



# **Costa Group Holdings Limited**

**Appendix 4D and Consolidated Interim Financial Statements**

**For the half-year ended 31 December 2017**

**ASX Listing Rule 4.2A.3**

**ABN 68 151 363 129**

**The information in this report should be read in conjunction with Costa's  
2017 Annual Report**

## 1. RESULTS FOR ANNOUNCEMENT TO THE MARKET

Key information	Half year ended 31 December 2017 \$ '000	Half year ended 25 December 2016 \$ '000	% Change increase	Amount increase \$ '000
Revenue from ordinary activities	489,349	445,541	9.8%	43,808
Profit for the period attributable to members	66,238	15,932	315.8%	50,306
EBITDA-S <sup>(1)</sup> (2)	60,907	49,034	24.2%	11,873
NPAT-S <sup>(1)</sup> (2)	28,615	24,984	14.5%	3,631

(1) Earnings before interest, tax and depreciation before SGARA (EBITDA-S) and Net Profit After Tax before SGARA (NPAT-S) are non-IFRS measures which are used by the Group as a key indicator of underlying financial performance

(2) EBITDA-S and NPAT-S disclosed are presented before material items. Refer Note 5 of the Consolidated Interim Financial Statements for details.

## DIVIDENDS

The Directors have declared an interim dividend of 5.0 cents per ordinary share, fully franked. The dividend is expected to be paid on 5 April 2018. The dividend was not declared as at 31 December 2017 and accordingly no provision has been recognised.

Dividend (distributions)	Cents per share	Franking %
Interim dividend – half year ended 31 December 2017	5.0 cents	100%
Final dividend – year ended 25 June 2017	7.0 cents	100%
Interim dividend – half year ended 25 December 2016	4.0 cents	100%

Consistent with prior years, there was no dividend reinvestment plan in operation during the half-year ended 31 December 2017

## 2. FINANCIAL STATEMENTS

Please refer to pages 1 through 25 of this report wherein the following are provided:

- Directors' report;
- Auditor's independence declaration;
- Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income for the half-year ended 31 December 2017;
- Consolidated Interim Statement of Financial Position as at 31 December 2017;
- Consolidated Interim Statement of Changes in Equity for the half-year ended 31 December 2017;
- Consolidated Interim Statement of Cash Flows for the half-year ended 31 December 2017;
- Notes to the Consolidated Interim Financial Statements;
- Director's Declaration;
- Independent auditor's review report for the half-year ended 31 December 2017; and
- Corporate Directory.

### 3. NET TANGIBLE ASSETS

Net tangible asset backing per ordinary share	Half-year ended 31 December 2017	Half-year ended 25 December 2016
	Cents per share	Cents per share
Net tangible asset backing per ordinary share	58.16	68.27

### 4. ASSOCIATES AND JOINT VENTURES

Associates and Joint Ventures	Equity instrument	Ownership interest 31 December 2017 %	Ownership interest 25 December 2016 %	Measurement basis
Driscoll's Australia Partnership	Ordinary shares	50	50	Equity Accounted
Polar Fresh Partnership	Ordinary shares	50	50	Equity Accounted
African Blue SA	Ordinary shares	- <sup>(1)</sup>	49	Equity Accounted

- (1) Costa acquired additional shares in African Blue SA on 27 November 2017 giving Costa control over the company. From the date of this transaction, African Blue is accounted for as a subsidiary of the Group. Refer Note 11 of the Consolidated Interim Financial Statements for further details.

### 5. FURTHER INFORMATION

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

## **Costa Group Holdings Ltd**

### **Directors' Report**

### **For the half-year ended 31 December 2017**

The directors of Costa Group Holdings Ltd and its controlled entities ("the Group") present their report together with the Consolidated Interim Financial Statements of the Group, being the Company and its controlled entities, for the half-year ended 31 December 2017 and Auditor's Report thereon.

#### **DIRECTORS' NAMES**

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

Mr Neil Chatfield (Chairman)  
Mr Harry Debney (CEO)  
Mr Frank Costa AO  
Mr Kevin Schwartz  
Mr Peter Margin  
Ms Tiffany Fuller  
Ms Janette Kendall

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

#### **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, blueberries, raspberries, 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 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 Stock Exchange announcement dated 27 February 2018.

Key financial highlights from 1HFY2018 ("half-year ended 31 December 2017") vs. 1HFY2017 ("half-year ended 25 December 2016") include:

- Revenue up 9.8% to \$489.3 million with all 3 segments up on 1HFY2017. The Produce segment recorded strong growth of \$55.2 million led by citrus and avocado category sales.
- Statutory profit was up \$51.2 million vs. 1HFY2017, mainly driven by the fair value gain of \$40.1 million recognised on the deemed disposal of the existing 49% interest in African Blue (refer note 11).
- Growth in operating earnings – EBITDA before SGARA (before material items) was up 24.2% driven by solid growth in the Produce as a result of:
  - an exceptional citrus season, with total yield of approximately 98,000 tonnes for the 2017 calendar season; and
  - solid performance from the tomato category underpinned by improved yield across all sites, particularly the new 10ha glasshouse dedicated to snacking production.
- African Blue acquisition finalised on 27 November 2017, increasing Costa's interest to 86% and giving Costa control over the subsidiary. Earnings for African Blue are weighted towards second half of the financial year with crop farming costs recognised through 1HFY2018.

