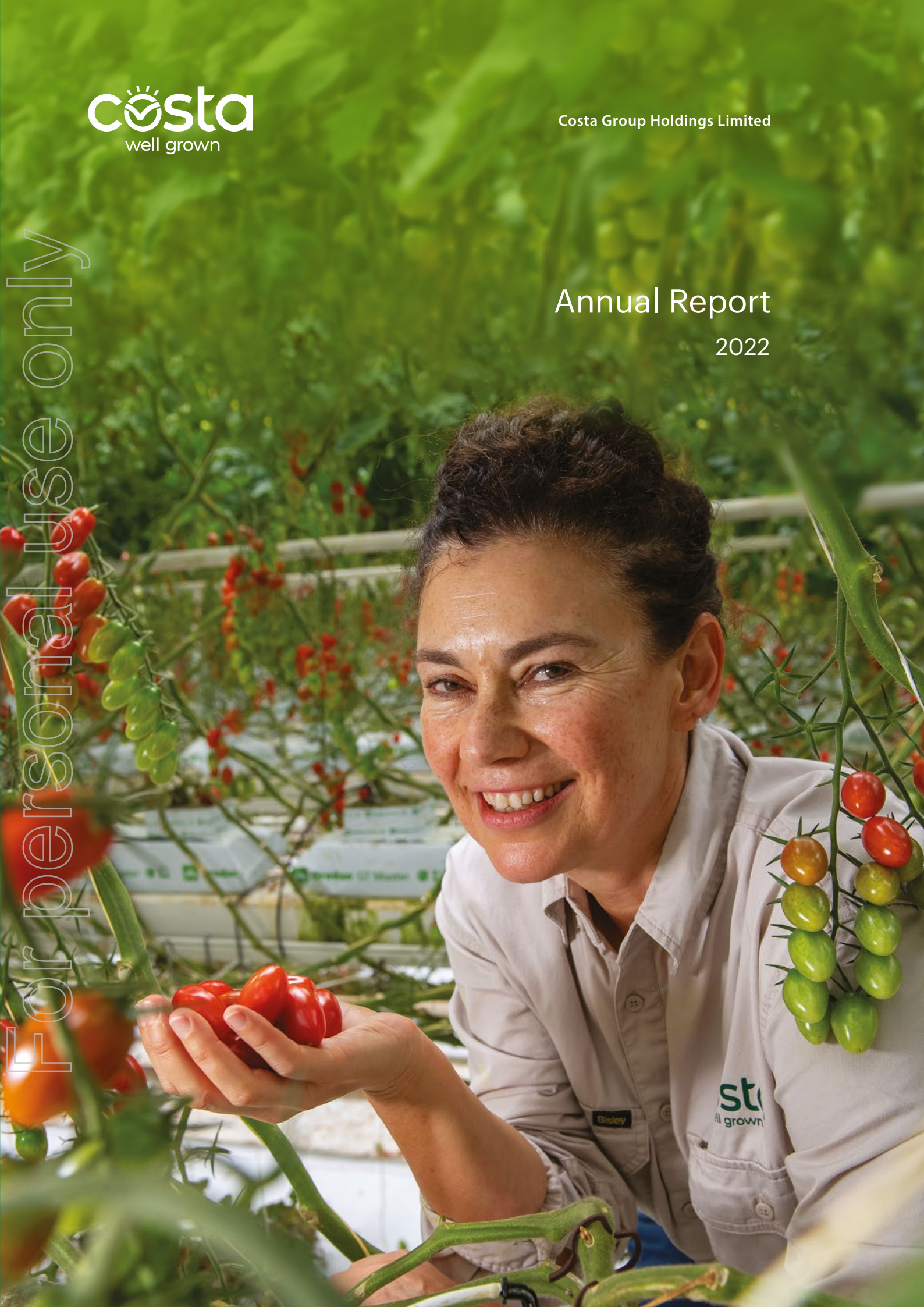




Costa Group Holdings Limited

Annual Report 2022

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Corporate Directory

Front cover image

Tomato glasshouse, Guyra,
New South Wales

Corporate Governance Statement

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

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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.



Chairman and Interim CEO Report



Neil Chatfield
Chairman and Independent
Non-Executive Director



Harry Debney
Director and
Interim CEO

Costa is the clear industry leader in utilising protected cropping and the development of proprietary and licensed genetics.

Overview

The 2022 year was one which highlighted the resilience of our company's business model and our ability to realise its competitive advantages under a number of different operating conditions, including extremely challenging weather.

Those things that contribute to making our portfolio truly unique, including our expansive protected cropping footprint, geographical diversity and market leading presence, both domestically and internationally, our world leading proprietary blueberry genetics, and the access we have to premium varieties across our other categories, meant Costa was able to perform well, relative to other industry participants in the face of such challenges, and the result achieved reflects this.

The 2022 financial year saw Costa deliver EBITDA-S (before fair value movements in biological assets and material items EBITDA-S) of \$214.8 million (1.6% decrease on CY21) and a \$30.2 million Net Profit After Tax (before fair value movements in biological assets and material items – NPAT-S).

Our international segment, domestic berry, mushroom and tomato categories all delivered continued earnings improvements, with each showing strong revenue growth year on year. Our citrus category performance saw favourable volumes and pricing in export markets however adverse weather impacts outweighed these benefits by affecting the quality of the fruit, and combined with higher crop input and freight costs, resulted in revenue well below expectations.

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The contribution from our international segment continues to build year on year, with an outstanding China performance driving solid profit growth.

The contribution from our international segment continues to build year on year, with an outstanding China performance driving solid profit growth with a 34% increase in revenue versus the prior year. This reflected increased volumes, strong quality and demand, and higher pricing, even taking into consideration major city Covid lockdowns toward the end of the China season. Pleasingly our premium Jumbo Arana variety volumes continue to build and attract higher pricing, in CY22 its volume as a percentage of total crop volumes in China was 44%, an 11% increase on CY21.

Operations in Morocco proved more challenging, and although volumes were 4% higher year on year, delayed crop timing due to weather impacted revenue. Our northern Morocco farm replanting program is proceeding to plan, with the Mayra variety's progressive replacement by other Costa Variety Improvement Program (VIP) purpose bred, premium genetics blueberry varieties on track.

We continue to expand our year-round African blueberry supply offering, with third party grower volumes increasing versus the prior year. This was mainly reflected through increased volumes from southern African growers, notably in South Africa and Zimbabwe.

Our capital expenditure over recent years is also delivering to plan, reflected in the fact that our lowest cost of production mushroom facility at Monarto in South Australia, generated consistent above capacity volume (average 240+ tonnes per week) across the entire year, further cementing Costa's industry leading position.

Costa also benefited from increased opportunity to supply more prepack mushrooms to retailers. The benefits from this were especially seen during Covid and this has continued. Costa is the leader in the development of the prepack mushroom segment in Australia, with a circa 60% volume share.

The performance of our additional 10 hectares of tomato glasshouse which came online at the beginning of CY22 and 2.5 hectare state of the art nursery both met expectations and will enable Costa to further develop its snacking and cocktail tomato variety offering. This has already been highlighted by the roll out of our Perino brand range extension across 2022.



Chairman and Interim CEO Report continued

The tomato nursery which is divided into seven different compartments to allow for maximum flexibility to ensure seedlings can be produced at the best time to coincide with market demand, has between 80-90 varieties in trial, scheduled to deliver circa 700,000 plants over a 12 month period for Costa's own production and that of its third party growers.

Although the performance of our citrus category was ultimately affected by extreme weather conditions and cost impacts, we remain positive about the growth opportunities in this category. This includes the fact that we have access to premium varieties, notably Amorette and Phoenix mandarins, which strongly position the company to supply the increasing demand for premium quality fresh produce in Asian markets.

Costa citrus exports to China more than doubled to circa 10% of volume as a result of our acquisition of 2PH. This provides a significant opportunity to further build on growth in this market through a premium brand offering, with China continuing to be the largest market for Australian citrus exports.

Our domestic berry footprint, much of which is grown under protective coverings and spans five growing locations across four states, delivers 52 week supply of blueberries and raspberries. Our premium blueberry varieties, including our latest exciting variety Delight, which was purpose bred for growing in the tropical climate of Far North Queensland, help to consolidate and build on Costa's position as the leading grower in the Australian berry market.

Costa is the clear industry leader in Australia in utilising protected cropping and the development of proprietary and licensed genetics. We have done so to our competitive advantage and in CY22, the evidence of this was especially seen in the performance of our domestic Berry category. While other growers in the main growing region on the north coast of New South Wales were severely impacted by rain and as a result suffered from reduced quality and volume, the benefit of our expansive protected cropping infrastructure and the premium varieties we grow, came to the fore enabling us to maintain market supply into the peak season.

The performance of our avocado category continued to prove challenging, a combination of a prolonged Western Australian crop and our own lower volumes due to weather impacts over the second half of the year, saw a disappointing result for the full year. On a brighter note, bigger fruit size and improved packouts drove better pricing over the latter part of the year, providing some impetus for a more positive start to 2023.

The lack of any real progress in opening access to key avocado export markets, including Japan for the eastern seaboard of Australia is disappointing and continues to be a source of frustration. This is affecting all industry participants, resulting in difficult avocado trading conditions. It is hoped the Australian government can maintain the required focus and make further progress on this over 2023 in time for the 2024 season.

There were significant cost inflation pressures through the year, which included above CPI increases for the cost of transport, fertilisers, and packaging. Fixed pricing arrangements for energy meant we were shielded from further increasing gas and electricity prices over the second half of the year. Rainfall across the eastern seaboard due to La Niña had a positive effect on water pricing, resulting in cost savings.

CY22 Results

Full year revenue

\$1,357.6m

Costa generated \$1,357.6 million in full year revenue, a 11.2% increase on the prior comparative period.

EBITDA-S

\$214.8m

EBITDA-S was \$214.8 million, down 1.6% on CY21, NPAT-S was \$30.2 million, while statutory NPAT-S was \$47.0 million.

Net debt

\$351.7m

Net debt was \$351.7 million with a leverage ratio of 2.46x as at end of December 2022.



Monarto mushroom production facility, South Australia

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Even as some input cost inflation pressures are expected to moderate in 2023, the company is focused on cost reduction and price maximising initiatives. This includes insourcing of seasonal labour to reduce third party costs, investing in progressive automation of harvesting, leveraging our scale through procurement of key inputs, capping input price increases in line with CPI where possible, and improving yield and quality, plus extending season length for premium varieties to maximise pricing opportunities, especially in export markets.

Despite the challenges of the past year in which adverse weather conditions impacted multiple growing regions, the diversity of our portfolio, our leading market position in attractive produce categories, supported by proprietary genetics, leading growing techniques and the utilization of best in class technology meant we were able to deliver a result that points to a positive long term future.

This includes:

- Further maturing of our 2PH and Sunraysia citrus tree age profile, which will result in corresponding yield increases;
- Expedite plantings of premium berry varieties, including VIP plantings across domestic and international operations to build out volume and supply window offering;
- Enhancing the depth and strength of our proprietary VIP blueberry breeding program through commercialising new varieties;
- Building further on the success of our Monarto mushroom expansion with the aim of increasing production to an average of 250+ tonnes per week;
- Optimising our increased tomato production capacity and nursery capability through growing a higher returning varietal mix; and
- Pursuing further opportunities to increase our protected cropping capacity, including across citrus and table grapes.

Dividends

The Board declared a fully franked final dividend of 5.0 cents per share for the second half of CY22, 40% franked. This brought the total dividend payment for CY22 to 9.0 cents per share.

Our People

The health and safety of our workforce is a priority for our company, with a focus on applying the same high standards across both our domestic and international operations. This has included transparency in the reporting of key metrics and performance data in our Sustainability Report. Sadly, during the year one of our China based employees was killed in a traffic accident. The way in which the Costa China team responded to the accident was reflective of the sense of responsibility and care they have for each other. They cooperated fully with the relevant authorities as they carried out an external investigation into the accident, while also providing appropriate ongoing support for the worker's family.

In 2022, the company established its own Costa Labour Standards which set out the commitment to ensure we actively manage the engagement and oversight of all labour, whether sourced directly by Costa or through third parties, to safeguard employment conditions and worker wellbeing.

Costa takes its legal obligations to comply with workplace and migration laws extremely seriously and operates to the highest ethical standards. This included supporting the establishment of the Modern Slavery Act (Aust) and the framework it provides to increase transparency of actions to reduce the risks of modern slavery and human trafficking in company supply chains.



Building further on the success of our Monarto mushroom expansion with the aim of increasing production to an average of 250+ tonnes per week.

Chairman and Interim CEO Report continued

The company will release its third modern slavery report in 2023. Specific modern slavery risks that have been identified include the outsourcing of labour recruitment, including in our partner grower base. Adding to our due diligence measures, our contracts for labour hire providers have been updated to include specific reference to Costa's expectations for all such providers, including that they are registered, and linked to Costa on Sedex and comply with Costa's Supplier Code of Conduct.

Developing our people is crucial to both retaining and building a skilled and productive workforce. It is also important in enshrining our sustainable commercial farming objectives as part of our everyday operations. During the year a Vertical Farming Training Academy was established within the business to provide a training platform for growers, agronomists and operations staff working across our tomato operations. Training sessions are offered fortnightly on a range of topics including water use, energy savings, integrated pest management and irrigation strategies.

The take up and interest from employees has been overwhelmingly positive, reflecting the genuine interest and passion within the company for all matters sustainability related and a willingness to both enhance and improve the sustainability of our farming practices.

Community

The lingering effects of Covid, combined with the impact of weather events and cost of living challenges brought into focus the important role Costa plays in the many communities in which we operate. Over 2022 there were yet again practical examples of Costa actively providing support and assistance, across all parts of our business.

The devastating earthquake and tsunami that hit the island nation of Tonga in early 2022 demonstrates the commitment of Costa and its employees to helping those in need. In recognition of the close relationship the company has through its

employment of Tongans in our Australian operations, Costa and our workforce committed funding to the relief effort and worked together with Coles to coordinate a shipping container being sent to Tonga filled with essential supplies.

Contributing to the health and wellbeing of local communities and especially those in need has always been a strong focus for Costa, and 2022 was no different. Our Berry team in Tasmania began donating punnets of fresh berries to the Loaves and Fishes school food program which provides free emergency food relief that is available to all Tasmanians. Costa's donations helped to supply half the fruit needed to serve around 60 schools state wide.

Since September 2018, Costa has donated mushrooms to FareShare, a not-for-profit organisation that partners with local producers, Oz Harvest and Second Bite rescuing food from waste to make nutritious meals that feed those most in need. Costa also recently provided a \$5,000 donation to support the development of a third kitchen at the FareShare Melbourne facility, to expand their capacity to cook and provide more healthy and nutritious meals within the community.

Board

With the easing of Covid restrictions over late 2021 and early 2022, the Board was able to once again undertake site visits, providing an invaluable opportunity to both experience first hand the company's operations and to also engage with operational staff.

In 2022 Board members visited the 2PH operations in Central Queensland and we also participated in the investor site tour of the Monarto mushroom facility. The thing that always stands out with such visits is the passion and professionalism of our workforce. It is clear to see they are both industry leaders with respect to their skills and agronomic expertise, while also working closely as a team to achieve the best possible outcomes, including in the face of challenges which may come their way, such as unexpected weather and climate impacts.

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The Board continues to focus on ensuring the company optimises shareholder returns, by delivering an appropriate return on invested capital. This includes working with the Executive team to develop strategy and thoroughly assessing opportunities for further expansion, be it building on existing operations, or through M&A across domestic and international markets. Identifying and driving innovation across our operations also remains a key activity, in particular through the Board's Horticultural Innovation and Technology (HIT) Committee.

In response to the cyber incident in August 2022, and also due to the heightened cyber threat landscape being experienced by many Australian corporates, the Board has continued to increase its oversight of the organisation's cyber security program and, through the Audit & Risk Committee, undertaking an independent assessment of Costa's overall cyber security resilience and plans.

In September our CEO Sean Hallahan departed the business. During Sean's five years with the organisation including as Chief Operating Officer and from March 2021 as CEO and Managing Director, he played a pivotal role in Costa's development and growth.

Following Sean's departure, Harry Debney was appointed Interim CEO. Harry previously served as our CEO for 10 years and his breadth of knowledge, experience and understanding of our business and the fresh produce industry meant that he was the best person to perform the Interim CEO role while a search for a permanent CEO is ongoing.

The company also appointed a Chief Operating Officer, Marc Werner and a General Manager, Strategy and M&A, Kirsty Deglas. These important appointments add to the strength and depth of our Executive team, providing a focus on managing operations and the development and execution of a clear strategy. Both of these roles commenced in the second half of 2022.

Update for CY23

As we entered 2023, there was an improved weather outlook, indicating more favourable growing conditions across our farming portfolio. We also expect a recovery in the Citrus category's performance, which will be enhanced by maturing orchards in Central QLD and Sunraysia (Vic). The International season including new China berry plantings started positively and our focus across the business remains on yield, quality and further premium product roll out to offset input cost inflation.

Labour availability is improving significantly, contrasted with shortages over the past two years. We are also benefiting from our continuing program of insourcing Pacific seasonal labour. Return on capital and strong cashflow generation remain priorities.

Beyond this, CY24 and CY25 are expected to benefit from a number of key developments, including continued maturing of citrus tree age profile resulting in corresponding production increases, additional volumes from the Conaghans land at 2PH (additional circa 450 hectares), further growth in the International segment from new plantings in China and Agadir and replantings that will take advantage of new VIP blueberry varieties, future improvement in domestic berry returns through VIP blueberry premiumisation and targeted capital expenditure to improve harvest productivity in all categories.

Neil Chatfield
Chairman and Independent
Non-Executive Director

Harry Debney
Director and
Interim CEO



Developing our people is crucial to both retaining and building a skilled and productive workforce.

Company Profile

Costa is Australia's leading grower, packer and marketer of fresh fruit and vegetables and operates principally in five core categories: berries, mushrooms, glasshouse tomatoes, citrus and avocados.

Operations include approximately 7,200+ planted hectares of farmland, 40 hectares of glasshouse facilities and three main mushroom growing facilities across Australia. Costa also has strategic foreign interests, with majority owned joint ventures covering six blueberry farms in Morocco and four berry farms in China, covering approximately 750 planted hectares.

For the 12 months financial year ended December 2022, Costa's total revenue was \$1,357.6 million (CY21: \$1,220.6 million), EBITDA-S was \$214.8 million (CY21: \$218.2 million) and NPAT - S was \$30.2 million (CY21: \$64.0 million).

Business Model

The Costa business model is built on the optimisation of a diverse 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 the company's expansive footprint of domestic and international farms, supplemented with produce sourced through a diverse network of third-party growers.

7,200+

planted hectares of farmland as at end of December 2022

40

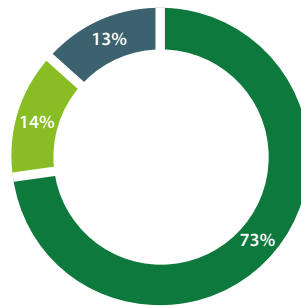
hectares of tomato glasshouse

3

major mushroom production facilities

750

approximately planted hectares of berries across Morocco and China



● Produce ● CF&L
● International

Figure 1: Costa's revenue by segment for the 12 months calendar financial year ended 1 January 2023.



Guangmen berry farm, China



Tomato glasshouse, Guyra, New South Wales

Where We Operate

Western Australia

Berry Farms
Gingin, Neergabby

Compost Facility
Mandurah

Distribution Centre
Jandakot

Mushroom Farm
Casuarina

South Australia

Adelaide Wholesale Market
Pooraka

Citrus Farms
Amaroo - Murtho, Pike Creek - Lyrup,
Solera - Loxton, Bookpurnong

Kangara Citrus Farm and Packhouse
Murtho

Mushroom Farm
Monarto

Yandilla Citrus Farm and Packhouse
Renmark



Queensland

Avocado Farms
Atherton, Paddys Green, Dimbulah, Childers

Banana Farms
Tully, Walkamin

Berry Farms
Atherton, Tolga, Walkamin

Brisbane Wholesale Market
Rocklea

Citrus Farms
Emerald, Dimbulah

Table Grape Farm
Mundubbera

New South Wales

Avocado Farms
Comboyne, Fishermans Reach

Berry Farms
Corindi, Rosewood, Tumberumba

Citrus Farm
Trentham Cliffs

Distribution Centre
Eastern Creek

Table Grape Distribution Centre
Euston

Tomato Glasshouses
Guyra

Victoria

Business Support Centre
Ravenhall

Citrus and Table Grape Farm
Colignan

Citrus Farm
Lindsay Point

Compost Facility
Nagambie

Distribution Centre
Derrimut

Melbourne Wholesale Market
Melbourne

Mushroom Farms
Mernda, Yarrambat

Tasmania

Berry Farms
Dunorlan, East Devonport, Lebrina,
Nine Mile, Wesley Vale

Berry Distribution Centre and Packhouse
East Devonport

Devonport Distribution Centre
Quoiba

China



Bailang – Yunnan Province
Manlai – Yunnan Province
Guangmen – Yunnan Province
Manhong – Yunnan Province
Baoshan - Yunnan Province

Morocco



Bousselham/Laaouamra
Kenitra, Larache region Massa
Agadir (southern) region

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Company Profile continued

Costa operates across three reportable segments

Produce

Operates principally in five vertically integrated core categories; berries, mushrooms, citrus, glasshouse-grown tomatoes, and avocados. Growing locations are situated across multiple states.

International

Comprises berry farming in Morocco (product exported to Europe, UK and Asia) and China (product sold in China). Also licensing of our proprietary blueberry varieties across several regions, including the Americas and Africa.

Costa Farms & Logistics (CF&L)

Incorporates interrelated logistics, wholesale, and marketing operations.

Key Growth Drivers

Since Costa's IPO in 2015, we have concentrated on both building existing operations, and strategic capital acquisitions to drive expansion.

This has been targeted, including investing in the expansion of our international footprint most notably the establishment of operations in China, the acquisition of quality citrus assets, including 2PH, which expanded our key growing regions to three, enhancing the value and yields from our protected cropping assets across berries, tomatoes and mushrooms and by maintaining an unrelenting focus on our customer and consumer needs, supported by the premium quality and diversity of our product offering.

Our genetics, both proprietary and licensed, also give Costa a market leading position. Costa's Variety Improvement Program (VIP), which is Costa's own 25+ years successful proprietary blueberry breeding program is globally recognised as an industry leader, with a capacity to trial 20,000 seedlings per annum, augmented by a cross breeding platform across both tropical and sub tropical locations.

Our purpose bred Delight variety is grown in the tropical climate of Far North Queensland, and other VIP varieties are being grown in China and Morocco with a high degree of commercial success.

We have the next leading candidate from our premium Arana blueberry crosses, which is currently called Variety C18-051. It has exhibited high yield potential, improved berry texture, mid to late season timing and a large percentage of the crop has a fruit diameter of greater than 20 mm, which is export grade quality.

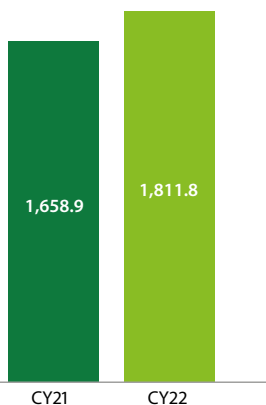
In citrus and table grapes, we also have access to premium genetics. Through our acquisition of the 2PH citrus business, Costa has exclusive perpetual and royalty free rights to commercialise Amorette and Phoenix mandarin varieties in Australia, China, India and Africa. We also have first right to commercialise future varieties developed by the 2PH breeding program in Australia, China, India and Africa.

Circa 50%+ of our total table grape supply is currently sourced from licensed proprietary varieties, with 75% of this licensed from Sunworld, which operates one of the largest and longest running proprietary table grape breeding and licensing enterprises in the world. These varieties are in high demand in export markets and there are further opportunities to expand our offering and the number of markets to which we export.

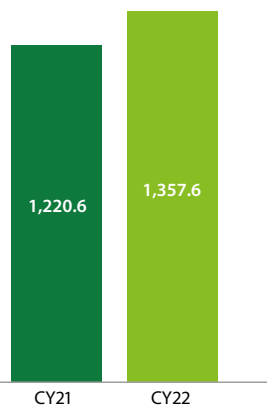
In our Tomato category, we operate a substantial tomato varietal testing and development platform, the centrepiece of which is our 2.5 hectare state of the art nursery facility. We are testing and trialling between 80-90 varieties per annum from which 700,000+ plants are produced.

Since Costa's IPO in 2015 we have concentrated on both building existing operations, and strategic capital acquisitions to drive expansion.

