



Costa Group Holdings Limited

Appendix 4D and Condensed Consolidated Interim Financial Statements

For the half-year ended 28 June 2020

ASX Listing Rule 4.2A.3

ABN 68 151 363 129

**The information in this report should be read in conjunction with Costa's
2019 Annual Report**

1. RESULTS FOR ANNOUNCEMENT TO THE MARKET

Key information	Half year ended 28 June 2020	Half year ended 30 June 2019 (restated)	Increase / (decrease)	Increase / (decrease)
	\$ '000	\$ '000	%	\$ '000
Revenue from ordinary activities	612,356	573,425	7%	38,931
Profit from ordinary activities	50,346	42,673	18%	7,673
Profit for the period attributable to members	43,372	40,759	6%	2,613
EBITDA-SL ^{(1) (2)}	93,717	82,343	14%	11,374
NPAT-SL ^{(1) (2)}	45,755	40,934	12%	4,821

*Comparative restated for IFRIC lease adjustment – refer to Note 17 for further detail.

(1) Earnings before interest, tax, depreciation, effect of AASB 16 Leases, fair value movements in biological assets (SGARA) and material items & amortisation.

(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 determined an interim dividend of 4.0 cents per ordinary share, fully franked. The record date of the dividend is 17 September 2020 and the dividend is expected to be paid on 8 October 2020. The dividend was not determined as at 28 June 2020 and accordingly no provision has been recognised.

Dividend (distributions)	Cents per share	Franking %
Interim For the Half Year Ended 28 June 2020		
Interim dividend – current year	4.0	100%
Financial year ended 29 December 2019		
Interim dividend	3.5	100%
Final dividend	2.0	100%

Consistent with prior years, there was no dividend reinvestment plan in operation during the half-year ended June 2020.

2. FINANCIAL STATEMENTS

Please refer to pages 1 through 24 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 28 June 2020;
- Condensed Consolidated Interim Statement of Financial Position as at 28 June 2020;
- Condensed Consolidated Interim Statement of Changes in Equity for the half-year ended 28 June 2020;
- Condensed Consolidated Interim Statement of Cash Flows for the half-year ended 28 June 2020;

- Notes to the Condensed Consolidated Interim Financial Statements;
- Director's Declaration;
- Independent auditor's review report for the half-year ended 28 June 2020; and
- Corporate Directory.

3. NET TANGIBLE ASSETS

Net tangible asset backing per ordinary share	Half-year ended 28 June 2020 Cents per share	Half-year ended 30 June 2019 (restated) Cents per share
Net tangible asset backing per ordinary share	100.54	74.79

*Comparative restated for IFRIC lease adjustment – refer to Note 17 for further detail.

4. ASSOCIATES AND JOINT VENTURES

Associates and Joint Ventures	Equity instrument	Ownership interest 28 June 2020 %	Ownership interest 30 June 2019 %	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 28 June 2020

The Directors of Costa Group Holdings Ltd ("the Company") present their report together with the Condensed Consolidated Interim Financial Statements of the Company and its controlled entities ("the Group") for the half-year ended 28 June 2020 and Auditor's Report thereon.

DIRECTORS

The Directors of the Company at any time during or since the end of the half-year are:

Mr Neil Chatfield (Chairman)

Mr Harry Debney (CEO)

Mr Peter Margin

Ms Janette Kendall

Mr Tim Goldsmith

Dr Jane Wilson

The 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 28 August 2020.

Key financial highlights from 1HCY20 ("half-year ended 28 June 2020") vs. 1HCY19 ("half-year ended 30 June 2019") include:

- Revenue up 6.8% to \$612.4 million led by growth in the International segment driven by China and Morocco.
- EBITDA before SGARA and leasing (EBITDA-SL) was up 13.7% to \$93.7 million with increase in the International segment earnings. This was partially offset by the Produce segment that was impacted by the drought events of 2019 and 1HCY20.
- Statutory profit attributable to Costa shareholders was up 6.4% to \$43.4 million mainly driven by EBITDA-SL drivers highlighted above as well as a lower effective tax rate resulting from a higher mix of International earnings. This was partially offset by higher depreciation charges and a lower gain on fair value of biological assets (\$1.1 million in 1HCY20 as compared to \$10.2 million in the prior comparative period).

