

Six-month
financial
period 2018

Costa Group
Holdings
Limited



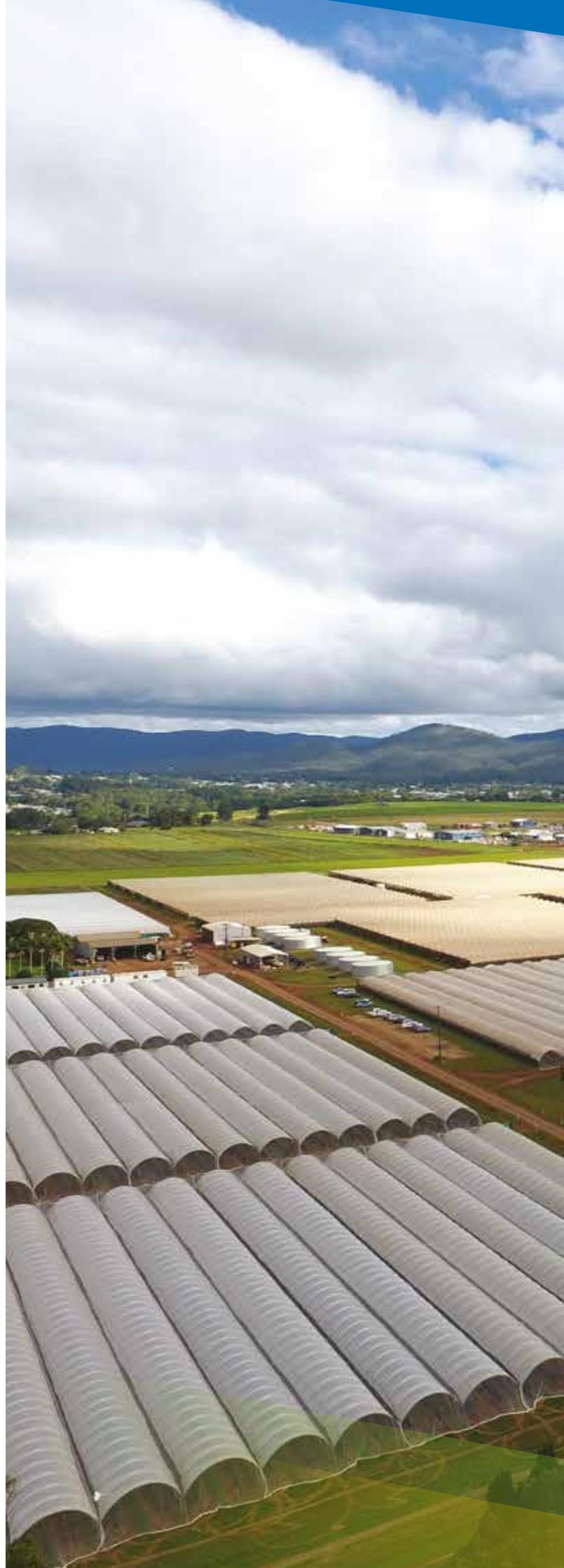
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Corporate Governance Statement

Corporate Governance Statement for the financial period is located at <http://investors.costagroup.com.au/investor-centre/?page=corporate-governance>

Costa Group Holdings Limited





Costa is Australia's leading grower, packer and marketer of premium quality fresh fruit and vegetables.



Chairman and CEO Report



Neil Chatfield
Chairman



Harry Debney
Managing Director and CEO

Dear fellow shareholders, as previously advised in our 2018 Annual Report, through execution of the Company's domestic and international growth platforms, Costa's earnings profile has become significantly skewed to the January-June half year period. This trend will become further pronounced with on-going expansions, amplified by pre-harvest farming costs investment required over the July-December period. Due to this, the Board decided the Company's financial year will now follow the calendar year, commencing from 1 January 2019. To transition from financial year to calendar year reporting, this Annual Report covers what is called the six months financial period from July to December 2018 (FP2018).

The FP2018 period saw Costa deliver a \$8.5million underlying Net Profit After Tax (NPAT-S before material items). This result essentially reflects several key factors including those referred to above, the consolidation of African Blue as a result of our assuming majority ownership, the citrus crop biennial cycle with 2018 being an 'off year', and subdued trading conditions in December affecting several of our produce categories.

Performance for the period

Blueberry performance over the period was mixed, highlighted by strong production volumes from our Corindi New South Wales farm however these were offset by lower volumes from the end of the Far North Queensland season. Our Arana blueberry premium offering continues to be well received, selling in 200 gram packs and attracting a 23 per cent premium over standard blueberry offerings. Raspberry production was unfortunately impacted by unfavourable crop timing and its contribution was disappointing.

Our mushroom category met its financial targets for the period, with capacity constraints to be addressed through the expansion of our Monarto South Australian

Our mushroom category met its financial targets for the period, with capacity constraints to be addressed through the expansion of our Monarto South Australian facility.

facility. The citrus category's contribution was forecast to be significantly below the prior year due to the 'off-year' biennial fruit production cycle. Lower quality towards the tail end of the harvest affected sales price realisation in November and December.

Citrus exports for the 2018 calendar season comprised 73% of packed volume, with Japan being the largest market taking 40% of total exports, followed by the US, New Zealand and China. Exposure to the Korean market is expected to increase in 2019 as tariffs are further reduced under the Australia – Korea Free Trade Agreement.

In the tomato category excellent production of snacking and cocktail varieties was unfortunately met by a weaker retail channel pull through, with more product being sold via wholesale markets, resulting in an overall lower price. Our truss production volumes were lower, however we will be growing a new truss variety called 'Endeavour' in 2019 with enhanced yield, shelf life and disease resistance.

Costa's main avocado production region during the FP2018 period was the North Coast New South Wales, with some residual volume coming from the Queensland farms. Additional expenditure was undertaken on orchard nutrition and health programs on all farms to ensure maximum tree health for future yield.

Earnings from the international segment, incorporating farming operations in Morocco and China and royalty income from the

Americas, are weighted to the first half of the calendar year, meaning there is little in the way of harvest activity in the six months to December 2018. The harvests in Morocco and China will occur in the first half of calendar year 2019.

Growth program

The company's fundamentals remain strong and our business model is strategically designed to achieve competitive advantage and manage agricultural risk. We have a diversified portfolio, with all of our five core produce categories being vertically integrated. We undertake active risk management, with circa 65% of produce related earnings coming from protected cropping, combined with portfolio and geographic diversity which enables 52 week production and supply. Our superior product genetics and process IP are used as a key differentiator, combined with post-harvest and product quality discipline.

We are also on target to meet our medium to long term profit growth objectives. This includes building new capacity and scale through both greenfield investment and M&A activity, developing product varieties that further extend our production and supply period, establishing premium brands that deliver quality and consistency to consumers, further expansion of our Morocco and China operations and continued investment in automation to drive productivity improvements.

Capital investment in expanding our production and supply capacity continues across our core produce categories. This will enable the company to meet both domestic and international market opportunities, including further development of export markets for citrus and table grapes and the building of initial avocado export markets, including Hong Kong and Malaysia. Establishing blueberry market access into China and Japan remains a key priority and we will continue to work diligently with the industry and government in seeking to make this a reality.

The company is currently executing growth plans across all of our core produce categories, namely avocados, berries, citrus, mushrooms and glasshouse tomatoes. Over recent years Costa has embarked upon both greenfield growth and M&A activity in our citrus category. This has been fuelled by expanded favourable export markets and free trade agreements with countries including Japan, South Korea and China.

In December 2018 together with CK Life Sciences (CK) we completed the acquisition of Nangilcol Colignan Farms (NCF), a grower of high-quality citrus and grapes across 567 hectares located in the Riverland region of north western Victoria. Costa will lease the farm from CK for a period of 20 years. The acquisition and its focus on the Sunraysia growing region opens up growth opportunities which are not available in the South Australian Riverland, an area where Costa produces approximately half of the citrus crop.

It will also reduce our reliance on any one region in our portfolio and open-up additional growth opportunities. With respect to Afourer mandarins and navel oranges, it will allow us to further take advantage of export market demand. The NCF acquisition brings the company's total plantings in the Riverland and Sunraysia regions to 2,996 hectares.

The integration of our avocado assets into the business are well progressed, focusing on brand development through our Lovacado brand, farm optimisation and supply chain. Investment in water technology has seen the installation of automated irrigation systems at

all farms using data driven probes which are already used on our citrus farms. This will enable an appropriate level of watering for each farm block driving both root and canopy development ultimately maximising tree health and yields.

There has also been a focus on export market development, with 60,000 trays exported in 2018 and plans to increase these volumes in coming years. Exports have so far been directed at South East Asia including product being sold into Hong Kong, Singapore and Malaysia.

The berry growth program saw 47 hectares of plantings completed in 2018 which included 27 hectares of blackberries. A new premium blackberry product is being launched under the Driscoll's brand, as production volumes of Elvira and Victoria blackberry varieties increase from our plantings in Tasmania, New South Wales and FNQ. Together with our premium Arana blueberry variety, we are firmly focused on enhanced margins through premiumization.

The expansion of the Monarto mushroom facility from 120 tonnes of production per week to 240 tonnes experienced some delays due to weather, resulting in the commissioning of the expansion being pushed back by approximately five weeks. Labour recruitment and training activities were commenced, with 200 new workers required for the expanded operations. Engagement with retail and wholesale customers to allocate the new volume is also well underway.

In late August 2018 we announced to the market we would be adding a further 10 hectares of glasshouse at our existing facility in Guyra, northern New South Wales, bringing the total hectares to 40. At a capital cost of \$67 million, this investment also encompasses expansion of our nursery capacity and enhancement of our produce packing capability. The 10 hectares will be dedicated to growing snacking and specialty variety tomatoes. This new production is expected to ramp up from May 2020. The expanded nursery facility will be highly automated and provide the capacity to grow larger seedlings to maximise glasshouse production. The nursery also enables 100%

self-sufficiency of seedling supply for improved plant quality and disease management.

In Morocco we now have a production area of 294 hectares of blueberries all under protected tunnels. A further 45 hectares are being planted this year in Agadir, 720 kms south of our existing northern farms. Our African Blue plantings continue to be Costa's highest yielding blueberry operation, with some blocks producing 30 tonnes per hectare and plants still producing well after 10 years.

A new packing facility at Larache has been completed, with administration and sales team functions also centralised on this site. Recent capital expenditure includes investment in water purification units at the Baytar farm to remove turbidity and solids in order to improve crop productivity.

In China we are now into our third year of expansion in southern China with total plantings of 110 hectares across three farms. An additional 64 hectares of blueberries were planted during March – April at the new ManHong farm. A lease for the next stage of our berry fruit development was signed in November 2018. The property is located in the same region as our other farms, namely southern Yunnan, with preparation and development of the site already underway to grow blueberries.