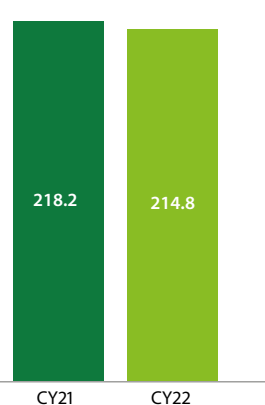
Transacted Sales (\$m)



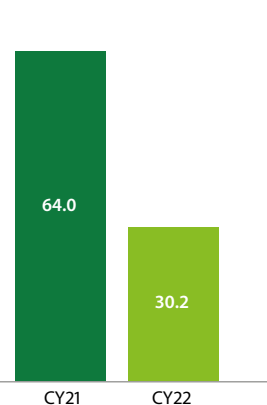
Total Revenue (\$m)



EBITDA-S (\$m)



NPAT-S (\$m)



This is supported by strategic relationships with global leading seed breeding companies, meaning we have exclusive access to snacking and cocktail varieties including our premium Perino offering, Bellino, various golden snacking varieties, Cocktail truss, non-drip Roma plum and red snacking.

In the mushroom category, Costa has a long standing relationship with Amycel USA, a global industry leader in mushroom genetics development.

This includes exclusivity with Amycel in Australia to use strain genetics from which Costa produces its own spawn for mushroom production and growing two of Amycel's most popular propriety premium brown hybrid strains, namely Heirloom and Brawn. Amycel is currently investing in advancing their genetics development which Costa expects to benefit from.

Our proprietary genetics and the exclusive access we have to other genetics is a distinct competitive advantage and something that makes Costa's diverse portfolio, including our premium offerings truly unique and a major asset in driving further growth.



Vision

'To be the leader in sustainable commercial farming of premium quality fresh produce'

C APABILITY

Investing in technology, leadership & capability development to deliver our vision.

OBJECTIVE

Driving long term ROIC and maintaining a strong balance sheet.

S USTAINABLE COMMERCIAL FARMING

Executing our optimized yield program on our proprietary technology platform.

T ECHNICAL SUPERIORITY

Leveraging our superior agronomic expertise and genetics to deliver competitive advantage.

AMBITION

Expanding our leading go-to market models to win in international markets.

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Highlights

157,391

tonnes of citrus produced across our three main growing regions in CY22

+27.4%

CY22 Arana export revenue versus the prior year

4,764

hectares – of planted citrus across three growing regions as at the end of CY22¹

+44.3%

Full year China blueberry volume versus CY21

100%

2PH high security and medium priority water allocation²

+27.1%

Increase in glasshouse tomato tonnes produced versus the prior year

Planted and production hectares as at end Dec 2022

Trees and Vines

| | Hectares |
|---------------------------|--------------|
| Avocado/Banana | 1,050 |
| ○ Avocado ¹ | 773 |
| ● Bananas | 277 |
| Citrus² | 5,575 |
| ● Citrus | 4,764 |
| ● Table grapes | 550 |
| ● Wine grapes | 261 |

Vertical Farming

● Mushrooms

Casuarina (WA)
Mernda (VIC)
Monarto (SA)

| | |
|-----------------|-----------|
| ● Tomato | 40 |
| Glasshouse | 40 |

Berry Domestic and International

Berry (Aust) 727 hectares

| Berry type | Hectares | Soil | Substrate |
|--------------|----------|------|-----------|
| ● Blueberry | 480 | 246 | 234 |
| ● Raspberry | 166 | 33 | 133 |
| ● Blackberry | 56 | 8 | 48 |
| ● Strawberry | 25 | 0 | 25 |

Morocco 349

| | |
|-------------|-----|
| ● Blueberry | 349 |
|-------------|-----|

China 400

| | |
|--------------|-----|
| ● Blueberry | 368 |
| ● Raspberry | 22 |
| ● Blackberry | 10 |

1. Includes 113 hectares of Riverland/Sunraysia plantings.

2. Includes prospective 2PH 2023 Conaghans planting.

At Costa we are committed to ensuring we meet the needs of our customers and the supply of quality fresh nutritious produce.

1. Includes prospective 2PH 2023 Conaghans planting.
2. For the financial year 22/23.



Harvest Calendar

| | Mushrooms Browns | Mushrooms Whites | Tomatoes Truss | Tomatoes Cocktail | Tomatoes Sweet Snacking | Oranges Valencia |
|-----------|---------------------|---------------------|-------------------|----------------------|----------------------------|---------------------|
| January | 🍄 | 🍄 | 🍅 | 🍅 | 🍅 | 🍊 |
| February | 🍄 | 🍄 | 🍅 | 🍅 | 🍅 | 🍊 |
| March | 🍄 | 🍄 | 🍅 | 🍅 | 🍅 | |
| April | 🍄 | 🍄 | 🍅 | 🍅 | 🍅 | |
| May | 🍄 | 🍄 | 🍅 | 🍅 | 🍅 | |
| June | 🍄 | 🍄 | 🍅 | 🍅 | 🍅 | |
| July | 🍄 | 🍄 | 🍅 | 🍅 | 🍅 | |
| August | 🍄 | 🍄 | 🍅 | 🍅 | 🍅 | |
| September | 🍄 | 🍄 | 🍅 | 🍅 | 🍅 | 🍊 |
| October | 🍄 | 🍄 | 🍅 | 🍅 | 🍅 | 🍊 |
| November | 🍄 | 🍄 | 🍅 | 🍅 | 🍅 | 🍊 |
| December | 🍄 | 🍄 | 🍅 | 🍅 | 🍅 | 🍊 |

| | Avocados Hass | Avocados Reed | Avocados Shepard | Bananas Cavendish | Bananas Lady Fingers | Raspberries Corindi | Raspberries TAS | Blackberries Corindi |
|-----------|------------------|------------------|---------------------|----------------------|-------------------------|------------------------|--------------------|-------------------------|
| January | | 🥑 | | 🍌 | 🍌 | 🍓 | 🍓 | |
| February | | | 🥑 | 🍌 | 🍌 | 🍓 | 🍓 | |
| March | | | 🥑 | 🍌 | 🍌 | 🍓 | 🍓 | 🍷 |
| April | 🥑 | | 🥑 | 🍌 | 🍌 | 🍓 | 🍓 | 🍷 |
| May | 🥑 | | | 🍌 | 🍌 | 🍓 | 🍓 | 🍷 |
| June | 🥑 | | | 🍌 | 🍌 | 🍓 | | 🍷 |
| July | 🥑 | | | 🍌 | 🍌 | 🍓 | | 🍷 |
| August | 🥑 | | | 🍌 | 🍌 | 🍓 | | 🍷 |
| September | 🥑 | | | 🍌 | 🍌 | 🍓 | | 🍷 |
| October | 🥑 | | | 🍌 | 🍌 | 🍓 | | 🍷 |
| November | 🥑 | | | 🍌 | 🍌 | 🍓 | | 🍷 |
| December | 🥑 | 🥑 | | 🍌 | 🍌 | 🍓 | 🍓 | 🍷 |

| | Raspberries China | Blackberries China | Blueberries China | Blueberries Morocco/ African Blue |
|-----------|----------------------|-----------------------|----------------------|---|
| January | 🍓 | 🍷 | 🫐 | 🫐 |
| February | 🍓 | 🍷 | 🫐 | 🫐 |
| March | 🍓 | 🍷 | 🫐 | 🫐 |
| April | 🍓 | 🍷 | 🫐 | 🫐 |
| May | 🍓 | 🍷 | 🫐 | 🫐 |
| June | | | | 🫐 |
| July | | | | 🫐 ¹ |
| August | 🍓 | | | 🫐 ¹ |
| September | 🍓 | | | 🫐 ¹ |
| October | 🍓 | | 🫐 | 🫐 ¹ |
| November | 🍓 | 🍷 | 🫐 | 🫐 |
| December | 🍓 | 🍷 | 🫐 | 🫐 |

1. Denotes South Africa and Zimbabwe partner growers blueberry production – June - November.



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Directors' Report

For the year ended 1 January 2023

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 1 January 2023 ("CY2022").

1. Directors

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

Current Directors



Neil Chatfield M.Bus, FCPA, FAICD

Chairman and Independent Non-Executive Director

Director since 7 October 2011 and Chairman since 24 June 2015. Member of the Remuneration and Human Resources Committee, Audit and Risk Committee and Horticultural Innovation and Technology Committee and Chair of the Nomination Committee.

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

Neil is currently Non-executive Chairman of Aristocrat Leisure (Director since November 2017 and Chairman since February 2019). He was previously the Chair and Non-executive director of Seek Limited (to 31 December 2018), a Non-executive director of Transurban Ltd (to October 2021), Iron Mountain Inc. (to September 2017), Recall Holdings Ltd (to May 2016), Chair and Non-executive director of Virgin Australia Holdings Ltd (to May 2015). Neil previously served as an executive director and Chief Financial Officer of Toll Holdings Ltd (from 1997 to 2008).



Harry Debney BAppSc (Hons)

Director and Interim CEO

Appointed as a Non-Executive Director from 1 July 2021 and Interim CEO of the Company from 26 September 2022. Member of the Horticultural Innovation and Technology Committee and the Nomination Committee.

Harry was formerly the Company's CEO (from 2010) and Managing Director (from 2015) until his retirement from the Company's executive team in March 2021. During his time as CEO, Harry oversaw the transition of the business from a privately owned company to its listing on the Australian Securities Exchange. Prior to joining Costa, Harry spent 24 years at Visy Industries, including eight years as Chief Executive Officer. During this time, he substantially grew the Visy business, both organically and through acquisitions.

Harry is currently a Non-executive director of Kogan.com Ltd and Lite n' Easy Pty Ltd.



Tim Goldsmith BCom

Independent Non-Executive Director

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

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

Tim is currently Non-Executive Chairman of Hazer Group Ltd and a non-executive director of New Energy Technology Ltd. Tim was formerly the Chairman of Angel Seafood Holdings and the CEO of Rincon Mining.

Directors' Report continued

For the year ended 1 January 2023



Janette Kendall B. Bus (Marketing), FAICD

Independent Non-Executive Director

Director since 11 October 2016. Chair of the Horticultural Innovation and Technology Committee and a member of the Audit and Risk Committee and Nomination Committee.

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

Janette is currently a non-executive director of Vicinity Centres, Tabcorp Holdings, Visit Victoria, KM Property Funds and the Melbourne Football Club. Janette was previously a director of Nine Entertainment Ltd (to December 2018), Wellcom Group Ltd (to November 2019) and Australian VenueCo (to December 2021) and Chair of the Melbourne Theatre Company Foundation (to December 2020).



Peter Margin BSc (Hons), MBA

Independent Non-Executive Director

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

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

Peter currently serves as a non-executive director of Nufarm Ltd and Deputy Chair of Bega Cheese Ltd. Peter was previously a non-executive director of the NSX listed company Ricegrowers Ltd (to August 2015), Chairman and Non-executive director of Huon Aquaculture Ltd (to August 2016), and a non-executive director of PMP Ltd (to August 2016) and PACT Group Holdings Ltd (to August 2019).



Dr Jane Wilson AO

Independent Non-Executive Director

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

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

Former directors

Sean Hallahan was the Company's Managing Director and CEO from 31 March 2021 to 26 September 2022.

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 29 years' experience in legal practice.

3. Directors' meetings

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

| Director | Board | | Audit and Risk Committee | | Remuneration and HR Committee | | Horticultural Innovation and Technology Committee | | Nomination Committee | |
|-----------------|----------------|----------|--------------------------|----------------|-------------------------------|----------------|---|----------------|----------------------|----------------|
| | Held | Attended | Held | Attended | Held | Attended | Held | Attended | Held | Attended |
| Neil Chatfield | 11 | 11 | 6 | 6 | 5 | 5 | 4 | 4 | 2 | 2 |
| Harry Debney | 11 | 11 | 6 | 4 ¹ | 5 | 2 ¹ | 4 | 4 | 2 | 2 |
| Tim Goldsmith | 11 | 11 | 6 | 6 | 5 | 4 | 4 | 1 ¹ | 2 | 2 |
| Janette Kendall | 11 | 11 | 6 | 6 | 5 | 2 ¹ | 4 | 4 | 2 | 2 |
| Peter Margin | 11 | 11 | 6 | 6 | 5 | 5 | 4 | 2 ¹ | 2 | 2 |
| Jane Wilson | 11 | 10 | 6 | 4 ¹ | 5 | 5 | 4 | 4 | 2 | 2 |
| Sean Hallahan | 8 ² | 7 | 5 ² | 5 ¹ | 4 ² | 4 ¹ | 3 ² | 3 ¹ | 1 ² | 1 ¹ |

Notes:

1. Not a member of the Committee at the time that meetings were held and attended the meeting as a guest.
2. Sean Hallahan was not a director between 27 September 2022 and 1 January 2023. Only the meetings held while he was a director are shown.

4. Principal activities

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

- the growing of mushrooms, berries, glasshouse tomatoes, citrus, avocados and other selected fruits within Australia;
- the packing, marketing and distribution of fruit and vegetables within Australia and to export markets;
- provision of chilled logistics warehousing and services within Australia; and
- licensing of proprietary blueberry varieties and berry farming in international markets.

No significant change in the nature of these activities occurred during the period.

5. Significant changes in state of affairs during the period

Other than those matters referred to in the 'Strategy and Growth' section of the operating and financial review and the financial statements, there have been no other significant changes in the state of affairs of the Group during the period.

6. Operating and financial review

Financial and business headlines:

- Transacted sales¹ of \$1,811.8 million, an increase of 9.2%
- Revenue of \$1,357.6 million, an increase of 11.2%
- Net profit before SGARA and material items (NPAT-S²) of \$30.2 million decrease of 53%
- EBITDA before SGARA and material items (EBITDA-S²) of \$214.8 million a decrease of 1.6%
- Operating cashflows of \$95.2 million, a \$19.5 million decrease
- Net debt of \$352 million at 1 January 2023, Leverage ratio 2.46x
- New 100Ha farm in Agripark, China, with first Blueberry harvest commencing towards end of year
- First complete 2PH season delivered over 46,000 harvested tonnes
- New 10 hectare tomato glasshouse and 2.5 hectare nursery facility contributed first full year of production, seeing Tomato category revenues up 17% on pc.
- Very challenging weather conditions across three Citrus growing regions impacting quality, and incurring higher input costs to mitigate
- Continuing high avocado industry volumes kept prices at low levels
- Significant cost inflation impacts on operating margins

Directors' Report continued

For the year ended 1 January 2023

Summary of financial performance

Table 1: Summary of results for the financial year ended 1 January 2023 compared to CY2021

Consolidated income statement

| A\$m | CY2022 | CY2021 | Change \$ |
|--|----------------|---------|-----------|
| Revenue | 1,328.7 | 1,183.6 | 145.1 |
| Other revenue | 28.9 | 37.0 | (8.1) |
| Total Revenue | 1,357.6 | 1,220.6 | 137.0 |
| Raw materials, consumables and third party purchases | (418.6) | (407.7) | (10.9) |
| Employee benefits expense | (491.6) | (419.0) | (72.6) |
| Other operating expense | (243.3) | (185.6) | (57.7) |
| Share of associates profit | 10.7 | 9.9 | 0.8 |
| EBITDA-S² | 214.8 | 218.2 | (3.4) |
| <i>EBITDA-S margin</i> | 15.8% | 17.9% | -2.1 pts |
| Fair value movements in biological assets | 8.7 | (7.5) | 16.2 |
| EBITDA | 223.5 | 210.7 | 12.8 |
| Depreciation and amortisation | (129.4) | (108.5) | (20.9) |
| Profit/(loss) on sale of assets and investments | (0.1) | 0.5 | (0.6) |
| Impairment reversal | - | 2.4 | (2.4) |
| EBIT | 94.0 | 105.1 | (11.1) |
| Net interest expense | (42.6) | (25.0) | (17.6) |
| Net profit before tax | 51.5 | 80.1 | (28.6) |
| Income tax expense | (1.8) | (10.4) | 8.6 |
| Net profit after tax (before material items) | 49.7 | 69.7 | (20.0) |
| Material items (before tax) | (2.9) | (19.2) | 16.3 |
| Tax on material items | 0.2 | 1.7 | (1.5) |
| Non-controlling interest | (13.4) | (10.8) | (2.6) |
| Net profit after tax attributable to shareholders | 33.6 | 41.4 | (7.8) |
| Transacted sales ¹ | 1,811.8 | 1,658.9 | 152.9 |
| NPAT-S ² | 30.2 | 64.0 | (33.8) |

Notes:

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

Review of financial performance

CY2022 revenue grew by 11.2% on the previous period, however due to weather related quality issues in Citrus and cost pressures the earnings result was marginally behind CY2021, with EBITDA-S of \$214.8 million.

The International segment delivered another strong performance, with China posting revenue growth of 34% on the prior year. This was mainly attributable to larger volumes (+40%) from increased plantings, and higher pricing, especially for premium jumbo Arana blueberries. This was achieved despite the COVID lockdowns seen across China which toward the back end of the season restricted access to Tier 1 cities. Morocco saw volumes increase on the prior year, but due to weather related delays part of the harvest coincided with the main Spanish season resulting in lower pricing achieved for product sold into European markets.

In the Produce segment, the berry, mushroom, and tomato categories all delivered strong revenue growth year on year. Berry industry volumes were impacted by weather, resulting in higher blueberry and raspberry pricing. Mushroom sales also benefitted from strong pricing over the year and the Monarto production facility delivered an average of 240 tonnes+ per week. This production consistency helped drive 11% revenue growth for the category. The first full year of operations of the new 10-hectare glasshouse and 2.5 hectare nursery facility delivered to expectations and saw solid growth for the category on the prior year despite periods of lower than normal light levels which at times affected yield. Citrus volumes were up on the prior year with favourable pricing in export markets, however adverse weather across the three main growing regions ultimately impacted quality resulting in disappointing returns. High avocado volumes from West Australian growers in the first half of the year contributed to pricing remaining at low levels which negatively impacted the category's result despite some recovery in retail pricing toward the end of the year.

All Produce categories were impacted by additional costs from minimum wage increases, and a change to the Horticulture Award by the Fair Work Commission which inserted a guaranteed minimum hourly rate for piece workers. Other inflationary pressures which impacted operations included higher fertiliser and chemical costs as the war in Ukraine and COVID in China impacted global production and supply, increased packaging costs and continuing high sea freight costs, which also impacted the Citrus export margin.

Revenue

Revenue increased by \$137.0 million against the prior comparative period (CY2021) reflecting the first full year of 2PH ownership, but also strong domestic revenue growth across the Tomato, Berry and Mushroom categories, while only the Avocado category contracted versus the prior year. The International segment experienced revenue growth of 7.4% on the prior year, driven by the strong China performance, while the lower revenues from African Blue largely reflected weather impacts resulting in missing the optimal harvest and sales windows.

Operating expenses

Raw materials, consumables and third-party purchase expenses increased by \$10.9 million due to higher volumes and cost inflation impacts.

Employee related expenses remain the Group's largest expense, with an increase of 17.3% in CY2022, which was driven largely by the domestic operations. The increase was due to the first full year operations of both the new tomato glasshouse and nursery, and 2PH Farms, higher labour cost inflation through changes to the minimum wage and Horticulture Award, and increased harvest activity across the produce categories reflecting significantly greater yields in some categories.

Of the \$58.0m increase in other expenses, \$31.0m was related to freight, with sea freight a key contributor. The remaining increase was due to a mix of inflation and operational output, with chemical and fertiliser costs, insurance, and diesel costs up significantly on the previous year. Travel costs also saw a return to pre-pandemic levels reflecting the easing of lockdown restrictions.

Share of associates profit

Profits increased by 8%, as the Driscoll's Australia Joint Venture benefited from a general increase in blueberry pricing seen in the industry.

EBITDA before SGARA (EBITDA-S¹)

EBITDA-S decrease of \$3.4 million from CY2021 was mainly driven by:

- Quality issues and export costs in Citrus
- Low Avocado pricing continuing from prior year
- Lower pricing from African Blue

Although this was largely offset by increases from the other domestic produce categories.

Fair value movements in biological assets

The SGARA fair value movement was a gain of \$8.7 million for the year, due largely to the impact in China from the new 100Ha farm at AgriPark commencing its first harvest late in CY2022. Additional maturing citrus orchards, and delays in grape harvest timing resulted in SGARA gains in the Citrus category as compared to the prior year.

Depreciation and amortisation

The \$20.9 million increase in depreciation and amortisation expense is attributed to the additional right of use (ROU) asset depreciation relating to the Macquarie Asset Management leases for the Vitalharvest properties which were entered into at the end of last year. Fixed asset depreciation increased due to the full year impact of the new tomato glasshouse facility in Guyra and 2PH Farms, as well as commencement of depreciation of the new 100Ha farm in China.

Net interest expense

Net interest costs were up on last year by \$17.6 million from CY2021, \$10 million of which was due to increased interest on lease liabilities which included the above-mentioned Macquarie Asset Management leases. Bank interest increased to \$14.4 million due to increases in cash rates and higher domestic debt levels. At year end the group had \$75 million of derivatives to protect against further interest rate rises.

Tax expense

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

NPAT-S¹

NPAT-S decreased by \$33.8 million from CY2021 due to the earnings drivers described above. The increase in the mix of International earnings resulted in an increase in profits to non-controlling interests.

Dividends

The Board has determined a 40% franked, final dividend of 5.0 cents per share for the financial year ended 1 January 2023. This brings the full year dividend payout to 9.0 cents per share (CY2021: 9.0 cents per share).

Notes:

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

Directors' Report continued

For the year ended 1 January 2023

Segment information

Produce

Table 2: Selected financial information for the Produce segment

| Produce | | | |
|------------------------|----------------|---------------|---------------|
| A\$m | CY2022 | CY2021 | Change |
| Transacted Sales | 1,490.0 | 1,374.8 | 115.2 |
| Revenue | 1,028.9 | 929.5 | 99.4 |
| EBITDA-S | 117.8 | 126.6 | (8.8) |
| <i>EBITDA-S margin</i> | 11.4% | 13.6% | -2.2pts |

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

- Adverse weather events impacting Citrus quality.
- A positive full year impact of operating the new 10 hectare tomato glasshouse and 2.5 hectare nursery facility, and first full year of ownership and harvest from 2PH.
- Cost inflation pressures particularly on key inputs including fertilisers and chemicals, and domestic and international freight costs.
- Domestic labour cost increases due to minimum wage increases and changes to the Horticulture Award.
- Strong pricing in berries, in particular premium blueberry varieties as industry supply was subdued by weather impacts.
- Low avocado pricing as a result of high industry yields from Western Australian growers.

Costa Farms and logistics

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

| Costa Farms and Logistics | | | |
|----------------------------------|---------------|---------------|---------------|
| A\$m | CY2022 | CY2021 | Change |
| Transacted sales | 178.6 | 155.4 | 23.2 |
| Revenue | 184.6 | 159.4 | 25.2 |
| EBITDA-S | 15.2 | 14.6 | 0.6 |
| <i>EBITDA-S margin</i> | 8.2% | 9.2% | -1.0pts |

Revenue and earnings growth was from the full year impact of the ownership of Select Fresh.

International

Table 4: Selected financial information for the International segment

| International | | | |
|------------------------|---------------|---------------|---------------|
| A\$m | CY2022 | CY2021 | Change |
| Transacted sales | 188.5 | 174.6 | 13.9 |
| Revenue | 190.9 | 177.7 | 13.2 |
| EBITDA-S | 81.8 | 77.0 | 4.8 |
| <i>EBITDA-S margin</i> | 42.8% | 43.3% | -0.5pts |

The International segment grew earnings to \$81.8 million for the year, following a positive harvest result in China and strong blueberry pricing, despite the COVID lockdowns across Tier 1 cities over the back end of the season. The Group's Moroccan business experienced a more challenging result as cooler weather delayed the season past the optimal harvest window resulting in lower average pricing.

On a constant currency basis EBITDA-S improved \$2.5 million and revenue improved \$12.7 million compared to CY2021.

Balance Sheet

Table 5: Selected consolidated balance sheet as at 1 January 2023

Selected Balance Sheet

A\$m

| As at 1 January 2023 | Dec-22 | Dec-21 | Change |
|-------------------------------|----------------|----------------|---------------|
| Cash and cash equivalents | 85.2 | 61.9 | 23.3 |
| Receivables | 101.9 | 109.3 | (7.4) |
| Inventories | 40.0 | 30.5 | 9.5 |
| Biological assets | 79.8 | 70.5 | 9.2 |
| Equity accounted investments | 31.3 | 27.2 | 4.0 |
| Intangibles | 282.9 | 289.1 | (6.3) |
| Property, plant and equipment | 814.3 | 799.9 | 14.4 |
| ROU Assets | 552.9 | 568.8 | (15.8) |
| Other assets | 69.3 | 45.4 | 23.9 |
| Total Assets | 2,057.6 | 2,002.6 | 55.0 |
| Payables | 149.4 | 149.3 | (0.1) |
| Borrowings | 437.2 | 361.1 | (76.0) |
| Provisions | 45.9 | 46.7 | 0.7 |
| Lease Liabilities | 571.0 | 583.0 | 12.0 |
| Other liabilities | 38.5 | 34.5 | 4.0 |
| Total Liabilities | 1,242.0 | 1,174.6 | 67.4 |
| Net Assets | 815.6 | 828.0 | (12.4) |

Net working capital¹

Net working capital increased marginally by \$2.8 million during the year, with lower receivables being offset by higher inventory balances.