**Costa Group Holdings Ltd**  
**Directors' Report**  
**For the half-year ended 31 December 2017**

**EVENTS SUBSEQUENT TO REPORTING DATE**

There are no matters or circumstances which have arisen since the end of the period ending 31 December 2017 which have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial periods.

**DIVIDENDS PAID, RECOMMENDED AND DECLARED**

The Directors have declared an interim dividend of 5.0 cents per ordinary share, fully franked, in respect of the current financial year. The record date of the dividend is 15 March 2018 and the dividend is expected to be paid on 5 April 2018. The dividend was not declared until 26 February 2018 and accordingly no provision has been recognised at 31 December 2017.

**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 31 December 2017.

**ROUNDING**

The 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.



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Harry Debney  
*Managing Director*



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Neil Chatfield  
*Chairman*

26 February 2018



# 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 31 December 2017 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

Paul J McDonald

Partner

Melbourne

26 February 2018

**Costa Group Holdings Ltd**  
**Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income**  
**For the half-year ended 31 December 2017**

		Half year	
	Notes	31-Dec-17 \$ '000	25-Dec-16 \$ '000
<b>Revenue</b>			
Total revenue	3	489,349	445,541
Other income	11	40,080	-
		<u>529,429</u>	<u>445,541</u>
<b>Less: expenses</b>			
Raw materials, consumables and third party purchases		(155,905)	(159,526)
Depreciation and amortisation expenses		(15,765)	(12,834)
Employee benefits expenses	4	(169,534)	(152,958)
Occupancy expenses		(38,055)	(27,779)
Net finance costs	4	(3,045)	(2,517)
Profit on sale of assets		(64)	638
Impairment losses		(243)	-
Freight and cartage		(28,190)	(24,894)
Leasing expenses		(4,776)	(5,350)
Gain / (loss) on fair value adjustments - biological assets		616	(1,860)
Gain / (loss) on fair value of derivatives		(183)	221
Other expenses		(38,164)	(39,589)
		<u>(453,308)</u>	<u>(426,448)</u>
Share of net profits of associates and joint ventures accounted for using the equity method		3,503	5,468
<b>Profit before income tax expense</b>		<u>79,624</u>	<u>24,561</u>
Income tax expense	16	(13,438)	(9,597)
<b>Profit for the period</b>		<u>66,186</u>	<u>14,964</u>
<b>Other comprehensive loss for the period</b>			
Foreign currency translation differences		(1,359)	-
<b>Total other comprehensive loss for the period</b>		<u>(1,359)</u>	<u>-</u>
<b>Total comprehensive income for the period</b>		<u>64,827</u>	<u>14,964</u>
Profit / (loss) attributable to:			
Owners of Costa Group Holdings Ltd		66,238	15,932
Non-controlling interests		(52)	(968)
		<u>66,186</u>	<u>14,964</u>
Total comprehensive income / (loss) attributable to:			
Owners of Costa Group Holdings Ltd		64,879	15,932
Non-controlling interests		(52)	(968)
		<u>64,827</u>	<u>14,964</u>
		<b>2017</b>	<b>2016</b>
		<b>Cents</b>	<b>Cents</b>
<b>Earnings per share for profit attributable to ordinary equity holders:</b>			
Basic earnings per share	7	20.73	4.99
Diluted earnings per share	7	20.64	4.99

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

**Costa Group Holdings Ltd**  
**Consolidated Interim Statement of Financial Position**  
**For the half-year ended 31 December 2017**

	Notes	31-Dec-17 \$ '000	25-Jun-17 \$ '000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		37,507	22,582
Receivables		85,501	87,434
Inventories		19,850	18,076
Biological assets		47,114	46,042
Derivative financial assets		87	270
Other assets		28,112	12,579
<b>Total current assets</b>		<b>218,171</b>	<b>186,983</b>
<b>Non-current assets</b>			
Other investment and financial assets		244	327
Equity accounted investments		10,737	32,354
Intangible assets		247,353	143,101
Deferred tax assets		1,257	3,517
Property, plant and equipment		325,259	281,949
<b>Total non-current assets</b>		<b>584,850</b>	<b>461,248</b>
<b>Total assets</b>		<b>803,021</b>	<b>648,231</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Payables		110,475	102,733
Provisions		16,272	15,761
Current tax liabilities		10,017	17,561
<b>Total current liabilities</b>		<b>136,764</b>	<b>136,055</b>
<b>Non-current liabilities</b>			
Borrowings	8	215,095	106,775
Provisions		8,826	9,223
Financial liabilities	11	9,130	-
<b>Total non-current liabilities</b>		<b>233,051</b>	<b>115,998</b>
<b>Total liabilities</b>		<b>369,815</b>	<b>252,053</b>
<b>NET ASSETS</b>		<b>433,206</b>	<b>396,178</b>
<b>EQUITY</b>			
Share capital	9	402,443	399,902
Reserves		(13,355)	2,066
Profit reserve		89,662	45,802
Accumulated losses		(56,621)	(56,621)
<b>Equity attributable to owners of the parent</b>		<b>422,129</b>	<b>391,149</b>
Non-controlling interests		11,077	5,029
<b>Total equity</b>		<b>433,206</b>	<b>396,178</b>