Costa Group Holdings Ltd
Directors' Report
For the half-year ended 28 June 2020

EVENTS SUBSEQUENT TO REPORTING DATE

There are no matters or circumstances which have arisen since the end of the period ending 28 June 2020 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 DETERMINED

The Directors have determined an interim dividend of 4.0 cents per ordinary share, fully franked, in respect of the current financial year. The record date of the dividend is 17 September 2020 and the dividend is expected to be paid on 8 October 2020. The dividend was not determined until 27 August 2020 and accordingly no provision has been recognised at 28 June 2020.

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 28 June 2020.

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

27 August 2020



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 30 December 2019 and ending 28 June 2020 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
27 August 2020

Costa Group Holdings Ltd
Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income
For the half-year ended 28 June 2020

		Half year	
	Notes	June 2020	June 2019 (Restated)*
		\$ '000	\$ '000
Revenue			
Total revenue	4	612,356	573,425
		<u>612,356</u>	<u>573,425</u>
Less: expenses			
Raw materials, consumables and third party purchases		(223,361)	(205,559)
Depreciation and amortisation expenses		(49,196)	(46,061)
Employee benefits expenses	5	(185,807)	(189,143)
Occupancy expenses		(17,964)	(15,986)
Net finance costs	5	(13,822)	(13,964)
(Loss)/Profit on sale of assets		(20)	1,265
Freight and cartage		(26,862)	(26,537)
Leasing expenses		(2,088)	(2,159)
(Loss)/Gain on fair value adjustments - biological assets		1,127	10,162
Impairment loss on trade receivables		(268)	-
Other expenses		(40,688)	(33,034)
		<u>(558,949)</u>	<u>(521,016)</u>
Share of net profits of associates and joint ventures accounted for using the equity method		3,915	3,635
Profit before income tax expense		<u>57,322</u>	<u>56,044</u>
Income tax expense	16	(6,976)	(13,370)
Profit for the period		<u>50,346</u>	<u>42,674</u>
Other comprehensive income / (loss) for the period			
Foreign currency translation differences		(2,574)	2,870
Cash flow hedges - effective portion of changes in fair value		402	(622)
Total other comprehensive (loss)/ income for the period		<u>(2,172)</u>	<u>2,248</u>
Total comprehensive income for the period		<u>48,174</u>	<u>44,922</u>
Profit attributable to:			
Owners of Costa Group Holdings Ltd		43,372	40,760
Non-controlling interests		6,974	1,914
		<u>50,346</u>	<u>42,674</u>
Total comprehensive income attributable to:			
Owners of Costa Group Holdings Ltd		41,200	43,008
Non-controlling interests		6,974	1,914
		<u>48,174</u>	<u>44,922</u>
		June 2020	June 2019 (Restated)*
		Cents	Cents
Earnings per share for profit attributable to ordinary equity holders:			
Basic earnings per share	7	10.82	12.73
Diluted earnings per share	7	10.81	12.67

*Comparative restated for IFRIC lease adjustment – refer to Note 17 for further detail.