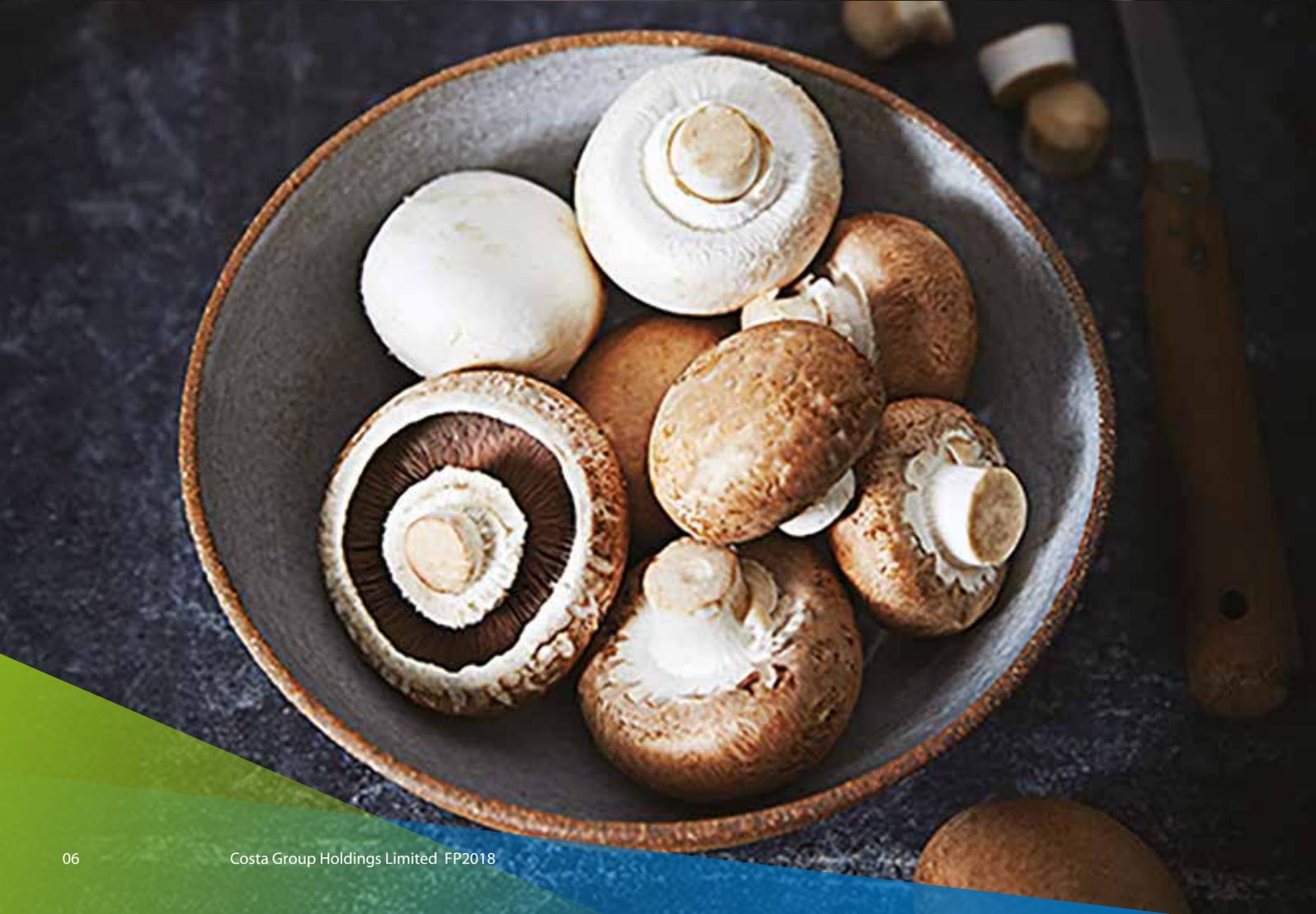
Sustainable Commercial Farming

In November 2018 we changed our branding to 'Costa – Well Grown'. We believe this encapsulates what we mean by sustainable commercial farming, including innovating to get more yield from every hectare, while striving for more and better produce, with fewer inputs and lower environmental impact.

Our firm belief is that finding more sustainable ways to make fresh, healthy food available for everyone is one of the most critical issues of our time and we believe that Costa has a vital role to play. Our portfolio consists solely of fresh healthy produce. How these products are produced is the actual focus of our commitment.

In China we are now into our third year of expansion in southern China with total plantings of 110 hectares across three farms. An additional 64 hectares of blueberries were planted during March – April at the new ManHong farm. A lease for the next stage of our berry fruit development was signed in November 2018.





Our challenge is to balance commercial fresh produce production with environmental responsibility and affordability with quality, in order that healthy and nutritious food is available to everyone for generations to come. Specifically, what this means is that our concerted efforts will be directed to achieving greater yield and quality outcomes for each hectare farmed using fewer inputs for production with a reduced environmental impact.

Sustainable Commercial Farming is intrinsic to the operation and future success of Costa. It is an exciting new chapter for the Costa business and it is a commitment we are serious about. Costa will continue to be informed by strategic thinking and driven by operational execution and to deliver an upward trajectory of earnings in the medium to long term.

Results

Revenue of \$478m for FP2018 was down 2.4% on the previous corresponding period.

EBITDA before SGARA and material items and amortisation (EBITDA-S) was \$35.3m which was 42% lower on the prior corresponding period. NPAT before SGARA and material items and amortisation (NPAT-S) was \$8.5m with statutory NPAT of \$4.3m.

Dividends

The Board declared a fully franked dividend of 5.0 cents per share for FP2018.

Our People

Costa has a diverse workforce with up to 70 different nationalities across our company. In recognition of this Costa has partnered with the Multicultural Centre for Women's Health for a number of years by participating in the Centre's Industry Visits Program at our Victorian mushroom facility.

The program involves health education conducted in the workplace that is specifically designed for women from immigrant and refugee backgrounds. The evidence shows that migrant women often feel empowered by the Centre's program and develop stronger bonds with their peers and colleagues as a result. Most importantly, after participating in the program many women take steps to improve and maintain their health and well-being. Given the success of the program and the obvious benefit for our workforce, Costa was proud to sponsor the Centre's celebration of its 40th Anniversary in October 2018.

Community

Costa has a strong commitment to supporting the communities in which the company operates. Providing not only employment but career pathways in horticulture has been central to this commitment. As a major employer in the regions in which we operate, we are pleased to provide support and assistance for local young people wanting to pursue a university qualification in agriculture and continue to live in their local community.

In late 2018 we announced new ongoing university scholarships in our berry and tomato businesses to encourage and assist students studying agriculture related degrees. These scholarships cover our berry operations on the north coast of New South Wales and Far North Queensland and our tomato operations at Guyra in the New England region of Northern New South Wales.

The berry scholarships are worth \$5,000 a year and will be offered through the University of New England and the University of Queensland. The tomato scholarships are being provided to assist local Central Guyra High school students with educational and living expenses during their university studies. The scholarship is valued at \$16,000 over a four year degree and recipients will also have the opportunity to undertake paid employment with Costa during the year. These new scholarships are in addition to the Costa North-West Tasmania Scholarship in Agricultural Science and the Costa Honours Scholarship in Agricultural Science, both offered through the University of Tasmania.

Board

As previously advised during FP2018, Tiffany Fuller resigned as a director effective 1st September 2018 and Tim Goldsmith became a director as of the same date.

At the company's AGM held on 22nd November 2018, Frank Costa and Peter Margin were re-elected as Directors, while Tim Goldsmith was elected a director.

Kevin Schwartz resigned from the Board as a non-executive director effective 28th February 2019. Mr Schwartz is a founding partner and CEO of Paine Schwartz Partners and joined the Board of the company in October 2011. We thank Kevin for his contribution. His deep understanding and insights into our industry, together with his investment skills, have been instrumental in guiding the company's growth agenda and establishing a sustainable platform from which to drive long term shareholder returns.

Subsequent to Kevin's departure, Dr Jane Wilson was appointed as an independent

non-executive director from 1st April 2019. Dr Wilson joins our Board with considerable corporate experience and knowledge of the horticulture industry, as well as serving as a Guardian of the Future Fund Board, Australia's Sovereign Wealth Fund, and as non-executive director of Transurban Ltd and Sonic Healthcare Ltd. In the early 2000's Dr Wilson was the Inaugural Chairman of Horticulture Australia.

Outlook

Costa has now transitioned to a calendar year reporting period which as already mentioned better reflects planning, revenue generation and reporting cycles. With the later commissioning of our expanded Monarto mushroom facility and timing of the new citrus season inclusive of the Nangiloc Colignan citrus acquisition, initially there will be more earnings weighted to the second half than previously communicated.

Substantial progress continues to be made for both the near and long term across the five core Australian categories with each presenting value accretive growth prospects and our international segment has now also become a significant earnings contributor.

During February 2019 solid price recovery has been experienced across our categories from the earlier challenging period. At this early stage, the outlook for market, crop performance and weather conditions are generally positive, and the company expects CY2019 NPAT-SL growth of at least 30%, with a further update to be provided at the company's AGM to be held on 30th May 2019.

As we expand our footprint both domestically and internationally, building the skill and capacity of our workforce to execute our growth plans and ensure we maintain and develop our reputation as a market leader, is crucial to our success. The dedication that our workforce exhibits on a daily basis and the pride they take in growing, supplying and marketing premium quality produce is second to none. On behalf of the Board we want to sincerely thank them for their hard work and commitment to making our company successful.



Neil Chatfield
Chairman



Harry Debney
Managing Director and CEO

Company Profile

OPERATIONS

About Us

Costa is Australia's leading horticultural company and is the largest fresh produce supplier to the major Australian food retailers. For the six-month fiscal period 2018 (FP2018), Costa's total revenue was \$477.6 million (FY2018: 1,002 million) and NPAT before SGARA^{1,2} was \$8.5 million (FY2018: 76.7 million).

Costa's operations include approximately 4,000 planted hectares of farmland, 30 hectares of glasshouse facilities and seven mushroom growing facilities across Australia, as well as six blueberry farms in Morocco and three berry farms in China.

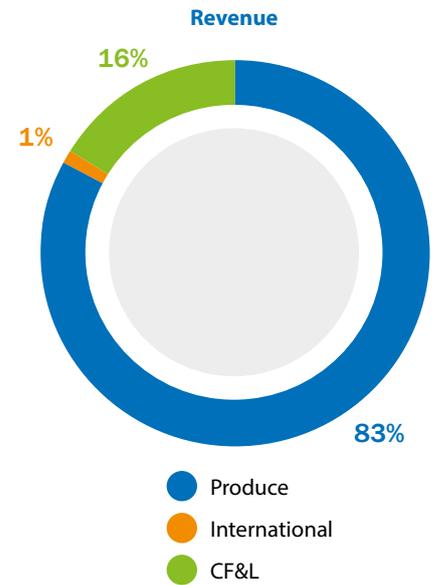
Business Model

The Costa business model is built on the optimisation of a portfolio of integrated farming, packing and marketing activities.

Costa's portfolio aims to be broad enough to mitigate agricultural and market risks while maintaining a strategic focus on high-growth and high-value fresh produce categories. Costa practises proactive risk management through diversification of categories and geographies, growing in protected cropping environments, using market leading technology, targeting produce categories with 52-week production and supply windows, and maintaining high hygiene standards, quality control systems and post-harvest protocols.

Costa's products are predominantly grown and sourced from Costa's expansive footprint of domestic and international farms, supplemented with produce sourced through a diverse network of third party growers.

