



Costa Group Holdings Limited

Appendix 4D and Condensed Consolidated Interim Financial Statements

For the half-year ended 30 June 2019

ASX Listing Rule 4.2A.3

ABN 68 151 363 129

**The information in this report should be read in conjunction with Costa's six
month financial period 2018 Annual Report**

1. RESULTS FOR ANNOUNCEMENT TO THE MARKET

Key information	Half year ended 30 June 2019 \$ '000	Half year ended 1 July 2018 \$ '000	Change increase / (decrease) %	Amount increase / (decrease) \$ '000
Revenue from ordinary activities	573,425	512,678	12%	60,747
Profit from ordinary activities	43,006	43,354	(1%)	(348)
Profit for the period attributable to members	41,092	40,686	1%	406
EBITDA-SL ^{(1) (2)}	82,364	89,886	(8%)	(7,522)
NPAT-SL ^{(1) (2)}	41,070	48,079	(15%)	(7,009)

(1) Earnings before interest, tax, depreciation, material items & amortisation and fair value movements in biological assets (SGARA) and adoption of AASB16

(2) EBITDA-SL and NPAT-SL disclosed are presented before material items. Refer Note 6 of the Condensed Consolidated Interim Financial Statements for details.

DIVIDENDS

The Directors have declared an interim dividend of 3.5 cents per ordinary share, fully franked. The record date of the dividend is 12 September 2019 and the dividend is expected to be paid on 3 October 2019. The dividend was not declared as at 30 June 2019 and accordingly no provision has been recognised.

Dividend (distributions)	Cents per share	Franking %
Interim dividend – half year ended 30 June 2019	3.5 cents	100%
Six-month financial period ended 30 December 2018		
Final dividend	5.0 cents	100%
Financial year ended 1 July 2018		
Final dividend	8.5 cents	100%
Interim dividend	5.0 cents	100%

Consistent with prior years, there was no dividend reinvestment plan in operation during the half-year ended June 2019.

2. FINANCIAL STATEMENTS

Please refer to pages 1 through 26 of this report wherein the following are provided:

- Directors' report;
- Auditor's independence declaration;
- Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income for the half-year ended 30 June 2019;
- Condensed Consolidated Interim Statement of Financial Position as at 30 June 2019;
- Condensed Consolidated Interim Statement of Changes in Equity for the half-year ended 30 June 2019;
- Condensed Consolidated Interim Statement of Cash Flows for the half-year ended 30 June 2019;

- Notes to the Condensed Consolidated Interim Financial Statements;
- Director's Declaration;
- Independent auditor's review report for the half-year ended 30 June 2019; and
- Corporate Directory.

3. NET TANGIBLE ASSETS

Net tangible asset backing per ordinary share	Half-year ended 30 June 2019 Cents per share	Financial period ended 30 December 2018 Cents per share
Net tangible asset backing per ordinary share	74.96	64.83

4. ASSOCIATES AND JOINT VENTURES

Associates and Joint Ventures	Equity instrument	Ownership interest 30 June 2019 %	Ownership interest 30 December 2018 %	Measurement basis
Driscoll's Australia Partnership	Ordinary shares	50	50	Equity Accounted
Polar Fresh Partnership ⁽¹⁾	Ordinary shares	50	50	Equity Accounted

(1) Final contract was completed in October 2017 and operations have now ceased. The entity is in the process of winding down.

5. FURTHER INFORMATION

Additional Appendix 4D disclosure requirements can be found in the notes to the Condensed Consolidated Interim Financial Statements and the Interim Directors' Report.

Costa Group Holdings Ltd

Directors' Report

For the half-year ended 30 June 2019

The directors of Costa Group Holdings Ltd and its controlled entities ("the Group") present their report together with the Condensed Consolidated Interim Financial Statements of the Group, being the Company and its controlled entities, for the half-year ended 30 June 2019 and Auditor's Report thereon.

DIRECTORS' NAMES

The directors of the Group at any time during or since the end of the half-year are:

Mr Neil Chatfield (Chairman)

Mr Harry Debney (CEO)

Mr Frank Costa AO¹

Mr Peter Margin

Ms Janette Kendall

Mr Tim Goldsmith

Dr Jane Wilson²

Mr Kevin Schwartz³

¹ Mr Frank Costa AO ceased to be a director on 4 July 2019.

² Dr Jane Wilson was appointed as a director on 1 April 2019 and continues in office at the date of this report.

³ Mr Kevin Schwartz was a director from the beginning of the half-year until his resignation on 28 February 2019.

The remaining directors have been in office since the start of the half-year to the date of this report.

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 half-year were:

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

No significant change in the nature of these activities occurred during the half-year.

OPERATING AND FINANCIAL REVIEW

Financial information in the Operating and Financial Review is based on the reviewed Condensed Consolidated Interim Financial Statements. Non-IFRS measures have not been subject to audit or review. The non-IFRS measures are used internally by management to assess the performance of the business and make decisions on the allocation of resources.

