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# About Costa

Costa is Australia's leading horticultural company and is the largest fresh produce supplier to the major Australian food retailers, with total revenues exceeding \$1.0 billion in FY2018. Costa's operations include approximately 4,000 planted hectares of farmland, 30 hectares of glasshouse facilities and seven mushroom growing facilities across Australia, as well as six blueberry farms in Morocco and three berry farms in China.

The Costa business model is built on the optimisation of a portfolio of integrated farming, packing and marketing activities. Costa's portfolio aims to be broad enough to mitigate agricultural and market risks while maintaining a strategic focus on high-growth and high-value fresh produce categories. Costa practices 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 strong hygiene standards, quality control systems and post-harvest protocols.

Costa's products are predominantly grown and sourced from Costa's expansive footprint of domestic and international farms, whilst being supplemented through a diverse network of third party growers.

Costa operates across three reportable segments:

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**Produce** – operates principally in five core categories; berries, mushrooms, citrus, glasshouse-grown tomatoes and avocados;

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**International** – comprises licensing of proprietary blueberry varieties and expansion of berry farming in attractive international markets, such as Morocco and China; and

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**Costa Farms and Logistics (CF&L)** – incorporates interrelated logistics, wholesale and marketing operations.

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This report provides information regarding Costa's tax activities for FY2018, including our approach to tax strategy and governance, details of transactions with related parties, information about our effective tax rate and an overview of our Australian tax contribution in FY2018. It should be read in conjunction with Costa's 2018 Annual Report which can be found on our website at [www.costagroup.com.au](http://www.costagroup.com.au)

In preparing this report, Costa has followed the recommendations of the Board of Taxation's voluntary tax transparency code (TTC). The aim of the TTC is to provide a mechanism by which medium and large companies can be held accountable for their Australian tax affairs, and to give stakeholders confidence that companies are compliant with their statutory obligations. Costa supports the concept of voluntary tax transparency and believes it improves public trust in tax compliance.



## Approach to tax strategy and governance

Costa is committed to meeting all its tax responsibilities and maintains transparent and collaborative relationships with all taxing authorities. These principles are enforced through Costa's tax governance framework, endorsed by the Board.

Tax risk management and governance falls under the oversight of the Audit and Risk Committee (ARC) and tax risk is managed pursuant to documented policy. Tax matters are regularly discussed as an agenda item at ARC meetings, with Costa's professional tax advisor, KPMG, also attending these meetings as appropriate.

Costa adopts a low-risk tax strategy. Taxes are managed with the objective that all tax liabilities properly due under the law are paid, recorded and accounted for. The tax risk management framework guides management in the day to day management of tax issues.

Costa's tax function works together to identify, analyse and evaluate tax risks. Key tax risks are escalated to the Group Financial Controller and Chief Financial Officer with all significant tax decisions requiring sign-off from the ARC.

## Australian tax consolidated group

Costa lodges a single Australian tax return which consolidates the results of its wholly owned Australian resident companies (Costa tax consolidated group). Costa's tax return discloses the income derived solely from its Australian operations as total income.

Costa subsidiaries which have operations outside of Australia and are not part of the Costa tax consolidated group are not required to lodge an Australian tax return. However, their activities are included within Costa's tax return as an addition to total income to the extent they derive passive income or income from transactions with the Costa tax consolidated group. These companies also comply with the tax laws applicable to the countries in which they operate.

In FY2018, approximately 15% of Costa's EBITDA-S was derived from its foreign subsidiaries and interests.

## International related party dealings

Costa is an Australian based business with investments in overseas countries. Costa's operations overseas are conducted through a combination of joint venture and subsidiary legal entities, all of whom are subject to local tax regimes. These subsidiary legal entities and their foreign jurisdictions are disclosed in Note D2 of Costa's 2018 Annual Report. Costa has a number of international related party dealings with these overseas entities and these are summarised below:

- Sub-licensing of blueberry genetics to the African Blue joint venture in Morocco and Costa Asia joint venture entities in China.
- Loans and equity provided by the head Australian entity to African Blue and Costa Asia joint ventures to fund working capital and expansion requirements.
- Management services provided to African Blue and Costa Asia joint ventures. These predominantly comprise of administrative and support services provided by Costa to offshore subsidiaries and affiliates.
- Dividends received from the African Blue joint venture.

Costa always seeks to price international related party dealings on an arm's length basis to meet the regulatory requirements of the relevant jurisdictions.