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 28 June 2020

	Notes	June 2020 \$ '000	December 2019 (Restated)* \$ '000
ASSETS			
Current assets			
Cash and cash equivalents		83,037	35,962
Receivables		128,252	88,338
Inventories		23,647	24,430
Biological assets		50,504	49,209
Other assets & financial assets		16,673	10,454
Current tax assets		7,214	5,186
Total current assets		309,327	213,579
Non-current assets			
Receivables		4,030	4,088
Equity accounted investments		19,749	16,672
Intangible assets		213,416	213,351
Deferred tax assets		20,148	18,161
Property, plant and equipment		509,946	498,915
Right-of-use assets	17	318,408	323,940
Total non-current assets		1,085,697	1,075,127
Total assets		1,395,024	1,288,706
LIABILITIES			
Current liabilities			
Borrowings	8	10,862	7,784
Payables		126,423	113,498
Provisions		23,251	23,711
Other financial liabilities		3,655	3,657
Lease liabilities	17	35,930	33,904
Total current liabilities		200,121	182,554
Non-current liabilities			
Borrowings	8	253,894	207,033
Provisions		8,233	7,852
Deferred tax liabilities		20,639	14,000
Other financial liabilities		915	986
Lease liabilities	17	294,850	299,525
Total non-current liabilities		578,531	529,396
Total liabilities		778,652	711,950
NET ASSETS		616,372	576,756
EQUITY			
Share capital	10	580,664	580,831
Other equity reserve		(13,117)	(13,093)
Other reserves		5,723	8,256
Profit reserve		107,875	72,517
Accumulated losses		(92,692)	(92,692)
Equity attributable to owners of the parent		588,453	555,819
Non-controlling interests		27,919	20,937
Total equity		616,372	576,756

*Comparative restated for IFRIC lease adjustment – refer to Note 17 for further detail.

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 28 June 2020

	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 29 December 2019 (Restated)*	580,831	(13,093)	8,697	4,540	(251)	(4,730)	72,517	(92,692)	555,819	20,937	576,756
Profit for the year	-	-	-	-	-	-	-	43,372	43,372	6,974	50,346
Other comprehensive income / (loss)	-	-	-	(2,574)	402	-	-	-	(2,172)	-	(2,172)
Transfer to profit reserve	-	-	-	-	-	-	43,372	(43,372)	-	-	-
Total comprehensive income for the year	-	-	-	(2,574)	402	-	43,372	-	41,200	6,974	48,174
Transactions with owners in their capacity as owners:											
Issue of shares (net of issue costs)	(278)	-	-	-	-	-	-	-	(278)	-	(278)
Options granted during the year	-	-	(286)	-	-	-	-	-	(286)	-	(286)
Share options exercised	111	(24)	(87)	-	-	-	-	-	-	-	-
Dividend paid on ordinary shares	-	-	-	-	-	-	(8,014)	-	(8,014)	-	(8,014)
Tax effect of share plan payment through equity	-	-	12	-	-	-	-	-	12	-	12
Capital injected by non-controlling interest without change in control	-	-	-	-	-	-	-	-	-	8	8
Balance as at 28 June 2020	580,664	(13,117)	8,336	1,966	151	(4,730)	107,875	(92,692)	588,453	27,919	616,372

*Comparative restated for IFRIC lease adjustment – refer to Note 17 for further detail.

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 28 June 2020

	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 (restated)*	-	-	-	-	-	-	-	40,759	40,759	1,914	42,673
Other comprehensive income / (loss)	-	-	-	2,870	(622)	-	-	-	2,248	-	2,248
Transfer to profit reserve	-	-	-	-	-	-	40,759	(40,759)	-	-	-
Total comprehensive income for the period	-	-	-	2,870	(622)	-	40,759	-	43,007	1,914	44,921
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 (restated)*	408,133	(13,093)	8,535	7,162	(1,265)	(4,830)	124,500	(56,621)	472,521	20,901	493,422

*Comparative restated for IFRIC lease adjustment – refer to Note 17 for further detail.