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



**Costa Group Holdings Ltd**  
**Consolidated Interim Statement of Changes in Equity**  
**For the half-year ended 31 December 2017**

	Share capital	Share-based payment reserve	Accumulated losses	Profit reserve	Total	Non- controlling interests	Total equity
Consolidated	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
<b>Balance as at 26 June 2016</b>	395,688	523	(56,621)	20,005	359,595	-	359,595
<b><i>Total comprehensive income</i></b>							
Profit for the half-year	-	-	15,932	-	15,932	(968)	14,964
Transfer to profit reserve	-	-	(15,932)	15,932	-	-	-
<b>Total comprehensive income for the half-year</b>	-	-	-	15,932	15,932	(968)	14,964
<b><i>Transactions with owners in their capacity as owners:</i></b>							
Options granted during the half-year	-	855	-	-	855	-	855
Share options exercised	290	-	-	-	290	-	290
Dividend paid on ordinary shares	-	-	-	(19,145)	(19,145)	-	(19,145)
Settlement of share-based payments	34	(34)	-	-	-	-	-
Acquisition of subsidiary with non-controlling interest	-	-	-	-	-	5,100	5,100
<b>Balance as at 25 December 2016</b>	396,012	1,344	(56,621)	16,792	357,527	4,132	361,659

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

**Costa Group Holdings Ltd**  
**Consolidated Interim Statement of Changes in Equity**  
**For the half-year ended 31 December 2017**

	Share capital	Share- based payment reserve	Other equity reserve	General reserve <sup>(1)</sup>	Foreign currency translation reserve	Accumulated losses	Profit reserve	Total	Non- controlling interests	Total equity
Consolidated	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
<b>Balance as at 25 June 2017</b>	399,902	2,501	-	-	(435)	(56,621)	45,802	391,149	5,029	396,178
<b>Total comprehensive income</b>										
Profit for the half-year	-	-	-	-	-	66,238	-	66,238	(52)	66,186
Other comprehensive income / (loss)	-	-	-	-	(1,359)	-	-	(1,359)	-	(1,359)
Transfer to profit reserve	-	-	-	-	-	(66,238)	66,238	-	-	-
<b>Total comprehensive income for the half-year</b>	-	-	-	-	(1,359)	-	66,238	64,879	(52)	64,827
<b>Transactions with owners in their capacity as owners:</b>										
Options granted during the half-year	-	825	-	-	-	-	-	825	-	825
Performance rights granted during the half-year	-	-	-	-	-	-	-	-	-	-
Share options exercised	1,617	-	(4,833)	-	-	-	-	(3,216)	-	(3,216)
Settlement of share-based payments	924	(924)	-	-	-	-	-	-	-	-
Dividend paid on ordinary shares	-	-	-	-	-	-	(22,378)	(22,378)	-	(22,378)
Acquisition of subsidiary	-	-	-	(9,130)	-	-	-	(9,130)	4,017	(5,113)
Capital injected by non-controlling interest without change in control	-	-	-	-	-	-	-	-	2,083	2,083
<b>Balance as at 31 December 2017</b>	402,443	2,402	(4,833)	(9,130)	(1,794)	(56,621)	89,662	422,129	11,077	433,206

<sup>(1)</sup> General reserve consists of put and call option as part of the acquisition of African Blue, measured under the present-access method. Refer Note 11 for details.