A full review of operations of the Group during the half-year is contained in the Australian Securities Exchange announcement dated 23 August 2019.

Key financial highlights from 1HCY2019 ("half-year ended 30 June 2019") vs. 1HCY2018 ("half-year ended 1 July 2018") include:

- Revenue up 12% to \$573.4 million led by new Colignan farm sales and increased table grape marketing volume in the Produce segment and growth in the International segment driven by China and Morocco.
- EBITDA before SGARA and leasing (EBITDA-SL) was down 8% to \$82.4 million with lower Produce segment result.
- Statutory profit was down 1% to \$43.0 million mainly driven by EBITDA-SL drivers highlighted above, higher depreciation charges and front-loading of lease interest expense due to adoption of IFRS16. This was partially offset by \$10.2 million gain in biological assets.

Costa Group Holdings Ltd
Directors' Report
For the half-year ended 30 June 2019

EVENTS SUBSEQUENT TO REPORTING DATE

The Group entered into an agreement with its lenders on 19 August 2019 to extend and amend its current senior debt facilities. The debt facilities have been increased to \$500m with 3 and 4 year tenures. Covenants and material commercial terms remain consistent with the previous facility agreement.

Except as disclosed above, there are no other matters or circumstances which have arisen since the end of the period ending 30 June 2019 which have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial periods.

DIVIDENDS PAID, RECOMMENDED AND DECLARED

The Directors have declared an interim dividend of 3.5 cents per ordinary share, fully franked, in respect of the current financial year. The record date of the dividend is 12 September 2019 and the dividend is expected to be paid on 3 October 2019. The dividend was not declared until 22 August 2019 and accordingly no provision has been recognised at 30 June 2019.

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration as required under section 370C of the Corporations Act 2001 is set out on page 3 and forms part of the Directors' Report for the half-year ended 30 June 2019.

ROUNDING

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

This report is made in accordance with a Resolution of the Board of Directors and is signed for and on behalf of the Directors.



Harry Debney
Managing Director



Neil Chatfield
Chairman

22 August 2019



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

To the Directors of Costa Group Holdings Ltd

I declare that, to the best of my knowledge and belief, in relation to the review of Costa Group Holdings Ltd for the half-year beginning 31 December 2018 and ending 30 June 2019 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Gordon Sangster
Partner
Melbourne
22 August 2019

Costa Group Holdings Ltd
Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income
For the half-year ended 30 June 2019

		Half year	
	Notes	June 2019	June 2018*
		\$ '000	\$ '000
Revenue			
Total revenue	4	573,425	512,678
Less: expenses			
Raw materials, consumables and third party purchases		(205,559)	(165,076)
Depreciation and amortisation expenses		(46,595)	(23,465)
Employee benefits expenses	5	(189,143)	(161,717)
Occupancy expenses		(15,986)	(33,876)
Net finance costs	5	(12,955)	(4,123)
Profit / (loss) on sale of assets		1,265	(281)
Impairment losses		-	243
Freight and cartage		(26,537)	(24,812)
Leasing expenses		(2,159)	(4,863)
Gain / (loss) on fair value adjustments - biological assets		10,162	(4,589)
Gain / (loss) on fair value of derivatives		-	(87)
Other expenses		(33,034)	(36,285)
		(520,541)	(458,931)
Share of net profits of associates and joint ventures accounted for using the equity method		3,635	3,315
Profit before income tax expense		56,519	57,062
Income tax expense	16	(13,513)	(13,708)
Profit for the period		43,006	43,354
Other comprehensive income / (loss) for the period			
Foreign currency translation differences		2,870	2,040
Cash flow hedges - effective portion of changes in fair value		(622)	(635)
Total other comprehensive income / (loss) for the period		2,248	1,405
Total comprehensive income / (loss) for the period		45,254	44,759
Profit attributable to:			
Owners of Costa Group Holdings Ltd		41,092	40,686
Non-controlling interests		1,914	2,668
		43,006	43,354
Total comprehensive income attributable to:			
Owners of Costa Group Holdings Ltd		43,340	42,091
Non-controlling interests		1,914	2,668
		45,254	44,759
		June 2019	June 2018
		Cents	Cents
Earnings per share for profit attributable to ordinary equity holders:			
Basic earnings per share	7	12.83	12.73
Diluted earnings per share	7	12.78	12.70

* The Group has initially applied AASB 16 *Leases* at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information and retained earnings is not restated at the date of initial application. Refer Note 17.