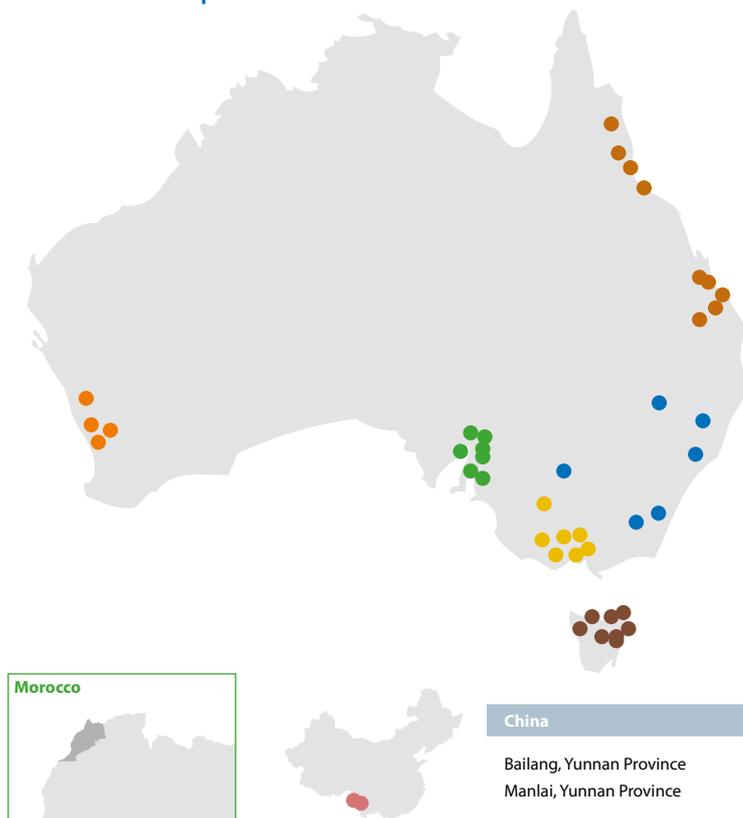
Figure 1: Costa's revenue by segment for the six month fiscal period 2018



Notes:

1. EBITDA before SGARA and NPAT before SGARA are non-IFRS financial measures.
2. NPAT before SGARA and EBITDA before SGARA is represented before material items.

Where We Operate



Western Australia

Berry Farm, Gingin
Mushroom Farm, Casuarina
Distribution Centre, Jandakot
Compost Facility, Mandurah

Queensland

Mushroom Farm, Glen Aplin
Mushroom Farm, North Maclean
Berry Farms, Tolga
Berry Farm, Atherton
Banana Farm, Walkamin
Banana Farm, Tully
Grape Farm, Mundubbera
Brisbane Market, Rocklea
Avocado Farm, Childers
Avocado Farm, Atherton
Berry Farm, Walkamin

New South Wales

Berry Farm, Corindi
Tomato Glasshouse, Guyra
Distribution Centre, Eastern Creek
Distribution Centre Grapes, Euston
Berry Farm, Tumbarumba
Berry Farm, Rosewood

Victoria

Mushroom Farm, Mernda
Compost Facility, Nagambie
Melbourne Market, Epping
Distribution Centre, Derrimut
Business Support Centre, Ravenhall
Mushroom Farm, Yarrambat
Colignan Citrus Farm

South Australia

Mushroom Farm, South Monarto
Yandilla Citrus Farm and Packhouse, Renmark
Solera Citrus Farm, Loxton
Pike Creek Farm, Lyrup
Amaroo Citrus Farm, Murtho
Kangara Citrus Farm and Packhouse, Murtho
Adelaide Market, Pooraka

Tasmania

Berry Farm, Sulphur Creek
Berry Farm, Wesley Vale
Berry Farm, East Devonport
Berry Farm, Dunorlan
Devonport Distribution Centre, Quoiba
Berry Distribution Centre and Packhouse, Devonport
Mushroom Farm, Spreyton
Dulverton Compost Facility, La Trobe
Berry Farm, Lebrina

Morocco



China

Bailang, Yunnan Province
Manlai, Yunnan Province



Operational Structure

Costa operates across three reportable segments:

Produce

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

International

Comprises licensing of proprietary blueberry varieties and expansion of berry farming in

attractive international markets, such as Morocco and China; and

Costa Farms and Logistics (CF&L)

Incorporates interrelated logistics, wholesale and marketing operations.

STRATEGY AND GROWTH

Costa's vertically integrated business model is strategically designed to achieve competitive advantage and manage agricultural risk

Our values and people culture underpins the model and is the main success factor

Diversification

- Diversified category **portfolio** with scale and market share
- **Vertically integrated** produce operations
- **Geographic spread** of production
 - National Australian footprint across the 6 states
 - International berry footprint (Morocco, China)
- Royalty income streams
- Multiple sales channels (domestic & export)

IP, technology and people

- **Superior product genetics**, both developed internally and through external partnering arrangements
- Costa adopts a 'lowest cost' mindset
- Efficient production techniques
- Modern farming, harvesting and irrigation
- Post-harvest and product quality discipline
- Product innovation and branding



Protected cropping

- Costa's core produce categories have the potential for protected cropping to mitigate environmental risk
- **Protected cropping** techniques across a number of key categories (~65% of produce related earnings in FY18)
- Growing indoors, in glasshouses, under tunnels & permanent netting, and in substrate manages risk and improves yield & quality

Year-round production

- Costa has invested in produce categories that are **large scale** and have the potential for year-round supply
- **52-week supply** removes seasonality, maintains consumer reach and smooths cash flow
- Achieved by production methods, varietal selection and geographic spread
- Marketing programs aligned to supply patterns

Current strategic settings on target to meet medium – long term profit growth objectives ... and continue to build



Berry

- Blueberry shoulder period development
 - Temperate varieties in substrate for Tasmania
 - Purpose designed tropical varieties for FNQ
- Premiumization for enhanced margins
 - Arana blueberry
 - Elvira & Victoria blackberry
- Continue to expand volume & reduce cost base
- Automation of processes
- Raspberry & blackberry 'long cane' program to optimize production cycles
- Further development of substrate protected cropping
- Gain market access for blueberries into Japan & China



Citrus

- Build on 'best in class' reputation in export markets
- Major focus on Japan, US, Korea, China markets
- Further automation of packing operations
- Continued scale build (M&A and greenfield)
- Commercial plantings of new citrus varieties
- Rapid growth of 'Sun World' proprietary grape program
- Investigate cost/benefits of protected cropping



Avocado

- Costa farm harvest span now 10 months → expand to 12 months
- Trial high density/trellised/protected cropping
- Optimise yield/production cost
- Enhance customer experience & sales via 'Lovacado' brand → consistent quality paradigm
- Develop export opportunities for 'Lovacado'



International

- Expand varietal breeding program – both sub-tropical and tropical
- Moroccan season extension and continued growth
- China expansion and market optimization
- Expand royalty program to new countries



Tomato

- Ongoing R&D evaluation of new snacking & cocktail cultivars
- Construct large new nursery for lower cost & more advanced plants
- Add glasshouse capacity for market growth & in-housing external volume
- Develop new sales channels



Mushroom

- Build new capacity to claim market growth (ongoing)
- Implement new technologies → lower cost
- Expand brown mushroom sub category
- Establish an effective mushroom brand to add value

SUMMARY OF FINANCIAL PERFORMANCE

Figure 2: Summary of Transacted Sales and revenue FP2018 vs 1HFY2018

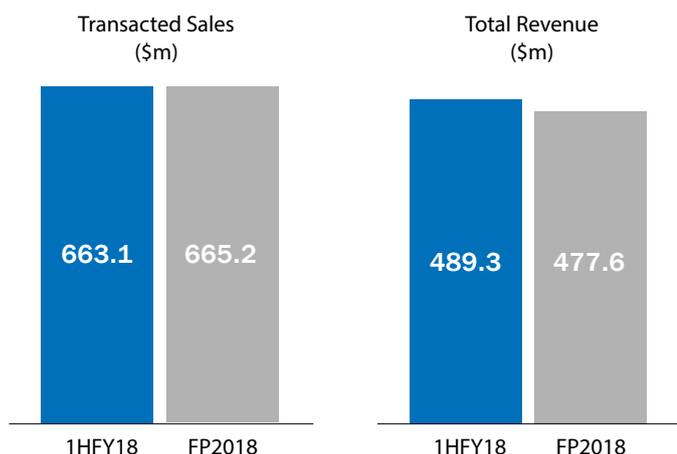
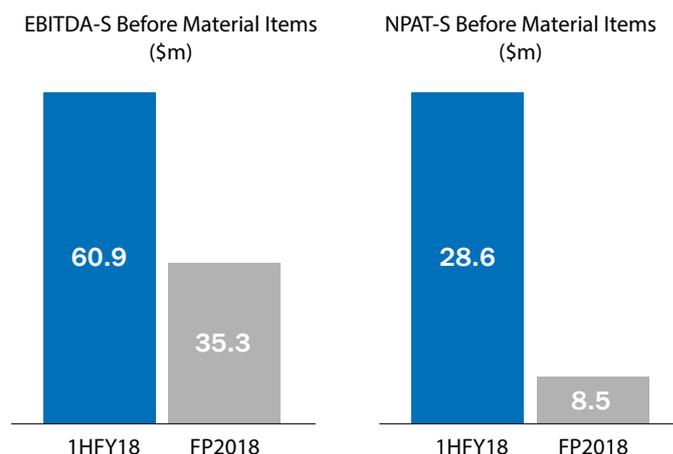


Figure 3: Summary of EBITDA-S and NPAT-S before material items FP2018 vs 1HFY2018



Harvest Calendar

	Mushroom	Mushroom	Tomatoes	Tomatoes	Tomatoes	Oranges	Oranges	Oranges	Grapefruit	Grapefruit	Lemons
	Browns	Whites	Truss	Cocktail	Sweet Snacking	Valencia	Navels	Blood Orange	Marsh	Ruby Red	
January	●	●	●	●	●	●					●
February	●	●	●	●	●	●					●
March	●	●	●	●	●						
April	●	●	●	●	●		●				
May	●	●	●	●	●		●		●		●
June	●	●	●	●	●		●			●	●
July	●	●	●	●	●		●			●	●
August	●	●	●	●	●	●	●	●		●	●
September	●	●	●	●	●	●	●	●		●	●
October	●	●	●	●	●	●	●			●	●
November	●	●	●	●	●	●	●			●	●
December	●	●	●	●	●	●				●	●

	Avocados	Avocados	Avocados	Avocados	Avocados	Avocados	Bananas	Bananas	Raspberries	Raspberries	Raspberries
	Hass	Gwen	Reed	Shepard	Carmen	Maluma	Cavendish	Lady Fingers	Corindi	Gin Gin	TAS
January							●	●	●		●
February							●	●	●		●
March	●			●	●	●	●	●	●		●
April	●			●	●	●	●	●	●	●	●
May	●				●	●	●	●	●	●	●
June	●				●	●	●	●	●	●	
July	●				●	●	●	●	●	●	
August	●				●	●	●	●	●	●	
September	●				●	●	●	●	●	●	
October	●	●					●	●	●		
November			●				●	●	●	●	
December							●	●	●	●	●

	Strawberries	Grapes	Grapes	Grapes	Raspberries	Blackberries	Blueberries	Blueberries
	TAS	Red	White	Black	China	China	China	Morocco
January	●				●	●	●	●
February	●				●	●	●	●
March	●				●	●	●	●
April	●				●	●	●	●
May					●	●	●	●
June								
July								
August					●			
September					●			
October					●			
November	●			●	●	●	●	●
December	●	●	●	●	●	●	●	●



Directors' Report

For the period ended 30 December 2018

The directors of Costa Group Holdings Ltd and its controlled entities ("the Group") present their report together with the financial report of the Group for the 6 month financial period ended 30 December 2018.

1. Directors

The directors of the Company at any time during or since the end of the period are:

Current directors



Neil Chatfield M.Bus, FCPA, FAICD

Chairman and Independent Non-Executive Director

Director since 7 October 2011 and Chairman since 24 June 2015. Member of the Remuneration Committee and Nomination Committee.

Neil is an established executive and non-executive director with extensive experience in company management, and with specific expertise in high growth companies, financial management, capital markets, mergers and acquisitions, and risk management.

Neil is currently a Non-executive director of Transurban Ltd and Non-executive Chairman of Aristocrat Leisure. He was previously the Chair and Non-executive director of Seek Limited (to 31 December 2018), a Non-executive director of Iron Mountain Inc. (to September 2017), Recall Holdings Ltd (to May 2016), Chair and Non-executive director of Virgin Australia Holdings Ltd (to May 2015) and Non-executive director of Grange Resources Ltd (to April 2014). He was also a Non-executive director of Atomos Ltd from the time of its listing on 28 December 2018 until 1 February 2019. Neil previously served as an executive director and Chief Financial Officer of Toll Holdings Ltd (from 1997 to 2008).



