Costa Group Holdings Limited

Appendix 4D and Condensed Consolidated Interim Financial Statements

For the half-year ended 2 July 2023

ASX Listing Rule 4.2A.3

ABN 68 151 363 129

The information in this report should be read in conjunction with Costa Group Holdings Limited 2022 Annual Report

1. RESULTS FOR ANNOUNCEMENT TO THE MARKET

(a) Key Information

	Half-year ended 2 July 2023	Half-year ended 3 July 2022	% Change
	Results	Results	
	$ '000	$ '000	
Total revenue	770,703	708,657	8.8%
Profit for the period[1]	43,993	48,643	(9.6%)
Profit for the period attributable to owners of Costa Group Holdings Ltd[2]	25,721	37,837	(32.0%)
Earnings before interest, tax, depreciation, amortisation, SGARA[3], and material items (“EBITDA-S”)[4]	150,229	140,095	7.2%
Net profit after tax before SGARA[3], and material items (“NPAT-S”)[4]	37,822	40,303	(6.2%)

Notes:
1. Represents the statutory profit for the period which includes the impact of SGARA and material items.
2. Represents the statutory profit for the period adjusted for non-controlling interests.
3. SGARA represents the fair value movements in biological assets.
4. EBITDA-S and NPAT-S are disclosed before material items. Refer note 15 of the Condensed Consolidated Interim Financial Statements for further details.

DIVIDENDS

Dividends or dividend distribution plan	Cents per share	Franking %
Determined after the half-year for the half-year ended 2 July 2023[1]		
Interim dividend	Not applicable	Not applicable
Declared and paid for the financial year ended 1 January 2023		
Final dividend	5.0 cents	40%
Interim dividend	4.0 cents	100%

Notes:
1. No interim dividend was determined subsequent to balance date and therefore no dividend has been accrued for at balance date. Refer to Director’s Report and note 12 of the Condensed Consolidated Interim Financial Statements for further details.

Consistent with prior year, there was no dividend reinvestment plan in operation for the half-year ended 2 July 2023.

2. FINANCIAL STATEMENTS

Please refer to pages 1 through 22 of this report wherein the following are provided:

- Directors’ Report;
- Auditor’s Independence Declaration;
- Condensed Consolidated Interim Statement of Profit and Other Comprehensive Income for the half-year ended 2 July 2023;
- Condensed Consolidated Interim Statement of Financial Position as at 2 July 2023;
- Condensed Consolidated Interim Statement of Changes in Equity for the half-year ended 2 July 2023;
- Condensed Consolidated Interim Statement of Cash Flows for the half-year ended 2 July 2023;
- Notes to the Condensed Consolidated Interim Financial Statements;
- Director’s Declaration;
- Independent Auditor’s Review Report for the half-year ended 2 July 2023; and
- Corporate Directory.

3. NET TANGIBLE ASSETS

Net tangible asset backing per ordinary share	Half-year ended 2 July 2023 Cents per share	Half-year ended 3 July 2022 Cents per share
Net tangible asset backing per ordinary share	119.45	121.12

4. ASSOCIATES AND JOINT VENTURES

Associates and Joint Ventures	Equity instrument	Ownership interest 2 July 2023 %	Ownership interest 3 July 2022 %	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 has common law claims pending after which it will initiate process of winding down.

5. FURTHER INFORMATION

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

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 2 July 2023 and Independent Auditor's Review 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 (Interim CEO)
Mr Tim Goldsmith
Ms Janette Kendall
Mr Peter Margin
Dr Jane Wilson AO

All Directors have been in office since the start of the half-year to the date of this report.

PRINCIPAL ACTIVITIES

The 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 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 relating to the half-year.

Key financial highlights in half-year ended 2 July 2023 versus half-year ended 3 July 2022 include:

Statutory profit for the period decreased 9.6% to $44.0 million as compared to the prior comparative period (''pcp''). The Group had strong earnings growth from the International segment, with China posting record revenue and earnings. The impact of crop timing, subdued sales pricing and high input cost inflation saw the Domestic Produce segment deliver a mixed performance, with lower earnings versus pcp. Total revenue increased by 8.3% on pcp to $770.7 million, driven principally by the International segment.

Both China and Morocco contributed to an impressive international performance, further demonstrating the superiority of Costa's blueberry genetics. China revenue growth of 53% versus pcp was achieved through a 46.3% increase in blueberry volume versus pcp, supported by strong and sustained demand over the entire season, including for our premium jumbo blueberry offering. The newly planted Agri Park development, and Baoshan and Banna farms all produced volumes ahead of expectations. African Blue revenue was 13% higher versus pcp, benefiting from strong pricing due to lower overall industry volumes into key European markets. Our newly planted blueberry varieties at our northern Moroccan farms are showing positive early promise with respect to both yield and pricing.