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

Costa Group Holdings Ltd
Condensed Consolidated Interim Statement of Financial Position
For the half-year ended 30 June 2019

	Notes	June 2019 \$ '000	December 2018* \$ '000
ASSETS			
Current assets			
Cash and cash equivalents		50,366	45,802
Receivables		123,639	92,510
Inventories		25,523	25,376
Biological assets		62,267	48,328
Other assets		13,492	14,422
Current tax assets		4,930	3,016
Total current assets		280,217	229,454
Non-current assets			
Receivables		4,081	2,210
Other financial assets		1,232	244
Equity accounted investments		16,957	14,421
Intangible assets		253,677	255,643
Deferred tax assets		16,596	20,798
Property, plant and equipment		459,441	414,189
Right of use (ROU) assets	17	296,800	-
Total non-current assets		1,048,784	707,505
Total assets		1,329,001	936,959
LIABILITIES			
Current liabilities			
Borrowings	8	41,102	428
Payables		124,155	130,237
Provisions		18,115	17,323
Other financial liabilities		3,556	3,821
Lease liabilities	17	35,827	-
Total current liabilities		222,755	151,809
Non-current liabilities			
Borrowings	8	313,719	290,014
Provisions		7,793	9,662
Deferred tax liabilities		24,419	18,844
Other financial liabilities		1,781	3,630
Lease liabilities	17	264,779	-
Total non-current liabilities		612,491	322,150
Total liabilities		835,246	473,959
NET ASSETS		493,755	463,000
EQUITY			
Share capital	10	408,133	404,721
Other equity reserve		(13,093)	(11,558)
Other reserves		9,602	7,735
Profit reserve		124,833	99,736
Accumulated losses		(56,621)	(56,621)
Equity attributable to owners of the parent		472,854	444,013
Non-controlling interests		20,901	18,987
Total equity		493,755	463,000

* The Group has initially applied AASB 16 *Leases* at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information and retained earnings is not restated at the date of initial application. Refer Note 17.

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

Costa Group Holdings Ltd
Condensed Consolidated Interim Statement of Changes in Equity
For the half-year ended 30 June 2019

	Share capital	Other equity reserve	Other reserves				Profit reserve	Accumulated losses	Total	Non-controlling interests	Total equity
			Share-based payment reserve	Foreign currency translation reserve	Hedge reserve	General reserve					
Consolidated	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
Balance as at 31 December 2018*	404,721	(11,558)	10,874	4,292	(643)	(6,788)	99,736	(56,621)	444,013	18,987	463,000
Profit for the period	-	-	-	-	-	-	-	41,092	41,092	1,914	43,006
Other comprehensive income / (loss)	-	-	-	2,870	(622)	-	-	-	2,248	-	2,248
Transfer to profit reserve	-	-	-	-	-	-	41,092	(41,092)	-	-	-
Total comprehensive income for the period	-	-	-	2,870	(622)	-	41,092	-	43,340	1,914	45,254
Transactions with owners in their capacity as owners:											
Issue of shares	3,270	(3,270)	-	-	-	-	-	-	-	-	-
Share options exercised	-	1,735	-	-	-	-	-	-	1,735	-	1,735
Options granted during the period	-	-	1,012	-	-	-	-	-	1,012	-	1,012
Settlement of share-based payments	142	-	(142)	-	-	-	-	-	-	-	-
Dividend paid on ordinary shares	-	-	-	-	-	-	(15,995)	-	(15,995)	-	(15,995)
Tax effect of share plan payment through equity	-	-	(3,209)	-	-	-	-	-	(3,209)	-	(3,209)
Acquisition of non-controlling interest of a subsidiary	-	-	-	-	-	1,958	-	-	1,958	-	1,958
Balance as at 30 June 2019	408,133	(13,093)	8,535	7,162	(1,265)	(4,830)	124,833	(56,621)	472,854	20,901	493,755

* The Group has initially applied AASB 16 *Leases* at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information and retained earnings is not restated at the date of initial application. Refer Note 17.

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

Costa Group Holdings Ltd
Condensed Consolidated Interim Statement of Changes in Equity
For the half-year ended 30 June 2019

	Share capital	Other reserves				Hedge reserve	General reserve	Profit reserve	Accumulated losses	Total	Non-controlling interests	Total equity
		Other equity reserve	Share-based payment reserve	Foreign currency translation reserve								
Consolidated	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
Balance as at 31 December 2017*	402,443	(4,833)	2,402	(1,794)	-	(9,130)	97,900	(56,621)	430,367	11,077	441,444	
Profit for the period	-	-	-	-	-	-	-	40,686	40,686	2,668	43,354	
Other comprehensive income / (loss)	-	-	-	2,040	(635)	-	-	-	1,405	-	1,405	
Transfer to profit reserve	-	-	-	-	-	-	40,686	(40,686)	-	-	-	
Total comprehensive income for the period	-	-	-	2,040	(635)	-	40,686	-	42,091	2,668	44,759	
Transactions with owners in their capacity as owners:												
Options granted during the half year	-	-	191	-	-	-	-	-	191	-	191	
Issue of shares	611	-	-	-	-	-	-	-	611	-	611	
Own shares acquired	-	(15,144)	-	-	-	-	-	-	(15,144)	-	(15,144)	
Performance rights granted during the half year	-	-	732	-	-	-	-	-	732	-	732	
Share options exercised	-	8,419	-	-	-	-	-	-	8,419	-	8,419	
Settlement of share-based payments	356	-	(356)	-	-	-	-	-	-	-	-	
Dividend paid on ordinary shares	-	-	-	-	-	-	(15,985)	-	(15,985)	-	(15,985)	
Tax effect of share plan payment through equity	-	-	9,031	-	-	-	-	-	9,031	-	9,031	
Acquisition of a subsidiary	-	-	-	-	-	1,858	-	-	1,858	1,884	3,742	
Capital injected by non-controlling interest without change in control	-	-	-	-	-	-	-	-	-	1,468	1,468	
Balance as at 1 July 2018*	403,410	(11,558)	12,000	246	(635)	(7,272)	122,601	(56,621)	462,171	17,097	479,268	

* The Group has initially applied AASB 16 *Leases* at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information and retained earnings is not restated at the date of initial application. Refer Note 17.