Frank Costa AO OAM

Non-Executive Director

Director since 8 June 2011. Member of the Remuneration Committee and Nomination Committee.

Frank has been at the forefront of developing and building the Costa Group into a major horticultural company for more than 50 years. He has previously served as President of the Geelong Football Club (1998 - 2010) and tirelessly promotes the development of the City of Geelong and surrounding community. Frank has been honoured with an Order of Australia Medal for his services to youth and the community.

During the past four years, Frank has not served as a director of any other listed company.



Harry Debney BAppSc (Hons)

Managing Director and Chief Executive Officer

Director since 5 January 2012 and Managing Director since 24 July 2015.

Since his appointment as CEO in 2010, Harry has overseen the transition of the business from a privately owned company to its listing on the Australian Securities Exchange. Prior to joining Costa, Harry spent 24 years at Visy Industries, including eight years as Chief Executive Officer. During this time, he substantially grew the Visy business, both organically and through acquisitions.

Harry is currently a Non-executive director of Kogan.com Ltd and Chair and Non-executive director of The Yield Pty Ltd.



Tim Goldsmith

Independent Non-Executive Director BCom

Director since 1 September 2018 and Chair of the Audit and Risk Committee.

Tim has extensive corporate experience gained from over three decades of working in Australia and internationally. Tim previously worked as a partner at PricewaterhouseCoopers (PwC) for over 20 years, which included leading PwC's National China desk.

Tim is currently President and CEO of Rincon Ltd, an unlisted mine development company, and Non-Executive Chairman of Hazer Group Ltd and Angel Seafood Holdings Ltd.

Directors' Report continued

For the period ended 30 December 2018



Janette Kendall B. Bus (Marketing), FAICD

Independent Non-Executive Director

Director since 11 October 2016. Member of the Audit and Risk Committee (from 17 November 2016) and Nomination Committee.

Janette has held various senior management roles in her career including Senior Vice President of Marketing at Galaxy Entertainment Group in Macau, China; Executive General Manager of Marketing at Crown Melbourne; General Manager, Pacific Brands; Managing Director of emitch Limited; and Managing Director of Clemenger Digital and Clemenger Proximity.

Janette is currently a non-executive director of Wellcom Group Ltd, Vicinity Centres and Placer Property. Janette was previously a director of Nine Entertainment Ltd (to December 2018).



Peter Margin BSc (Hons), MBA

Independent Non-Executive Director

Director since 24 June 2015. Chair of the Remuneration Committee and member of the Audit and Risk Committee, and Nomination Committee.

Peter has many years of leadership experience in major Australian and international food companies, including Chief Executive of Goodman Fielder Ltd and before that Chief Executive and Chief Operating Officer of National Foods Ltd. Peter has also held senior executive roles in Simplot Australia Pty Ltd, Pacific Brands Ltd, East Asiatic Company and HJ Heinz Company Australia Ltd and is currently Executive Chairman of Asahi Beverages ANZ.

Peter currently serves as a Non-executive director of PACT Group Holdings Ltd and Nufarm Ltd. Peter was previously a Non-executive director of the NSX listed company Ricegrowers Ltd (to August 2015), Chairman and Non-executive director of Huon Aquaculture Ltd (to August 2016), and a Non-executive director of PMP Ltd (to August 2016) and Bega Cheese Ltd (to January 2019).



Kevin Schwartz BSc (Accountancy)

Non-Executive Director

Director since 7 October 2011. Member of the Nomination Committee.

Kevin is the Chief Executive Officer of Paine Schwartz Partners (since February 2017) which he cofounded in 2006. He was a Managing Director at the predecessor firm, Fox Paine & Company, which he joined in 2002.

Kevin serves on the boards of directors of FoodChain ID, Lyons Magnus, Verdesian Life Sciences, and Wawona Delaware Holdings, LLC. He is also a member of the Rush Associates Board of the Rush University Medical Center. Kevin has previously served as a director of Advanta, AgBiTech, Icicle Seafoods, Seminis, Inc., Sunrise Holdings (Delaware), Inc., Verisem and on the Board of United American Energy Corp.

During the past four years, Kevin has not served as a director of any other listed company.

Previous directors

Tiffany Fuller was a Non-Executive Director and Chair of the Audit and Risk Committee from 1 October 2015 until her resignation on 1 September 2018.

2. Company Secretary

David Thomas LLB (Hons), BSc, GAICD

Mr. Thomas joined the Company as General Counsel in July 2012 and was appointed to the position of Company Secretary in October 2012. In addition to being the Company Secretary, Mr. Thomas oversees the Group's legal department and advises the Group on legal, risk and compliance matters. Prior to joining the Company, Mr. Thomas was a Partner of Middletons (now K&L Gates), practising in corporate and commercial law. He has over 25 years' experience in legal practice.

3. Officers Who Were Previously Partners of the Audit Firm

There are no officers of the Company during the financial period that were previously partners of the current audit firm, KPMG, at a time when KPMG undertook an audit of the Group.

4. Directors' Meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the period are:

Director	Board Meetings		Audit and Risk Committee Meetings		Remuneration Committee Meetings		Nomination Committee Meetings	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Neil Chatfield	3	3	4	4 ¹	3	3	2	2
Frank Costa	3	3	4	1 ¹	3	3	2	2
Harry Debney	3	3	4	4 ¹	3	3 ¹	2	2 ¹
Tiffany Fuller ²	1	1	3	3	2	1 ¹	1	1
Tim Goldsmith ²	2	2	1	1	1	-	1	1
Janette Kendall	3	3	4	4	3	1 ¹	2	2
Peter Margin	3	3	4	4	3	3	2	2
Kevin Schwartz	3	1	4	-	3	-	2	1

Notes:

1. Not a member of the Committee. Attended the meeting as a guest.

2. Tiffany Fuller resigned, and Tim Goldsmith was appointed, with effect from 1 September 2018.

5. 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 period 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 period.

6. Significant Changes in State of Affairs During the Period

The Board of Directors resolved to change the Group's financial year from a June to a December year-end to better align to the underlying operating cycles of the majority of Costa's produce categories and its international segment. To transition, the Group operated a six-month financial period commencing from 2 July 2018 and ending 30 December 2018. The company's financial year will thereafter revert to a calendar year cycle for 2019.

Other than the above matters and those matters referred to in the 'Strategy and Growth' Section of the Operating and Financial Review and the Financial Statements, there have been no other significant changes in the state of affairs of the Group during the period.

Directors' Report continued

For the period ended 30 December 2018

7. Review of Operations

Results for the Six-month Financial Period 2018

Summary of Group Performance

	FY2018 (\$m)	vs 1HFY18' (%)
Transacted Sales	665.2	▲ 0.3
Revenue	477.6	▼ 2.4
EBITDA-S	35.3	▼ 42.0

- Revenue down on prior comparative period primarily due to citrus category with lower biennial crop cycle.
- EBITDA-S reduction largely due to expected shift in seasonality of earnings to Jan-Jun, lower citrus biennial crop cycle and African Blue consolidation. Subdued trading in December led to results below these initial expectations.

Table 1: Summary of results for the six-month financial period 2018 compared to 1HFY2018¹

Consolidated income statement

A\$m	FP18	1HFY18 ¹	Change	FY2018
Revenue	468.7	481.7	(13.0)	985.6
Other revenue	8.9	7.6	1.3	16.5
Total Revenue	477.6	489.3	(11.7)	1,002.0
Raw materials, consumables & third-party purchases	(152.4)	(155.9)	3.5	(321.0)
Employee benefits expense	(181.1)	(169.5)	(11.6)	(331.3)
Other operating expense	(112.9)	(106.5)	(6.4)	(205.8)
Share of associates profit	4.1	3.5	0.6	6.8
EBITDA-S	35.3	60.9	(25.6)	150.8
<i>EBITDA-S margin</i>	7.4%	12.4%		15.0%
Fair value movements in biological assets	(1.5)	0.6	(2.1)	(4.0)
EBITDA	33.8	61.5	(27.7)	146.8
Depreciation & amortisation	(20.2)	(15.8)	(4.4)	(34.7)
Profit/(loss) on sale of assets	0.5	(0.1)	0.5	(0.3)
Impairment losses	-	(0.2)	0.2	-
EBIT	14.1	45.5	(31.3)	111.8
Net interest expense	(4.2)	(3.0)	(1.2)	(7.2)
Net profit/(loss) before tax	9.9	42.4	(32.5)	104.7
Income tax expense	(2.8)	(13.4)	10.6	(28.1)
NPAT (before material items & amortisation)	7.1	29.0	(21.9)	76.6
Material items & amortisation	(3.9)	45.5	(41.1)	40.3
Tax on material items & amortisation	0.8	-	0.8	1.0
Non-controlling interest	0.4	0.1	0.3	(2.6)
Net profit after tax attributable to shareholders	4.3	74.6	(61.9)	115.2
Transacted sales ²	665.2	663.1	2.1	1,336.1
NPAT-S ³	8.5	28.6	(20.1)	76.7

Notes:

1. 1HFY2018 has been included as a comparative to allow like-for-like period analysis against FP2018. Unless otherwise stated, all comparative references in the Operating and Financial Review are against 1HFY2018. The comparative period for the statutory financial statements is 12 months to June 2018 (FY2018).
2. Transacted Sales is a non-IFRS operating measure. See Table 9 for a reconciliation of Transacted Sales to revenue. Further details on Transacted Sales are provided in Table 8.
3. Net profit attributable to shareholders before material items & amortisation of acquired intangibles and SGARA.

Financial highlights

Revenue

Revenue decreased by \$11.7 million against prior comparative period (1HFY2018) driven by the Produce segment, primarily due to the citrus category with lower biennial crop cycle, as anticipated. This was moderately offset by growth in International with strong licensing income recorded for the period and CF&L with revenue growth in both the wholesale and logistics divisions.

Operating expenses

Raw materials, consumables and 3rd party purchases expenses decreased by \$3.5 million in line with the reduction in revenue in the Produce segment as described above.

Employee benefits expenses increased by \$11.6 million from 1HFY2018 driven primarily by the Produce segment with higher costs in the berry category reflecting the increased production volumes from Corindi. Employment expenses were also higher due to the consolidation of African Blue with FP2018 including a full 6 months' consolidation compared to 1HFY2018 where the business was equity accounted for 5 months prior to Costa's majority share acquisition in Nov-17.

Other operating expenses increased \$6.4 million driven predominantly by an increase in occupancy expenses with new Avocado orchards leased through Macquarie Agriculture Funds Management (Macquarie) and full 6 months of operating costs from the African Blue consolidation.

Share of associates profit

Profits from associates increased by \$0.6 million with 1HFY2018 including 5 months of pre-harvest operating costs for African Blue.

EBITDA before SGARA

EBITDA before SGARA decreased by \$25.6 million from 1HFY2018 was largely anticipated, and due to:

- A full 6 months of consolidated African Blue operating costs and increased pre-harvest farming cost investment in China and Morocco with further footprint expansion. Furthermore, the International segment earnings are weighted towards H1 each calendar year, with harvests in Morocco and China and licensing sales occurring predominantly over that period.
- Citrus biennial bearing cycle, with the 2018 calendar year crop being a lower volume 'off-year' and finishing much earlier than planned and lower quality towards the tail end of the season affecting sales price realisation.
- Subdued trading conditions in a number of Produce categories during December resulted in EBITDA-S being lower than initial expectations.

Fair value movements in biological assets

SGARA fair value movement was down \$1.5 million during the period primarily driven by seasonality in crop timing with the domestic and International berry categories recording significantly uplift heading into harvest cycles. This was partially offset by the citrus category with the completion of the 2018 citrus season.