Domestic Produce segment revenue was overall marginally ahead of the prior year, with the Berry and Avocado categories both posting positive revenue growth. The Citrus category experienced a delayed start to the season as the continuation of La Nina climatic conditions in late CY2022 and a mild summer impacted growing conditions. Relative to pcp, virtually all Citrus harvest earnings are expected to fall in the second half. Despite early 2PH citrus season fruit being well received in export markets, there has been a disappointing deterioration in outlook for later season fruit quality contributed to by CY22 weather impacts. Together with southern region volume downgrade and La Nina overhang contributing to fruit size being below expectations, this is expected to have a full year EBITDA-S[1] negative impact of circa $30 million relative to internal expectations. Tomato category revenue was down 11% as lower than expected summer months pricing and softer consumer demand saw average pricing fall below pcp.

[1] EBITDA-S is a non-IFRS measures and has not been subject to audit.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

In addition to the first half result being impacted by the delayed start to the citrus season, the Group experienced some significant input cost inflation pressures particularly across packaging and fertilisers, with labour costs also impacted by rising wages and some supply constraints. Reduced shipping costs over the first half contributed to a stabilising of pricing for freight, fuel and imported inputs. The full benefit of these reductions is expected to flow through in the second half of the year. Energy costs rose Australia wide over the first half, with some jurisdictions experiencing significant cost increases versus pcp.

Earnings before interest, tax, depreciation, and amortisation, SGARA and material items (EBITDA-S)[1], was $150.2 million, up from $140.1 million in the prior year. The International segment reported result of $123.7 million was 43.5% above pcp. The Produce segment was down 53.5% and the Costa Farms and Logistics segment was down 36.1% due to the impact of rising energy prices and subdued market trading.

Other key financial impacts were:

- Depreciation charges increased in line with the investment in new facilities and maturing orchards.
- In line with rising interest rates over the last year, interest expense increased significantly contributing to higher average debt compared to the prior year. A focus on cash repatriation continues, with the aim of repatriating cash from international subsidiaries in order to reduce debt levels on domestic facilities.
- The fair value movement in biological assets resulted in a loss in the period as gains from domestic citrus orchards were offset by reversals from the International segment, which now includes the additional 100 Ha Agripark farm in China, compared to the prior year.
- Material items of $1.7 million (before tax) for the period relate to a loss on the sale of the Gunalda Avocado farm, costs associated with the relocation of the Group head office, costs relating to a non-binding indicative proposal to purchase the Company, and restructuring expenses (refer to note 15 for further information).

NON-BINDING INDICATIVE PROPOSAL FROM PAINE SCHWARTZ PARTNERS AND INTERIM DIVIDEND

On 4 July 2023, the Company announced that on 31 May 2023, it received an unsolicited, confidential, non-binding indicative proposal from Paine Schwartz Partners, LLC (''PSP'') to acquire all of the issued shares in the Company which it does not already own by way of a scheme of arrangement (Indicative Proposal). Under the Indicative Proposal, Company shareholders would receive cash consideration of $3.50 per share, with shareholders also entitled to any interim dividend declared in relation to the 6-month period which ended on 2 July 2023 of up to 4 cents per share. Following a 4-week period of initial due diligence, PSP provided reconfirmation of the Indicative Proposal on 4 July 2023. The Indicative Proposal followed PSP acquiring a 13.78% relevant interest in Costa on 25 October 2022 at a price of $2.60 per share, and subsequent verbal engagement between the Company and PSP in April 2023 in relation to a potential approach at a range of $3.20 to 3.30 per share. The Indicative Proposal (as reconfirmed) is subject to a number of conditions including satisfactory completion of due diligence, execution of a binding scheme implementation agreement and approval of the PSP Investment Committee. PSP has indicated that they have received approval from the Foreign Investment Review Board to acquire up to 100% of the shares in Costa, however such approval may be required to be refreshed upon finalisation of any co-investors.

On 14 August 2023, the Company announced that the due diligence being performed by PSP in relation to the Indicative Proposal was continuing.

On 24 August 2023, the Company announced that it had advised PSP of a trading update in relation to the CY23 financial year as part of the due diligence. This announcement also stated that discussions with PSP were continuing, and it expected to update the market in relation to the Indicative Proposal in mid/late September 2023.

On 30 August 2023, the directors confirmed the Company would defer consideration of a dividend for the 6-month period ending 2 July 2023 until it had more clarity in relation to the outcome of these discussions.