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

**Costa Group Holdings Ltd**  
**Consolidated Interim Statement of Cash Flows**  
**For the half-year ended 31 December 2017**

	Notes	Half year 31-Dec-17 \$ '000	25-Dec-16 \$ '000
<b>Cash flow from operating activities</b>			
Receipts from customers		501,303	452,223
Payments to suppliers and employees		(449,287)	(394,980)
Interest received		121	24
Interest paid		(2,767)	(2,416)
Dividends received		43	43
Income taxes paid		(20,479)	(8,226)
<b>Net cash from operating activities</b>		<b>28,934</b>	<b>46,668</b>
<b>Cash flow from investing activities</b>			
Payments for property, plant and equipment		(36,090)	(26,038)
Dividends from equity accounted investments		2,800	5,158
Acquisition of subsidiary (net of cash acquired)	11	(57,410)	-
Acquisition of business (net of cash acquired)		(4,170)	(3,815)
Proceeds from sale of property, plant and equipment		116	677
<b>Net cash used in investing activities</b>		<b>(94,754)</b>	<b>(24,018)</b>
<b>Cash flow from financing activities</b>			
Proceeds from exercise of share options		1,617	290
Proceeds from loans from related party associates		80	-
Dividend payments on ordinary shares	15	(22,378)	(19,145)
Capital injection by non-controlling interest		2,083	5,100
Purchase of treasury shares		(4,833)	-
Proceeds from borrowings		433,937	69,000
Repayment of borrowings		(329,000)	(65,500)
<b>Net cash from / (used in) financing activities</b>		<b>81,506</b>	<b>(10,255)</b>
<b>Reconciliation of cash</b>			
Cash at beginning of half-year		22,582	4,002
Net increase in cash held		15,686	12,395
Effect of movement in foreign exchange rate		(761)	-
<b>Cash at end of half-year</b>		<b>37,507</b>	<b>16,397</b>

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

**Costa Group Holdings Ltd**  
**Notes to the Consolidated Interim Financial Statements**  
**For the half-year ended 31 December 2017**

**NOTE 1: SIGNIFICANT ACCOUNTING POLICIES**

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

The following is a summary of the material accounting policies adopted by the Group in the preparation and presentation of the 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) Statement of compliance**

The Consolidated Interim Financial Statements for the half-year ended 31 December 2017 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 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 25 June 2017.

The Consolidated Interim Financial Statements were authorised for issue in accordance with a resolution of Directors on 26 February 2018.

**(b) Basis of preparation of the Consolidated Interim Financial Statements**

This report is presented in Australian dollars. The accounting policies are consistent with those applied in the previous financial year and the corresponding reporting period.

**(c) Rounding**

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

**(d) Comparatives**

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

**Costa Group Holdings Ltd**  
**Notes to the Consolidated Interim Financial Statements**  
**For the half-year ended 31 December 2017**

**NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of the 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimated uncertainties that have a significant risk of resulting in a material adjustment within the next financial year include:

**(a) Recoverability of non-financial assets**

All assets are assessed for impairment at each reporting date by evaluating whether indicators of impairment exist in relation to the continued use of the asset by the consolidated entity. Impairment triggers include declining product or manufacturing performance, technology changes, adverse changes in the economic or political environment or future product expectations. If an indicator of impairment exists the recoverable amount of the asset is determined.

**(b) Income tax**

Income tax benefits are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

**(c) Valuation of biological assets**

Biological assets are measured at their fair value less costs to sell at each reporting date. The fair value is determined as the net present value of cash flows expected to be generated by these crops (including a risk adjustment factor). Where fair value cannot be measured reliably, biological assets are measured at cost.

The valuation takes into account expected sales prices, yields, growth profile, picked fruit quality and expected incremental-cost related to the sale of the assets and management must make a judgement as to the trend in these factors.

**Costa Group Holdings Ltd**  
**Notes to the Consolidated Interim Financial Statements**  
**For the half-year ended 31 December 2017**

**NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)**

**(d) 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 or liabilities.
- *Level 2:* Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly (i.e. as prices) or indirectly (i.e. derived by prices) observable.
- *Level 3:* Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

**Costa Group Holdings Ltd**  
**Notes to the Consolidated Interim Financial Statements**  
**For the half-year ended 31 December 2017**

**NOTE 3: REVENUE**

	<b>31-Dec-17</b>	<b>25-Dec-16</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<i>Total Revenue</i>		
Sale of goods and commissions received	469,453	428,169
Rebates and discounts provided	(6,646)	(6,738)
Rendering of services	18,940	18,564
Other revenue	7,602	5,546
<b>Total revenue</b>	<b>489,349</b>	<b>445,541</b>

*Impact of seasonality on interim operations*

The Group has seasonality across its produce categories and geographically throughout the business. Additionally, recent growth in the Group's international segment as well as the establishment of the avocado category has resulted in revenues and earnings being more weighted towards the second half of the financial year.

**NOTE 4: EXPENSES**

	<b>31-Dec-17</b>	<b>25-Dec-16</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<i>Employee expenses</i>		
Salaries, contractors and wages (including on-costs)	153,891	136,741
Superannuation costs	8,984	8,028
Leave entitlements	4,780	5,085
Other employee expenses	1,879	3,104
	<b>169,534</b>	<b>152,958</b>

	<b>31-Dec-17</b>	<b>25-Dec-16</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<i>Net finance costs</i>		
Interest income	(205)	(24)
Interest expense on borrowings	2,808	2,379
Amortisation / write off of borrowing costs	442	162
	<b>3,045</b>	<b>2,517</b>

**Costa Group Holdings Ltd**  
**Notes to the Consolidated Interim Financial Statements**  
**For the half-year ended 31 December 2017**

**NOTE 5: MATERIAL ITEMS**

The following individually material items are included within the 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.