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 28 June 2020

		Half year	
	Notes	June 2020	June 2019
		\$ '000	(Restated)*
			\$ '000
Cash flow from operating activities			
Receipts from customers		568,894	548,752
Payments to suppliers and employees		(484,930)	(490,440)
Interest received		209	162
Interest paid		(4,711)	(3,242)
Dividends received		-	42
Income taxes paid		(4,213)	(8,820)
Net cash provided by operating activities		75,249	46,454
Cash flow from investing activities			
Payments for property, plant and equipment		(42,175)	(65,885)
Proceeds from sale of investments		-	350
Dividends from equity accounted investments		838	1,100
Acquisition of non-controlling interest of a subsidiary		-	(440)
Proceeds from sale of property, plant and equipment		250	3
Net cash used in investing activities		(41,087)	(64,872)
Cash flow from financing activities			
Proceeds from exercise of share options		-	1,735
Transaction costs associated with share issue		(278)	-
Dividend payments on ordinary shares	15	(8,014)	(15,995)
Loans and advances		1	(2,108)
Proceeds from borrowings		985,797	1,369,954
Repayment of borrowings		(936,000)	(1,306,000)
Payment of lease liability		(26,508)	(25,043)
Net cash provided by financing activities		14,998	22,543
Reconciliation of cash			
Cash at beginning of year		35,962	45,802
Net increase / (decrease) in cash held		49,160	4,125
Effect of movement in foreign exchange rate		(2,085)	439
Cash at end of interim period		83,037	50,366

*Comparative restated for IFRIC lease adjustment – refer to Note 17 for further detail.

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 28 June 2020

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. The Company 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 28 June 2020 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 year ended 29 December 2019.

The Condensed Consolidated Interim Financial Statements were authorised for issue in accordance with a resolution of Directors on 27 August 2020.

(b) Currency and rounding

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

(c) Comparatives

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

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, with the exception of the following.

COVID-19 Considerations

The onset of the COVID19 pandemic during 1HCY20 has severely disrupted global supply chains, increased economic uncertainty and changed consumer behaviours. Governments across the world have enacted unprecedented levels of restrictions, which included social distancing, closure of non-essential businesses and activities and stay at home orders. Following on from early experiences of dealing with the impact of the virus in China in January and February 2020, the Group set up a COVID19 Steering Committee which was responsible for establishing and implementing a comprehensive action plan to address the risks to the business from the pandemic. From a financial risk management perspective, Costa put in place a liquidity management and monitoring program to specifically deal with the pandemic with weekly meetings between finance and members of the Board of Directors of the Group. This included updates on liquidity position across each of our key jurisdictions (Australian, China and Morocco/Europe) and debtors/collections management.

In respect of these half-year financial statements, the impact of COVID19 is primarily relevant to estimates of future performance which are in turn relevant to the areas of impairment of non-financial assets, fair value of biological assets and recoverability of receivables. Summarised below are the key areas in which the Group believe COVID19 has impacted or has the potential to impact on its operations and financial statements.

Costa Group Holdings Ltd
Notes to the Condensed Consolidated Interim Financial Statements
For the half-year ended 28 June 2020

NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Demand and pricing

Demand across most of Costa's products in Australia has remained strong throughout the pandemic. This was likely attributed to:

- a trend towards healthier living in general and more cooking at home due to the stay at home orders;
- increased demand in retail which is the Group's primary sales channel; and
- shift towards packaged products due to hygiene practices which has benefited some of Costa's categories, such as mushroom.

In China, demand dropped significantly in January and February 2020 with the tight lockdowns imposed. However, this rapidly recovered as Costa entered its peak harvest period.

The European/UK demand position through most of the Moroccan season was variable and also experienced reduced pricing although Costa was able to sell the crop.

Supply of labour

Many of Costa's Produce categories operate in regional and rural communities relying on backpackers and seasonal workers to harvest crops. Due to the temporary ban on overseas travel, foreign workers were unable to enter the country resulting in a potential shortage of labour. However, following the classification of fresh produce as an essential service, the federal government granted visa extensions for those seasonal workers already in Australia which enabled Costa to transport workers from various locations to where they were needed.

In Morocco, the Group faced several workforce challenges. The country abruptly moved into stage 4 restrictions as peak harvest began. Social distancing measures were required to be implemented around the transportation of workers resulting in additional costs. Although costs were higher, Costa was able to finish harvesting with minimal impacts to operations.

In China, restrictions began easing as the Group headed into peak harvest cycle with minimal disruption to operations experienced.

