Lease. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under AASB 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to AASB 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applies AASB 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under AASB 117 and Interpretation 4 were not reassessed. Therefore, the definition of a lease under AASB 16 has been applied only to contracts entered into or changed after 31 December 2018.

At inception or on reassessment of a contract that contains a lease component, 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.

### (b) As a lessee

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 contains a wide range of different terms and conditions. The lease agreements do not impose any covenants, but lease assets may not be used as security for borrowing purposes.

The Group 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. 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.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

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

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the group's incremental borrowing rate ranging between 5.2% to 6.3%.

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

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

The Group used the following number of practical expedients when applying AASB 16 to leases, in particular:

- Did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application
- Did not recognise right-of-use assets and liabilities for low value assets
- Adjusted the initial right-of-use asset by the amount of provision for onerous leases prior to date of initial application
- Applied a singled discount rate to portfolio of leases with reasonably similar characteristics

### (c) Impact on financial statements

#### (i) Impact on transition on 30 December 2018

| | $'000 |
|---|---|
| Right-of-use assets | 312,657 |
| Lease liabilities | (313,736) |
| Retained earnings | - |

### (ii) Amounts recognised in the balance sheet

| Right of use assets | $'000 |
|---|---|
| Balance at 30 December 2018 | 312,657 |
| Depreciation charge for the year | (40,708) |
| Additions to right-of-use assets | 13,706 |
| Impairment of right-of-use asset[1] | (519) |
| Effect of foreign exchange rates | 43 |
| Balance at 29 December 2019 | **285,177** |

Right of use asset consist of $268.8 million relating to property and $16.3 million relating to vehicle and equipment leases.

| Lease liabilities | December 2019 |
|---|---|
| | **$'000** |
| Current | **33,904** |
| Non-current | **259,811** |
| | **293,715** |

1. Impairment of right-of-use assets relates to Mushroom impairment and restructure provisions. Refer Note A3 for details.

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

| Lease liabilities | December 2019 | December 2018[1,2] |
|---|---|---|
| | **$'000** | **$'000** |
| Payable | | |
| • not later than one year | **33,904** | 48,962 |
| • later than one year and not later than five years | **109,999** | 178,016 |
| • later than five years | **149,812** | 278,556 |
| | **293,715** | **505,534** |

1. Comparative information represents operating lease liabilities payable under AASB 17. The reconciliation of operating lease commitments to AASB 16 lease liability is detailed in section (iii) below.
2. Lease payments for operating leases, where substantially all the risk and benefits remain with the lessor, are recognised as an expense on a straight line basis over the term of the lease

### (iii) Amounts recognised in the statement of profit and loss

| | December 2019 |
|---|---|
| | **$'000** |
| **Depreciation charge of right-of use-assets** | |
| Property | **35,266** |
| Non-property | **5,442** |
| | **40,708** |
| | |
| **Lease liabilities** | |
| Interest expense | **16,204** |
| Variable lease payments not included in the measurement of lease liabilities | **4,651** |
| Expenses relating to short-term leases and low value leases | **9,398** |
| | **30,253** |

### (iv) Reconciliation of operating lease commitments to lease liability

| | | $'000 |
|---|---|---|
| | **Operating lease commitments disclosed as at 30 December 2018** | 505,534 |
| | Discounted using the rate implicit in the lease or the group's incremental borrowing rate | 304,504 |
| Add/(Less): | Short-term leases recognised on a straight-line basis as expense | (600) |
| | Low-value leases recognised on a straight-line basis as expense | (61) |
| | Adjustment as a result of different treatment of extension/termination options | 9,893 |
| | **Lease liability recognised as at 31 December 2018** | **313,736** |

# Directors’ Declaration

1. In the opinion of the Directors of Costa Group Holdings Ltd (“the Company”):
   (a) the consolidated financial report and notes A1 to E6 and the Remuneration Report in the Directors’ Report, are in accordance with the *Corporations Act 2001*, including:
      (i) giving a true and fair view of the Group’s financial position as at 29 December 2019 and of its performance, for the financial period year on that date; and
      (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
   (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. There are reasonable grounds to believe that the Company and the Group entities identified in Note D5 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those Group entities pursuant to ASIC Corporations (Wholly owned Companies) Instrument 2016/785.