The proposal from Paine Schwartz Partners and deferral of a consideration of a CY23 interim dividend has been disclosed in note 16 of the Condensed Consolidated Interim Financial Statements.

[1] EBITDA-S is a non-IFRS measures and has not been subject to audit.

EVENTS SUBSEQUENT TO REPORTING DATE

Except for those disclosed in note 16, there are no other matters or circumstances which have arisen since the end of the period ending 2 July 2023 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.

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The Lead Auditor's Independence Declaration as required under section 370C of the *Corporations Act 2001* is set out on page 4 and forms part of the Directors Report for the half-year ended 2 July 2023.

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	Neil Chatfield
Interim CEO	Chairman

30 August 2023

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

To the Directors of Costa Group Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Costa Group Holdings Limited for the half-year ended 2 July 2023 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

KPMG

Chris Sargent

Partner

Melbourne

30 August 2023

Costa Group Holdings Ltd
Condensed Consolidated Interim Statement of Profit and Other Comprehensive Income
For the half-year ended 2 July 2023

	Notes	Half-year 2023 $ '000	Half-year 2022 $ '000
Revenue			
Total revenue	4	770,703	708,657
Less: expenses			
Raw materials, consumables and third-party purchases		(226,689)	(218,701)
Depreciation and amortisation expenses		(69,580)	(65,506)
Employee benefits expenses	5	(268,726)	(246,368)
Occupancy expenses		(20,480)	(16,003)
Net finance costs	5	(27,189)	(19,249)
Gain/(Loss) on sale of assets		155	(4)
Freight and cartage		(39,730)	(35,507)
Short term leasing expenses		(3,719)	(2,924)
(Loss)/Gain on fair value adjustments - biological assets		(14,366)	461
Impairment losses on trade receivables		(366)	(81)
Impairment losses on goodwill and other non-current assets	8, 15	(1,096)	(2,167)
Costs associated with a takeover response	15	(412)	-
Restructure costs	15	(227)	-
Other expenses	5	(67,027)	(54,959)
		(739,452)	**(661,008)**
Share of net profits of associates and joint ventures accounted for using the equity method		6,263	5,981
Profit before income tax expense		**37,514**	**53,630**
Income tax benefit/(expense)	13	6,479	(4,987)
Profit for the period		**43,993**	**48,643**
Other comprehensive income/(loss) for the period			
Foreign currency translation differences		9,771	(5,274)
Cash flow hedges - effective portion of changes in fair value		1,079	(999)
Total other comprehensive income/(loss) for the period		**10,850**	**(6,273)**
Total comprehensive income for the period		**54,843**	**42,370**
Profit attributable to:			
Owners of Costa Group Holdings Limited		25,721	37,837
Non-controlling interests		18,272	10,806
		43,993	**48,643**
Total comprehensive income attributable to:			
Owners of Costa Group Holdings Limited		36,571	31,564
Non-controlling interests		18,272	10,806
		54,843	**42,370**

		Half-year 2023 Cents	Half-year 2022 Cents
Earnings per share for profit attributable to ordinary equity holders:			
Basic earnings per share	6	5.54	8.15
Diluted earnings per share	6	5.53	8.15

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

Condensed Consolidated Interim Statement of Financial Position

As at 2 July 2023

	Notes	2 July 2023 $ '000	1 January 2023 $ '000
ASSETS			
Current assets			
Cash and cash equivalents		205,794	85,212
Receivables		131,081	101,589
Inventories		50,070	40,045
Biological assets		63,975	79,785
Other assets & financial assets		21,365	12,597
Current tax assets		717	30,856
Total current assets		**473,002**	**350,084**
Non-current assets			
Other assets and financial assets		1,843	773
Equity accounted investments		34,804	31,291
Intangible assets		292,656	282,859
Deferred tax assets		41,374	25,291
Property, plant, and equipment		805,326	814,349
Right of use assets		560,278	552,942
Total non-current assets		**1,736,281**	**1,707,505**
Total assets		**2,209,283**	**2,057,589**
LIABILITIES			
Current liabilities			
Payables		129,626	149,418
Borrowings	7	18,293	12,189
Provisions		38,470	37,009
Current tax liabilities		1,464	88
Lease liabilities		63,451	61,016
Total current liabilities		**251,304**	**259,720**
Non-current liabilities			
Borrowings	7	537,599	424,964
Provisions		9,119	8,908
Deferred tax liabilities		44,124	38,403
Lease liabilities		519,457	510,033
Total non-current liabilities		**1,110,299**	**982,308**
Total liabilities		**1,361,603**	**1,242,028**
NET ASSETS		**847,680**	**815,561**
EQUITY			
Share capital	9	768,957	768,532
Other equity reserve		(13,422)	(13,422)
Other reserves		13,471	2,543
Profit reserve		105,891	103,397
Accumulated losses		(92,692)	(92,692)
Equity attributable to owners of the parent		**782,205**	**768,358**
Non-controlling interests		65,475	47,203
Total equity		**847,680**	**815,561**