	31-Dec-17 \$ '000	25-Dec-16 \$ '000
<b>Individually material items included in profit/(loss) before income tax:</b>		
Polar Fresh impairment <sup>1</sup>	-	(7,900)
Gain on disposal of equity accounted investment for African Blue <sup>2</sup>	40,080	-
Acquisition costs for African Blue <sup>3</sup>	(2,862)	-
<b>Total material items (before tax)</b>	<b>37,218</b>	<b>(7,900)</b>
Tax effect of material items	-	150
<b>Total material items (after tax)</b>	<b>37,218</b>	<b>(7,750)</b>

1. Represents the impairment in the Polar Fresh joint venture investment as a result of the decision taken to wind down the JV's operation.

2. During the year, the Group acquired an additional 37% interest in African Blue, giving it control over the company. AASB 3 requires that the original 49% investment is revalued to fair value in the income statement when the Group gained control of African Blue, which resulted in a gain of \$40.1m. This gain has been included in 'Other income' in the Statement of Profit or Loss. Refer to note 11 for further details.

3. Acquisition related costs associated with the African Blue transaction. Refer to Note 11 for further details.

**NOTE 6: SEGMENT INFORMATION**

**(a) Basis for segmentation**

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

**Produce**

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

**Costa Farms & Logistics ("CF&L")**

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

**International**

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

**(b) Information about reportable segments**

Performance is measured based on segment EBITDA before Self Generating and Regenerating Assets ("SGARA") before material items, 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 Consolidated Interim Financial Statements**  
**For the half-year ended 31 December 2017**

**NOTE 6: SEGMENT INFORMATION (CONTINUED)**

<b>31 December 2017</b>				<b>Adjustments and eliminations</b>	<b>Total</b>
	<b>Produce</b>	<b>CF&amp;L</b>	<b>International</b>		
<b>Revenue</b>					
External customers	414,031	71,719	3,599	-	489,349
Inter-segment	30,776	4,389	-	(35,165)	-
<b>Total revenue</b>	<b>444,807</b>	<b>76,108</b>	<b>3,599</b>	<b>(35,165)</b>	<b>489,349</b>
<b>EBITDA before SGARA</b>	<b>59,947</b>	<b>3,437</b>	<b>(2,477)</b>	<b>-</b>	<b>60,907</b>
<b>25 December 2016 <sup>(1)</sup></b>				<b>Adjustments and eliminations</b>	<b>Total</b>
	<b>Produce</b>	<b>CF&amp;L</b>	<b>International</b>		
<b>Revenue</b>					
External customers	371,744	71,768	2,029	-	445,541
Inter-segment	17,908	1,992	-	(19,900)	-
<b>Total revenue</b>	<b>389,652</b>	<b>73,760</b>	<b>2,029</b>	<b>(19,900)</b>	<b>445,541</b>
<b>EBITDA before SGARA</b>	<b>42,623</b>	<b>5,103</b>	<b>1,308</b>	<b>-</b>	<b>49,034</b>

(1) The half year comparatives have been restated for the transfer of the avocado (and banana) categories from CF&L segment to produce.

**(c) Reconciliation of segment EBITDA before SGARA to profit after tax**

	<b>Notes</b>	<b>31-Dec-17 \$ '000</b>	<b>25-Dec-16 \$ '000</b>
<b>EBITDA before SGARA for reportable segments</b>		60,907	49,034
Fair value movements in biological assets		616	(1,860)
Depreciation and amortisation		(15,765)	(12,834)
Profit on sale of assets		(64)	638
Finance costs		(3,045)	(2,517)
Impairment losses		(243)	-
Material items (before tax)	<b>5</b>	37,218	(7,900)
Income tax expense		(13,438)	(9,597)
<b>Profit after tax</b>		<b>66,186</b>	<b>14,964</b>

**Costa Group Holdings Ltd**  
**Notes to the Consolidated Interim Financial Statements**  
**For the half-year ended 31 December 2017**

**NOTE 7: EARNINGS PER SHARE**

	<b>31-Dec-17</b>	<b>25-Dec-16</b>
	<b>Cents per share</b>	<b>Cents per share</b>
<i>Basic EPS<sup>1</sup></i>		
Basic EPS (cents) based on net profit/(loss) attributable to members of Costa Group Holdings Limited	20.73	4.99
<i>Diluted EPS<sup>1</sup></i>		
Diluted EPS (cents) based on net profit/(loss) attributable to members of Costa Group Holdings Limited	20.64	4.99
	<b>Number</b>	<b>Number</b>
<i>Weighted average number of shares (in thousands)</i>		
Weighted average number of ordinary shares on issue used in the calculation of basic EPS	319,553	318,992
<i>Effect of potentially dilutive securities</i>		
Equity-settled share options	1,378	200
Weighted average number of ordinary shares on issue used in the calculation of diluted EPS	320,931	319,192
	<b>\$ '000</b>	<b>\$ '000</b>
<b>Earnings reconciliation</b>		
<i>Basic EPS</i>		
<i>Profit/(loss) for the period attributable to owners of Costa Group Holdings Limited</i>	66,238	15,932
Net profit/(loss) attributable to ordinary shareholders	66,238	15,932
<i>Diluted EPS</i>		
Earnings used in calculating basic EPS	66,238	15,932
Net profit/(loss) attributable to ordinary shareholders (diluted)	66,238	15,932