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

Costa Group Holdings Ltd
Condensed Consolidated Interim Statement of Cash Flows
For the half-year ended 30 June 2019

	Notes	Half year	
		June 2019	June 2018*
		\$ '000	\$ '000
Cash flow from operating activities			
Receipts from customers		548,752	489,201
Payments to suppliers and employees		(490,440)	(402,671)
Interest received		162	52
Interest paid		(11,305)	(3,305)
Dividends received		42	78
Income taxes paid		(8,820)	(8,089)
Net cash provided by operating activities		38,391	75,266
Cash flow from investing activities			
Payments for property, plant and equipment		(65,885)	(53,538)
Proceeds from sale of investments		350	-
Dividends from equity accounted investments		1,100	2,650
Acquisition of non-controlling interest of a subsidiary		(440)	(1)
Proceeds from sale of property, plant and equipment		3	576
Net cash used in investing activities		(64,872)	(50,314)
Cash flow from financing activities			
Proceeds from exercise of share options		1,735	1,969
Proceeds from loans from related party associates		-	9
Dividend payments on ordinary shares	15	(15,995)	(15,985)
Dividend payment to non-controlling interest		-	(3,678)
Capital injection by non-controlling interest		-	1,468
Purchase of treasury shares, net of share issue		-	(8,083)
Loans and advances		(2,108)	-
Proceeds from borrowings		1,369,954	433,985
Repayment of borrowings		(1,306,000)	(413,000)
Payment of lease liability		(16,980)	-
Net cash provided by / used in financing activities		30,606	(3,315)
Reconciliation of cash			
Cash at beginning of period		45,802	37,507
Net increase in cash held		4,125	21,637
Effect of movement in foreign exchange rate		439	1,250
Cash at end of period		50,366	60,394

* The Group has initially applied AASB 16 *Leases* at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information and retained earnings is not restated at the date of initial application. Refer Note 17.

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

Costa Group Holdings Ltd
Notes to the Condensed Consolidated Interim Financial Statements
For the half-year ended 30 June 2019

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

The Condensed Consolidated Interim Financial Statements are for Costa Group Holdings Ltd and its controlled entities (the "Group"). Costa Group Holdings Ltd (the "Company") is a Company limited by shares, incorporated and domiciled in Australia. Costa Group Holdings Ltd is a for profit entity incorporated in Australia and limited by shares which are publicly traded on the Australian Securities Exchange (ASX).

The following is a summary of the material accounting policies adopted by the Group in the preparation and presentation of the Condensed Consolidated Interim Financial Statements. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous financial year and the corresponding interim reporting period.

(a) Basis of preparation

The Condensed Consolidated Interim Financial Statements for the half-year ended 30 June 2019 have been prepared in accordance with Australian Accounting Standard AASB 134 Interim Financial Reporting, the Corporations Act 2001 and with IAS 34 Interim Financial Reporting.

The Condensed Consolidated Interim Financial Statements do not include all the notes of the type normally included in an annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position, and financing and investing activities of the Group as the annual financial report. Accordingly, this report should be read in conjunction with the annual financial report for the period ended 30 December 2018.

This is the first set of the Group's financial statements where AASB 16 *Leases* has been applied. Changes to significant accounting policies are described in Note 17.

The Condensed Consolidated Interim Financial Statements were authorised for issue in accordance with a resolution of Directors on 22 August 2019.

(b) Currency and rounding

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

(c) Comparatives

Where necessary, comparative information has been reclassified and restated for consistency with current period disclosures.

Costa Group Holdings Ltd
Notes to the Condensed Consolidated Interim Financial Statements
For the half-year ended 30 June 2019

NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for the new significant judgements related to lessee accounting under AASB 16 *Leases*, which are described in Note 17.

Fair value measurement

The Group measures certain financial instruments, including derivatives, and certain non-financial assets such as biological assets, at fair value at each balance sheet date.

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.