3. The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the 12 months ended 29 December 2019.

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 26th day of February 2019.

**Harry Debney**
Managing Director & CEO

**Neil Chatfield**
Chairman

# Independent Auditor's Report

## To the shareholders of Costa Group Holdings Ltd

### Report on the audit of the Financial Report

### Opinion

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

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

- giving a true and fair view of the ***Group****'s* financial position as at 29 December 2019 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 29 December 2019
- 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 Costa Group Holdings Ltd (the Company) and the entities it controlled at the year end or from time to time during the financial year.

### Basis for opinion

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

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

We are independent of the Group in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (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.

# Independent Auditor’s Report continued

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## Key Audit Matters

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

- Recoverability of non-current assets including property, plant and equipment and intangible assets
- Valuation of biological assets

***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 year.

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.

<table>
<tr><th colspan="2">Recoverability of non-current assets including property, plant and equipment ($498.9m) and intangible assets ($213.4m)</th></tr>
<tr><td colspan="2">Refer to note B7. Property, plant and equipment and note B8. Goodwill and Intangible Assets</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>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. Certain conditions impacting the Group increased the judgement applied by us when evaluating the evidence available.<br><br>We focussed on the significant forward-looking assumptions the Group applied in their value in use models, including:<br><br>• forecast operating cash flows - the Group has experienced competitive trading, operating and environmental conditions in the current year across a number of Cash Generating Units (CGUs). These challenges have led to below forecast pricing and/or yield across CGUs, decreasing margins and sales volumes. These conditions increase the possibility of non-current assets being impaired, and the risk of inaccurate forecasts or a wider range of possible outcomes for us to consider.<br>• forecast capital expenditure – delays in the Monarto mushroom farm expansion and the pause of the Guyra tomato expansion led to revisions in the Group’s forecast capital expenditure plan. Our testing focussed on the implications of these matters for consistent application and reasonableness given our industry experience.<br>• forecast growth rates and terminal growth rates – in addition to the uncertainties described above, the Group’s models are highly sensitive to changes in these assumptions, potentially reducing available</td><td>Our procedures included:<br><br>• considering the appropriateness of the value in use method applied by the Group to perform testing of non-current assets for impairment against the requirements of the accounting standards.<br>• assessing the integrity of the value in use models used, including the accuracy of the underlying calculation formulas.<br>• comparing the forecast cash flows and capital expenditure contained in the value in use models to Board approved forecasts.<br>• assessing the accuracy of previous Group forecasts to inform our evaluation of forecasts incorporated in the models.<br>• considering 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.<br>• challenging the Group’s significant forecast cash flow and growth assumptions in light of the competitive trading, operating and environmental conditions. We compared key events to the Board approved plan and strategy. We applied increased scepticism to forecasts in the areas where previous forecasts were not achieved. 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</td></tr>
</table>

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| | |
|---|---|
| headroom or indicating possible impairment. This drives additional audit effort specific to their feasibility and consistency of application to the Group's strategy.<br>• 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. We involve our valuation specialists with this assessment.<br><br>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.<br><br>The Group's CGUs have not always met prior forecasts, increasing our focus on the reliability of current forecasts. Complex modelling, using forward-looking assumptions tends to be prone to greater risk for potential bias, error and inconsistent application. These conditions necessitate additional scrutiny by us, in particular to address the objectivity of sources used for assumptions, and their consistent application.<br><br>The Group recorded an impairment charge of $51m against goodwill and property, plant and equipment, resulting from the trading challenges within the Mushroom category during the year. This further increased our audit effort in this key audit area. | performance, business and customers, and our industry experience.<br>• checking the consistency of the growth rates to the Group's stated plan and strategy, past performance of the Group, and our experience regarding the feasibility of these in the competitive environment in which they operate.<br>• assessing the impact of competitive trading, operating and environmental conditions on the Group's key assumptions, specifically on growth rates and pricing, for indicators of bias and inconsistent application, using our industry knowledge and published studies of industry trends and expectations.<br>• working with our valuation specialists, we analysed the Group's discount rates and terminal growth 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 to the Group and the industry it operates in.<br>• recalculating the impairment charge for the Mushroom category against the recorded amount disclosed.<br>• assessing the disclosures in the financial report using our understanding of the matter obtained from our testing and against the requirements of the accounting standards. |