1. Excluding the one-off gain on disposal of 49% interest in African Blue and associated acquisition costs (refer note 5), for 1HFY2018 basic earnings per share would have been 9.08 cents per share, and diluted earnings per share would have been 9.04 cents per share.

**Costa Group Holdings Ltd**  
**Notes to the Consolidated Interim Financial Statements**  
**For the half-year ended 31 December 2017**

**NOTE 8: BORROWINGS**

	<b>31-Dec-17</b>	<b>25-Jun-17</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<b>Non-current liabilities</b>		
<i>Unsecured liabilities</i>		
Bank loans	215,095	106,775
	<u>215,095</u>	<u>106,775</u>

**NOTE 9: SHARE CAPITAL**

	<b>31-Dec-17</b>	<b>25-Jun-17</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<i>Issued and paid-up capital</i>		
Ordinary shares	403,290	401,673
Transaction costs directly transferred to equity (net of tax)	(7,087)	(7,087)
Tax effect on legacy share options	3,566	3,566
Settlement of share-based payments	2,674	1,750
	<u>402,443</u>	<u>399,902</u>

	<b>31-Dec-17</b>		<b>25-Jun-17</b>	
	<b>Number '000</b>	<b>\$ '000</b>	<b>Number '000</b>	<b>\$ '000</b>
<b>Ordinary shares</b>				
Opening balance	319,280	399,902	318,880	395,688
Ordinary shares issued	418	1,617	400	580
Settlement of share-based payment	-	924	-	68
Tax effect on legacy share options	-	-	-	3,566
At reporting date	<u>319,698</u>	<u>402,443</u>	<u>319,280</u>	<u>399,902</u>
<b>Total share capital</b>	<u>319,698</u>	<u>402,443</u>	<u>319,280</u>	<u>399,902</u>

**Costa Group Holdings Ltd**  
**Notes to the Consolidated Interim Financial Statements**  
**For the half-year ended 31 December 2017**

**NOTE 10: SHARE BASED PAYMENTS**

	<b>31-Dec-17</b>	<b>25-Jun-17</b>
	<b>\$ '000</b>	<b>\$ '000</b>
Share-based payments reserve	2,402	2,501

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

**Share Based Payment Plan - Employee Share Option Plan**

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

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

During or since the end of the year ended 25 June 2017, 352,481 options have been granted to the Chief Executive Officer and a further 1,353,748 options have been granted to other key executives under the new LTI arrangement.

**Measurement of fair values**

The Group engaged an external party to value the options issued during the half-year. For options issued during the period, the Group has utilised the binomial option pricing model taking into consideration performance conditions outlined in the Group's FY2018 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:

**Employee share option program**

	<b>KMP and Executives</b>	
	<b>1HFY2018</b>	
Number issued	1,524,411	181,818
Fair value at grant date	\$ 1.37	\$ 1.51
Share price at grant date	\$ 5.40	\$ 5.62
Exercise price	\$ 4.82	\$ 4.82
Expected volatility	30.00%	30.00%
Expected dividend yield	2.50%	2.50%
Risk-free rate	2.10%	2.21%

**Costa Group Holdings Ltd**  
**Notes to the Consolidated Interim Financial Statements**  
**For the half-year ended 31 December 2017**

**NOTE 10: SHARE BASED PAYMENTS (Continued)**

**Reconciliation of outstanding share options**

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

	<b>31-Dec-17</b>		<b>25-Jun-17</b>	
	<b>Number of options</b>	<b>Weighted average exercise price</b>	<b>Number of options</b>	<b>Weighted average exercise price</b>
Opening balance	5,877,223	\$ 2.63	3,963,372	\$ 2.39
Disposed for cash or settled for shares during the year	(1,335,119)	\$ 2.49	(400,000)	\$ 1.45
Granted during the half year	1,706,229	\$ 4.82	2,313,851	\$ 2.78
Closing balance	6,248,333	\$ 3.26	5,877,223	\$ 2.63
Exercisable at half year end	2,228,253	\$ 2.56	50,000	\$ 1.45

**NOTE 11: ACQUISITION OF SUBSIDIARY**

**Acquisition of African Blue SA**

On 2 November 2017, the Group signed an agreement to acquire an additional 41% of the shares and voting interests in African Blue SA (African Blue). The transaction involved the Group initially acquiring 37% of the issued shares, with options enabling it to acquire an additional 4% over the next 3 years. As a result, the Group's equity interest in African Blue increased from 49% to 86%, giving it control over the company. The transaction settled on 27 November 2017, which is also the deemed acquisition date for accounting purposes.