The Group utilises valuations techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Accounting standards prescribe a fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- *Level 1:* Quoted (unadjusted) market prices in active markets for identical assets of liabilities.
- *Level 2:* Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly (i.e. as prices) or indirectly (i.e. derived by prices) observable.
- *Level 3:* Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Costa Group Holdings Ltd
Notes to the Condensed Consolidated Interim Financial Statements
For the half-year ended 30 June 2019

NOTE 3: SEGMENT INFORMATION

(a) Basis for segmentation

The Group has three reportable segments, as described below, based on the internal reports that are reviewed and used by the Chief Executive Officer (the chief operating decision maker) in assessing performance and in determining the allocation of resources. The following summary describes the operations in each of the Group's reportable segments:

Produce

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

Costa Farms & Logistics ("CF&L")

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

International

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

(b) Information about reportable segments

Performance is measured based on segment EBITDA before Self Generating and Regenerating Assets ("SGARA"), material items & amortisation and adoption of AASB16, as included in the internal management reports that are reviewed by the Group's Chief Executive Officer (CEO). Group financing costs and income taxes are managed at the Group level and are not allocated to operating segments. The information presented to the CEO does not report on segment assets and liabilities and as such is not presented in this report.

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

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

On transition to AASB16, the Group has presented the alternative performance measures, EBITDA-SL, as disclosed in the six-month financial period 2018 in note E3 (d).

Costa Group Holdings Ltd
Notes to the Condensed Consolidated Interim Financial Statements
For the half-year ended 30 June 2019

NOTE 3: SEGMENT INFORMATION (CONTINUED)

Half year ended June 2019	Produce	CF&L	International	Adjustments and eliminations	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue					
External customers	421,416	68,662	83,347	-	573,425
Inter-segment	22,567	4,258	-	(26,825)	-
Total revenue	443,983	72,920	83,347	(26,825)	573,425
EBITDA-SL	48,063	2,858	31,443	-	82,364

Half year ended June 2018	Produce	CF&L	International	Adjustments and eliminations	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue					
External customers	370,660	71,234	70,784	-	512,678
Inter-segment	27,876	4,898	-	(32,774)	-
Total revenue	398,536	76,132	70,784	(32,774)	512,678
EBITDA-SL	59,333	2,243	28,310	-	89,886

Seasonality of operations

The Group's operations are subject to the seasonal cycles of horticultural production, which is influenced by the type of product grown, weather conditions and geographical location. The majority of production in the International segment occurs over the first half of each calendar year, hence this segment typically has higher revenue and profits for the first half of the year. The Group's Produce segment is similarly subject to seasonal cycles, however due to crop mix and geographic diversification which provides a more even spread of production, there is less variation in revenue and profit between the two half years.

(c) Reconciliation of segment EBITDA-SL to profit after tax

		Half year	
	Notes	June 2019 \$ '000	June 2018 \$ '000
EBITDA-SL for reportable segments		82,364	89,886
Fair value movements in biological assets		10,162	(4,589)
Lease expense		24,011	-
Depreciation and amortisation		(42,670)	(18,888)
Material items (before tax)	6	(5,658)	(5,187)
Profit / (loss) on sale of assets		1,265	(281)
Net finance costs		(12,955)	(4,122)
Impairment losses		-	243
Income tax expense		(13,513)	(13,708)
Profit after tax		43,006	43,354

Costa Group Holdings Ltd
Notes to the Condensed Consolidated Interim Financial Statements
For the half-year ended 30 June 2019

NOTE 3: SEGMENT INFORMATION (CONTINUED)

(d) Geographical segment of non-current assets

	June 2019 \$ '000	December 2018* \$ '000
Non-current assets excluding financial assets (including equity accounted investment) and deferred tax balance by geography		
Australia	796,569	490,964
China	56,278	30,811
Morocco	157,196	148,417
	1,010,043	670,192

* The Group has initially applied AASB 16 *Leases* at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information and retained earnings is not restated at the date of initial application. Refer Note 17.

NOTE 4: REVENUE

	Half year	
	June 2019 \$ '000	June 2018 \$ '000
Sale of goods and commissions received	553,389	500,844
Rebates and discounts provided	(7,427)	(8,417)
Rendering of services	18,417	11,377
Other revenue	9,046	8,874
Total revenue	573,425	512,678

NOTE 5: EXPENSES

	Half year	
	June 2019 \$ '000	June 2018 \$ '000
Employee benefits expenses		
Salaries, contractors and wages (including on-costs)	170,547	145,650
Superannuation costs	9,791	9,123
Leave entitlements	4,742	4,358
Other employee expenses	4,063	2,586
	189,143	161,717

		Half year	
	Note	June 2019 \$ '000	June 2018 \$ '000
Net finance costs			
Interest income		(159)	-
Interest expense on borrowings		4,742	3,924
Interest expense on lease liabilities ⁽¹⁾	16	8,064	-
Amortisation of borrowing costs		308	198
		12,955	4,122

(1) This relates to the interest expense on lease liability due to implementation of AASB 16 *Leases* – refer to Note 17 for further detail.

Costa Group Holdings Ltd
Notes to the Condensed Consolidated Interim Financial Statements
For the half-year ended 30 June 2019

NOTE 6: MATERIAL ITEMS

The following individually material items are included within the Condensed Consolidated interim statement of profit or loss and other comprehensive income and have been adjusted for when reviewing segment information to allow for a more accurate reflection of underlying operating performance on a comparative basis.