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 2 July 2023

			Other reserves								
	Share capital	Other equity reserve	Share-based payment reserve	Foreign currency translation reserve	Hedge reserve	General reserve	Profit reserve	Accumulated losses	Total	Non-controlling interests	Total equity
Consolidated	**$ '000**	**$ '000**	**$ '000**	**$ '000**	**$ '000**	**$ '000**	**$ '000**	**$ '000**	**$ '000**	**$ '000**	**$ '000**
Balance as at 1 January 2023	**768,532**	**(13,422)**	**7,672**	**(4,562)**	**552**	**(1,119)**	**103,397**	**(92,692)**	**768,358**	**47,203**	**815,561**
Profit for the year	-	-	-	-	-	-	-	25,721	**25,721**	18,272	**43,993**
Other comprehensive income	-	-	-	9,771	1,079	-	-	-	**10,850**	-	**10,850**
Transfer to profit reserve	-	-	-	-	-	-	25,721	(25,721)	**-**	-	**-**
Total comprehensive income for the year	**-**	**-**	**-**	**9,771**	**1,079**	**-**	**25,721**	**-**	**36,571**	**18,272**	**54,843**
Transactions with owners in their capacity as owners:											
Shared-based payment expense during the year	-	-	503	-	-	-	-	-	**503**	-	**503**
Performance rights exercised	425	-	(425)	-	-	-	-	-	**-**	-	**-**
Dividend paid on ordinary shares	-	-	-	-	-	-	(23,227)	-	**(23,227)**	-	**(23,227)**
Balance as at 2 July 2023	**768,957**	**(13,422)**	**7,750**	**5,209**	**1,631**	**(1,119)**	**105,891**	**(92,692)**	**782,205**	**65,475**	**847,680**

The above Condensed 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 2 July 2023

			Other reserves								
	Share capital	Other equity reserve	Share-based payment reserve	Foreign currency translation reserve	Hedge reserve	General reserve	Profit reserve	Accumulated losses	Total	Non-controlling interests	Total equity
Consolidated	**$ '000**	**$ '000**	**$ '000**	**$ '000**	**$ '000**	**$ '000**	**$ '000**	**$ '000**	**$ '000**	**$ '000**	**$ '000**
Balance as at 27 December 2021	**768,074**	**(13,422)**	**8,895**	**8,102**	**177**	**(1,572)**	**112,021**	**(92,692)**	**789,583**	**38,375**	**827,958**
Profit for the year	-	-	-	-	-	-	-	37,837	**37,837**	10,806	**48,643**
Other comprehensive income	-	-	-	(5,274)	(999)	-	-	-	**(6,273)**	-	**(6,273)**
Transfer to profit reserve	-	-	-	-	-	-	37,837	(37,837)	**-**	-	**-**
Total comprehensive income for the year	**-**	**-**	**-**	**(5,274)**	**(999)**	**-**	**37,837**	**-**	**31,564**	**10,806**	**42,370**
Transactions with owners in their capacity as owners:											
Shared-based payment expense during the year	-	-	194	-	-	-	-	-	**194**	-	**194**
Performance rights exercised	458	-	(458)	-	-	-	-	-	**-**	-	**-**
Dividend paid on ordinary shares	-	-	-	-	-	-	(23,227)	-	**(23,227)**	-	**(23,227)**
Balance as at 3 July 2022	**768,532**	**(13,422)**	**8,631**	**2,828**	**(822)**	**(1,572)**	**126,631**	**(92,692)**	**798,114**	**49,181**	**847,295**