African Blue is an integral part of Costa's International segment with the blueberry varieties grown in Morocco coming from genetics developed by Costa originally in Australia. This gives the Group a distinct competitive advantage in the UK and European markets as it is able to deliver a premium product into those markets.

From the date of acquisition to 31 December 2017, African Blue contributed revenue of \$0.1m and a net loss before SGARA of \$1.0m to the Group's results. If the acquisition had occurred on 26 June 2017, management estimates that the consolidated revenue would have been \$0.5m, and consolidated profit for the half-year would have been \$0.3m. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 26 June 2017.

**a) Consideration transferred**

The following table summarises the acquisition date fair value of cash consideration transferred.

	<b>31-Dec-17</b>
	<b>\$ '000</b>
Cash	68,551
<b>Total consideration</b>	<b>68,551</b>

**Costa Group Holdings Ltd**  
**Notes to the Consolidated Interim Financial Statements**  
**For the half-year ended 31 December 2017**

**NOTE 11: ACQUISITION OF SUBSIDIARY (Continued)**

**b) Put and call option**

As part of the agreement, the Group will make further payments to the existing shareholders on reaching certain earnings targets over the next three years by way of a put and call option. The put and call option has been measured at present value using management best estimates of these targets being met and has been treated as a financial liability. Since Costa has applied the present-access method to account for the put and call option, the liability does not form part of the consideration transferred and is recognised in 'Other Equity'. The fair value of the put option recognised on the date of acquisition is \$9.1 million. Any subsequent changes to the fair value of these options will be recognised in Other Equity.

**c) Acquisition related costs**

The Group incurred acquisition related costs of \$2.9m which included legal fees, due diligence costs and stamp duty on transfer of shares. These costs have been included in 'Other expenses' and are treated as material items.

**d) Identifiable assets acquired and liabilities assumed**

The following table summarises the recognition amounts of assets acquired and liabilities assumed at the date of acquisition, measured on a provisional basis.

<b>27 November 2017</b>	<b>\$ '000</b>
Property, plant and equipment	22,044
Intangible assets	1,886
Other assets	1,911
Inventories	1,658
Receivables	7,683
Biological assets	3,263
Cash and cash equivalents	11,141
Borrowings	(2,118)
Payables	(11,243)
Dividends payable	(7,357)
Contingent liabilities	(174)
<b>Total identifiable net assets acquired</b>	<b>28,694</b>

**i) Measurement of fair values**

Due to the complexity, size and timing of the acquisition, the above assets and liabilities have been determined on a provisional basis. Independent valuation of intangible assets such as customer relationships, brand names and re-acquired rights is ongoing. As a result, the provisional values provided above are subject to finalisation during the period of up to twelve months from the acquisition date, which may impact the final fair value of net identifiable assets, liabilities and goodwill.

**Costa Group Holdings Ltd**  
**Notes to the Consolidated Interim Financial Statements**  
**For the half-year ended 31 December 2017**

**NOTE 11: ACQUISITION OF SUBSIDIARY (Continued)**

**e) Goodwill**

Goodwill arising from the acquisition has been recognised, on a provisional basis, as follows:

	<b>31-Dec-17</b> <b>\$ '000</b>
Consideration transferred	68,551
Non-controlling interest based on their proportionate interest in the recognised amounts of the assets and liabilities of African Blue	4,017
Fair value of pre-existing interest in African Blue	59,010
Fair value of net identifiable net assets	<u>(28,694)</u>
<b>Goodwill</b>	<u><b>102,884</b></u>

Goodwill primarily comprises the skills and technical talent of African Blue's workforce, market position and expert capabilities. Goodwill is not deductible for tax purposes.

**f) Re-measurement of existing 49% interest in African Blue**

The following table summarises the gain on re-measurement to fair value of the Group's existing 49% interest in African Blue on the date of acquisition.

	<b>31-Dec-17</b> <b>\$ '000</b>
Fair value of 49% interest (adjusted for control premium)	59,010
Carrying value of the equity-accounted investee	<u>(18,930)</u>
<b>Gain on fair value of investment</b>	<u><b>40,080</b></u>

The gain on fair value of the Group's existing 49% interest has been included in 'Other income' and has been classified as a material item. The fair value of \$59.0m has been adjusted for any control premium paid on the current transaction.