	Half year	
	June 2019	June 2018
	\$ '000	\$ '000
Individually material items included in profit before income tax:		
African Blue acquisition and integration expenses ¹	(1,733)	(608)
Amortisation of intangibles on acquisition of African Blue ²	(3,925)	(4,579)
Total material items (before tax)	(5,658)	(5,187)
Tax effect of material items	1,132	960
Total material items (after tax)	(4,526)	(4,227)

1. African Blue acquisition and integration expense relates to costs associated with the African Blue transaction and integration.

2. Amortisation of customer relationships and reacquired rights recognised as part of the acquisition of African Blue. These assets are expected to be fully amortised by December 2019.

Costa Group Holdings Ltd
Notes to the Condensed Consolidated Interim Financial Statements
For the half-year ended 30 June 2019

NOTE 7: EARNINGS PER SHARE

	Half year	
	June 2019	June 2018
	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	12.83	12.73
<i>Diluted EPS¹</i>		
Diluted EPS (cents) based on net profit attributable to members of Costa Group Holdings Limited	12.78	12.70
	Number	Number
	('000)	('000)
<i>Weighted average number of shares</i>		
Weighted average number of ordinary shares on issue used in the calculation of basic EPS	320,293	319,699
<i>Effect of potentially dilutive securities</i>		
Equity-settled share options	1,307	785
Weighted average number of ordinary shares on issue used in the calculation of diluted EPS	321,600	320,484
	\$ '000	\$ '000
Earnings reconciliation		
<i>Basic and diluted EPS</i>		
Net profit attributable to owners of Costa Group Holdings Limited	41,092	40,686

NOTE 8: BORROWINGS

	June 2019	December 2018
	\$ '000	\$ '000
Current liabilities		
<i>Secured liabilities</i>		
Bank loans	41,102	428
Non-current liabilities		
<i>Secured liabilities</i>		
Bank loans	16,209	9,669
<i>Unsecured liabilities</i>		
Bank loans	297,510	280,345
	313,719	290,014
Total borrowings	354,821	290,442

Costa Group Holdings Ltd
Notes to the Condensed Consolidated Interim Financial Statements
For the half-year ended 30 June 2019

NOTE 9: INTANGIBLE ASSETS AND IMPAIRMENT

Impairment testing for cash generating units containing goodwill

Impairment tests for all assets are performed when there is an indicator of impairment, although goodwill is tested at least annually. If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the income statement.

The Group faced a number of challenges during 1HCY2019 which have resulted in some of the categories not being able to meet their expected earnings targets. As a result, the recoverable amount of the assets relating to certain cash generating units (CGU) within the Produce and International segments have been assessed using a value-in-use discounted cash flow model.

The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management's assessment of future trends in the relevant CGUs and have been based on historical data from both external and internal sources. The cash flow projections included specific estimates for five years and a terminal growth rate thereafter.

For 1HCY2019, the estimated recoverable amount for all these CGUs exceeded the carrying amount and as such no impairment loss has been recognised.

Key assumptions and estimates

Projected cash flows

Goodwill is allocated to CGUs according to applicable business operations. The recoverable amount of a CGU is based on value in use calculations that are based on detailed management prepared forecasts through to CY2023.

Long-term average growth rate

An average growth rate of 3.0% has been used for cash flows for CY2023 onwards with a terminal value growth rate of 3.0% (December 2018: 3.0%).

Discount rate

A post-tax discount rate to post-tax cash flows has been applied as the valuation calculated using this method closely approximates applying pre-tax discount rates to pre-tax cash flows. The Group used a post-tax discount rate of 8.5% for all Australian CGUs and 12% for the Moroccan CGU being African Blue.

Sensitivity analysis

Management has identified that a reasonable possible change in:

- discount rate could cause the carrying amount to exceed the recoverable amount for the Mushroom CGU; and
- forecast earnings growth rate could cause the carrying amount to exceed the recoverable amount for the Mushroom and African Blue CGUs.

The following table shows the amount by which these two assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount.

<i>In percent</i>	Changes required for carrying amount to equal recoverable amount	
	Mushroom CGU	African Blue CGU
Discount rate	0.5	n/a
Forecasted EBITDA growth rate (CY2019 to CY2022)	(2.0)	(7.2)

Costa Group Holdings Ltd
Notes to the Condensed Consolidated Interim Financial Statements
For the half-year ended 30 June 2019

NOTE 10: SHARE CAPITAL

	June 2019 \$ '000	December 2018 \$ '000
<i>Issued and paid-up capital</i>		
Ordinary shares	404,943	401,673
Transaction costs directly transferred to equity (net of tax)	(7,087)	(7,087)
Tax effect on legacy share options	3,566	3,566
Settlement of share-based payments	6,711	6,569
	<u>408,133</u>	<u>404,721</u>

	June 2019		December 2018	
	Number '000	\$ '000	Number '000	\$ '000
Ordinary shares				
Opening balance	319,937	404,721	319,698	403,410
Ordinary shares issued	617	3,270	-	-
Settlement of share-based payment	-	142	239	1,311
At reporting date	<u>320,554</u>	<u>408,133</u>	<u>319,937</u>	<u>404,721</u>

NOTE 11: SHARE BASED PAYMENTS

	June 2019 \$ '000	December 2018 \$ '000
Share-based payments reserve	<u>8,535</u>	<u>10,874</u>

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

Share Based Payment Plan - Employee Share Option Plan

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

Eligibility for the Option Plan is determined at the discretion of the Board. Any shares issued pursuant to the Option Plan will be ordinary shares.