Property, plant and equipment

Property, plant and equipment increased by \$14.4 million during the year and was largely driven by capital expenditure growth from continued international expansions and berry redevelopment programs.

ROU assets and lease liabilities

The decrease in Right of use assets of \$15.9 million was due to depreciation charges being only partially offset by additions that were largely from the impact of rent increases during the year.

Biological assets

Biological assets increasing by \$9.3 million is primarily driven by the new 100Ha farm in China.

Equity accounted investments

Equity accounted investment increased by \$4.1 million due to earnings contributions (net of dividends received) from the Driscoll's Australia marketing joint venture.

Intangible assets

Intangible assets decreased by \$6.2 million due to amortisation of non-indefinite life assets and exchange movements of goodwill denominated in foreign currency.

Other assets, liabilities and provisions

The increase in other assets is largely driven by the increase in the current tax asset balance, while the increase in deferred tax liabilities resulted in the movement in other liabilities.

Notes:

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

Directors' Report continued

For the year ended 1 January 2023

Net debt

Table 6: Consolidated net debt as at 1 January 2023

Net debt

| A\$m | Dec-22 | Dec-21 |
|--|--------------|--------|
| As at 1 Jan 2023 | | |
| Bank loans | 439.6 | 361.7 |
| Capitalised loan establishment fees included in borrowings | (2.7) | (0.6) |
| Gross debt | 436.9 | 361.1 |
| Less: Cash and cash equivalents | (85.2) | (61.9) |
| Net debt | 351.7 | 299.2 |
| Leverage ratio¹ | 2.46x | 1.85x |

Notes:

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

Net debt as at 1 January 2023 increased by \$52.5 million to \$351.7 million as existing debt facilities were used to fund growth and operating capex. The impact of the increased debt levels resulted in the leverage ratio increase from 1.85x to 2.46x.

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

Cash flow

Table 7: Cash flow showing movement in net debt

Consolidated cash flow

| A\$m | CY2022 | CY2021 |
|--|----------------|---------|
| EBITDA-S before material items | 214.8 | 218.2 |
| Less: share of profit of JVs | (10.7) | (9.9) |
| Dividends from JVs | 6.7 | 4.2 |
| Non-cash items in EBITDA-S | - | 1.1 |
| Payment for leases | (79.3) | (61.5) |
| Change in working capital | (3.2) | (8.0) |
| Tax payments | (24.5) | (23.1) |
| Borrowing costs (excluding amortised costs) | (8.6) | (6.3) |
| Cashflow from Operating Activities | 95.2 | 114.7 |
| Maintenance capital expenditure | (67.8) | (43.2) |
| Productivity and growth capital expenditure | (38.7) | (84.4) |
| Payments for business acquisitions (incl material items) | (1.6) | (291.4) |
| Acquisition of non-controlling interest in subsidiary | - | (0.1) |
| Payment of dividends to non-controlling interest holders | (4.5) | - |
| Disposal of property, plant and equipment | 4.3 | 1.1 |
| Cashflow from Investing Activities | (108.3) | (418.0) |
| Proceeds from issue of shares | - | 185.2 |
| Payment of dividends | (41.8) | (38.6) |
| Loans and Advances | 2.2 | 1.7 |
| Cashflow from Financing Activities | (39.6) | 148.3 |
| Total Net Debt Movement | (52.7) | (155.0) |

Dividends from joint ventures

Dividends from joint ventures increased by \$2.5 million compared to last year.

Working capital

The outflow in working capital of \$3.2 million for the year reflects increased activity as higher inventory balances were offset by lower debtors outstanding at year end.

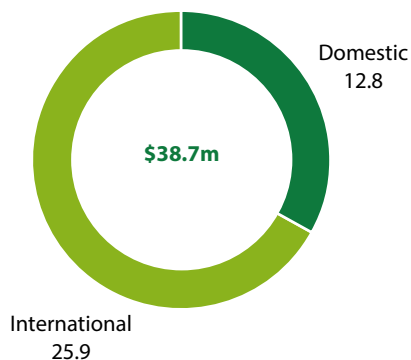
Capital expenditure and acquisitions

Maintenance expenditure was driven by continued capitalisation of costs related to immature bearer plants particularly in 2PH, while there was also capital spend on berry replanting and conversion of soil to substrate in Australia and in the international businesses.

Growth capex focussed on redevelopment and replanting's in Morocco, and the completion of the new 100Ha blueberry farm in China. Domestically, capex was primarily related to the final completion of growth projects. The \$1.6 million of cashflow related to acquisitions was due to deferred consideration from the 2PH acquisition in the prior year.

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

CY22 Growth Capex Projects



Directors' Report continued

For the year ended 1 January 2023

Non-IFRS measures

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

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

Table 8: Non-IFRS measures

Non-IFRS Financial measures

| | |
|---------------------------------------|--|
| EBIT | Earnings before interest and tax |
| EBITDA | Earnings before interest, tax, depreciation, and amortisation |
| EBITDA before SGARA (EBITDA-S) | EBITDA adjusted for fair value movements in biological assets (SGARA) and material items. For horticultural companies, EBITDA is typically adjusted for fair value movements in biological assets due to the growing and harvesting cycles for fruit and vegetables, and the accounting treatment of live produce and picked produce. The fair value movement in SGARA is non-cash; therefore, EBITDA before SGARA is used in preference to EBITDA for Costa. Material items relating to EBITDA are for redundancy costs in the current year, and in the prior year relating to acquisition and integration costs. |
| NPAT before SGARA (NPAT-S) | Net profit attributable to members of Costa before fair value movements in biological assets and material items. This also excludes material costs in relation to the impairment of goodwill. |

Non-IFRS operating measures

| | |
|-------------------------|---|
| Transacted Sales | <p>Transacted Sales are used by management as a key measure to assess the Group's sales and marketing performance and market share. Transacted sales represent the aggregate volume of sales in which the Group is involved in various capacities (including sales of third party-grown produce marketed by Costa under agency arrangements), as well as royalty income. Transacted Sales are not considered by the Group to be a revenue measure. There are material differences between the calculation of Transacted Sales and the way in which revenue is determined under IFRS.</p> <p>Transacted Sales comprise:</p> <ul style="list-style-type: none">• statutory sales revenue;• gross invoiced value of agency sales of third-party produce;• royalty income from the licensing of Costa blueberry varieties in Australia, the Americas and Africa; and• 100% of the Driscoll's Australia joint venture sales after eliminating the Group's produce sales to the Driscoll's Australia JV. Prior to the formation of Driscoll's Australia JV in 2010, all of the Group's domestic sales and marketing activities for the berry category were managed by the Group. |
|-------------------------|---|

Table 9: Reconciliation of Transacted Sales to revenue

Reconciliation of Transacted Sales

| A\$m | Note | CY2022 | CY2021 |
|--|------|----------------|---------|
| Transacted Sales | | 1,811.8 | 1,658.9 |
| Agency revenue adjustments | 1 | (77.2) | (93.0) |
| Driscoll's Australia Partnership consolidation adjustments | 2 | (394.5) | (373.4) |
| Other revenue | 3 | 17.5 | 28.1 |
| Total revenue | | 1,357.6 | 1,220.6 |

Notes:

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

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

Reconciliation of EBITDA-S to profit for the period

| A\$m | CY2022 | CY2021 |
|---|--------------|---------|
| EBITDA-S | 214.8 | 218.2 |
| Fair value movements in biological assets | 8.7 | (7.5) |
| Material Items (before tax) | (0.7) | (19.2) |
| EBITDA | 222.8 | 191.5 |
| Depreciation and amortisation | (129.4) | (108.5) |
| (Loss)/profit on sale of assets | (0.1) | 0.5 |
| Impairment reversal on assets held for sale | - | 2.4 |
| Impairment of goodwill | (2.2) | - |
| Net finance costs | (42.5) | (25.0) |
| Income tax expense | (1.6) | (8.7) |
| Profit for the period | 47.0 | 52.2 |

Material business risks

There are various risks that could have a material impact on the achievement of Costa's strategies and future performance.

Set out in the table below are the risks that Costa considers having the greatest potential impact to the business and an outline of what Costa is doing to mitigate these risks.

Similar to the peak of COVID pandemic years of 2020 and 2021, CY2022 was another unprecedented year for global events disrupting or otherwise negatively impacting many different industries and organisations, with Costa being no exception. In particular, the following material risks elevated in focus for Costa CY2022:

- Climate and Environment in domestic operations with the unusual third consecutive La Nina weather pattern giving rise to weather volatility, impacting harvest timing, yield, quality, and pest and disease pressures.
- Political and Supply, with the impacts of geopolitical tensions and uncertainty, global inflation is being closely monitored, and where possible managed, for its resulting impact on key supply inputs across the organisation.
- Cyber security incidents being prevalent across the Australian corporate landscape in the second half of 2022, in addition to Costa being impacted by a cyber-attack in August 2022.
- People, Capability and Culture as historical patterns of transient workers continued to change and there was high competition in the labour market.

Directors' Report continued

For the year ended 1 January 2023

| Risk | Description | Mitigation |
|---|--|---|
| Strategic Risks: Risks that threaten or disrupt Costa's strategic objectives | | |
| Climate & Environment | <p>Changes in climate present physical risk to Costa's business primarily in the form of weather volatility, water security and plant and crop quality which could have an impact on Costa's production, assets (own and third-party) and financial performance.</p> <p>Risk associated with transitioning to a low-carbon economy such as government actions to reduce the impacts of climate change may also impact Costa's operational costs.</p> <p>Costa's operations are subject to various environmental laws and regulations, and a range of licences and permits are required for Costa to operate its farming operations. If Costa is responsible for any environmental pollution or contamination or is found to be in breach of any of its licences or permits, Costa may incur substantial costs (including fines and remediation costs), its operations may be interrupted, and it may suffer reputational damage.</p> | <p>Costa's geographic diversification of its operations and third party grower network (both within Australia and internationally) is a key strategy in minimising the impact of the physical risks of climate change. This is in addition to developing new crop varieties more suited to a changing climate, continually improving water security and management practices, finding new technological solutions, prioritising the use of integrated pest management and adopting the use of renewable energy sources.</p> <p>Costa partially mitigates against weather risk by investing in weather protective growing environments and equipment. While protected cropping reduces the risk of disease and the impact of weather, this risk is still relevant.</p> <p>Costa's Board committee – the Horticultural Innovation and Technology Committee – oversees strategies relating to horticultural innovation, with one of its areas of focus being the company's adaptation to the impacts of climate change. Costa utilises the TCFD framework as a tool to aid the analysis of the impacts of climate change and is continually developing and implementing strategies to manage this risk.</p> <p>Costa actively seeks to reduce its environmental impact, including by applying measures across its business designed to reduce waste, reduce migration of any nutrients applied to crops, improve water usage efficiency and reduce chemical usage. In line with Costa's Sustainable Commercial Farming objective, Costa continually reviews its operations to identify ways in which it can minimise the environmental impact of its operations.</p> |
| Disruption Event | <p>Disruption events such as unplanned restrictions imposed due to widespread illness (e.g. COVID-19) or the result of armed conflict or sudden geopolitical changes, have the potential to have a significant impact on Costa's operations.</p> <p>Additionally, prolonged supply chain disruptions could impact on Costa's operations.</p> | <p>Costa seeks to maintain a diverse supplier base so that it is not overly reliant on any one supplier. Costa also continues to actively explore alternative sales and distribution channels, to minimise the impact of this risk.</p> <p>To minimise the impacts from a major disruption event, Costa has a Crisis Management Plan which includes a strategy to be followed in the event of a crisis, as well as establishing roles, responsibilities and key activities to be undertaken to effectively manage any type of crisis.</p> |
| Political risk | <p>Jurisdictions in which Costa operates may in the future experience unrest or major change to their government or political or legal systems. Additionally, the nature of the legal and regulatory systems in some of those jurisdictions can result in a lack of certainty regarding, and/or sudden and material changes to the interpretation and enforcement of local laws and regulations which could impact a number of facets of Costa's business including contractual arrangements, land ownership and lease arrangements.</p> <p>Costa has significant interests in the African Blue JV in Morocco and has a joint venture with Driscoll's Inc in China.</p> | <p>As with its Australian operations, Costa has instituted certain internal controls to regulate the operations of its activities outside Australia, and reviews and monitors these controls for effectiveness. Costa has a program of close engagement with local and regional governments and local advisers in relevant jurisdictions to assist with any legal, regulatory and political changes within those jurisdictions. Costa's Board maintains oversight of any new lines of business or changes to the nature or scale of the Costa Group business, including expansions into foreign jurisdictions.</p> |

| Risk | Description | Mitigation |
|--|--|--|
| Growth and Mergers & Acquisitions | <p>Costa recognises that any inability to grow and innovate to remain a market leader will significantly impact on the Group's ability to meet its strategic objectives. Similarly, if major projects do not meet business case objectives, this could have negative impacts to financial outcomes and overall Group objectives.</p> | <p>Costa recognises that genuine technological and market innovation is a core element of ensuring that the company continues its progressive transformation, growth and creation of shareholder value. Costa has a formalised cross-disciplinary Agronomy team which is responsible for driving agronomic innovation. In addition, Costa has an Agricultural Technology framework it harnesses to evaluate opportunities in and the application of new technologies. Costa's Board subcommittee, the Horticultural Innovation and Technology Committee, provides oversight on strategy, policies and procedures that relate to the Company's assessment and adoption of technology and that could otherwise affect the Company's approach to horticultural innovation.</p> <p>Costa has a business case process for all major capital projects, which includes a post-investment review to evaluate the outcomes of the investment and to garner learnings for future projects. Business cases for all major projects are reviewed by Costa's Board.</p> |
| People, Capability and Culture | <p>Costa's people, capability and culture are critical to the organisation achieving near- and long-term business objectives. An inability to attract, retain and develop the required skills and people, and a failure to foster the right organisational culture may impact Costa's performance.</p> <p>Additionally, due to the nature of growing and harvesting a product that is perishable there is a risk that the Group is unable to source the appropriate volume of labour at the appropriate time to meet demand and quality standards.</p> | <p>Costa prides itself on its organisational values and its commitment to a culture of care to its people, produce and communities. Costa recognises talent as a strategic asset and understands the need for constant focus in order to minimise skills gaps and develop a pipeline of leaders and talent required for critical roles. Accordingly, Costa undertakes structured capability reviews to ensure development and succession plans are in place in key areas of the business.</p> <p>Labour planning is a foundational component of Costa's operational planning to ensure adequate people resources are available, and sufficiently trained and engaged, to harvest produce, at the right time, to meet quality standards and customer and consumer demand. To manage the risk of insufficient labour, Costa continually assesses and proactively utilises multiple employment models including direct hire, labour hire firms and being an Approved Employer under the Australian Federal Government's Pacific Australia Labour Mobility programme. In recent years, to reduce reliance on labour hire providers the Group is employing more harvest workers for Australian operations directly.</p> |
| Strategic Partnerships | <p>Costa has a number of strategic partnerships including joint ventures, third-party growers, and other alliances. If any of these key relationships break down, or agreements are terminated or amended in a manner unfavourable to Costa there could be an adverse impact on Costa's financial performance.</p> | <p>By their nature, joint ventures, partnerships and alliances present the possibility of diverging objectives between members. With key joint ventures and partnerships Costa aims to maintain close and mutually prosperous relationships through ongoing formal and informal communications and strong governance structures.</p> |

Directors' Report continued

For the year ended 1 January 2023

| Risk | Description | Mitigation |
|--|--|--|
| Operating Risks: Risks associated with the conduct and success of Costa's day-to-day operations | | |
| Adequate Water Supply | <p>Inadequate supply of good quality water, whether due to drought or otherwise, and fluctuating water prices have the ability to impact on Costa's business.</p> | <p>Costa has primarily sought to manage the impact of this risk by increasing the geographic diversity of its operations (both within Australia and internationally). Costa proactively forecasts water usage and availability and maintains a focus on reducing water inputs per unit of crop output through efficiency of water use, water capture and recycling. Costa also actively monitors the Group's water security position and water prices. Where appropriate forward water contracts are entered into to partially protect against the effect of potential water price increases.</p> |
| Customer, Consumer and Pricing | <p>Costa's top three customers comprised just over two thirds of Australian produce revenue, thus making Costa heavily reliant on those customers.</p> <p>An inability to anticipate or respond to changes in the supply, demand and price landscape would have an adverse impact on Costa's business (for example: changes in consumption habits, preferences of consumers, industry supply dynamics, or changes in economic outlook and inflation).</p> | <p>Costa enters into contractual arrangements where possible with its major customers, with any such agreements typically having supply periods for 1 season or 1 to 2 years. However, within Australia, the nature of the market means that most customer arrangements are uncontracted. Costa actively explores alternative sales channels, both within Australia and internationally, with non-Australian customers comprising around one third of sales revenue.</p> <p>Costa utilises multiple mechanisms to quantitatively and qualitatively analyse consumer demands to identify emerging trends. The Group has systems in place to continuously review panel insights and focus group information, transactional and questionnaire data and domestic and international industry research.</p> <p>The results of this analysis not only inform strategic planning, but also allow Costa to adjust and tailor existing initiatives and operational processes to quickly respond to changes in demand patterns.</p> |
| Cyber Security | <p>Costa's business relies on IT infrastructure, systems and processes to support the operation and growth of the business. Should such infrastructure, systems and processes fail or become compromised then there is a risk that sensitive or personally identifiable data is accessed or stolen, data is lost, or data and systems are unable to be accessed which may result in reputational damage, legal penalties, and ongoing disruptions to operations and competitive advantage.</p> | <p>Costa implements various strategies to mitigate cyber risk across our applications, networks and websites. Costa focuses on employee education, network defence, enterprise-wide testing, disaster recovery and the segregation of sensitive data. These strategies are internally and externally periodically reviewed, audited and updated.</p> <p>In response to a cyber attack experienced by Costa in August 2022, additional processes have been implemented to further protect against malicious attacks, including limiting traffic to servers, increasing the level of end point protection, scheduling additional employee awareness training and reviewing data retention, identification, access and availability practices.</p> |

| Risk | Description | Mitigation |
|--|---|--|
| Food Safety | Quality issues, product recall, contamination or public health issues, could damage Costa's brands or reputation which could adversely impact Costa's financial performance. | <p>Costa has zero tolerance for circumstances which may result in food safety concerns and employs strict food safety and quality assurance standards across its business. In order to achieve these standards, Costa has a dedicated Food Safety & Quality team, consisting of senior specialist managers from all Costa categories. Costa has foreign object control standards and processes to ensure it is well prepared to deal with foreign object contamination risks.</p> <p>Costa also operates a culture program named Costa Care which builds on the Costa Values and People First ethos of the Company which is about all employees doing their very best for Costa's people, its produce and the community.</p> |
| Intellectual Property ("IP") and Licences | Costa's superior genetics are a key driver of competitive advantage in some produce segments in which it operates. An inability to protect, maintain or capitalise on this IP would have adverse impacts on financial outcomes and growth aspirations. | Costa licenses its superior blueberry genetics to third parties in Australia and internationally. Before commercialising varieties in a new jurisdiction there is an analysis of the protection mechanisms that exist in that jurisdiction to manage the protection of our competitive IP. Costa's primary mechanism for the management of IP is through registration of patents or plant breeders' rights (PBRs). Additionally, Costa imposes strict physical security requirements and physical access to and inspection of growing facilities. |
| People Safety | Given the nature of the industry in which Costa operates, workers at Costa sites are at risk of workplace incidents. In addition to the potential for harm to any worker, the occurrence of workplace incidents has the potential to harm both the reputation and financial performance of Costa. | <p>All workers entering a Costa work site are inducted and made aware of Costa's WHS expectations and policies. Costa conducts training across sites for contractors, workers, employees and leaders on safety expectations. Costa's critical safety rules are communicated at all sites, informing workers of high-risk areas and safe work instructions are deployed throughout the workplace to reduce risk and hazards. Workers are encouraged and expected to undertake hazard identification and near miss reporting for both physical and psychosocial hazards, as well as tracking the time taken to mitigate those hazards identified.</p> <p>In 2022, in response to a traffic accident which resulted in a fatality on the Shuangqiao, China site, Costa has implemented a "stop-think-resume" program at all locations which aims to heighten awareness and minimise the risks associated with the operation of heavy equipment.</p> |
| Plant and crop quality | Plant and crop health is vital to Costa's ability to grow and harvest high quality produce to meet the demands of consumers. If the quality of seeds, spawn, nursery plants or crops were compromised this could have a major impact on Costa's production output and in turn reputation and financial outcomes. Threats to plant and crop quality can include plant diseases, pests, or vandalism. | <p>Through expert personnel and leading technology, Costa utilises a number of agronomic practices across the business to manage the quality of seeds, spawn, nursery plants and crop health. Seed, tree and fruit tests and assessments are conducted prior to commercial-scale planting to monitor the integrity of plant material. Once planted, Costa conducts constant quality monitoring through systematic inspection processes, tree health assessments, and rigorous irrigation management. Weather sensing and yield assessment technology is deployed to optimise water application rates and yield outcomes.</p> <p>A key component of plant health is the ability to provide necessary water inputs, and Costas first sustainable commercial farming principle centres around this need – focusing on efficiency of water use and improving water security.</p> |

Directors' Report continued

For the year ended 1 January 2023

| Risk | Description | Mitigation |
|---|---|--|
| Social Licence to Operate | Costa's inability to align its practices, or those of its supply chain, to social expectations of employees, communities, stakeholders, and the general public may adversely impact Costa's reputation and/or financial performance. | <p>Through the Group's Ethical Sourcing Programme Costa is focused on understanding the social sustainability practices of our supply chain (including labour hire firms). The programme requires key suppliers to complete self-assessment questionnaires to enable systematic monitoring of risk indicators within our supply chain in relation to labour (including Modern Slavery), health and safety, environmental and business ethics. Additionally, third-party audits are conducted for selected suppliers to better understand, and remediate where necessary, standards and practices.</p> <p>Costa is also actively involved in supporting the social fabric of the many regional communities in which it operates, both in Australia and internationally. Costa works closely with communities so that they can benefit both economically and socially from Costa's presence and community is one of three core elements of the Costa Care culture program which aims to build on community engagement activity across our sites.</p> <p>Third party labour hire firms are subject to a rigorous pre-qualification process. Costa requires their employment practices and instruments satisfy all applicable employment laws and pay conditions and Costa monitors their compliance. In addition, Costa communicates Costa's Supplier Code of Conduct to each labour provider, and contractually obliges compliance with the Code. This Code seeks to ensure that human rights issues are understood, respected and upheld. Costa conducts routine audits and interviews with labour hire staff to ensure compliance with Costa's expected standards.</p> <p>In CY2022, Costa conducted its first ESG Materiality Assessment to identify the items of greatest importance and priority to our stakeholders. This work will inform updates to Costa's Sustainable Commercial Farming Strategy.</p> |
| Supply | Costa relies on a number of suppliers to support the achievement of its objectives and therefore inability to access key supply inputs at the right time and on desirable terms could impact harvest outcomes and Costa's financial performance. | Procurement, operations and Costa's Ethical Sourcing group work closely to manage and mitigate risks related to key supply inputs. To manage the delivery of the right product, at the right time and cost, from the right suppliers Costa primarily utilises the following mechanisms: sharing of operational plans and forecasts with key suppliers and ongoing engagement and relationship management; diversification of supply base to reduce dependency; pre-engagement requirements and defined terms of engagement and periodic supplier performance reviews. |
| Liquidity and capital management | <p>If Costa is unable to access sufficient and desirable funding to meet financial obligations and/or operational and strategic objectives this could have material impacts on Costa's growth aspirations and ongoing operations.</p> <p>Liquidity and capital management is impacted by multiple factors such as climatic conditions influencing quality, harvest timing and price, supply constraints, changing customer demands, and fluctuations in exchange rates.</p> | <p>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.</p> <p>Costa actively employs financial hedging strategies, such as entering into forward contracts, to manage foreign exchange risk.</p> |

| Risk | Description | Mitigation |
|--|--|---|
| Fraud, bribery, and corruption | If Costa staff, contractors, customers or suppliers are involved with fraud, bribery or corruption there could be negative legal, reputational and financial outcomes for Costa. | Costa manages its exposure to this risk through policy, training and process. Costa covers expectations with its Code of Conduct and employment agreements, has in place a whistleblower policy and independent reporting hotline, an operating internal audit function complemented by procedures undertaken by the external auditor, and a suite of mandatory training for employees, including anti-bribery and anti-corruption. |
| Legal and regulatory compliance | Changes in the legal landscape or government policy and regulation could have impacts on Costa's ability to deliver its strategic objectives. A failure to comply with laws or regulations could also have major negative reputational and financial outcomes for Costa. | In addition to Costa's overarching expectations outlined in its Code of Conduct, Costa has multiple policies and procedures in place to support compliance with relevant laws and regulations. Costa engages with multiple levels of government to understand policy positions and Costa also contributes to policy discussions on relevant topics to ensure horticultural perspectives are considered. |

7. Dividends

During the year ended 1 January 2023, Costa Group Holdings Ltd declared and paid a fully franked final dividend of 5.0 cents per share for CY2021 (as previously disclosed in the Directors Report for that period) and a fully franked interim dividend of 4.0 cents per share for CY2022.