Logistics and supply chain

Across all of Costa's markets and operating regions, fresh produce has been considered an essential service, meaning border restrictions and lockdowns generally do not apply on the movement of Costa's products. This has allowed the Group to be able to move its produce easily across the major channels. There were some early challenges across our export markets and international operations such as market disruptions, and logistic issues resulting in increased costs. However, these largely subsided towards the latter part of 1HCY20.

Although COVID19 has created broader economic and social uncertainty which would inevitably have some impact on our markets and industry, Costa's business has shown resilience and outlook remains positive. The Group assumes a trend of general recovery, however, key assumptions and judgements have been stress tested for the impacts of COVID19 with further downside sensitivity taking into consideration the uncertainty in the current economic environment and risks of a slower recovery than anticipated and potential 'second wave' events. Further details on the estimates, judgements and assumptions applied by the Group are included within the relevant notes.

Costa Group Holdings Ltd
Notes to the Condensed Consolidated Interim Financial Statements
For the half-year ended 28 June 2020

NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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.

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 and internationally, 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 & depreciation and amortisation, 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.

Costa Group Holdings Ltd
Notes to the Condensed Consolidated Interim Financial Statements
For the half-year ended 28 June 2020

NOTE 3: SEGMENT INFORMATION (CONTINUED)

Half year ended June 2020	Produce	CF&L	International	Adjustments and eliminations	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue					
External customers	422,982	69,828	119,546	-	612,356
Inter-segment	20,759	3,128	1,926	(25,813)	-
Total revenue	443,741	72,956	121,472	(25,813)	612,356
EBITDA-S	47,777	7,378	64,112	-	119,267

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	1,551	(28,376)	-
Total revenue	443,983	72,920	84,898	(28,376)	573,425
EBITDA-S	66,125	7,250	32,979	-	106,354

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-S to profit after tax

		Half year	
		June 2020	June 2019 (Restated)*
	Notes	\$ '000	\$ '000
EBITDA-S for reportable segments		119,267	106,354
Fair value movements in biological assets		1,127	10,162
Depreciation and amortisation		(49,196)	(42,115)
Material items (before tax)	6	-	(5,658)
Profit / (loss) on lease differences		(34)	-
Profit / (loss) on sale of assets		(20)	1,265
Net finance costs		(13,822)	(13,964)
Income tax expense		(6,976)	(13,370)
Profit after tax		50,346	42,674

*Comparative restated for IFRIC lease adjustment – refer to Note 17 for further detail.

Costa Group Holdings Ltd
Notes to the Condensed Consolidated Interim Financial Statements
For the half-year ended 28 June 2020

NOTE 3: SEGMENT INFORMATION (CONTINUED)

(d) Geographical segment of non-current assets

	June 2020	December 2019 (Restated)*
	\$ '000	\$ '000
Non-current assets excluding financial assets (including equity accounted investment) and deferred tax balance by geography		
Australia	854,563	832,123
China	73,510	64,577
Morocco	158,115	153,633
	<u>1,086,188</u>	<u>1,050,333</u>

*Comparative restated for IFRIC lease adjustment – refer to Note 17 for further detail.

NOTE 4: REVENUE

	Half year	
	June 2020	June 2019
	\$ '000	\$ '000
Sale of goods and commissions received	585,648	553,389
Rebates and discounts provided	(7,726)	(7,427)
Rendering of services	23,286	18,417
Other revenue	11,148	9,046
Total revenue	<u>612,356</u>	<u>573,425</u>

NOTE 5: EXPENSES

	Half year	
	June 2020	June 2019
	\$ '000	\$ '000
Employee benefits expenses		
Salaries, contractors and wages (including on-costs)	169,603	170,547
Superannuation costs	8,746	9,791
Leave entitlements	5,252	4,742
Other employee expenses	2,206	4,063
	<u>185,807</u>	<u>189,143</u>

	Half year	
	June 2020	June 2019 (restated)*
	\$ '000	\$ '000
Net finance costs		
Interest income	(212)	(159)
Interest expense on borrowings	4,140	4,742
Interest expense on lease liabilities	9,120	9,073
Amortisation of borrowing costs	774	308
	<u>13,822</u>	<u>13,964</u>

*Comparative restated for IFRIC lease adjustment – refer to Note 17 for further detail.