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

Condensed Consolidated Interim Statement of Cash Flows

For the half-year ended 2 July 2023

	Half-year 2023 $ '000	2022 $ '000
Cash flow from operating activities		
Receipts from customers	744,053	683,307
Payments to suppliers and employees	(666,514)	(585,366)
Interest received	253	25
Interest paid	(23,162)	(21,972)
Income taxes received/(paid)	27,198	(11,004)
Net cash provided by operating activities	**81,828**	**64,990**
Cash flow from investing activities		
Payments for property, plant and equipment	(36,870)	(52,987)
Dividends from equity accounted investments	2,750	3,350
Payment for acquisition of business, net of cash acquired	(1,533)	-
Proceeds from sale of property, plant and equipment	3,241	4,544
Net cash used in investing activities	**(32,412)**	**(45,093)**
Cash flow from financing activities		
Dividend payments on ordinary shares	(23,227)	(23,227)
Loans and advances	-	1,110
Proceeds from borrowings	136,002	186,973
Repayment of borrowings	(18,550)	(78,443)
Payment of lease liability	(23,098)	(29,314)
Net cash provided by financing activities	**71,127**	**57,099**
Net increase in cash held	**120,543**	**76,996**
Reconciliation of cash		
Cash at beginning of year	85,212	61,887
Net increase in cash held	120,543	76,996
Effect of movement in foreign exchange rate	39	(2)
Cash at end of interim period	**205,794**	**138,881**

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

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

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

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 2 July 2023 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 of 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 1 January 2023.

The Condensed Consolidated Interim Financial Statements were authorised for issue in accordance with a resolution of Directors of the Company on 30 August 2023.

(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.

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.

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.

NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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 Group's Chief Executive Officer ("CEO") (the chief operating decision maker, "CODM") 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. Additionally, the operations export Australian grown produce to retail and wholesale customers in Asia and North America.

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 berry farming operations in Morocco and China, and royalty income from licensing of Costa's blueberry varietals internationally.

(b) Information about reportable segments

Performance is measured based on segment EBITDA before Self Generating and Regenerating Assets and material items ("EBITDA-S")[1], as included in the internal management reports that are reviewed by the CEO.

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

It is the Group's policy that business support costs that are not directly attributable to a specific segment are predominantly 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.

[1]EBITDA-S represents earnings before interest, tax, depreciation, amortisation, fair value movements in biological assets ("SGARA") and material items. This is a non-IFRS financial measure.

NOTE 3: SEGMENT INFORMATION (CONTINUED)

Half-year 2023	Produce $'000	CF&L $'000	International $'000	Adjustments and eliminations $'000	Total $'000
Revenue					
External customers	471,541	91,853	207,309	-	770,703
Inter-segment	21,746	3,739	-	(25,485)	-
Total revenue	**493,287**	**95,592**	**207,309**	**(25,485)**	**770,703**
EBITDA-S[1]	**21,210**	**5,333**	**123,686**	**-**	**150,229**
Fair value movements in biological assets	12,642	-	(27,008)	-	(14,366)
Material items (before tax)	(1,735)	-	-	-	(1,735)
EBITDA	**32,117**	**5,333**	**96,678**	**-**	**134,128**

Half-year 2022	Produce $'000	CF&L $'000	International $'000	Adjustments and eliminations $'000	Total $'000
Revenue					
External customers	465,184	87,326	156,147	-	708,657
Inter-segment	20,194	3,423	-	(23,617)	-
Total revenue	**485,378**	**90,749**	**156,147**	**(23,617)**	**708,657**
EBITDA-S[1]	**45,508**	**8,333**	**86,254**	**-**	**140,095**
Fair value movements in biological assets	20,058	-	(19,597)		461
Material items (before tax)	(2,167)	-	-	-	(2,167)
EBITDA	**63,399**	**8,333**	**66,657**	**-**	**138,389**

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. This is more prevalent in the International segment where the majority of production occurs over the first half of each calendar year, hence this segment typically has higher revenue and profits during this period.

In the interim period Citrus category experienced a delayed start to the season with significant citrus sales volume and earnings impact expected to transfer into the second half of this year.

(c) Reconciliation of segment EBITDA-S[1] to profit for the period

	Half-year 2023 $ '000	Half-year 2022 $ '000
EBITDA-S[1] for reportable segments	**150,229**	**140,095**
Depreciation and amortisation	(69,580)	(65,506)
Gain/(Loss) on sale of assets	155	(4)
Net finance costs	(27,189)	(19,249)
Fair value movements in biological assets	(14,366)	461
Material items (before tax)	(1,735)	(2,167)
Income tax benefit/(expense)	6,479	(4,987)
Profit for the period	**43,993**	**48,643**

[1]EBITDA-S represents earnings before interest, tax, depreciation, amortisation, fair value movements in biological assets ("SGARA") and material items. This is a non-IFRS financial measure.