The Board has approved a final dividend for CY2022 of 5.0 cents per share with a record date of 9 March 2023 and payment date of 6 April 2023. This dividend will be 40% franked. As this dividend was approved after year end, it has not been accrued for as at 1 January 2023.

This brings the total dividend payment for CY2022 to 9.0 cents per share. CY2023 dividends will be determined after taking into account earnings performance during CY2023 and will be balanced against the company's need to fund growth objectives.

8. Likely developments

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

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

9. Environmental regulation

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

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

The Group reports under the *National Greenhouse and Energy Reporting Act 2007* (Cth) and the key emissions target Costa is committed to achieving is net-zero carbon emissions by 2050. To assist in progressing towards this commitment, Costa plans to pledge to the Science Based Target Initiative (SBTi) and subsequently work with SBTi to have our emission reduction targets validated.

Directors' Report continued

For the year ended 1 January 2023

Costa has been closely monitoring the development of the new SBTi Forest, Land and Agriculture Science Based Target-Setting Guidance (FLAG) targets which were launched in September 2022. FLAG defines standardised methodologies with respect to land use change emissions, land management emissions and carbon removals and storage. Costa is classified as Food Production – Agricultural Production company and under SBTi will be required to create FLAG targets. Costa is currently working through the relevant FLAG framework and will outline targets in 2023 which ensure that our emissions reduction progress is in-line with what is deemed necessary to meet the goals of the Paris Agreement.

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 2022 Sustainability Report is a separate report, rather than being included in its Annual Report.

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

10. Directors' interests

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

| | Ordinary shares | Options over ordinary shares |
|-----------------|-----------------|------------------------------|
| Neil Chatfield | 464,242 | – |
| Harry Debney | 379,900 | 170,472 |
| Tim Goldsmith | 73,425 | – |
| Janette Kendall | 42,612 | – |
| Peter Margin | 94,721 | – |
| Dr Jane Wilson | 43,425 | – |

11. Share options

Unissued ordinary shares under options

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

| Number of unissued ordinary shares under option | Issue price of shares | Expiry date of the options |
|---|-----------------------|----------------------------|
| 50,000 | \$1.45 | October 2024 |
| 67,905 | \$6.53 | March 2023 |
| 1,094,335 ¹ | \$2.39 | March 2025 |
| 810,173 | \$3.95 | March 2026 |
| 1,179,874 ² | \$2.96 | March 2027 |

Notes:

1. This represents the number of outstanding options under the Company's CY20 LTI Plan as at the date of this report. However, the Board has determined that the vesting conditions have not been satisfied and accordingly all of these CY20 options will lapse on 1 March 2023.
2. These options represent vested options granted to management during the period under the Group's CY22 LTI plan, including 198,315 options issued to Wayne Johnston, 179,212 options issued to Marc Werner and 107,443 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 did not issue any shares as a result of the exercise of options by current and former members of the Company's Executive management team. The Company issued 167,845 shares on the vesting of performance rights granted under the Company's CY20 Short Term Incentive Plan.

12. Indemnification and insurance of directors and officers

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

During the period, the Group paid premiums to insure all directors and officers against certain liabilities as contemplated under the Company's constitution. Disclosure of the total amount of the premiums paid under this insurance policy is not permitted under the provisions of the insurance contract.

Further disclosure required under section 300(9) of the *Corporations Act 2001* is prohibited under the terms of the contract.

13. Indemnification and insurance of auditors

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

14. Non-audit services

During the year KPMG, the Group's auditors, has performed certain other services in addition to the audit and review of the financial statements.

The Board has considered the non-audit services provided during the period by the auditor and is satisfied that the provision of those non-audit services during the period by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the Audit and Risk Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in *APES 110 Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Details of the amounts paid to the Group's auditors, KPMG, and its network firms for audit and non-audit services provided during the period are set out below.

| | CY2022' \$'000 | CY2021 \$'000 |
|--|-------------------|------------------|
| Audit and review services | | |
| Services provided by KPMG Australia | 569 | 524 |
| Services provided by associate firms of KPMG Australia | 150 | 259 |
| | 719 | 783 |
| Other services provided by KPMG | | |
| Taxation compliance and other taxation advisory services (including R&D) | 208 | 210 |
| Other services | – | 148 |
| | 208 | 358 |

1. Excludes audit fees paid to the auditor of the Group's Moroccan subsidiaries that ceased to be affiliated with KPMG in CY2022.

15. Rounding off

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

16. Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 49 and forms part of the Directors' report for the financial period ended 1 January 2023.

Directors' Report continued

For the year ended 1 January 2023

Remuneration report (audited)

1. Introduction

The directors are pleased to present the Remuneration Report for the financial year commencing on 29 December 2021 and ending 1 January 2023 ("CY2022"), outlining the Board's approach to the remuneration for key management personnel (KMP).

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

| Name | Position Held |
|--------------------------------|--|
| Non-executive Directors | |
| Neil Chatfield | Chair, Non-executive director |
| Tim Goldsmith | Non-executive director |
| Janette Kendall | Non-executive director |
| Peter Margin | Non-executive director |
| Dr Jane Wilson AO | Non-executive director |
| Harry Debney ¹ | Non-executive director |
| Executive KMP | |
| Harry Debney ¹ | Interim Chief Executive Officer (commenced on 26 September 2022) |
| Sean Hallahan ² | Chief Executive Officer, Managing Director (ceased on 26 September 2022) |
| Wayne Johnston | Chief Financial Officer |
| Marc Werner | Chief Operating Officer (commenced 1 September 2022) |

Notes in relation to Table

1. Harry Debney was a non-executive director until 26 September 2022, at which time he assumed the role of interim CEO and formed part of Executive KMP.
2. Sean Hallahan ceased as Chief Executive Officer and Managing Director on 26 September 2022.

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

2. Corporate Governance

2.1 Remuneration and Human Resources Committee

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

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

- remuneration policies and practices for executives, and employees of the Group;
- incentive schemes and equity-based remuneration plans;
- diversity and inclusion;
- human resource policy and practices across the Group;
- 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. During CY2022, Costa did not receive any remuneration recommendations as defined in section 9B of the *Corporations Act 2021*.

2.3 Associated Policies

The Group has established a number of policies to support a strong governance framework, including a Whistleblower Policy, Anti-Bribery and Anti-Corruption Policy, Diversity and Inclusion Policy, Disclosure Policy, Securities Trading Policy, Human Rights Policy, Supplier Code of Conduct and Non-Executive Director Share Ownership Policy. These policies and procedures have been implemented to uphold ethical behaviour and responsible decision making. Further information on the Group's policies is available at:
<http://investors.costagroup.com.au/investor-centre/?page=corporate-governance>.

3. Executive Remuneration

3.1 Remuneration Framework

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

| Principle | Objective | Application |
|---------------------------------|---|---|
| Competitive Remuneration | Reward employees fairly and competitively for their contributions to the Group's success. | <ul style="list-style-type: none"> Total remuneration is set having regard to the individual's capabilities and experience. Remuneration for CY2022 was set with regard to an appropriate comparator group of companies within the consumer discretionary and consumer staples sectors of the S&P/ASX Small Ordinaries Index. The Board may at times obtain independent advice on the appropriateness of total remuneration package. |
| Performance Driven | Executives are rewarded for achieving strategic goals that create sustainable growth in shareholder wealth. | <ul style="list-style-type: none"> Significant 'at risk' reward ensures executives' interests remain aligned with creation of shareholder value. At risk rewards are driven by the Group's short and long term performance incentives. Performance measures are designed to ensure a focus on long term sustainable growth. Equity is used as a key element of the variable remuneration to align executives and shareholders. |

3.1.1 Remuneration Overview for CY2022

The remuneration for CY2022 for the Executive KMP comprised fixed remuneration, short-term incentives (STI) and long-term incentives (LTI) in the form of options over shares.

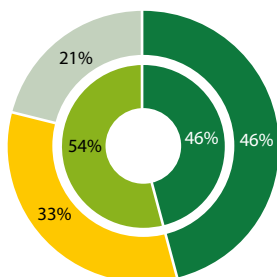
3.1.2 Remuneration Mix for CY2022

The terms of Harry Debney's employment as interim CEO include a total fixed annual salary (including superannuation) of \$850,000 with no short or long term incentives applying. During his tenure as interim CEO, Mr Debney will not receive any director fees.

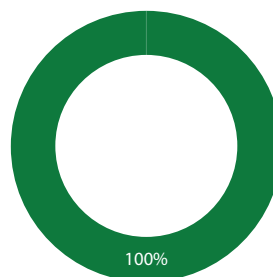
In CY2022, total remuneration for the other Executive KMP included both fixed and 'at risk' reward components. The 'at risk' reward components included STIs (as outlined in section 3.2.2) and LTIs (as outlined in section 3.2.3), which are based on individual and group performance outcomes. Further details of the remuneration mix are outlined in *Section 7 – Directors' and Executive Officers' Remuneration*.

The remuneration potential for the Executive KMP for CY2022 (with the total at risk remuneration, being the value of the options granted under the CY22 LTI Plan and the maximum potential stretch benefit under the CY22 STI Plan) is set out in Figure 3.1.2 below. The actual at risk remuneration payable for the Executive KMP for CY2022 is also set out below and reflects that the STI minimum performance threshold for CY2022 was not met and no STI payment was made to any of the Executive KMP for that period (as noted in section 3.2.2 below). In relation to the former CEO (Sean Hallahan), it also reflects that all of his options granted under the CY22 LTI Plan were forfeited on his departure. The Interim CEO (Harry Debney) did not participate in the short term or long term incentive plans for CY2022, as mentioned above.

Former CEO remuneration – at potential



Former CEO remuneration – at actual

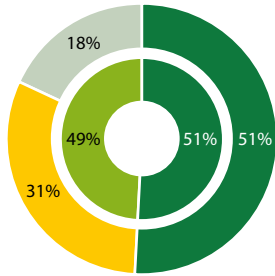


■ Fixed
■ At risk
■ STI
■ LTI

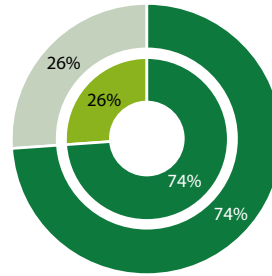
Directors' Report continued

For the year ended 1 January 2023

**CFO remuneration
– at potential**

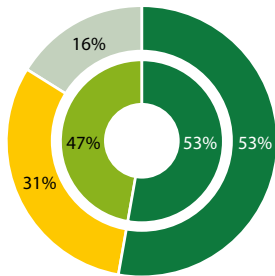


**CFO remuneration
– at actual**

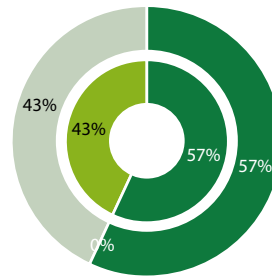


■ Fixed
■ At risk
■ STI
■ LTI

**COO remuneration
– at potential**



**COO remuneration
– at actual**



■ Fixed
■ At risk
■ STI
■ LTI

Notes in relation to Figure 3.1.2: Includes share-based payments associated with unvested CY22 LTI arrangements.

3.2 CY2022 Remuneration Components

3.2.1 Fixed Remuneration

Total fixed remuneration ("TFR") for CY2022 comprised cash salary, superannuation contributions, and other non-monetary benefits such as car leasing arrangements and additional superannuation contributions. TFR is reviewed annually by the Remuneration and Human Resources Committee with regard to individual and Group performance. The Committee's review of TFR takes into account the Executive KMP's total remuneration package.

3.2.2 Short Term Incentive ("STI") Plan

CY22 STI Plan Overview

The CY22 STI Plan was designed to enable Executive KMP and other members of senior management to receive a performance-based incentive payment calculated as a percentage of TFR conditional on achieving Group EBIT-S hurdles as set out below.

The Group EBIT-S hurdles were:

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

EBIT-S is a non-IFRS measure, which is calculated as earnings before interest, tax, fair value movement in biological assets (SGARA) and material items. The Company used the EBIT-S hurdle for executive performance assessments as it believes it has a more direct correlation to the financial performance of the Group than other statutory earnings measures by removing the impact of SGARA and material items. SGARA is an area of estimates and judgements and allows for profit to be recognised on produce that is not yet in a saleable condition, harvested or sold. As such, a pre-SGARA measure is chosen as the relevant hurdle metric as it rewards executives on earnings that have been 'realised'.

Following the end of CY2022, performance was tested against the STI performance hurdles for the performance period. As the Group achieved less than 90% of budgeted Group EBIT for the period, no STI payments were made. The STI outcome for the period is described further below:

| Participant | CY22 STI payable at target | CY22 STI payable if full stretch targets achieved | CY22 STI paid based on performance against Group and individual measures |
|----------------|----------------------------|---|--|
| Sean Hallahan | \$382,500 | \$595,000 | \$0 |
| Wayne Johnston | \$173,040 | \$296,640 | \$0 |
| Marc Werner | \$78,216 | \$134,084 | \$0 |

3.2.3 CY22 LTI Plan

The CY22 LTI Plan that governs the LTI options issued during CY2022 is designed to reward the Executive KMP and other senior executives for long term performance and long term value creation for shareholders. While the table below refers to the CEO's participation, as noted previously, the former CEO (Sean Hallahan) forfeited all of his options under the CY22 LTI Plan on ceasing to be an employee of the Company and the Interim CEO (Harry Debney) is not a participant in the CY22 LTI Plan. 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 each of the CEO, 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 | \$2.96 per share, being the volume weighted average price of an ordinary fully paid share in the capital of the Company recorded on the ASX over 10 ASX trading days ending on the day prior to the commencement of the performance period as subsequently adjusted to reflect the impact of the Company's entitlement offer in CY2021 (in accordance with the ASX announcement lodged on 29 November 2021). |
| Performance Period | The performance period is the three-year period consisting of the CY22, CY23 and CY24 financial years. The three-year performance period is consistent with performance periods adopted for previous LTI plans. |
| Performance Measure (EPS) | 75% of the options ("EPS Options") are subject to a performance hurdle based on the Company's Earnings Per Share (basic) compound annual growth rate ("CAGR") over the performance period, with performance and vesting outcomes as follows: |

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

In setting the EPS hurdle the Board noted that the proposed hurdle was reflective of the Company's target of generating low double digit annual EPS growth over the longer term horizon. The Board retains discretion to adjust the calculation of EPS (for example, to exclude the impact of significant events that may occur during the Performance Period). EPS will be measured using NPAT-5. The EPS growth threshold is considered commercially sensitive and will be disclosed following the end of the Performance Period.

Directors' Report continued

For the year ended 1 January 2023

| Term | Description |
|-------------------------------------|--|
| Performance Measure (Growth) | <p>25% of the options ("Growth Target Options") are subject to a performance hurdle based on geographic and category diversification and growth designed to support sustainable long term value creation linked to return on capital. The number of Growth Target Options that vest will be determined by the Board based on an assessment of the Company's performance during the Performance Period against the growth and diversification targets set by the Board.</p> <p>The Company considers the performance targets for this hurdle to be commercially sensitive, with the result that publication of that information prior to the end of the Performance Period may be prejudicial to the interests of the Company. Accordingly, complete details regarding the outcomes of vesting will be disclosed at the end of the Performance Period.</p> |
| Entitlements | Options will not carry rights to dividends or voting rights prior to vesting. |
| Option exercise | <p>Vested options must be exercised prior to 1 March 2027 ("expiry date"). Prior to the expiry date, an option holder can exercise by either:</p> <ul style="list-style-type: none">• providing the Company with an exercise notice that specifies the number of options to be exercised, together with the exercise price in respect of those exercised options; or• electing a cashless exercise in respect of some or all of his/her options. <p>If an option holder provides the exercise price, he/she will be issued with one share per exercised option. If an option holder elects a cashless exercise, he/she will be issued with a lower number of shares, calculated in accordance with the following formula:</p> <p><i>(A minus B) divided by C, where:</i></p> <p><i>A = Number of Shares to which each Vested Option relates (i.e. 1) x Number of Vested Options exercised x Market Price per Share</i></p> <p><i>B = Number of Vested Options exercised x Exercise Price per Option</i></p> <p><i>C = Market Price per Share, being an amount equal to the volume weighted average price of a Share recorded on the ASX over 10 ASX trading days immediately preceding the date on which the Market Price is to be calculated or, if no sale occurred during such period, the last sale price of a Share recorded on the ASX.</i></p> |
| Service conditions | Any unvested options granted under the LTI Plan will be forfeited where the participant is dismissed during the Performance Period, or resigns in circumstances where they are not considered to be a 'good leaver'. Where the participant is considered a 'good leaver' (which includes death, disability or redundancy), a pro rata proportion of the unvested options (reflecting the portion of the Performance Period served) will remain on foot subject to Board discretion and be tested at the end of the original vesting date against the relevant performance conditions. |
| Change of Control | The Board has discretion to determine an appropriate treatment for unvested and/or vested, but unexercised, options. |

3.3 Prior Period LTI Plans

LTI Plans for previous years are also tested over a three-year performance period, meaning that the performance period for a prior LTI Plan will end, and the associated performance hurdles will be tested, during each financial year. The performance period for the CY20 LTI Plan ended during CY2022.

3.3.1 CY20 LTI Plan

The performance period for the CY20 LTI Plan ended on 1 January 2023 and details of the relevant performance hurdles are as follows:

- 75% of the options issued under the CY20 LTI Plan were subject to a performance hurdle based on the Company's EPS (basic) compound annual growth rate ("CAGR") over the performance period. As the Company's EPS CAGR over the performance period was below the minimum 13% threshold that had been set at the time of the options being granted, all CY20 LTI Plan options subject to the EPS hurdle will lapse.
- 25% of the options issued under the CY20 LTI Plan were subject to a performance hurdle based on geographic and category diversification and growth designed to support sustainable long term value creation. For testing of the performance hurdle, the Board reviewed the current and expected investment returns in relation to the Company's key strategic growth and diversification measures implemented over the performance period. The Board noted that the Company had continued its growth agenda during the performance period, including the integration of new citrus businesses (including the 2PH Farms business) and continued growth in the China berry business, the expansion of capacity to 100% at the Monarto mushroom farm and completion of Tomato Glasshouse 4 and expanded nursery at the New England site. While the Board remains confident that solid foundations for continued earnings growth have been established, the Board recognised that despite strong earnings growth in the China berry business, expected returns from capital investment in the domestic business during the period have not yet been consistently achieved. Accordingly, the Board (excluding the Interim CEO, who is a participant in the CY20 LTI Plan) determined that all CY20 LTI Plan options subject to the growth hurdle will lapse.

The table below shows the vesting outcomes for the KMP's options granted under the CY20 LTI plan.

| | CY20 EPS options held | CY20 EPS options vesting | CY20 Growth options held | CY20 Growth options vesting | Total CY20 LTI options lapsing |
|----------------------------|--------------------------|--------------------------------|-----------------------------|-----------------------------------|--------------------------------------|
| Harry Debney ¹ | 279,453 | – | 93,151 | – | 372,604 |
| Sean Hallahan ² | 149,906 | – | 49,969 | – | 199,875 |
| Wayne Johnston | 93,750 | – | 31,250 | – | 125,000 |
| Marc Werner ³ | N/A | N/A | N/A | N/A | N/A |

Notes in relation to Table 3.3.1

- Harry Debney was granted 279,453 EPS options and 93,151 growth options under the CY20 LTI Plan and forfeited 58% of those options upon his retirement in 2021.
- Sean Hallahan was granted 149,906 EPS options and 49,969 growth options under the CY20 LTI Plan and forfeited 5.5% of those options upon his employment ceasing in 2022. Options were granted to Sean Hallahan under the CY20 LTI Plan in February 2020, in his capacity as COO.
- Marc Werner commenced employment with the Group after 2020 and hence did not receive options under the CY20 LTI Plan.

Directors' Report continued

For the year ended 1 January 2023

3.3.2 FY18 LTI Plan

The exercise period for the FY18 LTI Plan ended during CY2022 and all remaining unexercised vested options that had been issued under that plan lapsed on 1 September 2022. The exercise price for the lapsed options was \$4.77.

The table below shows the number of options issued under the FY18 LTI Plan that were held by KMP and lapsed during CY2022.

| | Total FY18 LTI options lapsed |
|----------------|-------------------------------|
| Harry Debney | 35,248 |
| Sean Hallahan | 18,181 |
| Wayne Johnston | N/A |
| Marc Werner | N/A |

Notes in relation to Table 3.3.2

1. Wayne Johnston and Marc Werner commenced employment with the Group after 2018 and hence did not receive options under the FY18 LTI Plan.

3.3.3 Current LTI Plans

Section 8.3 below includes details of unvested options that have been granted under prior period LTI Plans for which the performance periods have not yet ended. Table 3.3.3 below sets out LTI options for KMP granted under prior period LTI schemes that have vested and are exercisable as at the end of CY2022

| | Number | Expiry Date | Exercise price |
|----------------|--------|--------------|----------------|
| Harry Debney | 15,221 | 1 March 2023 | \$6.53 |
| Sean Hallahan | 7,659 | 1 March 2023 | \$6.53 |
| Wayne Johnston | N/A | N/A | N/A |
| Marc Werner | N/A | N/A | N/A |

4. Executive KMP Contract Terms

a. Executive KMP Contract Terms

A summary of the key terms of employment for Executive KMP as at 1 January 2023 is presented in the below table:

| Executive | Role | Notice by the Group | Notice on Resignation |
|----------------|---------------------------------|--|--|
| Harry Debney | Interim Chief Executive Officer | Employment ends without the need for notice on commencement of a new permanent CEO | Employment ends without the need for notice on commencement of a new permanent CEO |
| Wayne Johnston | Chief Financial Officer | 6 Months | 6 Months |
| Marc Werner | Chief Operating Officer | 3 Months | 3 Months |

5. Non-executive Directors

The details of fees paid to Non-executive Directors in CY2022 are included in Section 7 of this report. Non-executive Directors' fees were fixed and they did not receive any performance-based remuneration.

The annual fees for non-executive directors did not increase in CY2022 and the table below outlines the annual fees for non-executive directors for CY2022. The annual aggregate fee pool for non-executive directors was increased with shareholder approval at the AGM on 25 May 2022 by \$400,000 to \$1,600,000. Board and committee fees, which are inclusive of statutory superannuation contributions, are included in this aggregate fee pool.

As explained in section 3.1.2 above, Harry Debney will not be receiving director fees whilst acting in the capacity as Interim CEO.

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

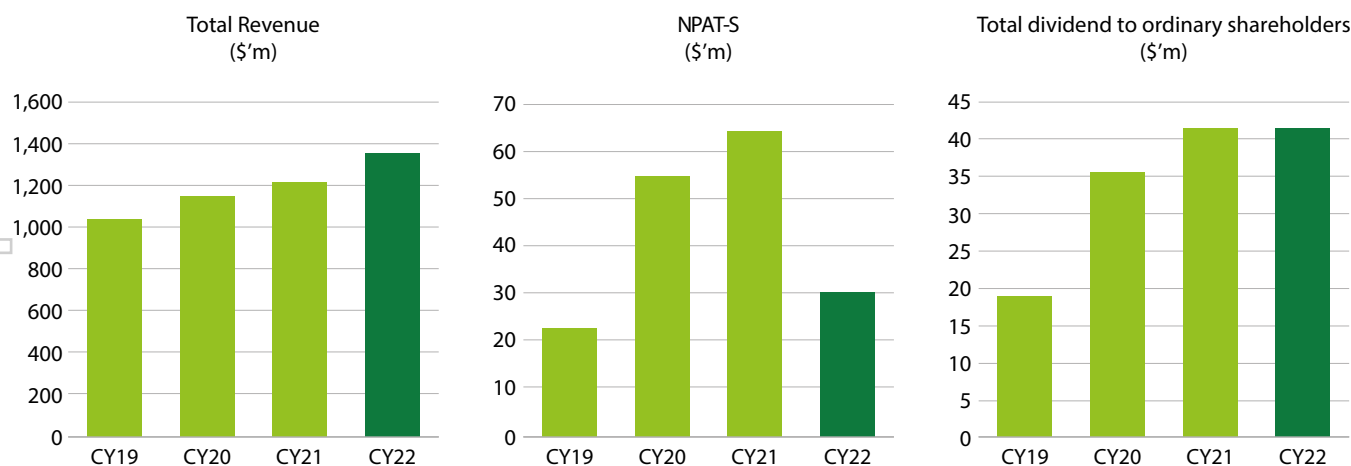
6. Relationship between remuneration policy and Group performance

| Key performance indicator | CY2019 | CY2020 | CY2021 | CY2022 |
|---|-----------|-----------|-----------|-----------|
| Revenue (\$'000) | 1,047,873 | 1,164,916 | 1,220,597 | 1,357,556 |
| Statutory EBIT ¹ (\$'000) | (10,142) | 106,787 | 85,813 | 91,133 |
| EBIT-S ¹ (\$'000) | 59,037 | 98,774 | 112,593 | 85,279 |
| NPAT-S ² (\$'000) | 22,664 | 55,065 | 63,989 | 30,244 |
| Dividend paid or determined to ordinary shareholders (\$'000) | 19,238 | 36,075 | 41,794 | 41,809 |

Notes in relation to Table 6

- EBIT is defined as earnings before interest and tax. EBIT-S is calculated as EBIT before fair value movements in biological assets and material items.
- NPAT-S is net profit after tax attributable to ordinary shareholders but excluding impacts of fair value movements in biological assets and material items.