Costa Group Holdings Ltd
Notes to the Condensed Consolidated Interim Financial Statements
For the half-year ended 28 June 2020

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 2020 \$ '000	June 2019 \$ '000
Individually material items included in profit before income tax:		
African Blue acquisition and integration expenses ¹	-	(1,733)
Amortisation of intangibles on acquisition of African Blue ²	-	(3,925)
Total material items before tax	-	(5,658)
Tax effect of material items	-	1,132
Total material items after tax	-	(4,526)

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 were fully amortised by December 2019.

Costa Group Holdings Ltd
Notes to the Condensed Consolidated Interim Financial Statements
For the half-year ended 28 June 2020

NOTE 7: EARNINGS PER SHARE

	Half year June 2020 Cents per share	June 2019 (restated)* Cents per share
<i>Basic EPS</i>		
Basic EPS (cents) based on net profit attributable to members of Costa Group Holdings Limited	10.82	12.73
<i>Diluted EPS</i>		
Diluted EPS (cents) based on net profit attributable to members of Costa Group Holdings Limited	10.81	12.67
	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	400,813	320,293
<i>Effect of potentially dilutive securities</i>		
Equity-settled share options	78	1,307
Weighted average number of ordinary shares on issue used in the calculation of diluted EPS	400,891	321,600
	\$ '000	\$ '000
Earnings reconciliation		
<i>Basic and diluted EPS</i>		
Net profit attributable to owners of Costa Group Holdings Limited	43,372	40,760

*Comparative restated for IFRIC lease adjustment – refer to Note 17 for further detail.

NOTE 8: BORROWINGS

	June 2020 \$ '000	December 2019 \$ '000
Current borrowings		
<i>Bank loans</i>		
Secured	-	-
Unsecured	10,862	7,784
	10,862	7,784
Non-current borrowings		
<i>Bank loans</i>		
Secured	10,034	8,227
Unsecured	243,860	198,806
	253,894	207,033
Total borrowings	264,756	214,817

Costa Group Holdings Ltd
Notes to the Condensed Consolidated Interim Financial Statements
For the half-year ended 28 June 2020

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 1HCY20, including the onset of COVID19 and the flow on effects of the 2019 and 1HCY20 drought, 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 1HCY20, 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 CY24.

Long-term growth rate

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

Terminal growth rate

The terminal growth rate represents estimates of the CGU's growth to perpetuity. This ranges between country's inflation and GDP growth rate. The Australian CGUs terminal growth rate used is 2.5% (December 2019: 2.5%). The International CGUs terminal growth rate used is 3.0% (December 2019: 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.

Sensitivity analysis

Management noted that an increase in discount rates or changes in other key assumptions, such as reduction in terminal growth rate or reduction in forecasted EBITDA growth rate (CY20 to CY23), may cause the recoverable amount to fall below carrying value.

The African Blue CGU traded strongly for the 6 months ending 28 June 2020, despite the challenging COVID19 environment and as a result reported improved revenue and earnings over the prior corresponding period. Management's sensitivity analysis suggests for this CGU, a reduction in the forecasted EBITDA growth rate (CY20 to CY23) of 4.6 percentage points or more would reduce the CGU's headroom to nil. There are no reasonable possible changes in the discount rate or terminal value that would result in impairment.

The Mushroom CGUs recognised an impairment loss in December 2019 which resulted in its recoverable amount equal its carrying value. The cash flow forecasts have not materially changed since December 2019. As such, any adverse changes in key assumptions or cash flows would lead to further impairment.

For the Group's remaining CGUs, based on current economic conditions and CGU performance, there are no reasonable possible changes to key assumption used in the determination of CGU recoverable amounts that would result in an impairment to the Group.