NOTE 3: SEGMENT INFORMATION (CONTINUED)

(d) Geographical segment of non-current assets

	2 July 2023 $ '000	1 January 2023 $ '000
Non-current assets excluding financial assets (including equity accounted investment) and deferred tax balance by geography		
Australia	1,392,905	1,388,669
China	98,178	107,294
Morocco	167,177	154,187
	1,658,260	**1,650,150**
Reconciliation of segment non-current assets to Condensed Consolidated Interim Statement of Financial Position		
Non-current assets	1,736,281	1,707,505
Deduct:		
Equity accounted investments	(34,804)	(31,291)
Deferred tax assets	(41,374)	(25,291)
Other assets and financial assets	(1,843)	(773)
	1,658,260	**1,650,150**

NOTE 4: REVENUE

	Half-year 2023 $ '000	Half-year 2022 $ '000
Sale of goods and commissions received	747,302	681,075
Rebates and discounts provided	(8,945)	(9,789)
Rendering of services	17,152	22,022
Other revenue	15,194	15,349
Total revenue	**770,703**	**708,657**

NOTE 5: EXPENSES

(a) Employee benefits expenses

	Half-year 2023 $ '000	Half-year 2022 $ '000
Salaries, contractors, and wages (including on-costs)	240,420	223,569
Superannuation costs	15,697	13,457
Leave entitlements	7,377	5,586
Other employee expenses	5,232	3,756
Total employee benefits expense	**268,726**	**246,368**

NOTE 5: EXPENSES (CONTINUED)

(b) Net finance costs

	Half-year 2023 $ '000	Half-year 2022 $ '000
Interest income	(308)	(958)
Interest expense on borrowings	13,223	5,329
Interest expense on lease liabilities	14,248	14,345
Cash flow hedges - ineffective portion of changes in fair value	(591)	-
Amortisation of capitalised borrowing costs	617	533
Total net finance costs	**27,189**	**19,249**

(c) Other expenses

	Half-year 2023 $ '000	Half-year 2022 $ '000
Repair and maintenance expenses	15,461	13,548
Legal and consulting expenditure	6,356	4,626
Insurance	9,741	8,568
Other[1]	35,469	28,217
Total other expenses	**67,027**	**54,959**

[1]Other expenses include fuel, fumigation and pest control, cleaning and waste removal, advertising and marketing, and general administration costs.

NOTE 6: EARNINGS PER SHARE (EPS)

	Half-year 2023 Cents per share	Half-year 2022 Cents per share
Basic EPS		
Basic EPS (cents) based on profit attributable to owners of Costa Group Holdings Limited	5.54	8.15
Diluted EPS		
Diluted EPS (cents) based on profit attributable to owners of Costa Group Holdings Limited	5.53	8.15

	Number ('000)	**Number ('000)**
Weighted average number of shares		
Weighted average number of ordinary shares on issue used in the calculation of basic EPS	464,657	464,490
Effect of potentially dilutive securities		
Equity-settled share options/performance rights	617	26
Weighted average number of ordinary shares on issue used in the calculation of diluted EPS	**465,274**	**464,516**

	$ '000	**$ '000**
Earnings reconciliation		
Basic and diluted EPS		
Profit attributable to owners of Costa Group Holdings Limited	25,721	37,837

NOTE 7: BORROWINGS

	2 July 2023 $ '000	1 January 2023 $ '000
CURRENT		
Secured liabilities		
Bank loans	-	2,499
Unsecured liabilities		
Bank loans - Other	18,293	9,690
Total current borrowings	**18,293**	**12,189**
NON-CURRENT		
Secured liabilities		
Bank loans	7,104	4,195
Unsecured liabilities		
Bank loans - Australian syndicate facilities	526,754	416,317
Bank loans - Other	3,741	4,452
Total non-current borrowings	**537,599**	**424,964**
Total borrowings	**555,892**	**437,153**

Terms and conditions relating to the above financial instruments:

Secured

- Non-current bank loan facility of $15.1 million facility drawn down to $7.1 million as at 2 July 2023 (December 2022: $4.2 million) and can be further drawn upon as required. This facility matures in March 2027. The facility is secured over buildings and VAT receivables.

Unsecured

- The Group's Australian syndicated debt facility drawn down to $526.8 million (December 2022: $416.3 million) is a $650 million facility that is split as per below:
  i. Facility A – $255 million facility that can be drawn upon as required, maturing in June 2025
  ii. Facility B – $255 million facility that can be drawn upon as required, maturing in June 2026
  iii. Facility C – $140 million facility that can be drawn upon as required, maturing in June 2027

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

- Current bank loan facilities of $17.3 million facility drawn down to $10.6 million as at 2 July 2023 (December 2022: Nil) and can be further drawn upon as required. All facilities will mature between July 2023 and October 2023.

- Current and non-current bank loan facilities of $21.4 million facility drawn down to $11.4 million as at 2 July 2023 (December 2022: $14.1 million) and can be further drawn upon as required. A total of $7.7 million will mature in July 2023 and $3.7 million in July 2024.