CY2019 to CY2022 performance



From the time of the Company's ASX listing in FY2016, the Board has adopted a remuneration framework that is designed to attract and retain key talent, reward the achievement of strategic objectives and align reward with the creation of shareholder wealth. The table and charts above set out information about the Group's performance, earnings and dividend from CY2019 onwards.

Group EBIT-S performance for CY2022 was less than the 90% threshold, so no STI payment was made to the Executive KMP for this period. This highlights a close alignment between the Group's financial performance and remuneration policy for Executive KMP.

Directors' Report continued

For the year ended 1 January 2023

7. Directors' and Executive Officers' Remuneration Outcomes

Details of the nature and amount of each major element of remuneration¹ of each director of the Company, and other KMP of the consolidated entity are:

| | | Salary and fees | STI (cash) | Short-term | | Total |
|--------------------------------|---------------|-----------------|------------|-----------------------|-------------------------|----------------|
| | | | | Non-monetary benefits | Other Monetary Benefits | |
| Non-executive Directors | | \$ | \$ | \$ | \$ | \$ |
| Neil Chatfield | CY2022 | 269,108 | - | - | - | 269,108 |
| | CY2021 | 252,404 | - | - | - | 252,404 |
| Harry Debney ² | CY2022 | 321,023 | - | - | - | 321,023 |
| | CY2021 | 313,532 | - | 4,983 | - | 318,515 |
| Peter Margin | CY2022 | 149,448 | - | - | - | 149,448 |
| | CY2021 | 134,862 | - | - | - | 134,862 |
| Janette Kendall | CY2022 | 137,692 | - | - | - | 137,692 |
| | CY2021 | 125,544 | - | - | - | 125,544 |
| Tim Goldsmith | CY2022 | 162,399 | - | - | - | 162,399 |
| | CY2021 | 144,132 | - | - | - | 144,132 |
| Jane Wilson | CY2022 | 134,857 | - | - | - | 134,857 |
| | CY2021 | 123,313 | - | - | - | 123,313 |

Current

Executive Officers

| | | | | | | |
|----------------|---------------|----------------|--------|---|--------------|----------------|
| Wayne Johnston | CY2022 | 478,858 | - | - | 1,677 | 481,535 |
| | CY2021 | 477,191 | 78,254 | - | 943 | 556,388 |
| Marc Werner | CY2022 | 199,425 | - | - | - | 199,425 |
| | CY2021 | - | - | - | - | - |

Former

Executive Officers

| | | | | | | |
|---------------|---------------|----------------|---------|---|--------------|----------------|
| Sean Hallahan | CY2022 | 522,177 | - | - | 3,543 | 525,720 |
| | CY2021 | 792,365 | 165,328 | - | 2,615 | 960,309 |

Notes in relation to table 7:

- 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.
- Harry Debney's remuneration is a combination of fees as non-executive director for the period until 25 September 2022 and salary as interim CEO for the period from 26 September 2022.

| | Post-employment | Long-term benefits | Termination | Share-based payments | Total |
|--|-------------------------|--------------------|----------------------|----------------------|----------------|
| | Superannuation benefits | Long service leave | Termination benefits | | |
| | \$ | \$ | \$ | \$ | \$ |
| | - | - | - | - | 269,108 |
| | 9,679 | - | - | - | 262,083 |
| | 16,391 | 3,612 | - | (209,462) | 131,565 |
| | 12,858 | 4,074 | - | (74,350) | 261,097 |
| | 15,327 | - | - | - | 164,775 |
| | 13,177 | - | - | - | 148,039 |
| | 14,125 | - | - | - | 151,817 |
| | 12,264 | - | - | - | 137,808 |
| | 8,101 | - | - | - | 170,500 |
| | 2,093 | - | - | - | 146,225 |
| | 13,831 | - | - | - | 148,688 |
| | 12,047 | - | - | - | 135,360 |
| | 24,430 | 8,184 | - | (12,235) | 501,901 |
| | 22,631 | 7,943 | - | 130,709 | 717,671 |
| | 8,431 | 3,664 | - | 15,586 | 227,106 |
| | - | - | - | - | - |
| | 24,430 | (58,222) | 428,181 | (445,135) | 474,674 |
| | 22,631 | 25,019 | - | 99,711 | 1,107,670 |

Directors' Report continued

For the year ended 1 January 2023

8. Equity Instruments

8.1 Movements in shares

The movement during the reporting period in the number of ordinary shares in Costa Group Holdings Ltd held, directly, indirectly or beneficially, by each KMP, that constitutes a notifiable interest, is set out below:

| | Held at 26 December 2021 | Shares acquired | Shares delivered under STI or LTI plans | Shares sold | Held at 1 January 2023 |
|--|-----------------------------|--------------------|---|-------------|---------------------------|
| Neil Chatfield | 464,242 | – | – | – | 464,242 |
| Tim Goldsmith (indirectly held) | 73,425 | – | – | – | 73,425 |
| Janette Kendall (indirectly held) | 42,612 | – | – | – | 42,612 |
| Peter Margin (indirectly held) | 86,986 | 7,735 | – | – | 94,721 |
| Dr Jane Wilson | 43,425 | – | – | – | 43,425 |
| Harry Debney (directly and indirectly held) | 341,142 | – | 38,758 | – | 379,900 |
| Sean Hallahan (directly and indirectly held) | 30,118 | – | 20,337 | – | 50,455 ¹ |
| Wayne Johnston | – | – | 7,337 | 7,337 | – |
| Marc Werner | – | – | – | – | – |

Notes in relation to Table 8.1:

1. Sean Hallahan ceased to be a KMP on 26 September 2022. The table above does not reflect any change in his shareholding after he ceased to be a KMP, as he was no longer bound by the Company's Securities Trading Policy and was not obliged to notify the Company of trading in the Company's shares.

8.2 Options over equity instruments granted as compensation

The number of options over ordinary shares granted as compensation to KMP during CY2022 was as set out below. Shareholder approval for the issue of options to Sean Hallahan under the LTIP was obtained in accordance with ASX Listing Rule 10.14 at the Company's AGM held in May 2022 prior to the options being issued.

| | Options granted during CY2022 | Grant date ¹ | Fair Value per option \$ | Exercise price per option \$ | Expiry date |
|----------------|----------------------------------|-------------------------|-----------------------------|---------------------------------|--------------|
| Sean Hallahan | 340,955 ² | 21 July 2022 | 0.89 | 2.96 | 1 March 2027 |
| Wayne Johnston | 198,315 | 21 February 2022 | 0.89 | 2.96 | 1 March 2027 |
| Marc Werner | 179,212 | 16 September 2022 | 0.72 | 2.96 | 1 March 2027 |

Notes in relation to Table 8.2:

1. The grant date for valuation purposes for options granted to the CFO and former CEO was 21 February 2022, being the date on which the Board approved the establishment of the CY22 LTI Plan, and in the case of the COO was 25 August 2022, being the date on which the Board approved the issue of options to the COO.
2. The options granted to Sean Hallahan during 2022 were all forfeited on him ceasing to be an employee during CY2022.

8.3 Details of equity incentives affecting current and future remuneration

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

| | Instrument | Number ¹ | Grant date ² | Vesting date | Exercise price |
|----------------|--------------------|---------------------|-------------------------|--------------|----------------|
| Harry Debney | Options | 155,251 | 29 May 2020 | 1 March 2023 | \$2.39 |
| Sean Hallahan | Options | 188,770 | 26 February 2020 | 1 March 2023 | \$2.39 |
| | Options | 158,091 | 1 June 2021 | 1 March 2024 | \$3.95 |
| | Performance Rights | 27,554 | 1 March 2022 | 1 March 2023 | N/A |
| Wayne Johnston | Options | 125,000 | 20 July 2020 | 1 March 2023 | \$2.39 |
| | Options | 198,315 | 21 July 2022 | 1 March 2025 | \$2.96 |
| | Options | 150,469 | 29 March 2021 | 1 March 2024 | \$3.95 |
| | Performance Rights | 13,042 | 1 March 2022 | 1 March 2023 | N/A |
| Marc Werner | Options | 179,212 | 16 September 2022 | 1 March 2025 | \$3.95 |

Notes in relation to Table 8.3

1. This Table sets out the options held as at the end of the reporting period. However, as set out in Section 3.3.1, the Board has determined that all of the options that were due to vest on 1 March 2023 will lapse on that date.
2. The grant date for valuation purposes for options granted to Executive KMP (other than the COO) during CY2022 was 21 February 2022, during CY2021 was 19 February 2021, for options granted during CY2020 was 26 February 2020 and for options granted during CY2019 was 26 February 2019. The grant date for valuation purposes for options granted to the COO was 25 August 2022, being the date on which the Board approved the issue of options to the COO.

8.4 LTI grants and movement during the year

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

| | Held at 27 December 2021 | Granted as compensation | Exercised | Value of exercised options (at time of exercise) \$ | Forfeited / lapsed during the year | Held at 1 January 2023 | Vested during the year | Vested and exercisable at 1 January 2023 |
|----------------|--------------------------------|----------------------------|-----------|---|---|------------------------------|------------------------------|---|
| Harry Debney | 568,253 | - | - | - | 397,781 | 170,472 | - | 15,221 |
| Sean Hallahan | 737,382 | 340,955 | - | - | 723,817 | 354,520 | - | 7,659 |
| Wayne Johnston | 275,469 | 198,315 | - | - | - | 473,784 | - | - |
| Marc Werner | - | 179,212 | - | - | - | 179,212 | - | - |

8.5 Key Management personnel transactions

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

Directors' Report continued

For the year ended 1 January 2023

8.6 Director independence

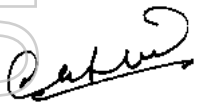
The Board regularly monitors and assesses the independence of each Director by considering whether the Director is allied with management or a substantial securityholder or other stakeholder and whether the Director is free of any other interest, position, association or relationship that might influence,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

- is, or recently has been, employed by the Group in an executive capacity and whether there was at least 3 years between ceasing such employment and serving on the Board;
- receives performance-based remuneration (including options or performance rights) from, or participates in an employee incentive scheme of the Group;
- is, or has been within the last three years, in a material business relationship (e.g. as a supplier, professional adviser, consultant or customer) with the Group or is an officer of, or otherwise associated with, someone with such a relationship;
- is, represents, or is or has been within the last three years an officer or employee of, or professional adviser to, a substantial securityholder of the Company;
- has close family ties with someone who falls within the above categories; or
- has been a Director for such a period that his or her independence from management and substantial holders may have been compromised.

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

- Independent: Neil Chatfield, Tim Goldsmith, Janette Kendall, Peter Margin, and Dr Jane Wilson. Specifically, it is noted that none of these directors is a related party of any substantial shareholder of the Company (or any entities associated with substantial shareholders), nor have they provided any services to the Company (other than in their capacity as director) nor been an employee or officer of any such service provider.
- Not independent: Harry Debney (due to his interim executive role).

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



Neil Chatfield
Chairman

Dated at Melbourne 20 February 2023

Lead Auditor's Independent Declaration



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

To the Directors of Costa Group Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Costa Group Holdings Limited for the financial year ended 1 January 2023 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.

A handwritten signature in black ink, appearing to read 'KPMG', positioned above the printed name 'KPMG'.

KPMG

A handwritten signature in black ink, appearing to read 'Gordon Sangster', positioned above the printed name 'Gordon Sangster'.

Gordon Sangster

Partner

Melbourne

20 February 2023

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Consolidated Statement of Profit and Other Comprehensive Income

For the financial year ended 1 January 2023

| | Notes | December 2022 \$ '000 | December 2021 \$ '000 |
|---|--------|--------------------------|--------------------------|
| Revenue | | | |
| Total revenue | A2 | 1,357,556 | 1,220,597 |
| Less: expenses | | | |
| Raw materials, consumables and third-party purchases | | (418,578) | (407,710) |
| Depreciation and amortisation expenses | | (129,436) | (108,459) |
| Impairment reversal | B7 | - | 2,357 |
| Impairment of goodwill | A3, B9 | (2,167) | - |
| Employee benefits expenses | A2 | (491,572) | (420,284) |
| Occupancy expenses | | (30,080) | (30,630) |
| Net finance costs | A2 | (42,554) | (24,986) |
| (Loss)/profit on sale of assets | | (90) | 484 |
| Freight and cartage | | (100,271) | (69,600) |
| Leasing expenses | | (6,543) | (5,264) |
| Other expenses | A2 | (106,155) | (78,582) |
| Gain/(loss) on fair value adjustments – biological assets | | 8,737 | (7,498) |
| Impairment loss on trade receivables | | (294) | (198) |
| Business acquisitions, restructure, and integration costs | A3, D3 | (717) | (19,188) |
| | | (1,319,720) | (1,169,558) |
| Share of net profits of joint ventures and associates accounted for using the equity method | D1 | 10,743 | 9,881 |
| Profit before income tax expense | | 48,579 | 60,920 |
| Income tax expense | E2 | (1,578) | (8,696) |
| Profit for the period | | 47,001 | 52,224 |
| Other comprehensive (loss)/income for the period | | | |
| Foreign currency translation differences | | (12,664) | 12,335 |
| Cash flow hedges – effective portion of changes in fair value | | 375 | (2,292) |
| Total other comprehensive (loss)/income for the period | | (12,289) | 10,043 |
| Total comprehensive income for the period | | 34,712 | 62,267 |
| Profit attributable to: | | | |
| Owners of Costa Group Holdings Ltd | | 33,630 | 41,396 |
| Non-controlling interests | | 13,371 | 10,828 |
| | | 47,001 | 52,224 |
| Total comprehensive income attributable to: | | | |
| Owners of Costa Group Holdings Ltd | | 21,341 | 51,439 |
| Non-controlling interests | | 13,371 | 10,828 |
| | | 34,712 | 62,267 |
| | | December 2022 | December 2021 |
| | | Cents | Cents |
| Earnings per share for profit attributable to ordinary equity holders: | | | |
| Basic earnings per share | A4 | 7.24 | 9.47 |
| Diluted earnings per share | A4 | 7.24 | 9.47 |

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

Consolidated Statement of Financial Position

As at 1 January 2023

| | Notes | December 2022 \$ '000 | December 2021 \$ '000 |
|--|-------|-----------------------------|-----------------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | B1 | 85,212 | 61,887 |
| Receivables | B2 | 101,589 | 108,032 |
| Inventories | B3 | 40,045 | 30,538 |
| Biological assets | B6 | 79,785 | 70,543 |
| Other assets and financial assets | B5 | 12,597 | 12,700 |
| Current tax assets | E2 | 30,856 | 8,554 |
| Assets held for sale | B8 | – | 3,207 |
| Total current assets | | 350,084 | 295,461 |
| Non-current assets | | | |
| Receivables | B2 | – | 1,274 |
| Other assets and financial assets | B5 | 773 | – |
| Equity accounted investments | D1 | 31,291 | 27,248 |
| Intangible assets | B9 | 282,859 | 289,146 |
| Deferred tax assets | E2 | 25,291 | 21,302 |
| Property, plant and equipment | B7 | 814,349 | 799,933 |
| Right of use assets | B11 | 552,942 | 568,751 |
| Total non-current assets | | 1,707,505 | 1,707,654 |
| Total assets | | 2,057,589 | 2,003,115 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Borrowings | C1 | 12,189 | 13,704 |
| Payables | B4 | 149,418 | 149,310 |
| Provisions | B12 | 37,009 | 21,011 |
| Current tax liabilities | E2 | 88 | 542 |
| Lease liabilities | B11 | 61,016 | 64,125 |
| Total current liabilities | | 259,720 | 248,692 |
| Non-current liabilities | | | |
| Borrowings | C1 | 424,964 | 347,419 |
| Provisions | B12 | 8,908 | 25,652 |
| Deferred tax liabilities | E2 | 38,403 | 34,467 |
| Lease liabilities | B11 | 510,033 | 518,927 |
| Total non-current liabilities | | 982,308 | 926,465 |
| Total liabilities | | 1,242,028 | 1,175,157 |
| NET ASSETS | | 815,561 | 827,958 |
| EQUITY | | | |
| Share capital | C2 | 768,532 | 768,074 |
| Other equity reserve | C2 | (13,422) | (13,422) |
| Other reserves | C4 | 2,543 | 15,602 |
| Profit reserve | C3 | 103,397 | 112,021 |
| Accumulated losses | | (92,692) | (92,692) |
| Equity attributable to owners of the parent | | 768,358 | 789,583 |
| Non-controlling interests | | 47,203 | 38,375 |
| Total equity | | 815,561 | 827,958 |

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 1 January 2023

| Consolidated | Other reserves | | | | | |
|--|----------------|----------------------|-----------------------------|--------------------------------------|----------------|-----------------|
| | Share capital | Other equity reserve | Share based payment reserve | Foreign currency translation reserve | Hedge reserve | General reserve |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Balance as at 26 December 2021 | 768,074 | (13,422) | 8,895 | 8,102 | 177 | (1,572) |
| Profit for the year | - | - | - | - | - | - |
| Other comprehensive income/(loss) | - | - | - | (12,664) | 375 | - |
| Transfer to profit reserve | - | - | - | - | - | - |
| Total comprehensive income for the year | - | - | - | (12,664) | 375 | - |
| Transactions with owners in their capacity as owners: | | | | | | |
| Shared-based payment benefit during the period | - | - | (765) | - | - | - |
| Share options exercised | 458 | - | (458) | - | - | - |
| Dividend paid on ordinary shares | - | - | - | - | - | - |
| Dividend paid to NCI | - | - | - | - | - | - |
| Transfer to general reserve | - | - | - | - | - | 453 |
| Balance as at 1 January 2023 | 768,532 | (13,422) | 7,672 | (4,562) | 552 | (1,119) |
| Balance as at 27 December 2020 | 580,734 | (13,117) | 8,119 | (4,233) | 2,469 | (1,572) |
| Profit for the year | - | - | - | - | - | - |
| Other comprehensive income/(loss) | - | - | - | 12,335 | (2,292) | - |
| Transfer to profit reserve | - | - | - | - | - | - |
| Total comprehensive income for the year | - | - | - | 12,335 | (2,292) | - |
| Transactions with owners in their capacity as owners: | | | | | | |
| Issue of shares (gross) | 190,083 | - | - | - | - | - |
| Costs of equity raise (net of tax) | (3,680) | - | - | - | - | - |
| Shared-based payment expense during the period | - | - | 1,056 | - | - | - |
| Share options exercised | 937 | (305) | (300) | - | - | - |
| Dividend paid on ordinary shares | - | - | - | - | - | - |
| Dividend paid to NCI | - | - | - | - | - | - |
| Tax effect of share plan payment through equity | - | - | 20 | - | - | - |
| Balance as at 26 December 2021 | 768,074 | (13,422) | 8,895 | 8,102 | 177 | (1,572) |

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 |
| 112,021 | (92,692) | 789,583 | 38,375 | 827,958 |
| - | 33,630 | 33,630 | 13,371 | 47,001 |
| - | - | (12,289) | - | (12,289) |
| 33,630 | (33,630) | - | - | - |
| 33,630 | - | 21,341 | 13,371 | 34,712 |
| - | - | (765) | - | (765) |
| - | - | - | - | - |
| (41,801) | - | (41,801) | - | (41,801) |
| - | - | - | (4,543) | (4,543) |
| (453) | - | - | - | - |
| 103,397 | (92,692) | 768,358 | 47,203 | 815,561 |
| 109,242 | (92,692) | 588,950 | 27,612 | 616,562 |
| - | 41,396 | 41,396 | 10,828 | 52,224 |
| - | - | 10,043 | - | 10,043 |
| 41,396 | (41,396) | - | - | - |
| 41,396 | - | 51,439 | 10,828 | 62,267 |
| - | - | 190,083 | - | 190,083 |
| - | - | (3,680) | - | (3,680) |
| - | - | 1,056 | - | 1,056 |
| - | - | 332 | - | 332 |
| (38,617) | - | (38,617) | - | (38,617) |
| - | - | - | (65) | (65) |
| - | - | 20 | - | 20 |
| 112,021 | (92,692) | 789,583 | 38,375 | 827,958 |

Consolidated Statement of Cash Flows

For the financial year ended 1 January 2023

| | Notes | December 2022 \$'000 | December 2021 ¹ \$'000 |
|---|-------|----------------------------|---|
| Cash flow from operating activities | | | |
| Receipts from customers | | 1,363,851 | 1,223,442 |
| Payments to suppliers and employees | | (1,161,089) | (1,022,071) |
| Interest received | | 334 | 66 |
| Interest paid | | (40,178) | (24,553) |
| Income taxes paid | | (24,672) | (23,090) |
| Net cash provided by operating activities | B1 | 138,246 | 153,794 |
| Cash flow from investing activities | | | |
| Payments for property, plant and equipment | | (106,546) | (127,583) |
| Dividends from equity accounted investments | | 6,700 | 4,200 |
| Dividends paid to non-controlling interest | | (4,543) | (65) |
| Acquisition of businesses | D3 | (1,620) | (291,387) |
| Proceeds from sale of property, plant and equipment | | 4,293 | 1,134 |
| Net cash used in investing activities | | (101,716) | (413,701) |
| Cash flow from financing activities | | | |
| Proceeds from share issue, net of issue costs | | – | 185,167 |
| Dividend payments on ordinary shares | | (41,801) | (38,617) |
| Loans and advances | | 2,216 | 1,722 |
| Proceeds from borrowings | | 331,343 | 545,459 |
| Repayment of borrowings | | (252,484) | (362,584) |
| Payment of lease liability | | (50,890) | (43,341) |
| Net cash (used in)/ provided by financing activities | | (11,616) | 287,806 |
| Reconciliation of cash | | | |
| Cash at beginning of year | | 61,887 | 32,450 |
| Net increase in cash held | | 24,915 | 27,899 |
| Effect of movement in foreign exchange rate | | (1,590) | 1,538 |
| Cash at end of year | B1 | 85,212 | 61,887 |

1. The proceeds and repayment of borrowings have been updated to reflect net drawdowns and repayments as opposed to gross drawdowns and repayments (on maturity). As a result, prior year comparative has been reclassified accordingly. There is no change in overall net borrowings in the cash flow.

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

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

Basis of preparation of the consolidated financial report

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

The consolidated financial report was authorised for issue by the directors on 20 February 2023.

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

The notes are organised into the following sections:

- *Group performance*: focuses on the Group's financial results and performance. It provides disclosures relating to income, expenses, segment information, material items, and earnings per share.
- *Operating assets and liabilities*: provides information regarding the physical assets and non-physical assets used by the Group to generate revenues and profits. This section also explains the accounting policies applied and specific judgements and estimates made by management in arriving at the value of these assets and liabilities.
- *Capital structure and financing*: provides information about capital management practices. Particularly, how much capital is raised from shareholders (equity) and how much is borrowed from financial institutions (debt) in order to finance activities both now and in the future.
- *Group structure*: explains aspects of the Group's structure, including acquisitions and divestments during the period.
- *Other*: provides information on other items relevant to the Consolidated Financial Statements.

Historical Cost Convention

The consolidated financial report has been prepared under the historical cost convention, except for revaluations to fair value for certain classes of assets and liabilities as described in the accounting policies and the business acquisitions that are required to be recorded on acquisition at fair value.

Rounding

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

Going concern

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

Goods and services tax (GST)/Value Added Tax (VAT)

Revenues, expenses, liabilities and assets are recognised net of the amount of GST/VAT, except where the amount of GST/VAT incurred is not recoverable from the relevant tax office. In these circumstances the GST/VAT is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Consolidated Statement of Financial Position are shown inclusive of GST/VAT.

Cash flows are presented in the Consolidated Statement of Cash Flows on a gross basis.

Basis of consolidation

Subsidiaries

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

Investments in joint ventures and associates (equity accounted investments)

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

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

Transactions eliminated on consolidation

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

Foreign currency translations and balances

Functional and presentation currency

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

Transactions and balances

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

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

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

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

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

Notes to the Consolidated Financial Statements continued

Critical accounting estimates and judgements

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

These estimates, judgements and assumptions are continually evaluated, and are based on forecasts of economic conditions which reflect expectations and assumptions as at 1 January 2023 about future events that the Directors believe are reasonable in the circumstances.

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 |
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A. Group Performance

A1. Segment performance

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

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 and bananas. These operations are vertically integrated in terms of farming, packing, and marketing, with the primary domestic sales channel being the major Australian food retailers.

Costa Farms and Logistics ("CF&L")

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

International

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

Information about reportable segments

Performance is measured based on segment Earnings Before Interest, Tax, Depreciation, and Amortisation ("EBITDA") before Self Generating and Regenerating Assets ("SGARA") and material items ("EBITDA-S"), as included in the internal management reports that are reviewed by the CEO.