Depreciation and amortisation

Depreciation and amortisation increased by \$4.4 million in line with increased capital expenditures as well as consolidation of African Blue from November 2017.

Net interest expense

Net finance cost up \$1.2 million from 1HFY2018, primarily as a result of the increased debt from the acquisition of African Blue and growth related capital expenditures.

Tax expense

Lower tax expense in line with the reduction in earnings, with an effective tax rate of 28.3% compared to 16.9% for 1HFY2018.

Material items and amortisation

Material items and amortisation of acquired intangibles were \$3.9 million relating to the amortisation of intangibles associated with the acquisition of African Blue. These intangibles will be fully written off by December 2019.

NPAT-S

NPAT-S decreased by \$20.1 million from 1HFY2018 due to the earnings drivers described above. The reduced EBITDA-S and higher depreciation charges were partially offset by decreased tax expense for the period.

Dividends

The Board has declared a final dividend of 5.0 cents per share on 26 February 2019 for the six-month Financial Period 2018. Dividends are fully franked.

Directors' Report continued

For the period ended 30 December 2018

Segment Information

Produce

Table 2: Selected financial information for the Produce segment

Produce				
A\$m	FP2018	1HFY2018	Change	FY2018
Transacted Sales	615.7	620.3	(4.6)	1,180.3
Revenue	425.6	444.8	(19.2)	843.3
EBTIDA-S	38.8	59.9	(21.1)	119.3
EBITDA-S margin	9.1%	13.5%		14.1%

Produce revenue decreased by \$19.2 million on 1HFY2018 due mainly to:

- Substantial off-year impact in the citrus category with lower volumes and shorter season;
- Lower production volumes in the mushroom category; and
- Change in product mix in the tomato category with continued shift in production away from truss to the higher margin snacking/cocktail varieties.

This was partially offset by volume growth in blueberries and raspberries in the berry category.

EBITDA before SGARA decreased by \$21.1 million against 1HFY2018. This was predominantly driven by the citrus biennial bearing cycle, a shift in seasonality of earnings to calendar year H1 from expansion in the avocado and berry categories, and softer trading in December.

Costa Farms & Logistics

Table 3: Selected financial information for the CF&L segment

Costa Farms and Logistics				
A\$m	FP2018	1HFY2018	Change	FY2018
Transacted Sales	76.6	74.3	2.3	149.3
Revenue	79.0	76.1	2.9	152.2
EBTIDA-S	3.6	3.4	0.1	5.7
EBITDA-S margin	4.5%	4.5%	(0.0%)	3.7%

Revenue increased \$2.9 million compared to 1HFY2018, mainly due to higher trading volumes across avocado and tomato product lines and volumetric growth in logistics through further utilisation of the contract warehousing capacity at Eastern Creek.

EBITDA before SGARA up a modest \$0.1 million against 1HFY2018. This was primarily due to:

- Positive margin growth from the wholesale business, leveraging market pricing and volume opportunities.
- Logistics contribution in line with prior year, with additional income from contract warehousing offset by lower earnings on produce handling.

International

Table 4: Selected financial information for the International segment

International				
A\$m	FP2018	1HFY2018	Change	FY2018
Transacted Sales	6.5	3.7	2.8	74.5
Revenue	6.6	3.6	3.0	74.4
EBTIDA-S	(7.1)	(2.5)	(4.6)	25.8
EBITDA-S margin	nm	nm	nm	nm

Revenue up \$3.0 million compared to 1HFY2018 primarily due to increased licensing income with higher Driscoll's USA plant and fruit royalties and early season blueberry and blackberry production in China.

EBITDA before SGARA decreased by \$4.6 million against 1HFY2018 driven by the consolidation of African Blue and increased pre-harvest farming cost investment in both China and Morocco due to additional hectares farmed.

Balance Sheet

Table 5: Selected consolidated balance sheet as at 30 December 2018

Selected Balance Sheet

A\$m

As at 30 December 2018	Dec-18	Jun-18	Change
Cash and cash equivalents	45.8	60.4	(14.6)
Receivables	92.5	109.8	(17.3)
Inventories	25.4	26.0	(0.6)
Property, plant and equipment	414.2	364.6	49.6
Intangible assets	255.6	255.8	(0.2)
Biological assets	48.3	47.8	0.5
Equity accounted investments	14.4	11.4	3.0
Other assets	40.7	32.3	8.4
Total assets	937.0	908.1	28.8
Payables	130.2	127.0	3.2
Provisions	27.0	26.1	0.9
Borrowings	290.4	236.5	54.0
Other liabilities	26.3	39.2	(12.9)
Total liabilities	474.0	428.9	45.1
Net assets	463.0	479.3	(16.3)

Net working capital

Net working capital decreased by \$21.9 million during the 6 months to Dec-18, primarily driven by a decrease in trade receivables with the completion of the 2018 citrus season as well as timing of month-end vendor payments.

Property, plant and equipment

Property, plant and equipment increased by \$49.6 million driven by consolidation of African Blue and growth project expenditures.

Biological assets

Biological assets increased \$0.5 million to \$48.3 million in FP2018, primarily resulting from acquisitions of new avocado farms and lead up to the berry season in China and Morocco. This was partially offset by the decrease in fair value led by the citrus category with the end of the 2018 citrus season.

Equity accounted investments

Equity accounted investment increased by \$3.0 million due to solid earnings contribution from the Driscoll's Australia marketing joint venture.

Other assets increased by \$8.4 million in FP2018 due primarily to a short-term loan of \$1.9 million provided to one of Costa's third-party growers and current tax assets of \$3.0 million.

Other liabilities decreased by \$12.9 million primarily driven by the payment of Costa's FY2018 Australian tax liability.

Net debt

Table 6: Consolidated net debt as at 30 December 2018

Net debt

A\$m

As at 30 December 2018	Dec-18	Jun-18
Bank loans	291.1	237.7
Capitalised loan establishment fees included in borrowings	(0.7)	(1.2)
Gross debt	290.4	236.5
Less: Cash and cash equivalents	(45.8)	(60.4)
Net debt	244.6	176.1
Leverage ratio¹	1.96x	1.17x

Notes:

1. Leverage ratio defined as net debt divided by LTM EBITDA-S.

Net debt as at 30 December 2018 was \$244.6 million and consisted of \$45.8 million in cash and \$290.4 million of borrowings. Net leverage increased to 1.96x during the period which reflects the capital expenditure on growth projects incurred during the period of \$56.7 million and seasonality of earnings.

Under the existing domestic banking facilities in place during the year, the Group was required to meet set covenant compliance ratios which included total leverage ratio (TLR) and interest coverage ratio (ICR). All covenants were comfortably met.

Directors' Report continued

For the period ended 30 December 2018

Cash Flow

Table 7: Cash flow before financing, tax, dividends and material items & amortisation

Consolidated cash flow

A\$m	FP2018	1HFY2018	Change
EBITDA-S before material items and amortisation	35.3	60.9	(25.6)
Less: Share of profit of JVs	(4.1)	(3.5)	(0.6)
Dividends from JVs	1.1	2.8	(1.7)
Non-cash items in EBITDAS	1.1	1.0	0.1
Change in working capital	14.7	(3.5)	18.2
Net cash flow from operating activities before interest, tax and material items and amortisation	48.1	57.7	(9.6)
Maintenance capital expenditure	(10.7)	(8.6)	(2.1)
Free cash flow	37.4	49.1	(11.7)
Productivity and growth capital expenditure	(56.7)	(27.5)	(29.2)
Payments for business acquisitions	-	(4.2)	4.2
Payment for acquisition of subsidiary	-	(57.4)	57.4
Loans and advances	(1.9)	-	(1.9)
Disposal of property, plant and equipment	0.7	0.1	0.6
Net cash flow before financing, tax, dividends and material items and amortisation	(20.4)	(39.8)	19.4
Cash conversion ratio ¹	106%	81%	

Notes:

1. Defined as free cash flow divided by EBITDA-S before material items and amortisation.

Dividends from joint ventures

Dividends from JVs decreased by \$1.7 million from 1HFY2018 with Driscoll's Australia marketing joint venture retaining cash to fund nursery expansion.

Working capital

Working capital movement of \$14.7 million for the period benefitted from citrus export debtor conversion with an earlier end to the 2018 season, timing of calendar month-end and Vitalharvest payments.

Capital expenditure

Maintenance capital expenditure increased by \$2.1 million against 1HFY2018, consistent with the overall growth across the business as well as the consolidation of African Blue.

Productivity and growth capital expenditure was \$56.7 million for the period and comprised mainly of:

- \$26.1 million for the mushroom Monarto expansion project;
- \$14.2 million for the domestic berry expansion projects;
- \$8.5 million for China joint venture;
- \$3.7 million for Morocco; and
- \$3.9 million for plant and equipment for the new citrus NCF farm acquired during the period.

Other significant items in cash flow

Loans and advances of \$1.9 million relating to funding provided to one of Costa's third party growers.

Material Business Risks

The material business risks faced by the Group that are likely to have an effect on the financial prospects of the Group are:

Weather and climate	Changes in weather, climate or water availability can cause price and yield volatility for Costa. Costa partially mitigates against weather risk by investing in weather protective growing environments and equipment. Approximately two-thirds of Costa's produce related EBITDA before SGARA in FY2018 was derived from crops grown under cover indoors or under permanent tunnels. While protected cropping reduces the risk of disease and the impact of weather, this risk is still apparent. Possible changes in climate may also have an adverse impact on Costa's business. Costa has sought to manage the impact of this risk by increasing the geographic diversity of its operations (both within Australia and internationally). Costa is also continuing to develop and implement further strategies to manage this risk and will report on these strategies in future periods. If Costa's existing water rights are reduced by regulatory changes or if Costa is unable to secure sufficient water for the implementation of its growth projects, this could negatively impact on Costa's operational and financial performance. Costa regularly reviews its short and medium term water security and takes steps to secure access to additional water as and when required, together with continuing to invest in technology and growing techniques that improve water efficiency.
Brand risk	Quality issues, product recall, contamination, public health issues, disputes or adverse media coverage could damage Costa's brands or their image which could adversely impact Costa's financial performance. Costa has zero tolerance for circumstances which may result in food safety concerns and employs strict food safety and quality assurance standards across its business.
Customer risk	Costa's top three customers comprised approximately 70% of FY2018 produce sales. While Costa actively seeks additional channels for its produce, and seeks to manage the security of its existing customer arrangements, the nature of the Australian market means that most customer arrangements are uncontracted and are supplied at market prices which are subject to fluctuation. Any contractual agreements have supply periods typically for 1 season or 1 to 2 years.
Labour arrangements	Costa uses multiple employment models to meet the needs of growing and harvesting a product that is perishable. This includes using labour hire firms to meet production peaks including harvest periods. Costa has less direct control over employment arrangements for persons employed by labour hire firms than it does over its direct employees. Third party labour hire firms are processed by Costa through a rigorous procurement process, and Costa requires their employment practices to satisfy all Australian employment laws. Costa also ensures that all employment instruments and agreements used by any third party labour hire firm engaged by Costa comply with legal minimum pay and conditions. In addition, the majority of Costa's employees are covered by enterprise bargaining agreements and other workplace agreements, which periodically require renegotiation and renewal. Disputes may arise in the course of renegotiations which have the potential to lead to strikes and other industrial action, which may disrupt Costa's operations. Any renegotiations could also result in increased labour costs.
Work health and safety	Given the nature of the industry in which Costa operates, Costa's employees are at risk of workplace accidents and incidents. In addition to the potential for harm to any employee, the occurrence of workplace accidents has the potential to harm both the reputation and financial performance of Costa. Costa is committed to promoting a zero tolerance culture where the risk of harm to our people, through our work activities, is unacceptable. Costa continually works towards achieving zero harm through best practice standards and the elimination of work related injury/illness and risk.
Regulatory changes	Costa is a significant beneficiary of the import restrictions in place for fresh fruits and vegetables including mushrooms, bananas, tomatoes, avocados and berries. Any changes to these import restrictions could have an adverse impact on margins and volumes. However, the perishable nature of certain produce also acts as a natural barrier against imports. As Costa operates in the food sector, it is also required to comply with a wide range of other laws and regulations which include food standards, labelling and packaging, fair trading and consumer protection, environment, quarantine rules, customs, etc. Any change to the rules could adversely impact Costa's operations in the form of higher costs and lower margins for the business.
Competition from new market entrants	While Costa's operations currently benefit from scale and access to superior genetics, this competitive landscape may change over time. If one or more competitors or new market entrants obtained access to favourable genetic varieties which compete in the same categories as those of Costa, or if they achieve greater scale, this could have a material adverse impact on the financial performance and prospects of Costa.
Foreign exchange risk	Costa is exposed to foreign exchange risk from a number of sources, namely from the export of produce to various countries including Japan and the United States, and through the earnings it generates from its international operations, including the African Blue and China joint ventures. Unfavourable movements in the foreign exchange rates between the Australian dollar and other currencies such as the US dollar, Japanese yen, Moroccan dirham and Chinese Yuan can have a material adverse impact on the overall financial performance of Costa. Costa actively employs hedging strategies to mitigate this risk.
Risks associated with foreign operations	Costa has significant interests in the African Blue JV in Morocco and its joint venture with Driscoll's Inc in China. Costa's operations may be adversely affected by the risks associated with operation in such jurisdictions, which may impact on its ability to grow the business by expansion into other overseas markets. As with its domestic operations, Costa has instituted certain internal controls to regulate the operations of its activities outside Australia, and constantly reviews and monitors these controls for effectiveness. Failure to adequately and consistently monitor these internal controls may have an adverse impact on Costa's financial performance. Jurisdictions in which Costa operates may in the future experience sudden civil unrest or major change to their government or political or legal systems and the nature of the legal and regulatory systems in those jurisdictions can result in a lack of certainty regarding the interpretation and enforcement of local laws and regulations.
Environmental risk	Costa's operations are subject to various environmental laws and regulations, and a range of licences and permits are required for Costa to operate its farming operations. If Costa is responsible for any environmental pollution or contamination, or is found to be in breach of any of its licences or permits, Costa may incur substantial costs (including fines and remediation costs), its operations may be interrupted, and it may suffer reputational damage. Costa actively seeks to reduce its environmental impact, including by applying measures across its business which are designed to reduce waste and reduce migration of any nutrients applied to crops.
Community	Costa operates in many regional communities and a failure to successfully integrate with those communities could impact on its operations. Costa is actively involved in supporting the social fabric of the many regional communities in which it operates. In addition to acting and behaving as a responsible corporate citizen, Costa works closely with communities so that they can benefit both economically and socially from Costa's presence.

Directors' Report continued

For the period ended 30 December 2018

Non-IFRS measures

Throughout this report, Costa has included certain non-IFRS financial information, including EBITDA before SGARA, NPAT before SGARA and Transacted Sales. Costa believes that these non-IFRS measures provide useful information to recipients for measuring the underlying operating performance of Costa's business. Non-IFRS measures have not been subject to audit.

The table below provides details of the operating and financial non-IFRS measures used in this report.

Table 8: Non-IFRS measures

Non-IFRS Financial measures

EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EBITDA before SGARA (EBITDA-S)	EBITDA adjusted for fair value movements in biological assets. For horticultural companies, EBITDA is typically adjusted for fair value movements in biological assets due to the growing and harvesting cycles for fruit and vegetables, and the accounting treatment of live produce and picked produce. The fair value movement in self-generating or regenerating assets (SGARA) is non-cash; therefore, EBITDA before SGARA is used in preference to EBITDA for Costa.
NPAT before SGARA (NPAT-S)	Net profit attributable to members of Costa before fair value movements in biological assets and material items and amortisation.

Non-IFRS operating measures

Transacted Sales	<p>Transacted Sales are used by management as a key measure to assess Costa's sales and marketing performance and market share. Transacted Sales represent the aggregate volume of sales in which Costa is involved in various capacities (including sales of third party-grown produce marketed by Costa under agency arrangements), as well as royalty income. Transacted Sales are not considered by Costa to be a revenue measure. There are material differences between the calculation of Transacted Sales and the way in which revenue is determined under AAS.</p> <p>Transacted Sales comprise:</p> <ul style="list-style-type: none"> • statutory sales revenue; • gross invoiced value of agency sales of third party produce; • Costa's proportionate share of joint venture sales relating to the African Blue and Polar Fresh joint ventures; • royalty income from the licensing of Costa blueberry varieties in Australia, the Americas and Africa; and • 100% of Driscoll's JV sales after eliminating Costa produce sales to the Driscoll's JV. Prior to the formation of Driscoll's JV in 2010, all of Costa's domestic sales and marketing activities for the berry category were managed by Costa.
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Table 9: Reconciliation of Transacted Sales to revenue

Reconciliation of Transacted Sales

A\$m	Note	FP2018	1HFY18	FY2018
Transacted Sales		665.2	663.1	1,336.1
Agency revenue adjustments	1	(42.9)	(31.9)	(81.7)
Joint venture adjustments	2	-	(0.1)	(0.8)
Driscoll's Australia Partnership consolidation adjustments	3	(150.3)	(147.5)	(264.4)
Other revenue	4	5.6	5.7	12.7
Total revenue		477.6	489.3	1,002.0

Notes:

1. Under AAS, the invoiced value of agency sales is excluded from revenue with only the commission associated with the agency sales recognised.
2. Costa's proportionate share of joint venture sales relating to the African Blue and Polar Fresh joint ventures, of 49% and 50% respectively. Under AAS, joint ventures are accounted for under the equity method, with only Costa's share of joint venture NPAT recognised in profit or loss.
3. Costa owns 50% of the equity of Driscoll's JV. Transacted Sales includes 100% of Driscoll's JV sales, after eliminating Costa produce sales to the Driscoll's JV.
4. Other revenue (with the exception of royalty income) not included in Transacted Sales.

8. Dividends

During the 6 month financial period ended 30 December 2018, Costa Group Holdings Ltd declared and paid a fully franked final dividend of 8.5 cents per share for FY2018 (as previously disclosed in the Directors' report for FY2018).

The Board has approved a final dividend for the financial period of 5.0 cents per share with record date of 14 March 2019 and payment date of 12 April 2019. This dividend will be fully franked. As this dividend was approved after the end of the financial period, it has not been accrued for as at 30 December 2018.

CY2019 dividends will be balanced against the company's need to fund growth objectives.

9. Likely Developments

The Group will continue to explore opportunities that meet the Group's long term growth and development goals. The goal is to provide a superior sustainable increase in profits.

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

10. Environmental Regulation

The Group is committed to conducting business activities and investing in farming practices that are innovative, cost efficient, promote sustainable horticulture and focus on the need for responsible environmental stewardship with respect to its use of natural resources, while continuing to meet expectations of shareholders, employees, customers and suppliers.

The Group is subject to environmental regulations under various federal, state and local laws relating predominately to water use and air and noise emission levels. The Group's operations are conducted in accordance with its licences and permits (such as those for manufacturing compost for its mushroom operations) and its environmental management plans. The Group was not found to be in breach of any environmental regulations during the period.

The Group reports under the *National Greenhouse and Energy Reporting Act 2007* (Cth). While its overall emissions have increased over recent years due to the Group's significant growth and larger production footprint, the Group continues to review, and adopt where appropriate, more efficient forms of energy (such as the solar farm being established at the Group's Monarto mushroom farm).

The Group publishes an annual Sustainability Report in which it reports on initiatives that are aimed at improving environmental performance. Reflecting the importance of its sustainable farming initiatives, Costa's 2019 Sustainability Report will be a separate report, rather than being included in its Annual Report.

The Group is committed to achieving a level of environmental performance that meets or exceeds Federal, State and local requirements.

11. Directors' Interests

The relevant interest of each director in the shares and options issued by Costa Group Holdings Ltd, as notified by the directors to the ASX in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	Ordinary shares	Options over ordinary shares
Neil Chatfield	260,000	-
Frank Costa ¹	5,005,248	-
Harry Debney	1,357,326	1,729,575
Tim Goldsmith	-	-
Janette Kendall	19,191	-
Peter Margin	42,893	-
Kevin Schwartz	-	-

Notes:

1. Frank Costa's interests represent an indirect interest in approximately 31.67% of the ordinary shares held by Costa AFR Pty Ltd as trustee for the Costa AFR Unit Trust as a result of his shareholding in a series of other entities.

Directors' Report continued

For the period ended 30 December 2018

12. Share Options

Unissued ordinary shares under options

Unissued ordinary shares of Costa Group Holdings Ltd under option at the date of this report are as follows:

Number of unissued ordinary shares under option	Issue price of shares	Expiry date of the options
50,000	\$1.45	October 2024
361,904	\$2.25	June 2020
1,986,034	\$2.78	December 2021
616,944	\$2.81	August 2019
1,521,700	\$4.82	September 2022
702,248 ¹	\$6.58	March 2023

Notes:

1. These options represent unvested options granted to management (including the CEO) during the period under the Group's LTI plan, including 152,212 options issued to Harry Debney, 80,587 options issued to Linda Kow and 76,595 options issued to Sean Hallahan, as KMP of the Company, and 30,640 options issued to David Thomas, the company secretary of the Company.

All unissued shares are ordinary shares in the Company, or will be converted into ordinary shares immediately after exercise of the relevant option.

No option holder has any right under the options to participate in any other share issue of the group.

Shares issued on exercise of options

During the period, the Company did not issue any shares as a result of the exercise of options. The Company also issued 171,421 shares on the vesting of performance rights granted under the Company's FY17 Short Term Incentive Plan.

13. Indemnification and Insurance of Directors and Officers

Pursuant to its constitution, the Company may indemnify directors and officers, past and present, against liabilities that arise from their position as a director or officer allowed under law. The Company has entered into deeds of indemnity, insurance and access with its existing and past directors, its company secretary and the directors of the Company's subsidiaries. Under the deeds of indemnity, insurance and access, the Company indemnifies each director or officer against all liabilities to another person that may arise from their position as a director or officer of the Company or its subsidiaries, to the extent permitted by law. The deeds stipulate that the Company will meet the full amount of any such liabilities, including reasonable legal costs and expenses.

During the period, the Group paid premiums to insure all directors and officers against certain liabilities as contemplated under the Company's constitution. Disclosure of the total amount of the premiums paid under this insurance policy is not permitted under the provisions of the insurance contract.

Further disclosure required under section 300(9) of the Corporations Act 2001 is prohibited under the terms of the contract.

14. Indemnification and Insurance of Auditors

No indemnities have been given or insurance premiums paid, during or since the end of the period, for any person who is or has been an auditor of the group.

15. Non-audit Services

During the period KPMG, the Group's auditors, has performed certain other services in addition to the audit and review of the financial statements.

The Board has considered the non-audit services provided during the period by the auditor and is satisfied that the provision of those non-audit services during the period by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the Audit and Risk Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Group, KPMG, and its network firms for audit and non-audit services provided during the period are set out below.

	6 month financial period	FY2018
Audit and review services		
Services provided by KPMG Australia	310	395
Services provided by associate firms of KPMG Australia	83	161
	393	556
Other services provided by KPMG		
Taxation compliance and other taxation advisory services (including R&D)	165	248
Other services	12	10
	177	258

16. Rounding Off

The financial report is presented in Australian dollars with all values rounded to the nearest thousand unless otherwise stated, in accordance with ASIC Corporations Instrument 2016/191.