**g) Net cash flow on acquisition**

	<b>\$ '000</b>
Cash flow on acquisition	<u></u>
Net cash acquired with the subsidiary	11,141
Cash paid	(68,551)
<b>Net cash flow on acquisition</b>	<u><b>(57,410)</b></u>

**NOTE 12: CAPITAL AND LEASING COMMITMENTS**

As at 31 December 2017, the Group has capital commitments amounting to \$24,809,776 (June 2017: \$24,939,230) 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 Consolidated Interim Financial Statements**  
**For the half-year ended 31 December 2017**

**NOTE 13: CONTINGENT LIABILITIES**

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

**NOTE 14: EVENTS SUBSEQUENT TO REPORTING DATE**

There are no matters or circumstances which have arisen since the end of the period ending 31 December 2017 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**

<b>Declared and paid:</b>	<b>Cents per share</b>	<b>Total amount \$'000</b>	<b>Date of payment</b>
FY17 - Interim	4.00	12,771	24-Apr-17
FY17 - Final	7.00	22,378	5-Oct-17

**Declared after end of half year**

After the balance sheet date, the following dividends were declared by the Directors. These dividends have not been recognised as a liability at 31 December 2017.

	<b>Cents per share</b>	<b>Total amount \$'000</b>	<b>Date of payment</b>
FY18 - Interim	5.00	15,985	5-Apr-18

**NOTE 16: INCOME TAX**

<b>Reconciliation of accounting profit to tax expense</b>	<b>31-Dec-17 \$'000</b>	<b>25-Dec-16 \$'000</b>
<b>Profit before income tax</b>	<b>79,624</b>	<b>24,561</b>
Tax at 30% (domestic Australian tax rate)	23,888	7,368
Add tax effect of:		
- impairment of equity accounted investments	-	2,220
- non-deductible expenses	1,921	402
- under provision in prior years	55	-
Less tax effect of:		
- tax rates in different jurisdictions	(127)	-
- non-assessable income	(12,044)	(18)
- R&D credits	(255)	(375)
<b>Income tax expense</b>	<b>13,438</b>	<b>9,597</b>
<b>Effective tax rate</b>	<b>16.90%</b>	<b>39.07%</b>

Lower effective tax rate in 1HFY2018 due to the resultant gain on the African Blue acquisition and associated transaction costs (not subject to tax). Normalised for the transaction, the effective tax rate for the group would have been 31.7% due to the weighting of the international operations towards the second half of the year.



## Costa Group Holdings Ltd

### Director's Declaration

The directors declare that the 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 31 December 2017 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 31 December 2017.

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 26 February 2018



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Harry Debney

*Managing Director*



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Neil Chatfield

*Chairman*



# Independent Auditor's Review Report

To the members of Costa Group Holdings Limited

## Report on the Half-year Financial Report

### Conclusion

We have reviewed the accompanying **Half-year Financial Report** 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 Half-year Financial Report of Costa Group Holdings Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 31 December 2017 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

- Consolidated interim statement of financial position as at 31 December 2017
- Consolidated statement of comprehensive income, Consolidated interim statement of changes in equity and 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 Period.

### Responsibilities of the Directors for the Half-year Financial Report

The Directors of the Company are responsible for:

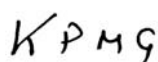
- the preparation of the Half-year Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*,
- for such internal control as the Directors determine is necessary to enable the preparation of the Half-year Financial Report that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

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

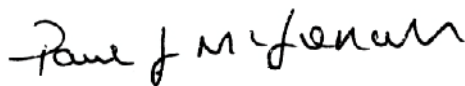
Our responsibility is to express a conclusion on the Half-year Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Half-year Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Costa Group Holdings Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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

The KPMG logo, consisting of the letters 'KPMG' in a stylized, handwritten font.

KPMG

A handwritten signature in black ink, which appears to read 'Paul J McDonald'.

Paul J McDonald  
Partner

Melbourne  
26 February 2018

## **Costa Group Holdings Ltd**

### **Corporate Directory**

#### **Directors**

Neil Chatfield (Chairman)  
Harry Debney (CEO and Managing Director)  
Frank Costa AO  
Kevin Schwartz  
Peter Margin  
Tiffany Fuller  
Janette Kendall

#### **Company Secretary**

David Thomas

#### **Registered Office**

Unit 1, 275 Robinsons Road, Ravenhall, Victoria 3023, Australia  
Telephone: +613 8363 9000  
Email: [investors@costagroup.com.au](mailto:investors@costagroup.com.au)

#### **Share Registry**

Link Market Services Limited  
Level 12, 680 George Street, Sydney, NSW 2000  
Locked Bag A14, Sydney South NSW 1235  
Phone: +61 1300 554 474 (toll free within Australia)  
Fax: +61 2 9287 0303  
Fax: +61 2 9287 0309 (for proxy voting)  
Email: [registrars@linkmarketservices.com.au](mailto:registrars@linkmarketservices.com.au)  
[www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

#### **Auditor**

KPMG  
Tower Two, Collins Square  
727 Collins Street  
Docklands Victoria 3008 Australia

#### **Stock Exchange**

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