During or since the end of the financial period ended 30 June 2019, 483,378 options have been granted to the Chief Executive Officer and a further 1,856,142 options have been granted to other key executives under a new LTI arrangement.

Measurement of fair values

The Group engaged an external party to value the options issued during the half-year. For options issued during the period, the Group has utilised the binomial option pricing model taking into consideration performance conditions outlined in the Group's CY2019 Long Term Incentive Plan rules. The inputs used in the measurement of the fair values at grant date of the equity settled share based payment plans were as follows:

Costa Group Holdings Ltd
Notes to the Condensed Consolidated Interim Financial Statements
For the half-year ended 30 June 2019

NOTE 11: SHARE BASED PAYMENTS (Continued)

Employee share option programs	Jun-19	Dec-18	
	KMP and executives	KMP and executives	
Grant date	26/02/2019	23/08/2018	22/11/2018
Number issued	2,339,520	739,975	44,787
Fair value at grant date	\$0.89	\$2.79	\$1.33
Share price at grant date	\$5.20	\$8.74	\$6.59
Exercise price	7.42	6.58	6.58
Expected volatility	40%	30%	30%
Expected dividend yield	1.69%	2.20%	2.20%
Risk-free rate	2.80%	2.06%	2.14%

Reconciliation of outstanding share options

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

	Jun-19		Dec-18	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Opening balance	5,416,717	\$4.02	4,798,546	\$3.46
Disposed for cash or settled for shares during the period	(616,944)	\$2.81	-	-
Forfeited during the period	(177,887)	\$4.92	(166,591)	\$4.64
Granted during the period	2,339,520	\$7.42	784,762	\$6.58
Closing balance	6,961,406	\$5.37	5,416,717	\$4.02
Exercisable at period end	411,904	\$2.15	1,028,848	\$0.00

NOTE 12: CAPITAL COMMITMENTS

As at 30 June 2019, the Group has capital commitments amounting to \$63,894,989 (December 2018: \$19,706,827) in relation to the purchase of property, plant and equipment, which are contracted for but not provided for.

Other than the items mentioned above, there have been no other significant changes in commitments since the most recent annual financial report.

Costa Group Holdings Ltd
Notes to the Condensed Consolidated Interim Financial Statements
For the half-year ended 30 June 2019

NOTE 13: CONTINGENT LIABILITIES

There have been no other significant changes in contingent liabilities since the most recent annual financial report.

NOTE 14: EVENTS SUBSEQUENT TO REPORTING DATE

The Group entered into an agreement with its lenders on 19 August 2019 to extend and amend its current senior debt facilities. The debt facilities have been increased to \$500m with 3 and 4 year tenures. Covenants and material commercial terms remain consistent with the previous facility agreement.

Other than the matters in the preceding paragraph, there are no other matters or circumstances which have arisen since the end of the period ending 30 June 2019 which have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial periods.

NOTE 15: DIVIDENDS

	Cents per share	Total amount \$'000	Date of payment
Declared and paid:			
December 2018 - Final	5.00	15,995	12-Apr-19

Declared after end of half year

After the balance sheet date, the following dividends were declared by the Directors. These dividends have not been recognised as a liability at 30 June 2019.

	Cents per share	Total amount \$'000	Date of payment
CY19 - Interim	3.50	11,219	5-Oct-19

NOTE 16: INCOME TAX

Reconciliation of accounting profit to tax expense

	Half year	
	June 2019	June 2018
	\$ '000	\$ '000
Profit before income tax	56,519	57,062
Prima facie income tax expense on profit before income tax at 30.0%	16,956	17,118
- Effect of tax rates in foreign jurisdictions	(1,477)	(1,177)
Tax effect of:		
- non-deductible expenses	940	21
- deferred tax asset previously not recognised	(2,186)	(1,081)
- non-creditable foreign withholding tax	575	774
- research and development tax credits	(440)	(455)
- non-assessable income	(855)	(787)
- Deductible share plan trust payments	-	(705)
Income tax expense attributable to profit	13,513	13,708

Costa Group Holdings Ltd
Notes to the Condensed Consolidated Interim Financial Statements
For the half-year ended 30 June 2019

NOTE 17: CHANGE IN ACCOUNTING POLICY

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Group's Condensed Consolidated financial statements as at and for the financial period ended 2018. The changes in accounting policies are also expected to be reflected in the Group's Condensed Consolidated financial statement as at and for the year ending 29 December 2019.