17. Lead Auditor's Independence Declaration

The Lead auditor's independence declaration is set out on page 40 and forms part of the directors' report for the financial period ended 30 December 2018.

Directors' Report continued

For the period ended 30 December 2018

Remuneration report (Audited)

1. Introduction

The directors are pleased to present the Remuneration Report for the six month period ending 30 December 2018 ("Financial Period"), outlining the Board's approach to the remuneration for key management personnel (KMP).

KMP are individuals who have authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, and comprise the directors and the senior executives of the Group, as listed below.

Name	Position Held
Directors	
Neil Chatfield	Chairman, Non-executive director
Frank Costa	Non-executive director
Tim Goldsmith	Non-executive director
Janette Kendall	Non-executive director
Peter Margin	Non-executive director
Kevin Schwartz	Non-executive director
Harry Debney	Chief Executive Officer, Managing Director
Executives	
Linda Kow	Chief Financial Officer
Sean Hallahan	Chief Operating Officer

The information in this report has been audited as required by section 308(3C) of the *Corporations Act 2001* (Cth).

2. Corporate Governance

2.1 Remuneration and Human Resources Committee

The Group has established a Remuneration and Human Resources Committee that is comprised of Non-Executive Directors, the majority of whom are independent in accordance with the Remuneration and Human Resources Committee Charter.

The Remuneration and Human Resources Committee is responsible for assisting and advising the Board on:

- remuneration policies and practices for executives, and employees of the Group;
- incentive schemes and equity-based remuneration plans;
- diversity;
- human resource policy and practices across the Group; and
- shareholder and other stakeholder engagement in relation to the Group's remuneration policies and practices.

A full charter outlining the Remuneration and Human Resources Committee's responsibilities is available at: <http://investors.costagroup.com.au/investor-centre/?page=corporate-governance>.

2.2 Use of Remuneration Consultants

The Remuneration and Human Resources Committee can engage remuneration consultants to provide it with information on current market practice, and other matters to assist the Committee in the performance of its duties. The Remuneration and Human Resources Committee engaged Ernst & Young to undertake a review of the Short Term Incentive Plan ("STIP") and Long Term Incentive Plan ("LTIP") for periods incorporating the Financial Period. The objectives in the review included benchmarking and market positioning of the incentive plans to align participant performance with the Group's growth and business strategy delivering shareholder value. In addition, the review sought to structure the incentive plans in a manner that best supports the transition to calendar financial year reporting periods. During the Financial Period the Remuneration and Human Resources Committee engaged Ernst & Young specifically to undertake market data analysis benchmarking non-executive director remuneration. The Remuneration and Human Resources Committee sought market data from the consultants from appropriate comparator groups within Australia.

The Remuneration and Human Resources Committee is satisfied that no remuneration recommendations (as defined in the *Corporations Act 2001*) were provided by Ernst & Young.

2.3 Associated Policies

The Group has established a number of policies to support a strong governance framework, including a Whistleblower Policy, Anti-Bribery and Anti-Corruption Policy, Diversity Policy, Disclosure Policy, Securities Trading Policy, Human Rights Policy and Non-Executive Director Share Ownership Policy. These policies and procedures have been implemented to uphold ethical behaviour and responsible decision making. Further information on the Group's policies is available at: <http://investors.costagroup.com.au/investor-centre/?page=corporate-governance>.

3. Executive Remuneration

3.1 Remuneration Framework

The remuneration framework adopted by the Board is designed to attract and retain key talent, reward the achievement of strategic objectives and align reward with the creation of shareholder wealth. The key principles supporting the Group's remuneration framework are:

Principle	Objective	Application
Competitive Remuneration	Reward employees fairly and competitively for their contributions to the Group's success.	<ul style="list-style-type: none"> Total remuneration is set having regard to the individual's capabilities and experience. Remuneration for the Financial Period was set with regard to an appropriate comparator group of companies within the consumer discretionary and consumer staples sectors of the S&P/ASX Small Ordinaries Index. The Board may at times obtain independent advice on the appropriateness of total remuneration package.
Performance Driven	Executives are rewarded for achieving strategic goals that create sustainable growth in shareholder wealth.	<ul style="list-style-type: none"> Significant 'at risk' reward ensures executive's interests remain aligned with creation of shareholder value. Equity is used as a key element of the variable remuneration to align executives and shareholders. At risk rewards are driven by the Group's short and long-term performance incentives. Performance measures are designed to ensure a focus on long term sustainable growth. Equity is used as a key element of the variable remuneration to align executives and shareholders.

3.1.1 Remuneration Overview for the Financial Period

The remuneration for the Financial Period for the CEO, CFO and COO ("Executive KMP") included a combination of fixed remuneration, short-term incentives and long-term incentives in the form of options over shares.

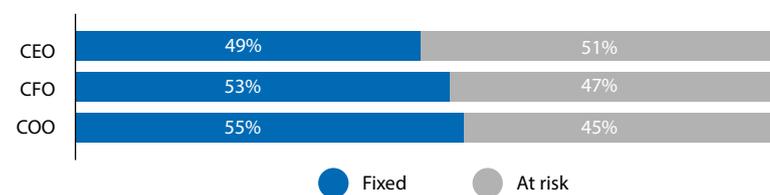
3.1.2 Remuneration Mix for the Financial Period

Total remuneration for the Executive KMP includes both fixed and 'at risk' reward components. 'At risk' reward includes short and long term incentives, which are based on individual and group performance outcomes. In the Financial Period, the Executive KMPs' remuneration included fixed remuneration, together with the following 'at risk' components:

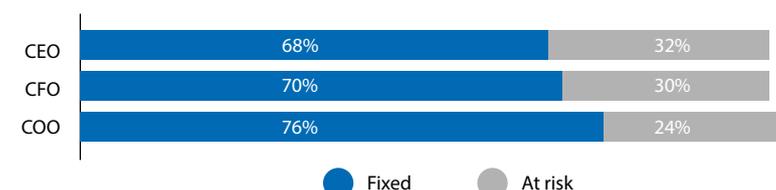
- short term incentives, as outlined in section 3.2.2; and
- long term incentives, as outlined in section 3.3,

as further outlined in Section 7 – *Directors' and Executive Officers' Remuneration*.

The remuneration potential for the Executive KMPs for the Financial Period (with the total at risk remuneration, including the maximum potential stretch STI benefit for the Financial Period) is set out below:



As noted in section 3.2.2 below, the FY19 STI plan covers an 18 month period, finishing on 29 December 2019, meaning no STI payment will be made solely for the Financial Period. While the metrics for that STI plan cannot be tested until the end of the 2019 calendar year, an STI payment for that period is not currently expected based on trading from the commencement of the period to date. Bearing this in mind, the mix of fixed versus variable 'at risk'¹ remuneration payable in respect of the Financial Period for the Executive KMP is projected below:



1. Includes deferred equity component of FY2018 STI plan (section 3.2.2) and share-based payments associated with unvested LTI arrangements (including those in section 3.3).

Remuneration report (Audited) *continued*

3.2 Remuneration Components

3.2.1 Fixed Remuneration

Total fixed remuneration ("TFR") is comprised of cash salary, superannuation contributions, and other non-monetary benefits such as car leasing arrangements and additional superannuation contributions. TFR is reviewed annually by the Remuneration and Human Resources Committee with regard to individual and Group performance. The Committee's review of TFR takes into account the Executive KMP's total remuneration package.

3.2.2 Short Term Incentive ("STI") Plan

FY2019 STI Plan Overview

The FY2019 STIP covers the 6 month Financial Period and the following calendar financial year. The FY2019 STI Plan enables Executive KMP and other members of senior management to receive an incentive payment calculated as a percentage of total fixed remuneration ("TFR") conditional on achieving Group EBIT hurdles as set out below. Solely for the purposes of this section 3.2.2 all references to "Group EBIT" means management EBIT-SL, ie. statutory EBIT before the impact of movement in SGARA and before the impact of AASB 16 (Leases), which Costa will adopt part way through the 18 month period over which the STI is measured.

- If the Group achieves less than 90% of budgeted Group EBIT for the 18 month period, no STI will be paid.
- Target STI is paid to a participant on the Group achieving 100% of budgeted Group EBIT and the participant satisfying their other STI performance measures, with pro rata payments if Group EBIT is between 90% and 100% of budgeted Group EBIT.
- Stretch STI is payable if the Group achieves over 100% of budgeted Group EBIT, with the maximum STI being payable at 110% of budgeted Group EBIT (and the participant meets expectations of their individual performance STI measures). The stretch STI component is measured solely on Group EBIT and is calculated on a straight line basis between 100% and 110% of budgeted Group EBIT.
- An EBIT hurdle was selected on the basis that it has a direct correlation to the financial performance of the Group.

FY2019 Short Term Incentive Plan Features

The table below outlines the key features of the FY2019 STI Plan, as it applies to the Executive KMP and other members of senior management:

Objective	To reward participants for achieving goals directly linked with the Group's business strategy
Participants	All Executive KMP and selected senior management
Performance Period	The Financial Period and the company's following 12 month financial year
Opportunity	Under the FY2019 STI Plan, participants are entitled to an STI award which is calculated as a percentage of their current annual TFR and then multiplied by 1.5 to take into account the 18 month performance period.

The percentages of TFR used for these calculations (ie. prior to the 1.5x multiplier) are as follows:

Participant	% at target	maximum % if stretch targets achieved
Harry Debney	45%	70%
Sean Hallahan	35%	60%
Linda Kow	40%	60%

Performance Measures Consistent with FY2018, STI will be assessed against both financial and non-financial measures, and for the CEO and Executive KMP is weighted as follows:

Measure	Weighting
Group EBIT	50%
Cash Flow	30%
Individual Performance	20%

Individual Performance will be measured against KPIs appropriate for the Executive's role and included key business measures such as safety, project execution, innovation, quality, customer satisfaction and people leadership.

Cash Flow is based on Group EBITDA cash conversion, which includes Group EBITDA adjusted for joint ventures, operational working capital movements, and operating capex.

Payment Method	<ul style="list-style-type: none"> • Cash – Two thirds of the STI benefit payable will be paid in cash following the end of the performance period; and • Deferred – One third of the STI benefit payable will be delivered in the form of performance rights following the end of the performance period. No dividends or voting rights are attached to performance rights, but cash payments equivalent to dividends will be paid to holders of performance rights. <p>A participant's performance rights will vest on 1 March 2021 and the participant will receive an equivalent number of shares, if the participant remains employed by the Group at that time (or has ceased employment in circumstances where they are regarded as a 'good leaver').</p>
Calculation methodology	<p>The STI incentive will be assessed at the end of the 18 month performance period (which ends on 29 December 2019).</p> <p>The stretch opportunity is based on the overachievement against the budgeted Group EBIT only, with the opportunity capped at 20% of the CFO's TFR and 25% of the CEO's and COO's TFR (multiplied by 1.5). Every 1% of actual Group EBIT over budgeted Group EBIT increases the CFO's incentive by 2.0% of TFR and the CEO's and COO's incentive by 2.5% of TFR (multiplied by 1.5).</p> <p>The stretch STI component is measured solely on EBIT and is calculated on a straight line basis between 100% and 110% of budgeted EBIT.</p>
Calculations	Each of the three measures (Group EBIT, Cash flow and Individual performance) will be evaluated at the end of the performance period.