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

It is the Group's policy to allocate any direct attributable Business Support costs to the respective segment. Any unallocated or not directly attributable costs are allocated to the produce segment.

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

| December 2022 | Notes | Produce \$'000 | CF&L \$'000 | International \$'000 | Adjustments and eliminations \$'000 | Total \$'000 |
|---|-------|-------------------|----------------|-------------------------|--|------------------|
| Revenue | | | | | | |
| External customers | | 990,225 | 176,390 | 190,941 | - | 1,357,556 |
| Inter-segment | | 38,631 | 8,256 | - | (46,887) | - |
| Total revenue | | 1,028,856 | 184,646 | 190,941 | (46,887) | 1,357,556 |
| EBITDA-S | | 117,840 | 15,178 | 81,788 | - | 214,806 |
| Fair value movements in biological assets | B6 | 1,221 | - | 7,516 | - | 8,737 |
| Material items (before tax) | A3 | (717) | - | - | - | (717) |
| EBITDA | | 118,344 | 15,178 | 89,304 | - | 222,826 |
| December 2021 | | | | | | |
| Revenue | | | | | | |
| External customers | | 891,195 | 151,745 | 177,657 | - | 1,220,597 |
| Inter-segment | | 38,304 | 7,644 | - | (45,948) | - |
| Total revenue | | 929,499 | 159,389 | 177,657 | (45,948) | 1,220,597 |
| EBITDA-S | | 126,640 | 14,577 | 76,993 | - | 218,210 |
| Fair value movements in biological assets | B6 | (12,634) | - | 5,136 | - | (7,498) |
| Material items (before tax) | A3 | (18,376) | (812) | - | - | (19,188) |
| EBITDA | | 95,630 | 13,765 | 82,129 | - | 191,524 |

Reconciliation of segment EBITDA to profit for the period

| | Notes | December 2022 \$'000 | December 2021 \$'000 |
|---------------------------------------|-------|----------------------------|----------------------------|
| EBITDA for reportable segments | | 222,826 | 191,524 |
| Depreciation and amortisation | | (129,436) | (108,459) |
| (Loss)/profit on sale of assets | | (90) | 484 |
| Impairment reversal | B7 | - | 2,357 |
| Impairment of goodwill | A3,B9 | (2,167) | - |
| Net finance costs | A2 | (42,554) | (24,986) |
| Income tax expense | E2 | (1,578) | (8,696) |
| Profit for the period | | 47,001 | 52,224 |

Notes to the Consolidated Financial Statements continued

Geographical segment of non-current assets

| | December 2022 | December 2021 |
|--|------------------|------------------|
| | \$ '000 | \$ '000 |
| Non-current assets excluding financial assets (including equity accounted investment) and deferred tax balance by geography | | |
| Australia | 1,388,669 | 1,399,662 |
| China | 107,294 | 102,622 |
| Morocco | 154,187 | 155,546 |
| | 1,650,150 | 1,657,830 |
| Reconciliation of segment non-current assets to Statement of Financial Position | | |
| Non-current assets | 1,707,505 | 1,707,654 |
| Deduct: | | |
| Equity accounted investments | (31,291) | (27,248) |
| Deferred tax assets | (25,291) | (21,302) |
| Receivables, other assets and financial assets | (773) | (1,274) |
| | 1,650,150 | 1,657,830 |

A2. Revenue and expenses

Revenue

| | December 2022 | December 2021 |
|---|------------------|------------------|
| | \$ '000 | \$ '000 |
| Sale of goods and commissions income received | 1,311,402 | 1,158,028 |
| Rendering of services | 36,280 | 41,937 |
| Rebates and discounts provided | (18,978) | (16,408) |
| Other income | 28,852 | 37,040 |
| Total revenue | 1,357,556 | 1,220,597 |

Sale of goods and commissions received

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

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

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

Rendering of services

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

Rebates and discounts provided

Rebates and discounts include volume-based rebates and discounts, and payment settlement discounts, which are recognised when earned.

Other income

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

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

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

Insurance income is recognised when recovery is virtually certain.

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

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

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

Expenses

Net finance costs

| | Note | December 2022 | December 2021 |
|---------------------------------------|------|------------------|------------------|
| | | \$'000 | \$'000 |
| Interest income | | (334) | (72) |
| Interest expense on borrowings | | 13,773 | 6,113 |
| Interest expense on lease liabilities | B11 | 28,234 | 18,191 |
| Amortisation of borrowing costs | | 881 | 754 |
| | | 42,554 | 24,986 |

Interest income

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

Borrowing costs

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

Borrowing costs are expensed as incurred, except for borrowing costs incurred as part of the cost of the construction of a qualifying asset which are capitalised until the asset is ready for its intended use or sale. To determine the amount of borrowing costs to be capitalised, the Group uses the interest rate applicable to its outstanding borrowings during the period. For the year ended December 2022, the borrowing costs capitalised as part of property, plant and equipment was \$1.3 million using a weighted average interest rate of 3.60% (December 2021: \$0.8 million, 2.54%).

Loan establishment costs of \$3.0 million have been capitalised in the current year and amortised over the life of the loan facility (2021: \$0.3 million).

Employee benefits expenses

| | December 2022 | December 2021 |
|--|------------------|------------------|
| | \$'000 | \$'000 |
| Salaries, contractors and wages (including on costs) | 446,148 | 383,961 |
| Superannuation costs | 27,454 | 19,508 |
| Leave entitlements | 12,212 | 11,194 |
| Other employee expenses | 5,758 | 5,621 |
| | 491,572 | 420,284 |

Other expenses

| | December 2022 | December 2021 |
|----------------------------------|------------------|------------------|
| | \$'000 | \$'000 |
| Repair and maintenance expenses | 26,485 | 23,826 |
| Legal and consulting expenditure | 8,993 | 6,709 |
| Insurance | 17,229 | 12,715 |
| Other ¹ | 53,448 | 35,332 |
| | 106,155 | 78,582 |

Notes:

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

Notes to the Consolidated Financial Statements continued

A3. Material items

The before-tax and after-tax impact of material items are as follows:

| | December 2022 | December 2021 |
|--|------------------|------------------|
| | \$'000 | \$'000 |
| individually material items included in profit before income tax: | | |
| Acquisition and integration expenses ¹ | – | (19,188) |
| Impairment losses ² | (2,167) | – |
| Restructure costs ³ | (717) | – |
| Total material items (before tax) | (2,884) | (19,188) |
| Tax effect of material items | 209 | 1,728 |
| Total material items (after tax) | (2,675) | (17,460) |

Notes:

1. During the prior year acquisition and integration expenses related to 2PH Farms, KW Orchards and Select Fresh acquisitions, refer to note D3.
2. Impairment of goodwill related to the avocado CGU, refer to note B10.
3. Restructure costs relating to staff redundancies incurred during the year.

A4. Earnings per share

| | December 2022 | December 2021 |
|---|--------------------|--------------------|
| | Cents per share | Cents per share |
| <i>Basic EPS</i> | | |
| Basic EPS (cents) based on net profit attributable to members of Costa Group Holdings Limited | 7.24 | 9.47 |
| <i>Diluted EPS</i> | | |
| Diluted EPS (cents) based on net profit attributable to members of Costa Group Holdings Limited | 7.24 | 9.47 |
| | Number (‘000) | Number (‘000) |
| <i>Weighted average number of shares</i> | | |
| Weighted average number of ordinary shares on issue used in the calculation of basic EPS | 464,518 | 437,291 |
| <i>Effect of potentially dilutive securities</i> | | |
| Equity-settled share options | 24 | 30 |
| Weighted average number of ordinary shares on issue used in the calculation of diluted EPS | 464,542 | 437,321 |
| | \$'000 | \$'000 |
| Earnings reconciliation | | |
| <i>Basic and diluted EPS</i> | | |
| Net profit attributable to owners of Costa Group Holdings Limited | 33,630 | 41,396 |

Calculation of earnings per share

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

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

A5. Subsequent events

Dividends

On 20 February 2023, the directors determined a final dividend of 5.0 cents per ordinary share. The dividends have not been provided for and there are no income tax consequences. The Company expects to pay the dividend on 6 April 2023.

Except for the matters disclosed in the preceding paragraph, there are no matters or circumstances that have arisen since the financial year ending 1 January 2023, 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 2022 | December 2021 |
|-----------------|------------------|------------------|
| | \$ '000 | \$ '000 |
| Cash on hand | 24 | 42 |
| Cash at bank | 85,124 | 61,781 |
| Cash on deposit | 64 | 64 |
| | 85,212 | 61,887 |

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

| | December 2022 | December 2021 |
|---|------------------|------------------|
| | \$ '000 | \$ '000 |
| Profit for the period | 47,001 | 52,224 |
| <i>Costs associated with non-operating activities</i> | | |
| Acquisition and integration costs | – | 19,188 |
| <i>Non-cash adjustments to reconcile profit for the period to net cash flows:</i> | | |
| Depreciation and amortisation | 129,436 | 108,459 |
| Loss/(profit) on sale of assets | 90 | (484) |
| Borrowing costs amortised | 881 | 605 |
| Impairment reversal | – | (2,357) |
| Impairment of goodwill | 2,167 | – |
| Foreign exchange differences | (404) | 1,840 |
| (Gain)/loss on fair value adjustments – biological assets | (8,737) | 7,498 |
| Share based payments (benefit)/expense | (765) | 1,056 |
| Share of profit of equity-accounted investees, net of tax | (10,743) | (9,881) |
| <i>Change in working capital and tax balances:</i> | | |
| Increase in inventories | (9,507) | (1,167) |
| Decrease/(increase) in receivables | 1,977 | (5,882) |
| Increase in biological assets | (602) | (964) |
| Decrease/(increase) in other assets | 26 | (1,912) |
| Increase/(decrease) in interest payable | 1,835 | (72) |
| Increase in payables | 9,146 | 918 |
| Decrease in provisions | (746) | (1,003) |
| (Decrease)/increase in deferred taxes | (53) | 2,250 |
| Increase in net current tax receivables | (22,756) | (16,522) |
| Net cash generated from operating activities | 138,246 | 153,794 |

Recognition and measurement

Cash comprises cash on hand and demand deposits. Cash equivalents comprise short term and highly liquid cash deposits that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. For the purposes of the Consolidated Statement of Cash Flows, cash includes cash on hand and at bank, and cash equivalents.

Notes to the Consolidated Financial Statements continued

B2. Receivables

| | December 2022 | December 2021 |
|--|------------------|------------------|
| | \$ '000 | \$ '000 |
| CURRENT | | |
| Trade debtors | 78,308 | 74,669 |
| Less: Allowance for impairment losses on trade receivables | (631) | (582) |
| | 77,677 | 74,087 |
| Other receivables | 23,912 | 33,945 |
| | 101,589 | 108,032 |
| NON-CURRENT | | |
| Other receivables | - | 1,274 |

Recognition and measurement

Trade receivables

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

Impairment of trade and other receivables.

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

Other receivables

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

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

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

| | Note | December 2022 | December 2021 |
|--|------|------------------|------------------|
| | | \$ '000 | \$ '000 |
| Carrying amount of other receivables transferred to a bank | | 2,498 | 2,660 |
| Carrying amount of associated liabilities | C1 | (2,498) | (2,660) |

B3. Inventories

| | December 2022 | December 2021 |
|----------------|------------------|------------------|
| | \$'000 | \$'000 |
| CURRENT | | |
| At cost | | |
| Raw materials | 29,488 | 23,740 |
| Finished goods | 10,557 | 6,798 |
| | 40,045 | 30,538 |

Recognition and measurement

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

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

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

B4. Payables

| Payables | December 2022 | December 2021 |
|--|------------------|------------------|
| | \$'000 | \$'000 |
| CURRENT | | |
| <i>Unsecured liabilities</i> | | |
| Trade creditors | 78,293 | 68,929 |
| Sundry creditors and accruals ¹ | 71,125 | 80,381 |
| | 149,418 | 149,310 |

Notes:

1. Includes deferred consideration for business acquisitions of \$1.5 million (December 2021: \$3.1 million), refer to note D3 for further details.

Recognition and measurement

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

B5. Other assets and financial assets

| | December 2022 | December 2021 |
|----------------------------|------------------|------------------|
| | \$'000 | \$'000 |
| CURRENT | | |
| Prepayments | 12,353 | 12,448 |
| Forward exchange contracts | 244 | 252 |
| | 12,597 | 12,700 |
| NON-CURRENT | | |
| Prepayments | 277 | - |
| Interest rate swaps | 496 | - |
| | 773 | - |

Notes to the Consolidated Financial Statements continued

B6. Biological assets

| | Note | December 2022 \$ '000 | December 2021 \$ '000 |
|---|------|--------------------------|--------------------------|
| CURRENT | | | |
| Produce at fair value | | 72,911 | 64,201 |
| Produce at cost | | 6,874 | 6,342 |
| Total biological assets | | 79,785 | 70,543 |
| Reconciliation of changes in carrying amount of biological assets: | | | |
| Opening balance | | 70,543 | 58,312 |
| Gain/(loss) arising from changes in fair value | | 8,737 | (7,498) |
| Additions from purchases | | 253,809 | 211,539 |
| Additions from business acquisitions | D3 | - | 18,839 |
| Decreases due to harvest | | (253,304) | (210,649) |
| Closing balance | | 79,785 | 70,543 |

Recognition and measurement

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

Net increments and decrements in the fair value of the growing assets are recognised as income or expense in the Consolidated Statement of Profit and Other Comprehensive Income, determined as:

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

Critical accounting estimate and judgement

Valuation of biological assets

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

Measurement of fair values

Fair value hierarchy

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

Valuation techniques and significant unobservable inputs

The following table provides a description of the various biological asset types, shows the valuation techniques used in measuring Level 3 fair values, as well as the significant unobservable inputs used.

| Type | Description | Valuation technique | Significant unobservable inputs | Inter-relationship between key unobservable inputs and fair value measurement |
|---|--|---|--|--|
| Hanging crop (citrus, grapes, avocados, tomatoes, blueberries, raspberries and bananas) | These are crops from trees and bushes that have an annual crop production cycle and a reasonably stable development cycle. | Discounted cash flows: The valuation model considers the present value of the net cash flows expected to be generated by the plantation. The cash flow projections include specific estimates for one year. The expected net cash flows are discounted using a risk adjustment factor to factor in volatility for weather, production and pricing and future farming costs. | Inclusive of: <ul style="list-style-type: none"> • Estimated future crop prices. • Estimated cash inflows based on forecasted sales. • Estimated yields per hectare. • Estimated remaining farming, harvest and transportation costs. • Risk adjustment factor. | The estimated fair value would increase/(decrease) if: <ul style="list-style-type: none"> • the estimated fruit prices were higher/(lower); • the estimated yields per hectare were higher/(lower); • the estimated harvest and transportation costs were lower/(higher); or • the risk-adjusted discount rates were lower/(higher). |

Measurement of biological assets at cost

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

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 produce. 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 2022 | December 2021 |
|---|------------------|------------------|
| | \$ '000 | \$ '000 |
| Land and buildings at cost | 393,087 | 398,878 |
| Accumulated depreciation and impairment | (82,816) | (73,292) |
| | 310,271 | 325,586 |
| Assets under construction at cost | 60,584 | 88,309 |
| Plant and equipment at cost | 553,317 | 505,788 |
| Accumulated depreciation and impairment | (288,143) | (238,251) |
| | 265,174 | 267,537 |
| Improvements at cost | 77,634 | 46,338 |
| Accumulated depreciation and impairment | (21,717) | (17,044) |
| | 55,917 | 29,294 |
| Bearer plants at cost | 132,457 | 100,664 |
| Bearer plants in progress at cost | 33,837 | 25,167 |
| Accumulated depreciation and impairment | (43,891) | (36,624) |
| | 122,403 | 89,207 |
| Total property, plant, and equipment | 814,349 | 799,933 |

Notes to the Consolidated Financial Statements continued

Reconciliations

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

| | Note | December 2022 \$ '000 | December 2021 \$ '000 |
|---|------|-----------------------------|-----------------------------|
| <i>Land and buildings</i> | | | |
| Opening carrying amount | | 325,586 | 165,166 |
| Additions | | – | 15,115 |
| Assets acquired through business combination | D3 | – | 106,848 |
| Disposals | | – | (17) |
| Depreciation expense | | (8,928) | (9,202) |
| Impairment reversal | | – | 1,370 |
| Transfers to assets held for sale | B8 | – | (2,220) |
| Other transfers, reclassifications and adjustments and effect of movement in FX rate ³ | | (6,387) | 48,526 |
| Closing carrying amount | | 310,271 | 325,586 |
| <i>Assets under construction</i> | | | |
| Opening carrying amount | | 88,309 | 82,464 |
| Additions ^{1,2} | | 47,625 | 89,783 |
| Disposals | | – | (10) |
| Other transfers, reclassifications and adjustments and effect of movement in FX rate ³ | | (75,350) | (83,928) |
| Closing carrying amount ⁴ | | 60,584 | 88,309 |
| <i>Plant and equipment</i> | | | |
| Opening carrying amount | | 267,537 | 202,061 |
| Additions | | 12,927 | 27,054 |
| Assets acquired through business combination | D3 | – | 39,611 |
| Disposals | | – | (596) |
| Depreciation expense | | (46,390) | (42,472) |
| Impairment reversal | | – | 987 |
| Transfers to assets held for sale | B8 | – | (987) |
| Other transfers, reclassifications and adjustments and effect of movement in FX rate ³ | | 31,100 | 41,879 |
| Closing carrying amount | | 265,174 | 267,537 |
| <i>Leasehold Improvements</i> | | | |
| Opening carrying amount | | 29,294 | 28,386 |
| Additions | | 5,016 | 3,212 |
| Assets acquired through business combination | D3 | – | 311 |
| Disposals | | (2) | – |
| Depreciation expense | | (4,864) | (3,239) |
| Transfers, reclassifications and adjustments and effect of movement in FX rate | | 26,473 | 624 |
| Closing carrying amount | | 55,917 | 29,294 |
| <i>Bearer plants</i> | | | |
| Opening carrying amount | | 89,207 | 37,611 |
| Additions | | 30,936 | 13,132 |
| Mature bearer plants acquired through business combination | D3 | – | 21,280 |
| Immature bearer plants, acquired through business combination | D3 | – | 25,167 |
| Disposals | | (854) | (214) |
| Depreciation expense | | (11,319) | (8,913) |
| Transfers, reclassifications and adjustments and effect of movement in FX rate | | 14,433 | 1,144 |
| Closing carrying amount ¹ | | 122,403 | 89,207 |

Notes:

1. The prior year includes Conaghans asset acquisition \$15.9 million. Refer note D3 for details.
2. Includes capitalised borrowing costs of \$1.3 million (December 2021: \$0.8 million). Refer note A2 for details.
3. The prior year includes completion and transfer of a new tomato glasshouse facility of \$79.5m from assets under construction to buildings, plant, and equipment.
4. Assets under construction relate to Conaghans stage 1, immature bearer plants, and other growth projects.

| | Note | December 2022 \$'000 | December 2021 \$'000 |
|--|--------|-------------------------|-------------------------|
| <i>Total property, plant, and equipment</i> | | | |
| Opening carrying amount | | 799,933 | 515,688 |
| Additions ^{1,2} | A2, D3 | 96,504 | 148,296 |
| Assets acquired through business combination | D3 | – | 193,217 |
| Disposals | | (856) | (837) |
| Depreciation expense | | (71,501) | (63,826) |
| Impairment reversal | | – | 2,357 |
| Transfers to assets held for sale | | – | (3,207) |
| Transfers, reclassifications and adjustments and effect of movement in FX rate | | (9,731) | 8,245 |
| Closing carrying amount | | 814,349 | 799,933 |

Notes:

1. The prior year includes Conaghans asset acquisition \$15.9 million. Refer note D3 for details.
2. Includes capitalised borrowing costs of \$1.3 million (December 2021: \$0.8 million). Refer note A2 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 | 0% – 10% | Straight line |
| Plant and equipment at cost | 4% – 33% | Straight line |
| Bearer plants at cost | 4% – 25% | Straight line |

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

Capital and other commitments

As at 1 January 2023, the Group has capital commitments amounting to \$25.5 million (December 2021: \$52.1 million) in relation to the purchase of property, plant and equipment, which are contracted for but not provided for. Note that included in the above capital commitment amount is:

- Deferred consideration relating to business acquisitions of \$1.5 million (December 2021: \$3.1 million), refer to note D3 for further details.
- Conaghans property put and call option of \$31.4 million. Management believes the put and call option is highly probable and likely to be exercised. The put and call option is exercisable in July 2023 and the value subject to certain conditions. \$15.9 million of the value has been recognised as a provision under other commitments and balance to be recognised when option is exercised. Refer note D3 for further details.

B8. Assets held for sale

| | Note | December 2022 \$'000 | December 2021 \$'000 |
|----------------------|------|-------------------------|-------------------------|
| Assets held for sale | B7 | – | 3,207 |

During the year, the property which was classified as assets held for sale in the prior year was sold for an amount in excess of the carrying value and recognised a profit on sale of \$0.3m in the Consolidated Statement of Profit and Other Comprehensive Income.

Notes to the Consolidated Financial Statements continued

B9. Intangible assets

| | December 2022 | December 2021 |
|---|------------------|------------------|
| | \$ '000 | \$ '000 |
| Goodwill at cost, less accumulated impairment | 241,610 | 250,060 |
| Brand names and trademarks at cost | 14,184 | 14,984 |
| Lease premiums at cost | 2,894 | 3,015 |
| Water rights at cost | 11,631 | 11,631 |
| Capitalised software costs | 15,443 | 10,068 |
| Accumulated amortisation and impairment | (10,158) | (9,057) |
| | 5,285 | 1,011 |
| Reacquired rights at cost | 3,600 | 3,600 |
| Accumulated amortisation and impairment | (3,600) | (3,600) |
| | - | - |
| Customer relationships at cost | 20,700 | 20,700 |
| Accumulated amortisation and impairment | (13,445) | (12,255) |
| | 7,255 | 8,445 |
| Total intangible assets | 282,859 | 289,146 |

Reconciliations

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

| | Note | December 2022 | December 2021 |
|---|------|------------------|------------------|
| | | \$ '000 | \$ '000 |
| <i>Goodwill</i> | | | |
| Opening balance | | 250,060 | 198,165 |
| Acquired through business combinations | D3 | - | 48,778 |
| Impairment | | (2,167) | - |
| Net exchange differences on translation of foreign subsidiaries | | (6,283) | 3,117 |
| Closing balance | | 241,610 | 250,060 |
| <i>Capitalised software costs</i> | | | |
| Opening balance | | 1,011 | 1,397 |
| Additions | | - | 213 |
| Amortisation expense | | (1,060) | (598) |
| Transfers, reclassifications, and adjustments | | 5,334 | (1) |
| Closing balance | | 5,285 | 1,011 |
| <i>Brand names and trademarks</i> | | | |
| Opening balance | | 14,984 | 3,137 |
| Acquired through business combinations | D3 | - | 12,200 |
| Amortisation expense | | (800) | (353) |
| Closing balance | | 14,184 | 14,984 |
| <i>Lease premiums</i> | | | |
| Opening balance | | 3,015 | 2,955 |
| Net exchange differences on translation of foreign subsidiaries | | (121) | 60 |
| Closing balance | | 2,894 | 3,015 |

| | Note | December 2022 \$'000 | December 2021 \$'000 |
|---|------|----------------------------|----------------------------|
| <i>Water rights</i> | | | |
| Opening balance | | 11,631 | 3,796 |
| Additions | | - | 35 |
| Acquired through business combinations | D3 | - | 7,800 |
| Closing balance | | 11,631 | 11,631 |
| <i>Customer relationships</i> | | | |
| Opening balance | | 8,445 | - |
| Acquired through business combinations | D3 | - | 9,000 |
| Amortisation expense | | (1,190) | (555) |
| Closing balance | | 7,255 | 8,445 |
| <i>Total intangible assets</i> | | | |
| Opening carrying amount | | 289,146 | 209,450 |
| Additions | | - | 248 |
| Acquired through business combinations | D3 | - | 77,778 |
| Amortisation expense | | (3,050) | (1,506) |
| Transfers, reclassifications and adjustments | | 5,334 | (1) |
| Impairment expense | | (2,167) | - |
| Net exchange differences on translation of foreign subsidiaries | | (6,404) | 3,101 |
| Closing carrying amount | | 282,859 | 289,146 |

Recognition and measurement

Goodwill

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

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

Brand names and trademarks

Brand names are measured initially at their cost of acquisition. Brand names, except for trademarks, are an indefinite useful life intangible asset as there is no expiry date associated with the underlying assets in terms of its generation of future economic benefits to the Group and are therefore tested for impairment annually. Trademarks are amortised on a straight line basis over their useful lives ranging between 15 to 25 years and tested for impairment whenever there is an indication that they may be impaired.

Lease premiums

The value of market lease premiums is recorded in the financial report at cost. Market lease premiums are an indefinite life intangible asset as there is no expiry date associated with the underlying assets in terms of its generation of future economic benefits to the Group, and are therefore tested for impairment annually. Lease premiums are not tested as individual assets but instead are tested under their respective CGU.