Bank guarantees

The Group maintains bank guarantees of $12.0 million (December 2022: $12.0 million) that could be called up at any time in the event of a breach of our financial obligations. The Group does not expect any payments will eventuate under these financial guarantees as the Group expects to meet its respective obligations to the beneficiaries of these guarantees. The financial guarantees are applied against the available drawdown limit for Facility A of the Australian syndicated debt facility as detailed above. The predominant use of the bank guarantees is to support leased property commitments.

NOTE 8: IMPAIRMENT OF NON-FINANCIAL ASSETS

In accordance with Australia Accounting Standards, the Group is required to perform impairment testing at least on an annual basis and at any time where there is any indication that a non-current asset may be impaired.

Each cash generating unit ("CGU") is reviewed for indicators of impairment using both external and internal sources of information. This includes an assessment of performance against expectations and changes in market values or discount rates.

Detailed impairment testing is completed for CGU's when the existence of an indicator of impairment is identified. No indications of impairment were identified, and no impairment has been recognised as at 2 July 2023 (other than disclosed in note 15). The trading performance of the Produce segment was largely seasonal and due to short term environmental conditions. Given that a significant portion of the recoverable value of the impacted CGU's is derived from the long-term financial performance of the CGU, the short-term environmental factors were not considered to be an indicator of impairment.

Consistent with prior periods, the Group will perform detailed impairment testing prior to the end of the financial year using cash flow projections based on detailed management forecasts. Where there are significant changes in the corporate plan, long-term business forecasts, or market-based valuation assumptions from those used in impairment testing in previous periods, this may cause the carrying value of non-current assets to exceed their recoverable amounts.

NOTE 9: SHARE CAPITAL

	2 July 2023		1 January 2023	
	Number	**$ '000**	**Number**	**$ '000**
Opening balance	464,546,466	768,532	464,378,621	768,074
Settlement of share-based payment	163,327	425	167,845	458
At reporting date	**464,709,793**	**768,957**	**464,546,466**	**768,532**

NOTE 10: CAPITAL COMMITMENTS

As at 2 July 2023, the Group has capital commitments amounting to $26.9 million (December 2022: $25.5 million) in relation to the purchase of property, plant and equipment, which are contracted for but not provided for.

Included in the above commitment amount is Stage 2 of Conaghans property put and call option of $18.6 million (exclusive of stamp duty costs), which will be recognised as an asset when the option is exercised. The full option commitment of $34.3 million was exercised on 29 August 2023. Refer note 14 for further details.

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

NOTE 11: CONTINGENT LIABILITIES

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

NOTE 12: DIVIDENDS

Declared and paid during half-year ended 2 July 2023:	**Cents per share**	**Total amount $'000**	**Date of payment**
2022 Financial Year - Final	5.0	23,227	6 April 2023

Interim dividend for the 2023 Financial year:

As at 30 August 2023, no interim dividend was determined for the 2023 financial year. Refer to note 16 for additional information.

NOTE 13: INCOME TAX

Reconciliation of profit for the period to tax expense

	Half-year	
	June 2023 $ '000	**June 2022 $ '000**
Profit before income tax	**37,514**	**53,630**
Prima facie income tax expense on profit before income tax at 30.0%	(11,254)	(16,089)
- effect of tax rates in foreign jurisdictions	5,208	3,369
- effect of tax-exempt profit	13,631	8,030
Tax effect of:		
- non-deductible expenses/assessable income	(968)	(1,002)
- deferred tax asset previously not recognised	(108)	(133)
- non-creditable foreign withholding tax	-	(49)
- (under)/over provision in relation to prior years	(530)	353
- research and development tax credits	500	450
- non-assessable income	-	84
Income tax benefit/(expense)	**6,479**	**(4,987)**

NOTE 14: BUSINESS ACQUISITIONS

The Group did not enter into any business acquisitions in the current period.

During CY2021 the Group acquired 2PH Farms, which had a separate put and call option to acquire the ‘Conaghans’ property for $31.4 million (exclusive of stamp duty costs), exercisable between July 2023 and August 2023. The deed distinguishes two stages, being:

- Stage 1 – 216 Ha of immature citrus orchards planted and being controlled and maintained by Costa
- Stage 2 – minimum of 210 Ha of in-development land, with citrus crop to be planted by Vendor

The Group has been given access and control by the vendor over Stage 1 plantings and is responsible for maintaining the plantings and infrastructure, even though the Deed will be exercisable from July 2023 to August 2023. Resultingly, the Group has accounted for Stage 1 as a stand-alone asset acquisition with estimated value of $15.9 million. Stage 2 has been recognised as a capital commitment as disclosed in note 10.