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| Valuation of biological assets ($49.2m) | |
|---|---|
| Refer to note B6. Biological Assets | |
| **The key audit matter** | **How the matter was addressed in our audit** |
| The valuation of biological assets at fair value less costs to sell is a key audit matter due to the judgement required by us in considering the complexities and assumptions adopted by the Group in its biological assets valuation models.<br><br>Several assumptions used in the valuation models are not based on observable market data and are therefore subject to significant level of judgement by the Group. The Group's valuation models are highly sensitive to changes in key assumptions which can have a significant impact on the valuation.<br><br>The key forward looking assumptions we focussed on are:<br><br>• Yield expectations and cash inflows from forecasted sales: the Group has a portfolio of product categories, each with unique agricultural characteristics. This requires us to consider a variety of factors relating to growth patterns and yield per hectare in the Group's valuation models.<br><br>• Extent of biological advancement: the crops are seasonal in nature and, at balance date, are at various stages in the development cycle.<br><br>• Expectations of future market pricing: pricing for each product category fluctuates based on quality and supply. Final prices are negotiated when the produce is ready for sale, which may be some time from balance date. | Our procedures included:<br><br>• considering the appropriateness of the valuation models used by the Group to estimate the fair value of the biological assets against the requirements of the accounting standards.<br><br>• considering the sensitivity of the valuation models by varying certain key forward looking assumptions. We did this to identify those assumptions at higher risk of bias or inconsistency in application and to focus our further procedures.<br><br>• Challenging the forward looking assumptions, including pricing and yield in the Group's valuation model, by comparing to historic and current trends, such as actual market price and yields. We considered events and impacts subsequent to the year end and compared these to the assumptions used by the Group.<br><br>• performing site visits on a sample basis, to inspect the actual biological advancement of crops and comparing this to the assumptions used in the Group's valuation models.<br><br>• assessing the integrity of the valuation models used by the Group, including the accuracy of the underlying calculation formulas.<br><br>• challenging the Group's ability to reliably estimate the key assumptions by comparing previous assumptions to actual outcomes.<br><br>• evaluating the consistency of key assumptions within the Group's valuation models, including forecasted sales, against those used and tested by us, in the assessment of the recoverability of non-current assets, including property, plant and equipment and intangible assets as described in the above key audit matter.<br><br>• assessing the specific disclosures required for biological assets in the financial report using our understanding obtained from our testing and against the requirements of relevant accounting standards. |

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## Other Information

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

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

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

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

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

## Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error

- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

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

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and

- to issue an Auditor's Report that includes our opinion.

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

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

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

# Independent Auditor's Report continued

KPMG

## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of Costa Group Holdings Ltd for the year ended 29 December 2019 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 29 December 2019.