# Effective tax rate and reconciliation of accounting profit to income tax payable

The income taxes expense (ITE) disclosed in Costa's 2018 Annual Report is calculated based on International Financial Reporting Standards (IFRS). The effective tax rate for 2018 was 18.7% (2017: 28.2%). The reduction in effective tax rate for FY2018 was driven by a one-off non-assessable accounting gain recognised on the deemed disposal of 49% equity investment in African Blue.

The below tables provide a reconciliation of Costa's accounting profit to income tax expense and effective tax rate.

## Reconciliation of accounting profit to tax expense

\$'000	Note	2018	
		Global	Australia <sup>1</sup>
<b>Profit before income tax</b>		<b>144,924</b>	<b>131,508</b>
Prima facie tax expense (at 30%)		43,477	39,452
– Effect of tax rates in foreign jurisdiction	2	(1,304)	-
Add tax effect of:			
– non-deductible expenses	3	1,942	1,920
– non-creditable foreign withholding tax	4	774	774
– under provisioning of income tax in prior years		55	55
Less tax effect of:			
– deferred tax asset previously not recognised	5	(1,081)	(1,081)
– R&D credits	6	(710)	(710)
– non-assessable gain on disposal of equity accounted investment	7	(14,482)	(14,482)
– other non-assessable income	8	(820)	(26)
– non-deductible share plan trust payments	9	(705)	(705)
<b>Income tax expense</b>		<b>27,146</b>	<b>25,199</b>
<b>Effective tax rate</b>		<b>18.7%</b>	<b>19.2%</b>

1. The Australian reconciliation includes subsidiaries in the Australian tax consolidated group.
2. Effect of lower tax rates in foreign jurisdictions including Morocco, China and Hong Kong.
3. Includes transaction costs associated with the African Blue acquisition and entertainment, donations and fines not claimable for tax purposes.
4. Foreign withholding tax payable on dividends receivable from Costa's foreign subsidiaries.
5. Deferred taxes recognised on future deductions available for horticultural plants on leased land.
6. Tax credits on eligible R&D expenditures during the year.
7. Non-assessable income on accounting gain on deemed disposal of previously held 49% equity interest in African Blue joint venture.
8. Non-assessable income on certain foreign operations.
9. Deductible payments made to share plan trust previously treated as non-deductible expenditure.



The following table provides a reconciliation of the tax expense to income tax payable.

<b>Reconciliation of income tax expense to tax payable</b> <b>\$'000</b>	<b>2018</b>	
	<b>Global</b>	<b>Australia</b>
<b>Income tax expense attributable to profit</b>	27,146	25,199
Temporary differences recognised in deferred tax <sup>1</sup>	351	(1,274)
Over provision in prior years	(55)	(55)
Foreign withholding tax credits received	(180)	(180)
Tax provision acquired from business combination	895	-
Tax effect recognised through equity	(3,272)	(3,272)
<b>Tax payable – current year</b>	24,885	20,417
Timing differences between tax expense and tax payments <sup>2</sup>	3,683	5,068
<b>Income tax paid during the year</b>	28,568	25,485

1. Movement in temporary differences in relation to items such as PPE, accruals, deferred deductions on capital expenditures.

2. Adjustments for 2017 tax payments paid in 2018 income year and final 2018 tax payment payable in 2019.

We note the following in relation to income tax expense:

- The numbers that are disclosed by the ATO are drawn from Costa Group's lodged income tax return. Typically, there will be differences between the income tax expense or benefit recognised for accounting purposes for a reporting period and the amount of income tax paid to the ATO for that period.
- Income tax expense or benefit is recognised based on the application of the applicable accounting standards. It reflects income tax expense or benefit that may be accrued and adjustments for items under the accounting standards for the reporting period which do not necessarily result in an immediate cash tax impact for that period.





# Tax contribution summary for taxes paid in Australia in FY2018

Provided below is a summary of Costa's total cash taxes paid to Australian tax authorities for the financial year ended June 2018. Costa has not separately disclosed the net GST position as Costa's products are generally exempt from GST.

## Costa's Australian tax contribution summary

A\$'000	FY2018
Corporate income taxes <sup>1</sup>	25,485
Payroll tax	11,564
Fringe benefits tax	629
Employee taxes remitted <sup>2</sup>	41,195
Total	78,873

1. Income taxes reflect cash tax paid.

2. Refers to PAYG/PAYE/salary withholding collected by the Group.