Costa Group Holdings Ltd
Notes to the Condensed Consolidated Interim Financial Statements
For the half-year ended 28 June 2020

NOTE 10: SHARE CAPITAL

	June 2020 \$ '000	December 2019 \$ '000
<i>Issued and paid-up capital</i>		
Ordinary shares	578,030	578,030
Transaction costs directly transferred to equity (net of tax)	(11,264)	(10,986)
Tax effect on legacy share options	3,566	3,566
Settlement of share-based payments	10,332	10,221
	<u>580,664</u>	<u>580,831</u>

	June 2020 Number '000	\$ '000	December 2019 Number '000	\$ '000
Ordinary shares				
Opening balance	400,792	580,831	319,937	404,721
Ordinary shares issued (net of issue costs)	-	(278)	80,162	175,728
Settlement of share-based payments	38	111	693	382
Closing balance	<u>400,830</u>	<u>580,664</u>	<u>400,792</u>	<u>580,831</u>

NOTE 11: SHARE BASED PAYMENTS

	June 2020 \$ '000	December 2019 \$ '000
Share-based payments reserve	<u>8,336</u>	<u>8,697</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 & Performance Rights 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 Group

Eligibility for the short term and long-term incentive schemes is determined at the discretion of the Board. Any shares issued pursuant to the Option Plan will be ordinary shares.

During the interim financial period ended 28 June 2020, 372,604 options have been granted to the Chief Executive Officer and a further 1,322,477 options have been granted to other key executives under a new long-term incentive 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 CY20 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 28 June 2020

NOTE 11: SHARE BASED PAYMENTS (Continued)

Employee share option programs	June 2020	December 2019
	KMP and executives	KMP and executives
Grant date	26/02/2020	26/02/2019
Number issued	1,695,081	2,339,520
Fair value at grant date	\$0.96	\$0.89
Share price at grant date	\$2.86	\$5.20
Exercise price	\$2.44	\$7.42
Expected volatility	44%	40%
Expected dividend yield	2.80%	2.80%
Risk-free rate	0.63%	1.69%

Reconciliation of outstanding share options

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

	June 2020		December 2019	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Opening balance	5,372,573	\$6.96	5,416,717	\$4.02
Disposed for cash or settled for shares during the year	(178,571)	\$2.25	(616,944)	\$2.81
Forfeited during the year	(284,047)	\$0.00	(1,766,720)	\$0.00
Granted during the year	1,695,081	\$2.44	2,339,520	\$7.42
Closing balance	6,605,036	\$6.23	5,372,573	\$6.96
Exercisable at period end	630,535	\$2.52	809,105	\$2.46

NOTE 12: CAPITAL COMMITMENTS

As at 28 June 2020, the Group has capital commitments amounting to \$30,538,494 (December 2019: \$41,683,013) 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 28 June 2020

NOTE 13: CONTINGENT LIABILITIES

On May 2020, a judgement was made in the Federal Court in the case of WorkPac Pty Ltd vs Rossato (WorkPac vs Rossato) that ruled an employee previously considered as 'casual' worked regular and predictable shifts and was entitled to paid annual, personal/carer's and compassionate leave. Costa employs casual workers within its domestic Produce categories. Whilst there may be a possible obligation given the precedent case set, due to the seasonal nature of Costa's operations the majority of casuals are typically hired during the harvest season and are not expected to have similar arrangements as that present in the Rossato case. A detailed review is currently being conducted by the Group. Whilst the amount of any obligation cannot be measured with sufficient reliability as at the date of this report, Costa does not expect any ultimate exposure arising to be material to the Group.

Except as disclosed above, there have been no other significant changes in contingent liabilities since the most recent annual financial report.