The option was exercised by the group on 29 August 2023 with full settlement to occur in September 2023. In the period, the vendor and management identified a further 28 Ha of citrus plantings for development in Stage 2, bringing the original 210 Ha to 238 Ha. The additional plantings and associated infrastructure increasing total consideration by $2.9 million, bringing the total settlement for Conaghan’s to $34.3 million (exclusive of stamp duty costs).

NOTE 15: MATERIAL ITEMS

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

	June 2023 $'000	June 2022 $'000
Individually material items included in profit before income tax:		
Costs associated with a takeover response[1]	(412)	-
Impairment losses[2]	(1,096)	(2,167)
Restructure costs[3]	(227)	-
Total material items (before tax)	**(1,735)**	**(2,167)**
Tax effect of material items	255	-
Total material items (after tax)	**(1,480)**	**(2,167)**

Notes:

1. The expenses relate to costs associated with the takeover proposal from Paine Schwarz Partners, refer to note 16 and Directors report.
2. Relates to impairment losses on land, property, plant and equipment, and right of use assets.
3. Restructure costs relating to staff redundancies incurred during the period.

NOTE 16: EVENTS SUBSEQUENT TO REPORTING DATE

(a) Non-binding indicative proposal from Paine Schwartz Partners and interim dividend

On 4 July 2023, the Company announced that on 31 May 2023, it received an unsolicited, confidential, non-binding indicative proposal from Paine Schwartz Partners, LLC (''PSP'') to acquire all of the issued shares in the Company which it does not already own by way of a scheme of arrangement (Indicative Proposal). Under the Indicative Proposal, Company shareholders would receive cash consideration of $3.50 per share , with shareholders also entitled to any interim dividend declared in relation to the 6-month period which ended on 2 July 2023 of up to 4 cents per share. Following a 4-week period of initial due diligence, PSP provided reconfirmation of the Indicative Proposal on 4 July 2023. The Indicative Proposal followed PSP acquiring a 13.78% relevant interest in Costa on 25 October 2022 at a price of $2.60 per share, and subsequent verbal engagement between the Company and PSP in April 2023 in relation to a potential approach at a range of $3.20 to 3.30 per share. The Indicative Proposal (as reconfirmed) is subject to a number of conditions including satisfactory completion of due diligence, execution of a binding scheme implementation agreement and approval of the PSP Investment Committee. PSP has indicated that they have received approval from the Foreign Investment Review Board to acquire up to 100% of the shares in Costa, however such approval may be required to be refreshed upon finalisation of any co-investors.

On 14 August 2023, the Company announced that the due diligence being performed by PSP in relation to the Indicative Proposal was continuing.

On 24 August 2023, the Company announced that it had advised PSP of a trading update in relation to the CY23 financial year as part of the due diligence. This announcement also stated that discussions with PSP were continuing, and it expected to update the market in relation to the Indicative Proposal in mid/late September 2023.

On 30 August 2023, the directors confirmed the Company would defer consideration of a dividend for the 6-month period ending 2 July 2023 until it had more clarity in relation to the outcome of these discussions.

(b) Conaghans put and call option

The option to purchase the Conaghans property as discussed in note 14 was exercised by the Group on 29 August 2023.

There are no other matters or circumstances which have arisen since the end of the period ending 2 July 2023 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.

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 2 July 2023 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 Interim Chief Executive Officer and Chief Financial Officer for the half-year ended 2 July 2023.

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 30 August 2023

Harry Debney	Neil Chatfield
Interim CEO	Chairman

Independent Auditor's Review Report

To the shareholders of Costa Group Holdings Limited

Report on the Condensed Consolidated Interim Financial Statements

Conclusion

We have reviewed the accompanying ***Condensed Consolidated Interim Financial Statements*** of Costa Group Holdings Limited.

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 does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 2 July 2023 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 Interim Statement of Financial Position as at 2 July 2023
- Condensed Consolidated Interim Statement of Profit and Other 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 16 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.

The ***half-year*** is the period 2 January 2023 to 2 July 2023.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

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

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 give 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 give a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities 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. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Condensed Consolidated Interim Financial Statements does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 2 July 2023 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*.

A review of 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.

KPMG

KPMG

Chris Sargent

Partner

Melbourne

30 August 2023

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Neil Chatfield (Chairman)
Harry Debney (Interim CEO)
Tim Goldsmith
Janette Kendall
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Costa Group Holdings Limited shares are quoted on the Australian Securities Exchange (ASX code: CGC)