The Group has initially adopted AASB 16 *Leases* from 1 January 2019. AASB 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use-assets representing its right to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group has applied AASB 16 using the modified retrospective approach, under which and therefore the comparative information has not been restated and continues to be reported under AASB 117 and AASB Interpretation 4. The details of the changes in accounting policies are disclosed below:

a. Definition of a lease

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

On transition to AASB 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applies AASB 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under AASB 117 and Interpretation 4 were not reassessed. Therefore, the definition of a lease under AASB 16 has been applied only to contracts entered into or changed after 1 January 2019.

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

b. As a lessee

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

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

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

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

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

Costa Group Holdings Ltd
Notes to the Condensed Consolidated Interim Financial Statements
For the half-year ended 30 June 2019

NOTE 17: CHANGE IN ACCOUNTING POLICY (continued)

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

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

Payment associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

c. Impact on financial statements

(i) Amounts recognised in the balance sheet

	Jun-19
	\$'000
Right-of-use assets	
Property Leases	279,133
Non-property leases ⁽¹⁾	17,667
	<u>296,800</u>

(1) Non-property leases include vehicles, farm equipment, and computer and office equipment.

Additions to the right-of-use assets during the interim period June 2019 were \$3.6 million.

	Jun-19
	\$'000
Lease liabilities	
Current	35,827
Non-current	264,779
	<u>300,606</u>

A \$1.7m deferred tax asset is also recognised in the balance sheet as a result of the recognising the above right-of-use asset and lease liabilities.

(ii) Amounts recognised in the statement of profit and loss

	Jun-19
	\$'000
Depreciation charge of right-of use-assets	
Property	15,783
Non-property	3,869
	<u>19,652</u>

	Jun-19
	\$'000
Expenses relating to Lease liabilities	
Interest expense	8,060
Expenses relating to short-term leases and low-value assets	3,042
	<u>11,102</u>

Costa Group Holdings Ltd
Notes to the Condensed Consolidated Interim Financial Statements
For the half-year ended 30 June 2019

NOTE 17: CHANGE IN ACCOUNTING POLICY (continued)

Reconciliation of operating lease commitments to lease liability:

	2019
	\$'000
Operating lease commitments disclosed as at 31 December 2018	505,534
Discounted using the rate implicit in the lease or the group's incremental borrowing rate	304,504
Less: Short-term leases recognised on a straight-line basis as expense	(600)
Low-value leases recognised on a straight-line basis as expense	(61)
Add/(Less): Adjustment as a result of different treatment of extension/termination options	9,372
Lease liability recognised as at 1 January 2019	313,215

Costa Group Holdings Ltd

Director's Declaration

The directors declare that the Condensed Consolidated Interim Financial Statements and notes for the Group:

- (a) are prepared in accordance with the Corporations Act 2001, Accounting Standard AASB 134: "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) give a true and fair view of the Group's financial position as at 30 June 2019 and of its performance, as represented by the results of its operations and its cash flows, for the half-year ended on that date.

In the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by s295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the half-year ended 30 June 2019.

This report is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors.

Dated 22 August 2019



Harry Debney

Managing Director



Neil Chatfield

Chairman



Independent Auditor's Review Report

To the shareholders of Costa Group Holdings Ltd

Report on the Half-year Financial Report

Conclusion

We have reviewed the accompanying **Half-year Financial Report** of Costa Group Holdings Ltd.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Half-year Financial Report of Costa Group Holdings Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 30 June 2019 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Half-year Financial Report** comprises:

- Condensed consolidated interim statement of financial position as at 30 June 2019;
- Condensed consolidated interim statement of comprehensive income, condensed consolidated interim statement of changes in equity and condensed consolidated interim statement of cash flows for the Half-year ended on that date;
- Notes 1 to 17 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The **Group** comprises Costa Group Holdings Limited (the Company) and the entities it controlled at the Half year's end or from time to time during the Half-year Period.

Responsibilities of the Directors for the Half-year Financial Report

The Directors of the Company are responsible for:

- the preparation of the Half-year Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*.
- for such internal control as the Directors determine is necessary to enable the preparation of the Half-year Financial Report that is free from material misstatement, whether due to fraud or error.



Auditor's responsibility for the review of the Half-year Financial Report

Our responsibility is to express a conclusion on the Half-year Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Half-year Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2019 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Costa Group Holdings Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a Half-year Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG

Gordon Sangster

Partner

Melbourne

22 August 2019

Costa Group Holdings Ltd

Corporate Directory

Directors

Neil Chatfield (Chairman)

Harry Debney (CEO and Managing Director)

Frank Costa AO – directorship ceased on 4 July 2019

Peter Margin

Janette Kendall

Tim Goldsmith

Dr Jane Wilson

Company Secretary

David Thomas

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Email: registrars@linkmarketservices.com.au

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Auditor

KPMG

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727 Collins Street

Docklands Victoria 3008 Australia

Stock Exchange

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