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

26 February 2020

# Shareholder Information

## Twenty Largest Registered Shareholders (as at 11 March 2020)

| Rank | Name of Shareholder | Number of Shares | % of Issued Capital |
|---|---|---|---|
| 1 | HSBC Custody Nominees (Australia) Limited | 88,685,573 | 22.13 |
| 2 | J P Morgan Nominees Australia Pty Limited | 49,912,517 | 12.45 |
| 3 | Citicorp Nominees Pty Limited | 20,350,273 | 5.08 |
| 4 | BNP Paribas Nominees Pty Ltd | 19,227,078 | 4.80 |
| 5 | Neweconomy Com Au Nominees Pty Limited | 14,270,894 | 3.56 |
| 6 | BNP Paribas Noms Pty Ltd | 13,797,694 | 3.44 |
| 7 | UBS Nominees Pty Ltd | 8,736,247 | 2.18 |
| 8 | National Nominees Limited | 8,346,472 | 2.08 |
| 9 | NMS Nominees Pty Ltd | 6,255,902 | 1.56 |
| 10 | Hoxton Pty Ltd | 5,004,721 | 1.25 |
| 11 | UBS Nominees Pty Ltd | 4,902,459 | 1.22 |
| 12 | 3rd Wave Investors Ltd | 4,000,000 | 1.00 |
| 13 | HSBC Custody Nominees (Australia) Limited-Gsco Eca | 3,091,581 | 0.77 |
| 14 | Elaine Costa Superannuation Pty Ltd | 2,831,619 | 0.71 |
| 15 | Anthony Costa Superannuation Pty Ltd | 2,831,619 | 0.71 |
| 16 | BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd Drp | 2,099,743 | 0.52 |
| 17 | Netwealth Investments Limited | 1,967,631 | 0.49 |
| 18 | Sandhurst Trustees Ltd | 1,350,954 | 0.34 |
| 19 | Woodross Nominees Pty Ltd | 1,270,098 | 0.32 |
| 20 | Mcneil Nominees Pty Limited | 1,250,000 | 0.31 |

## Distribution of Holdings (as at 11 March 2020)

| Range | Number of Holders | Number of Shares | % of Issued Capital |
|---|---|---|---|
| 100,001 and Over | 116 | 285,937,085 | 71.34 |
| 10,001 to 100,000 | 2,683 | 62,157,675 | 15.51 |
| 5,001 to 10,000 | 3,204 | 23,687,594 | 5.91 |
| 1,001 to 5,000 | 9,630 | 25,581,714 | 6.38 |
| 1 to 1,000 | 6,913 | 3,427,743 | 0.86 |
| Total | **22,546** | **400,791,811** | **100.00** |

The number of shareholders holding less than a marketable parcel of shares (as at 11 March 2020) is 1,136 and they hold 120,271 shares.

### Substantial Shareholders (as at 11 March 2020)

| Shareholder | Number of Shares | % of Issued Capital |
|---|---|---|
| Perpetual Limited and its related bodies corporate | 55,796,280 | 13.92 |
| Lazard Asset Management Pacific Co | 22,726,769 | 5.67 |
| Schroder Investment Management Australia Limited | 22,087,791 | 5.51 |
| ECP Asset Management Pty Ltd and its associated entities | 21,219,629 | 5.29 |

### Escrowed Shares

As at 11 March 2020, there are no shares subject to voluntary escrow arrangements.

### Unquoted Securities

As at 11 March 2020, there were 5,372,573 options over unissued shares of Costa Group Holdings Ltd, being the options described in item 12 of the Directors' Report. These options were held by 19 current and former members of management (including the CEO) and a former director of the Company. All of the unissued shares which are the subject of these options are ordinary shares in the Company, or will be converted into ordinary shares immediately after exercise of the relevant option.

### Shares And Voting Rights

All issued shares in the Company are ordinary shares. Voting rights for ordinary shares are:

- on a show of hands, one vote for each shareholder; and
- on a poll, one vote for each fully paid ordinary share.

As at 11 March 2020, there is no current on-market buy-back.

# Corporate Directory

## Directors

Neil Chatfield (Chairman)
Harry Debney (CEO)
Tim Goldsmith
Janette Kendall
Peter Margin
Jane Wilson

## Company Secretary

David Thomas

## Registered Office

Unit 1, 275 Robinsons Road
Ravenhall
Victoria 3023
Australia
T +613 8363 9000
E investors@costagroup.com.au

## Share Registry

Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000
Locked Bag A14,
Sydney South NSW 1235
T +61 1300 554 474 (toll free within Australia)
F +61 2 9287 0303
F +61 2 9287 0309 (for proxy voting)
E registrars@linkmarketservices.com.au
www.linkmarketservices.com.au

## Auditor

KPMG
Tower Two, Collins Square
727 Collins Street Melbourne
Victoria 3008
Australia

## Australian Securities Exchange

Costa Group Holdings Limited shares are quoted on the Australian Securities Exchange (ASX code: CGC)

well grown