



Tax Transparency Report 2017

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Message from the Chief Financial Officer



On behalf of the Board, I am pleased to present the inaugural Tax Contribution Report for Costa Group Holdings Limited (Costa) for the 2017 financial year.

Costa is Australia's leading horticulture company and is the largest fresh produce supplier to the major Australian food retailers, with total revenues of \$909.1 million in FY2017. Costa's operations include approximately 3,500 planted hectares of farmland, 30 hectares of glasshouse facilities and seven mushroom growing facilities across Australia. Costa also has strategic foreign interests, with joint ventures covering five blueberry farms in Morocco and two berry farms in China.

Costa acknowledges the important role that tax transparency plays in improving community confidence in the tax system and supports initiatives by large corporations to provide additional tax transparency to stakeholders and the community. We are actively involved in supporting the social fabric of the communities in which we operate. Our footprint requires us to not only act and behave as a responsible

corporate citizen, but to also work closely with communities so that they can benefit in ways both economic and social.

Our tax management and strategy is to ensure robust tax governance across the group, ensure compliance with all our tax obligations in the various jurisdictions that we operate and maintain a constructive and respectful relationship with the relevant tax authorities.

In preparing this report, Costa has followed the recommendations of the Board of Taxation's voluntary tax transparency code (TTC) which was released in May 2016. 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.

This report provides information regarding Costa's Australian tax activities for FY2017, 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 tax contribution in FY2017. It should be read in conjunction with Costa's 2017 Annual Report which can be found on our website at www.costagroup.com.au.

Linda Kow
Group Chief Financial Officer



About Costa

Costa is Australia's largest grower, packer and marketer of premium quality fresh fruit and vegetables. Our produce is supplied to all the major Australian supermarket chains, as well as independent grocers and a range of food industry stakeholders. We also export to Asia, North America and Europe.

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:

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

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

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



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 Risk and Audit Committee (RAC) and tax risk is managed pursuant to documented policy. Tax matters are regularly discussed as an agenda item at RAC 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 Tax manager and Chief Financial Officer with all significant tax decisions requiring sign-off from the RAC.



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 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 FY2017, approximately 9% 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 2017 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.
- 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. Further details on Costa's related party transactions including total values can be found in Note D3 of its 2017 Annual Report.

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

The income taxes expense (ITE) disclosed in Costa's 2017 Annual Report is calculated based on International Financial Reporting Standards (IFRS). The effective tax rate for 2017 was 28.2%. The below tables provide a reconciliation of Costa's Australian accounting profit to income tax expense and effective tax rate.

Reconciliation of Australian accounting profit to income tax expense

	Note	FY2017
Profit before income tax		80,262
Tax at 30%		24,078
<i>Add tax effect of:</i>		
– non-deductible expenses	1	736
– impairment of investment in associates	2	2,220
<i>Less tax effect of:</i>		
– non-assessable income	3	(2,904)
– R&D credits	4	(434)
– capital losses utilised	5	(307)
– over provisioning of income tax in prior years	6	(768)
Income tax expense		22,620
Effective tax rate		28.2%

1. Includes share-based payments expense, entertainment and other expenditure not claimable for tax purposes.

2. Impairment of goodwill associated with the investment in the Polar Fresh joint venture which the group made a strategic decision to wind down during the year.

3. Non-assessable, non-exempt income from foreign operations.

4. Tax credits on eligible R&D expenditures during the year.

5. Utilisation of capital losses not previously brought to account.

6. Prior year adjustments – tax laws are complex and subject to interpretation. There are instances which arise where past year results are adjusted for tax outcomes adopted in tax returns filed. These also include any changes to prior year deferred tax balances.

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

Reconciliation of income tax expense to income tax payable

	FY2017
Statutory income tax expense	22,620
Timing differences recognised in deferred tax	(2,456)
Over provision in prior years	768
Tax payable – current year	20,932
Tax paid during the year	(5,787)
Foreign withholding tax credits received	(238)
Over provision of tax from prior year	2,654
Tax payable at year end (net of refunds)	17,561

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 FY2017

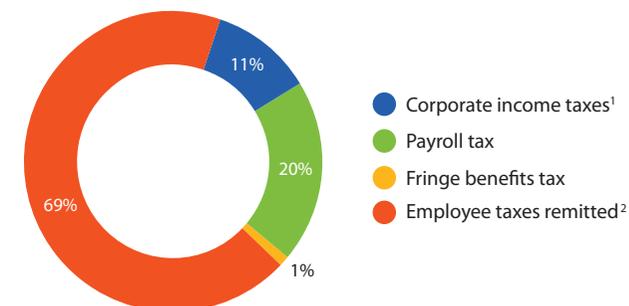
Provided below is a summary of Costa's total cash taxes paid to Australian tax authorities for the financial year ended 25 June 2017. Costa has not separately disclosed the net GST position as Costa's products are generally exempt from GST.

Costa Tax contribution summary

A\$'000	FY2017
Corporate income taxes ¹	5,787
Payroll tax	10,534
Fringe benefits tax	441
Employee taxes remitted ²	36,941
Total	53,703

1. Income taxes reflect cash tax paid.

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





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