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. Water rights are not tested as individual assets but instead are tested under their respective CGU.

Capitalised software costs

Capitalised software costs is measured initially at the cost of acquisition and amortised over the useful life of the software. Expenditure on software development activities is capitalised only when it is expected that future benefits will exceed the deferred costs, and these benefits can be reliably measured. Capitalised development expenditure is stated at cost less accumulated amortisation.

Notes to the Consolidated Financial Statements continued

Amortisation is calculated using the straight line method to allocate the cost of the intangible asset over its estimated useful life (not exceeding seven years) commencing when the intangible asset is available for use. Other software development expenditure is recognised as an expense when incurred.

Customer relationships

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

Acquisitions

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

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

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

Allocation of goodwill and intangible assets with an indefinite life

The allocation of goodwill and intangible assets by cash generating unit with an indefinite life across the Group is provided below:

| | Goodwill | | Other intangible assets with an indefinite life | |
|---------------|---------------|---------------|---|---------------|
| | December 2022 | December 2021 | December 2022 | December 2021 |
| | \$ '000 | \$ '000 | \$ '000 | \$ '000 |
| African Blue | 96,941 | 103,218 | 2,894 | 3,015 |
| Citrus | 63,460 | 63,460 | 23,538 | 23,538 |
| Berry farming | 31,993 | 31,993 | - | - |
| Mushroom | 27,757 | 27,757 | - | - |
| Other | 21,459 | 23,632 | 300 | 300 |
| | 241,610 | 250,060 | 26,732 | 26,853 |

B10. Impairment

Recoverability of non-financial assets other than goodwill

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

Goodwill

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

The recoverable amount of an asset or CGU is the greater of its value in use or its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in its principal or most advantageous market at the measurement date. It is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial item assumes it is put to its highest and best use.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU's. Subject to an operating segment ceiling test, CGU's to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes.

Impairment losses are recognised in the Consolidated Statement of Profit and Other Comprehensive Income. Impairment losses recognised in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGU's) on a pro rata basis.

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

Useful life

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

Critical accounting estimate and judgement

Projected cash flows

Goodwill is allocated to CGU's according to applicable business operations. The recoverable amount of the Group's Australian CGU's are based on value in use calculations.

The recoverable amounts are based on financial budgets approved by the Company's Board for 2023 together with detailed management forecasts for future years:

- For the Australian CGU's, cash flow forecasts are projected over a 5 year period
- For the African Blue CGU, cash flow forecasts are projected over a 5 year period (December 2021: 10 year period)

For the African Blue CGU, the recoverable amount was determined through a fair value less costs to sell calculation using a detailed 5 year cash flow financial model. The fair value measurement was categorised as a Level 3 fair value based on the inputs in the valuation technique used (refer note C6 for further details on fair value measurements). The compounded annual growth rate of earnings used in the African Blue model was 7.8%.

Management's determination of cash flow projections and gross margins are based on past performance and its expectation for the future, as at 1 January 2023.

Key assumptions

Key assumptions are those to which the recoverable amount of an asset or cash-generating units is most sensitive.

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

| | Australian CGU's | | African Blue CGU | |
|-----------------------|------------------|---------------|------------------|---------------|
| | December 2022 | December 2021 | December 2022 | December 2021 |
| Terminal growth rate | 2.5% | 2.5% | 3.0% | 3.0% |
| Pre-tax discount rate | 8.8% | 8.5% | 10.4% | 10.0% |

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

Pricing and volume have been identified as other key assumptions. Pricing and volume achieved during the period is a reflection of past experience, and improvements from efficiencies and market factors.

There are no other key assumptions used in any of the CGU model's.

Exchange rates

Cash flow forecasts in foreign currency are forecast in that currency and discounted using the applicable regional discount rates (predominantly Moroccan Dirham and Chinese Yuan).

Notes to the Consolidated Financial Statements continued

Avocado CGU impairment recognition

The volatility in Avocado pricing seen in the last 12 months has presented challenges for Australian avocado growers. Whilst there is continued uncertainty on domestic avocado pricing, the Group believes that the anticipated access of East Australian avocado growers to export markets, including Japan, in the medium term presents the most likely scenario of sustainable price recovery.

Given the continued uncertainty, the Group concluded that it would be appropriate to impair the goodwill associated with this CGU. As a result, an impairment charge of \$2.2 million was recognised in the Consolidated Statement of Profit and Other Comprehensive Income and disclosed as a material item, refer to note A3.

Sensitivity Analysis

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

For the African Blue CGU, the recoverable amount exceeds the carrying value by \$60.4 million. A reasonable possible change to the financial performance above in terms of key assumptions could lead to an impairment. Should these judgements and estimates not occur the resulting goodwill carrying amount may decrease. The sensitivities are as follows:

- Pricing would need to decrease by more than 4% before goodwill would need to be impaired, with all other assumptions remaining constant.
- The discount rate would be required to increase by 3% before goodwill would need to be impaired, with all other assumptions remaining constant.
- The growth rate would be required to decrease by 4% before goodwill would need to be impaired, with all other assumptions remaining constant.

For the Avocado CGU, the recoverable amount exceeds the carrying value by \$3.2 million. A reasonable possible change to the financial performance above in terms of key assumptions could lead to a further impairment. Should these judgements and estimates not occur the resulting recoverable amount of assets may decrease. The sensitivities are as follows:

- Pricing would need to decrease by more than 1% before the CGU assets would need to be impaired, with all other assumptions remaining constant.
- The discount rate would be required to increase by 1% before the CGU assets would need to be impaired, with all other assumptions remaining constant.
- The growth rate would be required to decrease by 1% before the CGU assets would need to be impaired, with all other assumptions remaining constant.

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

B11. Leases

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

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

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

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

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

Right of use assets

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

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

Subsequently, the right of use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight line basis. The assets are tested for impairment in accordance with policy adopted for non-financial assets as disclosed in note B10.

| Right of use assets | Note | December 2022 | December 2021 |
|---------------------------------------|-------------|----------------------|----------------------|
| | | \$'000 | \$'000 |
| Opening carrying amount | | 568,751 | 302,803 |
| Depreciation expenses | | (54,884) | (43,127) |
| Additions ¹ | | 41,303 | 270,822 |
| Acquired through business combination | D3 | – | 36,668 |
| Disposals | | (860) | – |
| Effect of foreign exchange rates | | (1,368) | 1,585 |
| Closing carrying amount | | 552,942 | 568,751 |

Right of use assets consist of \$536.5 million (December 2021: \$554.9 million) relating to property and \$16.4 million (December 2021: \$13.9 million) relating to vehicle and equipment leases.

Lease liabilities

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

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

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

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

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

| Lease liabilities | Note | December 2022 | December 2021 |
|---------------------------------------|-------------|----------------------|----------------------|
| | | \$'000 | \$'000 |
| Opening carrying amount | | 583,052 | 318,068 |
| Interest expense | | 28,234 | 18,191 |
| Additions ¹ | | 39,678 | 270,822 |
| Acquired through business combination | D3 | – | 36,151 |
| Repayments | | (79,124) | (62,145) |
| Effect of foreign exchange rates | | (791) | 1,965 |
| Closing carrying amount | | 571,049 | 583,052 |

Notes to the Consolidated Financial Statements continued

| Lease liabilities | December 2022 | December 2021 |
|-------------------|----------------|----------------|
| | \$'000 | \$'000 |
| Current | 61,016 | 64,125 |
| Non-current | 510,033 | 518,927 |
| | 571,049 | 583,052 |

Notes:
1. During the prior year Macquarie Asset Management acquired 100% of Vitalharvest Unit Trust. The Group renegotiated the existing leases with Vitalharvest that resulted in the old leases being surrendered and replaced with fixed rent lease agreements. The lease modification resulted in an addition of \$252.2 million during the prior period of right of use assets and lease liabilities.

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

| Lease liabilities | December 2022 | December 2021 |
|---|----------------|----------------|
| | \$'000 | \$'000 |
| Payable | | |
| – not later than one year | 88,612 | 92,996 |
| – later than one year and not later than five years | 227,517 | 207,779 |
| – later than five years | 489,442 | 533,226 |
| | 805,571 | 834,001 |

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

The Group has elected not to recognise right of use assets and lease liabilities for leases of low value assets and short term leases, including technology equipment. The Group recognises the lease payments associated with these leases as an expense on a straight line basis over the lease term. Variable lease payments not based on index or rate are expensed when incurred. The amounts recognised as at 1 January 2023 are \$4.7 million (December 2021: \$5.3 million).

B12. Provisions

| | December 2022 | December 2021 |
|--------------------|---------------|---------------|
| | \$'000 | \$'000 |
| CURRENT | | |
| Employee benefits | 20,883 | 20,093 |
| Other commitments | 15,941 | – |
| Other | 185 | 918 |
| | 37,009 | 21,011 |
| NON-CURRENT | | |
| Employee benefits | 6,315 | 6,909 |
| Other commitments | – | 15,941 |
| Other | 2,593 | 2,802 |
| | 8,908 | 25,652 |

Employee benefits liability

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

Other commitments

Other commitments relate to the Conaghans property put and call options. Although put and call options are yet to be exercised, the Group has recognised an asset and provision for Stage 1 of this development given it has control of this stage. Refer note D3 for details.

Other provisions

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

Reconciliations

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

| | Note | December 2022 \$ '000 | December 2021 \$ '000 |
|--|------|-----------------------------|-----------------------------|
| <i>Employee benefits</i> | | | |
| Opening balance | | 27,002 | 25,256 |
| Amounts used | | (13,761) | (10,753) |
| Acquired through business acquisitions | D3 | - | 818 |
| Additional amounts recognised | | 13,957 | 11,681 |
| Closing balance | | 27,198 | 27,002 |
| <i>Other commitments¹</i> | | | |
| Opening balance | | 15,941 | - |
| Additional amounts recognised | | - | 15,941 |
| Closing balance | | 15,941 | 15,941 |
| <i>Other provisions</i> | | | |
| Opening balance | | 3,720 | 5,633 |
| Amounts used | | (942) | (2,745) |
| Additional amounts recognised | | - | 832 |
| Closing balance | | 2,778 | 3,720 |

Notes:

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

Recognition and measurement

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

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

Short term employee benefit obligations

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

Long term employee benefit obligations

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

B13. Contingent Liabilities

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

C. Capital Structure and Financing

C1. Borrowings

| | December 2022 | December 2021 |
|--|------------------|------------------|
| | \$ '000 | \$ '000 |
| CURRENT | | |
| <i>Secured liabilities</i> | | |
| Bank loans | 2,499 | 1,863 |
| <i>Unsecured liabilities</i> | | |
| Bank loans – Other | 9,690 | 11,841 |
| | 12,189 | 13,704 |
| NON-CURRENT | | |
| <i>Secured liabilities</i> | | |
| Bank loans | 4,195 | 2,660 |
| <i>Unsecured liabilities</i> | | |
| Bank loans – Australian syndicate facilities | 416,317 | 336,439 |
| Bank loans – Other | 4,452 | 8,320 |
| | 424,964 | 347,419 |
| Total borrowings | 437,153 | 361,123 |

Terms and conditions relating to the above financial instruments

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

Secured

- Current secured bank loan of \$2.5 million that is currently fully drawn and matures in January 2023 (December 2021: \$1.9 million)
- Non-current secured bank loan of \$14.0 million facility drawn down to \$4.2 million as at 1 January 2023 (December 2021: \$2.7 million) and can be further drawn upon as required. This facility matures in March 2027.

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 Australian syndicated debt facility from a \$450 million facility maturing in August 2023 to a \$650 million facility that is split as per below:

- Facility A – \$255 million facility that can be drawn upon as required, maturing in June 2025
- Facility B – \$255 million facility that can be drawn upon as required, maturing in June 2026
- Facility C – \$140 million facility that can be drawn upon as required, maturing in June 2027

Bank loans consist of commercial bills. The Group expects to and has the discretion to refinance or rollover the bank loans for at least 12 months after the end of the reporting period under the existing banking facility. The nominal rate for each facility consists of a floating cash rate plus a margin dependant on the amount of leverage. Lending covenants for both facilities include Interest Cover Ratio and Total Leverage Ratio.

- A \$14.1 million term loan facility with \$9.7 million maturing in July 2023 and \$4.5 million maturing in July 2024.

Bank guarantees

The Group maintains bank guarantees of \$12.0 million (December 2021: \$12.0 million) that could be called up at any time in the event of a breach of our financial obligations. The Group does not expect any payments will eventuate under these financial guarantees as the Group expects to meet its respective obligations to the beneficiaries of these guarantees. The financial guarantees are applied against the available drawdown limit for Facility A of the Australian syndicated facility as detailed above. The predominant use of the bank guarantees is to support leased properties.

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 Consolidated Statement of Profit 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 2022 | | December 2021 | |
|--|---------------|---------|---------------|---------|
| | Number | \$ '000 | Number | \$ '000 |
| Ordinary shares | | | | |
| Opening balance | 464,378,621 | 768,074 | 400,830,387 | 580,734 |
| Ordinary shares issued (net of issue costs) ¹ | - | - | 63,360,845 | 186,403 |
| Settlement of share based payments | 167,845 | 458 | 187,389 | 937 |
| At reporting date | 464,546,466 | 768,532 | 464,378,621 | 768,074 |

Note:

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

Ordinary shares

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

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

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

Other equity reserve

The other equity reserve comprises the payments made to meet the Group's obligation through acquisition of shares on market for the purpose of options or performance rights exercised by eligible executives under the long term and short term incentive plans.

C3. Profit reserve

The profit reserve comprises the transfer of net profit of \$33.6 million for the period and characterises available profits to enable payment of dividends in future years. The profit reserve balance as at balance sheet date is \$103.4 million (December 2021: \$112.0 million).

C4. Other reserves

The nature and purpose of other reserves is as follows:

Share based payment reserve

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

Foreign currency translation reserve

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

Cash flow hedge reserve

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

General reserve

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

Notes to the Consolidated Financial Statements continued

C5. Dividends

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

| Declared and paid during the 12 months ended 1 January 2023 | Cents per share | Total amount \$'000 | Date of payment |
|--|------------------------|----------------------------|------------------------|
| Final December 2021 ordinary | 5.0 | 23,219 | 7 April 2022 |
| Interim December 2022 ordinary | 4.0 | 18,582 | 6 October 2022 |

Determined after end of year

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

| | Cents per share | Total amount \$'000 | Date of payment |
|------------------------------|------------------------|----------------------------|------------------------|
| Final December 2022 ordinary | 5.0 | 23,227 | 6 April 2023 |

C6. Financial instruments – fair values and risk management

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 2022 \$'000 | December 2021 \$'000 |
|---|-----------------------------|-----------------------------|-----------------------------|
| Financial assets | | | |
| <i>Amortised costs</i> | | | |
| Current receivables | – | 101,589 | 108,032 |
| Non-current receivables | – | – | 1,274 |
| Cash and cash equivalents | – | 85,212 | 61,887 |
| | | 186,801 | 171,193 |
| <i>Fair value through other comprehensive income</i> | | | |
| Interest rate swaps | Level 2 | 496 | – |
| Forward exchange contracts | Level 2 | 244 | 252 |
| | | 740 | 252 |
| Financial liabilities | | | |
| <i>Financial liabilities not measured at fair value</i> | | | |
| Payables | – | 149,418 | 149,310 |
| Bank loans | – | 437,153 | 361,123 |
| Lease liabilities | – | 571,049 | 583,052 |
| | | 1,157,620 | 1,093,485 |

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. The Group has not made any changes to its business model in the current year.

Amortised costs

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

Fair value through other comprehensive income (FVOCI)

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

Fair value through profit or loss (FVTPL)

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

Measurement of fair values

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- 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.

Impairment

Non-derivative financial assets

Financial assets measured at amortised cost

At each reporting date, the Group assesses whether a loss allowance is required for financial assets carried at amortised costs, using the expected credit loss model. Any losses are recognised in the Consolidated Statement of Profit and Other Comprehensive Income and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment was recognised causing the amount of the impairment loss to decrease, the decrease in impairment loss is reversed through the Consolidated Statement of Profit and Other Comprehensive Income.

Notes to the Consolidated Financial Statements continued

Risk management

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

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

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

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 manages 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 2022 | December 2021 |
|--|------------------|------------------|
| | \$ '000 | \$ '000 |
| Variable rate instruments | | |
| Assets | | |
| Cash and cash equivalents | 85,212 | 61,887 |
| Liabilities | | |
| Bank loans | (437,153) | (361,123) |
| | (351,941) | (299,236) |
| Effect of interest rate swaps ¹ | 75,000 | - |
| Net financial liabilities exposed to interest rate risk | (276,941) | (299,326) |

Note:

1. During the year, the Group entered into interest rate swaps agreements. \$50 million of the interest rate swaps are capped at an interest rate of 4%, which thereon would convert into a variable rate, which is determined as the current reference rate less 0.61%.

Sensitivity analysis for variable rate instruments

At 1 January 2023, if interest rates had changed by +/- 100 basis points from the year end rates with all other variables held constant, profit would have increased/(decreased) by:

| | December 2022 | December 2021 |
|---|------------------|------------------|
| | \$ '000 | \$ '000 |
| Increase of 100 basis points in interest rate | (2,769) | (2,992) |
| Decrease of 100 basis points in interest rate | 2,769 | 2,992 |

Foreign currency risk

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

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

| December 2022 | USD | JPY | EUR | GBP | CNY | MAD | NZD |
|-----------------------------|--------------|--------------|--------------|------------|----------------|----------------|-------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Cash and cash equivalents | 5,159 | 672 | 3,201 | 793 | 23,361 | 15,176 | - |
| Trade and other receivables | 1,988 | 404 | 1,371 | - | 7,106 | 2,472 | - |
| Trade and other payables | (642) | - | (842) | (1) | (1,587) | (7,638) | (13) |
| Derivative financial assets | 167 | (7) | 84 | - | - | - | - |
| Bank loans | - | - | - | - | (14,142) | (6,694) | - |
| Lease liabilities | - | - | - | - | (22,195) | (5,945) | - |
| Net exposure | 6,672 | 1,069 | 3,814 | 792 | (7,457) | (2,629) | (13) |

| December 2021 | USD | JPY | EUR | GBP | CNY | MAD | NZD |
|-----------------------------|--------------|------------|------------|--------------|-----------------|--------------|----------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Cash and cash equivalents | 3,542 | 131 | 507 | 927 | 18,474 | 18,915 | - |
| Trade and other receivables | 4,531 | 138 | 103 | 2,416 | 6,741 | 1,310 | - |
| Trade and other payables | (291) | - | (320) | (59) | (249) | (6,778) | - |
| Derivative financial assets | 90 | 162 | - | - | - | - | - |
| Bank loans | - | - | - | - | (20,161) | (4,523) | - |
| Lease liabilities | - | - | - | - | (19,922) | (5,332) | - |
| Net exposure | 7,872 | 431 | 290 | 3,284 | (15,117) | 3,592 | - |

Sensitivity analysis

At 1 January 2023, 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 | NZD |
|------------------------------------|--------|--------|--------|--------|--------|--------|--------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Australian Dollar Weakened by 10% | 667 | 107 | 381 | 79 | (746) | (263) | 1 |
| Australian Dollar Strengthened 10% | (667) | (107) | (381) | (79) | 746 | 263 | (1) |

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 \$219.0 million. In addition, the Group maintains a domestic overdraft facility of \$3.0 million.

During the year, the Group renewed and expanded its Australian syndicated facilities from \$450 million maturing in August 2023, to \$650 million maturing in 2025 to 2027 as outlined in note C1.

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

Notes to the Consolidated Financial Statements continued

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 2022 | 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 | 2,499 | 9,690 | 424,964 | – | 437,153 |
| Trade payables | 143,725 | – | – | – | 143,725 |
| Interest payable | 5,693 | – | – | – | 5,693 |
| | 151,917 | 9,690 | 424,964 | – | 586,571 |

| December 2021 | 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 ¹ | – | 9,288 | 351,835 | – | 361,123 |
| Trade payables | 149,310 | – | – | – | 149,310 |
| Interest payable | 865 | – | – | – | 865 |
| | 150,175 | 9,288 | 351,835 | – | 511,298 |

Note:

1. Bank loans maturity has been updated to reflect the underlying facility expiry.

Credit Risk

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

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

The maximum exposure to credit risk is as follows:

| | December 2022 | December 2021 |
|----------------------------|--------------------------|--------------------------|
| | \$'000 | \$'000 |
| Cash and cash equivalents | 85,212 | 61,887 |
| Receivables | 101,589 | 109,306 |
| Interest rate swaps | 496 | – |
| Forward exchange contracts | 244 | 252 |
| | 187,541 | 171,445 |

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 2022 | December 2021 |
|-------------------------------|------------------|------------------|
| | \$ '000 | \$ '000 |
| Neither past due nor impaired | 57,871 | 58,928 |
| Past due 1 – 30 days | 12,375 | 6,832 |
| Past due 31 – 60 days | 2,447 | 1,105 |
| Past due over 60 days | 5,615 | 7,804 |
| | 78,308 | 74,669 |

Management believes that the unimpaired amounts that are past due by more than 30 days are still collectible in full, based on historical payment behaviour and extensive analysis of customer credit risk, including underlying customers' credit ratings if they are available. At 1 January 2023, major Australian retailers, including Coles, Woolworths, Aldi and IGA comprise approximately 41% of the Group's trade debtors.

Expected credit loss assessment for trade receivables

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

The movement in the allowance for impairment in respect of trade receivables during the period was as follows:

| | December 2022 | December 2021 |
|--|------------------|------------------|
| | \$ '000 | \$ '000 |
| Movements in the accumulated impairment losses were: | | |
| Opening balance | (582) | (652) |
| Impairment loss recognised | (263) | (1) |
| Amounts written off | 214 | 71 |
| Closing balance | (631) | (582) |

Capital management

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

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

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

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

Notes to the Consolidated Financial Statements continued

D. Group Structure

D1. Joint ventures and associates

Details of joint ventures and associates

| | Equity instrument | Ownership interest December 2022 | Ownership interest December 2021 | Measurement basis | Principal place of business and country of incorporation |
|----------------------------------|-------------------|--|--|-------------------|--|
| | | % | % | | |
| Joint Ventures | | | | | |
| Driscoll's Australia Partnership | Ordinary shares | 50 | 50 | Equity Accounted | Victoria, Australia |
| Associates | | | | | |
| Polar Fresh Partnership | Ordinary shares | 50 | 50 | Equity Accounted | Victoria, Australia |

Summarised financial information for joint ventures and associates

| | December 2022 | December 2021 |
|---|------------------|------------------|
| | \$ '000 | \$ '000 |
| Reconciliation of carrying amount in joint ventures and associates: | | |
| Opening balance | 27,248 | 21,567 |
| Total share of profit | 10,743 | 9,881 |
| Dividends received | (6,700) | (4,200) |
| Closing balance | 31,291 | 27,248 |

Driscoll's Australia Partnership

In 2010, an entity of the Group entered a partnership with Driscoll's Inc. to form Driscoll's Australia Partnership, which is an Australian berry marketing business. The majority of the Group's Australian grown berries are marketed in Australia through the Driscoll's brand by this joint venture. In the period, gross sales revenue for the Driscoll's Australia Partnership was \$577.5 million (12 months ended December 2021: \$542.5 million), and net assets were \$62.4 million (December 2021: \$54.3 million).

Polar Fresh Partnership

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

Recognition and measurement

Investments in joint ventures

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

Investments in associates

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

D2. List of subsidiaries

The following are the Group's subsidiaries:

| Subsidiaries of Costa Group Holdings Ltd: | Country of incorporation | Ownership interest held by the Group | |
|--|--------------------------|--------------------------------------|---------------|
| | | December 2022 | December 2021 |
| | | % | % |
| 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 |
| MushroomExchange 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 |
| BananaExchange Pty Ltd | Australia | 100 | 100 |
| Innisfail Holdings Pty Ltd | Australia | 100 | 100 |
| Exchange Brisbane Pty Ltd | Australia | 100 | 100 |
| Costa Asia Ltd | Hong Kong | 100 | 100 |
| Costa China (Hong Kong) Ltd | Hong Kong | 70 | 70 |
| Costa (Honghe) Fruit Planting Co. Ltd | China | 70 | 70 |
| Costa (Yunnan) Agricultural Development Co. Ltd | China | 70 | 70 |
| Costa (Baoshan) Agricultural Development Co Ltd | China | 70 | 70 |
| African Blue S.A. | Morocco | 90 | 90 |
| Sweet Berry S.A. | Morocco | 90 | 90 |
| Blue Flavor | Spain | 81 | 81 |
| African Blue (UK) Ltd | United Kingdom | 81 | 81 |

Notes to the Consolidated Financial Statements continued

D3. Business Acquisitions

The Group did not enter into any business acquisitions in the current year. During the prior year the Group entered into a series of acquisitions as follows:

Acquisition of 2PH Farms

On 23 June 2021, the Group entered into a binding agreement with the Pressler group of entities (Vendor) to acquire the business and assets of 2PH Farms Pty Ltd and related entities ("2PH Farms"), a leading Central Queensland based citrus grower for an upfront consideration of \$220.8 million. The transaction was funded by \$190.0 million (pre costs) in equity by way of a fully underwritten 1 for 6.33 pro rata accelerated renounceable entitlement offer, and the balance by existing debt facilities. The acquisition completed on 19 July 2021.