NOTE 14: EVENTS SUBSEQUENT TO REPORTING DATE

There are no other matters or circumstances which have arisen since the end of the period ending 28 June 2020 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

Declared and paid during half year ended June 2020:	Cents per share	Total amount \$'000	Date of payment
2019 Financial Year - Final	2.0	8,014	8 April 2020
Determined after end of half year ended June 2020:			
	Cents per share	Total amount \$'000	Date of payment
2020 Financial Year - Interim	4.0	16,033	8 October 2020

NOTE 16: INCOME TAX

Reconciliation of accounting profit to tax expense

	Half year	
	June 2020	June 2019 (Restated)*
	\$ '000	\$ '000
Profit before income tax	57,322	56,044
Prima facie income tax expense on profit before income tax at 30.0%	17,196	16,813
- Effect of tax rates in foreign jurisdictions	(7,602)	(1,477)
Tax effect of:		
- non-deductible expenses/assessable income	203	940
- deferred tax asset derecognised/(previously not recognised)	13	(2,186)
- non-creditable foreign withholding tax	49	575
- under/(over) provision in relation to prior years	(2,323)	-
- research and development tax credits	(400)	(440)
- non-assessable income	(160)	(855)
Income tax expense attributable to profit	6,976	13,370

*Comparative restated for IFRIC lease adjustment – refer to Note 17 for further detail.

Costa Group Holdings Ltd
Notes to the Condensed Consolidated Interim Financial Statements
For the half-year ended 28 June 2020

NOTE 17: Restatement of Comparatives

In November 2019, the International Financial Reporting Standards Interpretations Committee (IFRIC) provided clarification on cancellable or renewable leases in the application of AASB 16 *Leases*. This had implication on the assessment of lease term, whereby the lease term could be assessed to be enforceable beyond the initial lease term and entities are required to determine whether it is reasonably certain to exercise options to extend the lease.

Due to the timing of the clarification, management were still in the process of reviewing and assessing its' impact during the December 2019 financial year. The assessment has now been completed and it was determined that some leases should have included the renewable options as part of the initial lease term. As a consequence, a restatement of the comparative right-of-use asset, lease liabilities and associated depreciation and lease interest expense respectively is required. The following table summarises the impact on the Group financial statements.

	December 2019	Adjustment	Restated December 2019
Consolidated statement of financial position	\$'000	\$'000	\$'000
Right-of-use asset	285,177	38,763	323,940
Non-current Lease Liabilities	(259,812)	(39,713)	(299,525)
Deferred tax assets	17,876	285	18,161
Accumulated losses	92,027	665	92,692

	June 2019	Adjustment	Restated June 2019
Consolidated statement of profit and loss and other comprehensive income	\$'000	\$'000	\$'000
Depreciation	(46,595)	534	(46,061)
Net finance costs	(12,955)	(1,009)	(13,964)
Income tax expense	(13,513)	143	(13,370)
Profit for the period	43,006	(333)	42,673

As a result of the changes above, the Group's earnings per share has been restated as per Note 7 and summarised below:

	June 2019	Restated June 2019
Earnings per share for profit attributable to ordinary equity holders	\$'000	\$'000
Basic earnings per share	12.83	12.73
Diluted earnings per share	12.78	12.67

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 28 June 2020 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 28 June 2020.

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 27 August 2020



Harry Debney

Managing Director



Neil Chatfield

Chairman



Independent Auditor's Review Report

To the shareholders of Costa Group Holdings Ltd

Report on the Condensed Consolidated Interim Financial Statements

Conclusion

We have reviewed the accompanying **Condensed Consolidated Interim Financial Statements** 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 Condensed Consolidated Interim Financial Statements 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 28 June 2020 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 **Condensed Consolidated Interim Financial Statements** comprises:

- Condensed consolidated statement of financial position as at 28 June 2020;
- 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.

Responsibilities of the Directors for the Condensed Consolidated Interim Financial Statements

The Directors of the Company are responsible for:

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



Auditor's responsibility for the review of the Condensed Consolidated Interim Financial Statements

Our responsibility is to express a conclusion on the Condensed Consolidated Interim Financial Statements 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 Condensed Consolidated Interim Financial Statements are not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 28 June 2020 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 Condensed Consolidated Interim Financial Statements 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
27 August 2020

Costa Group Holdings Ltd

Corporate Directory

Directors

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

Company Secretary

David Thomas

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Auditor

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Stock Exchange

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