Deferred consideration of \$1.6 million relating to plantings for the 2PH Farms was settled during the year.

Acquisition of KW Orchards

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

Deferred consideration of \$1.5 million relating to pending land subdivision is still ongoing and has not settled during the period.

Acquisition of Select Fresh

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

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

There have been no changes to provisional values of the assets and liabilities of 2PH, KW Orchards and Select Fresh at the date of acquisition that were disclosed at 26 December 2022. The accounting for the acquisition is now final

Measurement of fair values

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

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

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

Bearer plants

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

Intangible assets

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

Biological assets

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

Inventories

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

Receivables

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

Goodwill

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

The asset and liabilities acquired were provisionally accounted and were subject to review for up to 12 months from the date of the acquisition. The acquisitions are now finalised and no changes to the original provisional acquisition accounting were made.

Conaghans property and put and call options

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

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

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

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

Material items – Acquisition related costs

During the prior year a charge of \$19.2m for acquisition related costs was recognised as material items, these included one-off costs such as stamp duty, consulting and valuation costs and salaries for time spend on integration activities refer note A3.

Notes to the Consolidated Financial Statements continued

D4. Related party disclosures

Transactions with joint ventures and associates

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

- Driscoll's Australia Partnership – Commission paid on sale of berries \$27.6 million (December 2021: \$25.3 million)
- Driscoll's Australia Partnership – Sale of produce \$208.8 million (December 2021: \$189.2 million)
- Driscoll's Australia Partnership – Receivable of \$10.3 million (December 2021: \$7.5 million) for sale of produce and logistic services.
- Driscoll's Australia Partnership – Dividends received amounting to \$6.7 million (December 2021: \$4.2 million)

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

There were no transactions between members of the Group and any KMP (or their related parties) that resulted in any personal financial benefit to the KMP. The Group had the following transactions during the financial year ended December 2022, all of which were on arm's length terms and were entered into for the benefit of the Company, at the request of the Company's Board of Directors:

Mr Harry Debney

- Mr Debney became a director of Lite-'n-Easy Group on 25 January 2022. The Group has an established commercial relationship with Lite-'n-Easy and continues to trade at arm's length terms. Sales made to Lite-'n-Easy in the year were \$4.1 million (CY21 \$4.3 million). At year end the trade receivable due by Lite-'n-Easy to the Group was \$0.3 million (CY21 \$0.1 million).
- Payment of membership fee of \$0.2 million to Australian Fresh Produce Alliance (AFPA) (CY2021: \$0.2 million) 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. In the prior year, Sean Hallahan, the previous CEO, was a director of the AFPA representing the Group.
- In the prior year, capital expenditure payments were made to The Yield Technology Solutions Pty Ltd of \$1.7 million of which Mr Debney served as chairman of the board, no payments were made in the current year. The Yield is an Australian agricultural technology company that invest, builds and secure scalable digital agriculture technology. The Yield's services were provided pursuant to written contract on arm's length terms and Mr Debney abstained from the negotiation and all board discussions and voting in relation to entry into the contract. Mr Debney resigned as chairman of The Yield in April 2021.

Key Management Personnel

| | December 2022 | December 2021 |
|--|------------------|------------------|
| | \$ '000 | \$ '000 |
| Compensation received by key management personnel of the group: | | |
| – Short term employee benefits | 1,424 | 1,767 |
| – Post employment benefits | 63 | 46 |
| – Other monetary benefits | 2 | 4 |
| – Long term employee benefits | (47) | 33 |
| – Share based payment (expenses)/benefits ¹ | (442) | 230 |
| – Termination benefits ² | 428 | – |
| | 1,428 | 2,080 |

Notes:

1. In the current year the share based payment benefits includes reversal of previously accrued share based payment expense, due to the non-achievement performance hurdles of prior years' long term incentive plans.
2. During the year, termination benefits were paid to the former CEO, Mr Sean Hallahan, upon his departure from the Group.

D5. Parent entity disclosures

Summarised presentation of the parent entity, Costa Group Holdings Ltd

| | December 2022 | December 2021 |
|-----------------------------|------------------|------------------|
| | \$ '000 | \$ '000 |
| Assets | | |
| Current assets | 738,531 | 8,754 |
| Non-current assets | 260,675 | 990,835 |
| Total assets | 999,206 | 999,589 |
| Liabilities | | |
| Current liabilities | 228,192 | 630 |
| Non-current liabilities | – | 186,273 |
| Total liabilities | 228,192 | 186,903 |
| Net assets | 771,014 | 812,686 |
| Equity | | |
| Contributed equity | 768,532 | 768,074 |
| Share based payment reserve | 7,672 | 8,895 |
| Profit reserve | 53,422 | 94,329 |
| Accumulated losses | (58,612) | (58,612) |
| Total equity | 771,014 | 812,686 |

Summarised statement of comprehensive income

| | December 2022 | December 2021 |
|---|------------------|------------------|
| | \$ '000 | \$ '000 |
| Profit for the period ¹ | 902 | 94,188 |
| Total comprehensive profit for the period | 902 | 94,188 |

Note:

1. The prior period includes internal dividends received by the parent entity from the members of the Group.

Parent entity guarantees in respect of debts of its subsidiaries

The Company has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of certain subsidiaries. Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed are disclosed in note D6.

Notes to the Consolidated Financial Statements continued

D6. Deed of cross guarantee

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

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

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

A Consolidated Statement of Profit and Other Comprehensive Income and a Consolidated Statement of Financial Position for the financial year ended 1 January 2023 for the deed of cross guarantee group are set out below:

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

| | December 2022 | December 2021 |
|---|------------------|------------------|
| | \$ '000 | \$ '000 |
| Revenue | 1,190,107 | 1,006,237 |
| Less: Expenses | (1,193,829) | (1,007,674) |
| Share of net profits of joint ventures and associates accounted for using the equity method | 10,743 | 9,881 |
| Profit before income tax expense | 7,021 | 8,444 |
| Income tax benefit/(expense) | 902 | (5,811) |
| Profit for the year | 7,923 | 2,633 |
| Other comprehensive income/(loss) for the year | | |
| Cash flow hedges – effective portion of changes in fair value | 375 | (2,292) |
| Total other comprehensive income/(loss) for the year | 375 | (2,292) |
| Total comprehensive income for the year | 8,298 | 341 |

Consolidated Statement of Financial Position of the deed of cross guarantee group

| | December 2022 | December 2021 |
|--------------------------------------|------------------|------------------|
| | \$'000 | \$'000 |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | 40,345 | 23,064 |
| Receivables | 103,999 | 109,911 |
| Inventories | 32,971 | 23,050 |
| Biological assets | 52,305 | 50,389 |
| Other assets and financial assets | 10,326 | 8,084 |
| Current tax asset | 28,783 | 8,554 |
| Asset held for sale | - | 3,207 |
| Total current assets | 268,729 | 226,259 |
| Non-current assets | | |
| Receivables | 141 | 1,177 |
| Other financial assets | 114,770 | 114,274 |
| Equity accounted investments | 31,291 | 27,248 |
| Intangible assets | 182,591 | 182,421 |
| Deferred tax assets | 24,165 | 20,353 |
| Property, plant and equipment | 682,508 | 675,030 |
| Right of use assets | 523,571 | 542,162 |
| Total non-current assets | 1,559,037 | 1,562,665 |
| Total assets | 1,827,766 | 1,788,924 |
| LIABILITIES | | |
| Current liabilities | | |
| Payables | 105,842 | 101,667 |
| Provisions | 37,009 | 20,404 |
| Lease liabilities | 57,191 | 64,125 |
| Total current liabilities | 200,042 | 186,196 |
| Non-current liabilities | | |
| Borrowings | 416,317 | 336,439 |
| Provisions | 8,908 | 25,652 |
| Deferred tax liabilities | 37,259 | 33,205 |
| Lease liabilities | 485,718 | 493,673 |
| Total non-current liabilities | 948,202 | 888,969 |
| Total liabilities | 1,148,244 | 1,075,165 |
| NET ASSETS | 679,522 | 713,759 |
| EQUITY | | |
| Share capital | 768,532 | 768,074 |
| Other equity reserve | (13,422) | (13,422) |
| Other reserves | 8,231 | 9,041 |
| Profit reserve | 28,965 | 70,773 |
| Accumulated losses | (112,784) | (120,707) |
| Total equity | 679,522 | 713,759 |

Notes to the Consolidated Financial Statements continued

E. Other

E1. Share based payments

| | December 2022 | December 2021 |
|------------------------------|------------------|------------------|
| | \$ '000 | \$ '000 |
| Share based payments reserve | 7,672 | 8,895 |

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

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

Recognition and measurement

The Group provides benefits to its employees in the form of share based payment transactions, whereby services are rendered in exchange for shares or options.

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

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

Share based Payment Plan – Employee Share Option Plan

During the period, a total of 1,729,851 options (December 2021: 1,542,433 options) have been granted under new option plans.

Measurement of fair values of options

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

| Employee share option programs | December 2022 | | December 2021 |
|--------------------------------|------------------------------------|------------------------------------|-----------------------|
| | KMP and executives Tranche 1 | KMP and executives Tranche 2 | KMP and executives |
| Grant date | 21/02/2022 | 25/08/2022 | 19/02/2021 |
| Number issued | 1,373,751 | 356,100 | 1,542,433 |
| Fair value at grant date | \$0.89 | \$0.72 | \$1.15 |
| Share price at grant date | \$3.00 | \$2.74 | \$4.01 |
| Exercise price | \$2.96 | \$2.96 | \$3.95 |
| Expected volatility | 44% | 44% | 44% |
| Expected dividend yield | 1.77% | 3.30% | 2.80% |
| Risk-free rate | 3.1% | 3.5% | 0.35% |

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.

Measurement of fair values of performance rights

The fair value of the performance rights issued in the period under the short term incentive plan was based on the 5 day market volume weighted average price of the shares of the Costa Group Holdings Ltd starting on 22 February 2022. Details are as follows:

| | December 2022 | December 2021 |
|--------------------------|--------------------|--------------------|
| | KMP and Executives | KMP and Executives |
| Numbers issued | 163,327 | 167,845 |
| Fair value at grant date | \$2.97 | \$4.49 |

Reconciliation of outstanding share options

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

| | December 2022 | | December 2021 | |
|---|-------------------|---------------------------------|-------------------|---------------------------------|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Opening balance | 4,975,221 | \$4.88 | 5,009,277 | \$5.08 |
| Disposed for cash or settled for shares during the year | - | - | (342,348) | \$2.73 |
| Forfeited during the year | (3,502,785) | \$5.50 | (1,234,141) | \$5.11 |
| Granted during the year | 1,729,851 | \$2.96 | 1,542,433 | \$3.95 |
| Closing balance | 3,202,287 | \$3.07 | 4,975,221 | \$4.88 |
| Exercisable at year end | 117,905 | \$4.18 | 269,046 | \$4.60 |

The options outstanding as at 1 January 2023, which have not vested, have an average exercise price of \$3.11 (December 2021: \$4.83).

E2. Taxation

Components of tax expense

| | December 2022 | December 2021 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| Current tax | 4,299 | 8,145 |
| Deferred tax | (2,271) | 2,451 |
| Over provision in prior years | (450) | (1,900) |
| Income tax expense | 1,578 | 8,696 |
| Profit before income tax | 48,579 | 60,920 |
| Prima facie income tax expense on profit before income tax at 30.0% | 14,574 | 18,276 |
| – Effect of tax rates in foreign jurisdictions | (14,249) | (11,649) |
| Tax effect of: | | |
| Non-deductible expenses | 927 | 5,957 |
| Net deferred tax asset recognised | 13 | (596) |
| Non-creditable foreign withholding tax | 1,663 | 115 |
| Over provision in prior years | (450) | (1,900) |
| Research and development tax credits | (900) | (800) |
| Non-assessable income | - | (707) |
| Income tax expense | 1,578 | 8,696 |

Current tax

| | December 2022 | December 2021 |
|--|---------------|---------------|
| | \$'000 | \$'000 |
| Current tax relates to the following: | | |
| <i>Current tax (assets)/liabilities</i> | | |
| Opening balance | (8,012) | 10,526 |
| Current year tax expense | 4,299 | 8,145 |
| Tax payments | (23,183) | (21,718) |
| Foreign withholding tax credits paid and claimable | (1,489) | (1,372) |
| Tax benefits recognised against equity | - | (2) |
| Over provisions | (2,383) | (3,591) |
| Closing balance | (30,768) | (8,012) |

Notes to the Consolidated Financial Statements continued

Deferred tax

Deferred tax relates to the following:

| | December 2022 | December 2021 |
|--|------------------|------------------|
| | \$ '000 | \$ '000 |
| Deferred tax assets | | |
| The balance comprises: | | |
| Provisions | 9,621 | 9,899 |
| Trade and other payables | 3,359 | 3,786 |
| Inventories | 50 | 105 |
| Capital deductions (section 40-880) | 1,599 | 2,089 |
| Borrowings | – | 30 |
| Equity Accounted Investments | 572 | 423 |
| Future deductible share plan trust payment | 131 | 281 |
| Leased assets and liabilities | 5,714 | 4,537 |
| Tax offset carried forward | 3,666 | – |
| Tax losses carried forward | 310 | – |
| Property, plant and equipment | 269 | 152 |
| | 25,291 | 21,302 |
| Deferred tax liabilities | | |
| The balance comprises: | | |
| Biological assets | (14,402) | (14,125) |
| Property, plant and equipment | (15,618) | (10,978) |
| Intangible assets | (7,051) | (7,644) |
| Trade and other receivables | (1,064) | (1,645) |
| Other financial liabilities | (236) | (75) |
| Borrowings | (32) | – |
| | (38,403) | (34,467) |
| Net deferred tax liability | (13,112) | (13,165) |
| Deferred tax expense included in income tax comprises | | |
| Decrease/(increase) in deferred tax assets | (2,533) | 2,784 |
| Increase/(decrease) in deferred tax liabilities | 262 | (333) |
| | (2,271) | 2,451 |
| Deferred tax movement | | |
| Opening balance – net deferred tax (liability)/asset | (13,165) | 6,918 |
| Underprovision in prior years | (2,079) | (1,777) |
| Increase in net deferred tax asset recognised in profit or loss | 2,271 | (2,451) |
| Increase in net deferred tax liability as a result of acquisitions | – | (17,285) |
| (Decrease)/increase in deferred tax asset recognised in equity | (161) | 1,516 |
| FX revaluation | 22 | (86) |
| Closing balance – net deferred tax liability | (13,112) | (13,165) |

The Company's franking account balance as at 1 January 2023 is \$969,488 (December 2021: \$1,128,845).

The Company has recognised a deferred tax asset relating to carried forward research and development tax offset, because it is probable that future taxable profit will be available against which the Company can use the benefits therefrom. On the other hand, the Company has not recognised a deferred tax asset relating to carried forward capital losses in Australia, as the Company is not expecting any significant CGT events in foreseeable future. The unrecognised deferred tax asset on capital losses in Australia is \$2.1 million (2021: \$2.5 million).

The Company has recognised a deferred tax asset on the carried forward revenue losses in China of \$0.3 million (2021: Nil), because it is probable that future taxable profits will be available against which the Group can use the benefits therefrom.

Recognition and measurement

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

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

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

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

Tax Consolidation

The Company and its Australian wholly owned subsidiaries have formed a tax consolidated group. The Company and subsidiaries in the tax consolidated group have entered into a tax funding agreement such that each entity in the tax consolidated group recognises the assets, liabilities, expenses and revenues in relation to its own transactions, events and balances only. This means that:

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

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

Critical accounting estimate and judgement

Income Tax

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

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

E3. New accounting standards

Recently issued or amended Accounting Standards

The following relevant Australian Accounting Standards and Interpretations have been issued or amended but are not yet effective and the Group has not yet adopted them.

| Effective Date | New Standards or amendments | Reference |
|----------------|--|---------------------|
| 1 January 2023 | Classification of liabilities as current or non-current (Amendments to AASB 1) | AASB 1 |
| | Disclosure of Accounting Policies (Amendments to AASB 1 and IFRS Practice Statement 2) | Various |
| | Definition of accounting estimates (Amendments to AASB 108) | AASB 108 |
| | Deferred tax related to Assets and Liabilities arising from a single transaction (Amendments to AASB 112) | AASB 112 |
| 1 January 2024 | Lease Liability in a Sale and Leaseback – Amendments to AASB 16 Leases | AASB 16 |
| 1 January 2025 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to AASB 10 and AASB 128) | AASB 10 AASB 128 |

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

E4. Auditor's remuneration

| | December 2022 | December 2021 |
|--|------------------|------------------|
| | \$ '000 | \$ '000 |
| Audit and review services | | |
| Services provided by KPMG Australia | 569 | 524 |
| Services provided by associate firms of KPMG Australia | 150 | 259 |
| Services provided by other firms | 89 | – |
| | 808 | 783 |
| Other services provided by KPMG Australia | | |
| Taxation compliance and other taxation advisory services (including R&D) | 208 | 210 |
| Other services ¹ | – | 148 |
| | 208 | 358 |
| Total remuneration of KPMG | 1,016 | 1,141 |

Note:

1. The prior year includes business acquisition due diligence services of \$138,297.

E5. Other accounting policies

Research and development expenditure

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

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

Other development expenditure is recognised as an expense when incurred.

Bonus plan

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

Government grants

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

Director's Declaration

1. In the opinion of the directors of Costa Group Holdings Ltd ("the Company"):
 - (a) the consolidated financial report and notes A1 to E5 and the Remuneration Report in the Directors' Report, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 1 January 2023 and of its performance, for the financial year on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that the Company and the Group entities identified in note D6 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those Group entities pursuant to ASIC Corporations (Wholly owned Companies) Instrument 2016/785.
3. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the year ended 1 January 2023.
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 20th day of February 2023.



Neil Chatfield
Chairman



Harry Debney
Director and Interim CEO

Independent Auditor's Report



Independent Auditor's Report

To the shareholders of Costa Group Holdings Limited

Report on the audit of the Financial Report

Opinion

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

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

- giving a true and fair view of the **Group's** financial position as at 1 January 2023 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated Statement of Financial Position as at 1 January 2023
- Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity, and Consolidated Statement of Cash Flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

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

Basis for opinion

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

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

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

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Key Audit Matters

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

This matter was addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Recoverability of non-current assets including property, plant and equipment (\$814.3m AUD) and intangible assets (\$282.9m AUD)

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

| The key audit matter | How the matter was addressed in our audit |
|---|--|
| <p>A key audit matter for us was the Group's assessment of the recoverability of non-current assets, including annual testing of goodwill for impairment, given the size of the balances (being 53% of total assets) and the level of judgement required by us when evaluating the evidence available. In addition, the ongoing uncertainty around inflationary expectations and its impact on market conditions increases estimation uncertainty when applying forward-looking assumptions.</p> <p>We focussed on the significant forward-looking assumptions the Group applied in their Value in Use (VIU) and Fair Value Less Costs of Disposal (FVLCD) models (the cash flow models), including:</p> <ul style="list-style-type: none"> • forecast operating cash flows, impacted by pricing, yield and growth rates - the Group's models are sensitive to changes in these assumptions, potentially reducing available headroom or indicating possible impairment. This drives additional audit effort specific to their feasibility and consistency of application. • Discount and terminal growth rates – these are complicated in nature and vary according to the conditions and environment the specific CGU is subject to from time to time. The Group's modelling is sensitive to small changes in these rates. We involved our valuation specialists with this assessment. | <p>Our procedures included:</p> <ul style="list-style-type: none"> • We considered the appropriateness of the VIU and FVLCD methods applied by the Group to perform the test of non-current assets for impairment against the requirements of the accounting standards. • We assessed the integrity of the cash flow models used, including the accuracy of the underlying calculation formulas. • We compared the forecast cash flows and capital expenditure contained in the cash flow models to Board approved forecasts. • We challenged the Group's significant forecast cash flow and growth assumptions considering past performance of each CGU, and the forecast impact on cash flows from the Moroccan growth and replanting strategy. We compared key events to the Board approved plan and strategy. We compared forecast growth rates and terminal growth rates to published studies of industry trends and expectations and considered differences for the Group's operations. We used our knowledge of the Group, its past performance, business and customers, and our experience regarding the feasibility of these in the industry in which they operate. |

Independent Auditor's Report continued



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

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Other Information

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

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

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

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

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in



accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

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

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Costa Group Holdings Limited for the year ended 1 January 2023 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 1 January 2023.

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

20 February 2023

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Shareholder Information

Twenty Largest Registered Shareholders (as at 13 March 2023)

| Rank | Name of shareholder | No. of shares | % of issued capital |
|------|--|---------------|---------------------|
| 1 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 119,833,736 | 25.79 |
| 2 | CITICORP NOMINEES PTY LIMITED | 87,698,166 | 18.87 |
| 3 | JP MORGAN NOMINEES AUSTRALIA PTY LIMITED | 56,111,025 | 12.07 |
| 4 | NEWECONOMY COM AU NOMINEES PTY LIMITED | 21,505,156 | 4.63 |
| 5 | NATIONAL NOMINEES LIMITED | 9,834,075 | 2.12 |
| 6 | BNP PARIBAS NOMS PTY LTD | 8,994,576 | 1.94 |
| 7 | HOXTON PTY LTD <FA & SA COSTA FAMILY A/C> | 5,004,721 | 1.08 |
| 8 | 3RD WAVE INVESTORS PTY LTD | 4,500,000 | 0.97 |
| 9 | BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD | 4,444,464 | 0.96 |
| 10 | UBS NOMINEES PTY LTD | 3,947,351 | 0.85 |
| 11 | FIRST SAMUEL LTD ACN 086243567 <ANF ITS MDA CLIENTS A/C> | 3,304,891 | 0.71 |
| 12 | WARBONT NOMINEES PTY LTD <UNPAID ENTREPOT A/C> | 2,779,285 | 0.60 |
| 13 | NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C> | 1,590,859 | 0.34 |
| 14 | NETWEALTH INVESTMENTS LIMITED <SUPER SERVICES A/C> | 1,436,328 | 0.31 |
| 15 | CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C> | 1,149,911 | 0.25 |
| 16 | MR JOHN PATERSON | 1,000,000 | 0.22 |
| 17 | MR LEENDERT HOEKSEMA + MRS AALTJE HOEKSEMA | 780,000 | 0.17 |
| 18 | MR IVAN ALFRED PELLIZZER + MRS ELIZABETH JEAN PELLIZZER | 734,998 | 0.16 |
| 19 | BNP PARIBAS NOMINEES PTY LTD <PITCHER PARTNERS DRP> | 688,328 | 0.15 |
| 20 | ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD | 680,614 | 0.15 |

Distribution of Holdings (as at 13 March 2023)

| Range | No. of holders | No. of shares | % of issued capital |
|-------------------|----------------|---------------|---------------------|
| 100,001 and Over | 117 | 356,300,001 | 76.67 |
| 10,001 to 100,000 | 2,703 | 63,035,198 | 13.56 |
| 5,001 to 10,000 | 2,897 | 21,404,468 | 4.61 |
| 1,001 to 5,000 | 7,939 | 20,899,224 | 4.50 |
| 1 to 1,000 | 6,390 | 3,070,902 | 0.66 |
| Total | 20,046 | 464,709,793 | 100.00 |

The number of shareholders holding less than a marketable parcel of shares (as at 13 March 2023) is 1,658 and they hold 223,378 shares.

Substantial Shareholders (as disclosed in substantial holder notices given to the Company as at 13 March 2023)

| Shareholder | No. of shares | % of issued capital |
|--|---------------|---------------------|
| Australian Football Holdings LLC, an entity managed by Paine Schwartz Food Chain Fund VI GP LP and its associated entities | 64,018,511 | 13.78 |
| Perpetual Limited and its related bodies corporate | 48,871,450 | 10.52 |
| Citigroup Global Markets Australia Pty Ltd and its related bodies corporate | 31,601,201 | 6.80 |
| State Street Corporation and subsidiaries | 29,183,223 | 6.28 |

Escrowed Shares

As at 13 March 2023, there are no shares subject to voluntary escrow arrangements.

Unquoted Securities

As at 13 March 2023, there are 2,040,047 options over unissued shares of Costa Group Holdings Ltd. These options are held by 12 current and former members of management 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. More details of these options are set out below.

| Number of unissued ordinary shares under option | Issue price of shares | Expiry date of the options |
|---|-----------------------|----------------------------|
| 50,000 | \$1.45 | October 2024 |
| 810,173 | \$3.95 | March 2026 |
| 1,179,874 | \$2.96 | March 2027 |

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 13 March 2023, there is no current on-market buy-back.

Corporate Directory

Directors

Neil Chatfield (Chairman)

Harry Debney (Interim CEO)

Tim Goldsmith

Janette Kendall

Peter Margin

Dr Jane Wilson AO

Company Secretary

David Thomas

Registered Office

Unit 1, 275 Robyns 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).

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