3.3 LTIP

The LTIP that governs the LTI options issued during the Financial Period is designed to reward the Executive KMP (including the CEO) and other senior executives for long term performance and long term value creation for shareholders. The features of this LTIP are as follows:

Term	Description										
Eligibility	CEO, CFO, COO and selected senior management										
Consideration for grant	Nil										
Instrument	Options to acquire ordinary shares in Costa Group Holdings Limited										
Number of options granted	The number of options was determined based on a set percentage of the participant's current TFR ("LTI Incentive Amount"), being 35% for the CEO and CFO and 30% for the COO. The options were indicatively valued by an independent external valuer (Ernst & Young). The number of options issued to each participant was determined by dividing that participant's LTI Incentive Amount by the indicative value per Option as determined by the independent valuer. The final fair value of the options was determined on the grant date.										
Exercise price	\$6.58 per share, being the volume weighted average price of an ordinary fully paid share in the capital of the Company recorded on the ASX over 10 ASX trading days ending on the day prior to the commencement of the performance period.										
Performance Period	The performance period is the 3 year period from 1 January 2018 to the end of the 2020 financial year (ending in December 2020). The three year performance period is consistent with performance periods adopted for previous LTI plans. Given the adoption of calendar financial years from the year commencing 31 December 2018 onwards, the Board decided to commence the performance period for the LTIP from 1 January 2018. This allows the performance period to be 3 full calendar years, which will allow the Company to test the performance hurdles for the EPS Options (as defined below) on a basis that is consistent with previous years.										
Performance Measure (EPS)	75% of the options (" EPS Options ") will be subject to a performance hurdle based on the Company's Earnings Per Share (basic) compound annual growth rate (" CAGR ") over the performance period, with performance and vesting outcomes as follows:										
	<table border="1"> <thead> <tr> <th>Company's EPS CAGR over performance period</th> <th>Percentage of LTIP Options (subject to the EPS hurdle) that will vest</th> </tr> </thead> <tbody> <tr> <td>Less than 10%</td> <td>0%</td> </tr> <tr> <td>10%</td> <td>50%</td> </tr> <tr> <td>Between 10% and 13%</td> <td>50% – 100%, on a straight line sliding scale</td> </tr> <tr> <td>At or above 13%</td> <td>100%</td> </tr> </tbody> </table>	Company's EPS CAGR over performance period	Percentage of LTIP Options (subject to the EPS hurdle) that will vest	Less than 10%	0%	10%	50%	Between 10% and 13%	50% – 100%, on a straight line sliding scale	At or above 13%	100%
Company's EPS CAGR over performance period	Percentage of LTIP Options (subject to the EPS hurdle) that will vest										
Less than 10%	0%										
10%	50%										
Between 10% and 13%	50% – 100%, on a straight line sliding scale										
At or above 13%	100%										
	The Board retains discretion to adjust the calculation of EPS (for example, to exclude the impact of significant events that may occur during the performance period).										
	The Board will continue to assess the appropriateness of this metric over time.										

Remuneration report (Audited) *continued*

3.3 LTIP *continued*

Term	Description
Performance Measure (Growth)	<p>25% of the options ("Growth Target Options") will be subject to a performance hurdle based on geographic and category diversification and growth designed to support sustainable long term value creation linked to return on capital. Growth includes the scaling up of the Avocado Category and continuing the growth trajectory of the Company's international joint ventures.</p> <p>The number of Growth Target Options that vest will be determined by the Board (with the Managing Director not voting) based on an assessment of the Company's performance during the Performance Period against the growth and diversification targets set by the Board.</p> <p>The Company considers the performance targets for this hurdle to be commercially sensitive, with the result that publication of that information prior to the end of the Performance Period may be prejudicial to the interests of the Company. Accordingly, complete details regarding the outcomes of vesting will be disclosed at the end of the Performance Period.</p>
Entitlements	Options will not carry rights to dividends or voting rights prior to vesting.
Option exercise	<p>Vested options must be exercised prior to 1 March 2023 ("expiry date"). Prior to the expiry date, an optionholder can exercise by either:</p> <ul style="list-style-type: none"> • providing the Company with an exercise notice that specifies the number of options to be exercised, together with the exercise price in respect of those exercised options; or • electing a cashless exercise in respect of some or all of his options. <p>If an optionholder provides the exercise price, he/she will be issued with one share per exercised option. If an optionholder elects a cashless exercise, he/she will be issued with a lower number of shares, calculated in accordance with the following formula:</p> <p style="text-align: center;"><i>(A minus B) divided by C, where:</i></p> <p style="text-align: center;"><i>A = Number of Shares to which each Vested Option relates (i.e. 1) x Number of Vested Options exercised x Market Price per Share</i></p> <p style="text-align: center;"><i>B = Number of Vested Options exercised x Exercise Price per Option</i></p> <p><i>C = Market Price per Share, being an amount equal to the volume weighted average price of a Share recorded on the ASX over 10 ASX trading days immediately preceding the date on which the Market Price is to be calculated or, if no sale occurred during such period, the last sale price of a Share recorded on the ASX.</i></p>
Restrictions on Dealing	<p>Participants must not sell, transfer, encumber, hedge or otherwise deal with their options granted under the LTIP.</p> <p>Shares delivered on the exercise of 50% of the options will be subject to a restriction period (during which the shares cannot be sold or otherwise dealt with) for 12 months following vesting.</p>

Service conditions	Any unvested options granted under the LTIP will be forfeited where the participant is dismissed during the performance period, or resigns in circumstances where they are not considered to be a 'good leaver'. Where the participant is considered a 'good leaver' (which includes death, disability or redundancy), a pro rata proportion of the unvested options (reflecting the portion of the Performance Period served) will remain on foot subject to Board discretion and be tested at the end of the original vesting date against the relevant performance conditions.
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4. Executive Remuneration Disclosure

4.1 Executives' Contract Terms

A summary of the key terms of employment for executives as at 30 December 2018 is presented in the below table:

Executive	Role	Notice by the Group	Notice on Resignation
Harry Debney	Chief Executive Officer	6 Months	6 Months
Linda Kow	Chief Financial Officer	3 Months	3 Months
Sean Hallahan	Chief Operating Officer	3 Months	3 Months

5. Non-executive Directors

The details of fees paid to non-executive directors in the Financial Period are included in Section 7 of this report. Non-executive directors' fees were fixed and they did not receive any performance based remuneration.

The table below outlines the fee structure for non-executive directors in Financial Period. The annual aggregate fee pool for non-executive directors is \$1,200,000. Board and committee fees, which are inclusive of statutory superannuation contributions, are included in this aggregate fee pool.

Board/Committee	Annual Chairman Fee (\$)	Annual Member Fee (\$)
Board base fee	249,685 (inclusive of committee fees)	108,279
Audit and Risk Committee	21,712	10,856
Remuneration and Human Resources Committee	16,284	8,142
Nomination Committee	-	-

6. Relationship between remuneration policy and Group performance

Key performance indicator	FY2016	FY2017	FY2018	1HFY2018¹	Financial Period
Revenue (\$'000)	821,861	909,108	1,002,027	489,349	477,604
Statutory EBIT-S (\$'000)	46,128	79,651	156,064	82,053	11,691
EBIT-S before material items and amortisation (\$'000)	65,558	87,711	115,797	44,835	15,616
NPAT-S before material items and amortisation (\$'000)	44,230	60,713	76,551	28,615	8,505
Dividend paid or declared to ordinary shareholders (cents per ordinary share)	9.0	11.0	13.5	5.0	5.0

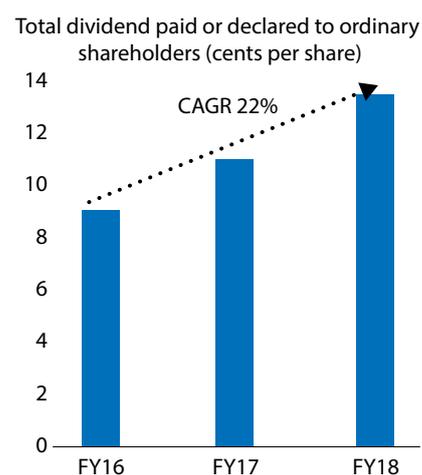
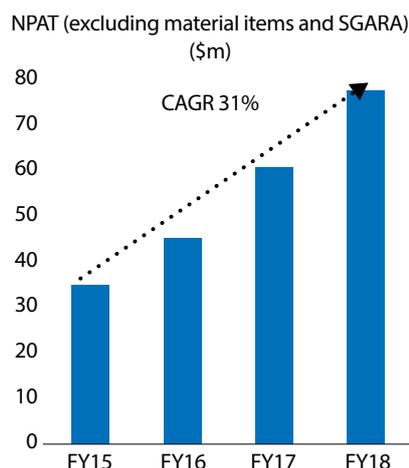
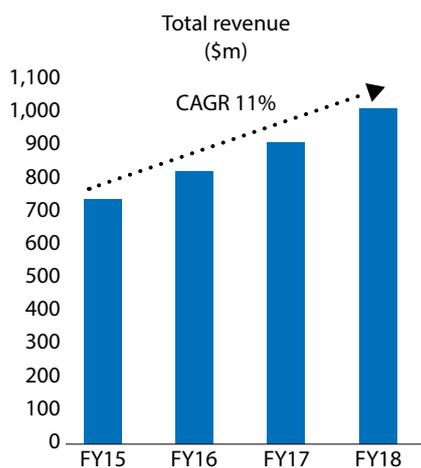
1. 1HFY2018 (half year ended 31 December 2017) has been included as a comparative to allow like for like analysis against the Financial Period.

Remuneration report (Audited) *continued*

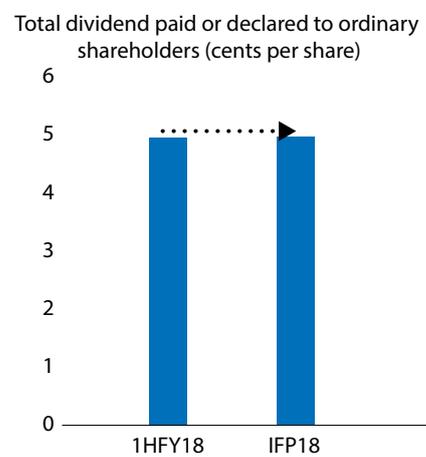
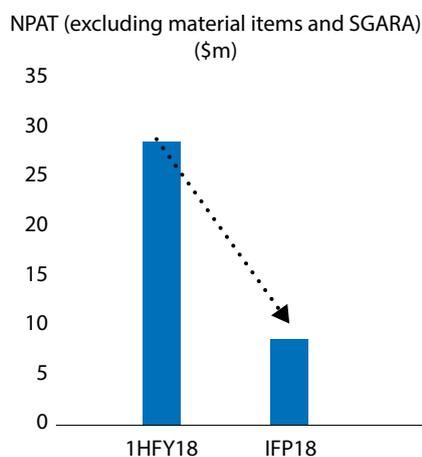
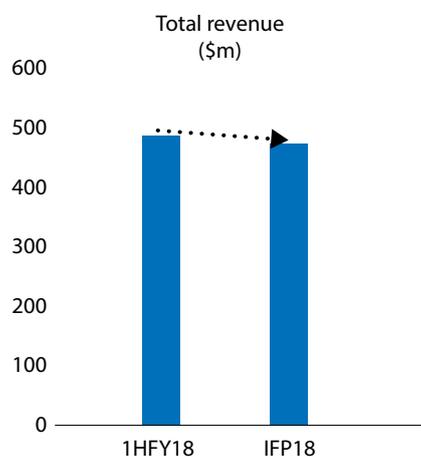
6. Relationship between remuneration policy and Group performance *continued*

The charts below set out information about the Group's performance, earnings and dividends paid or declared for previous financial years since listing on the ASX. As this is done on a CAGR basis, information for the six month Financial Period has not been included in the charts that compare full 12 month periods. The Group's performance for the Financial Period is instead separately compared to 1HFY2018 in the charts below.

FY2015 to FY2018 performance



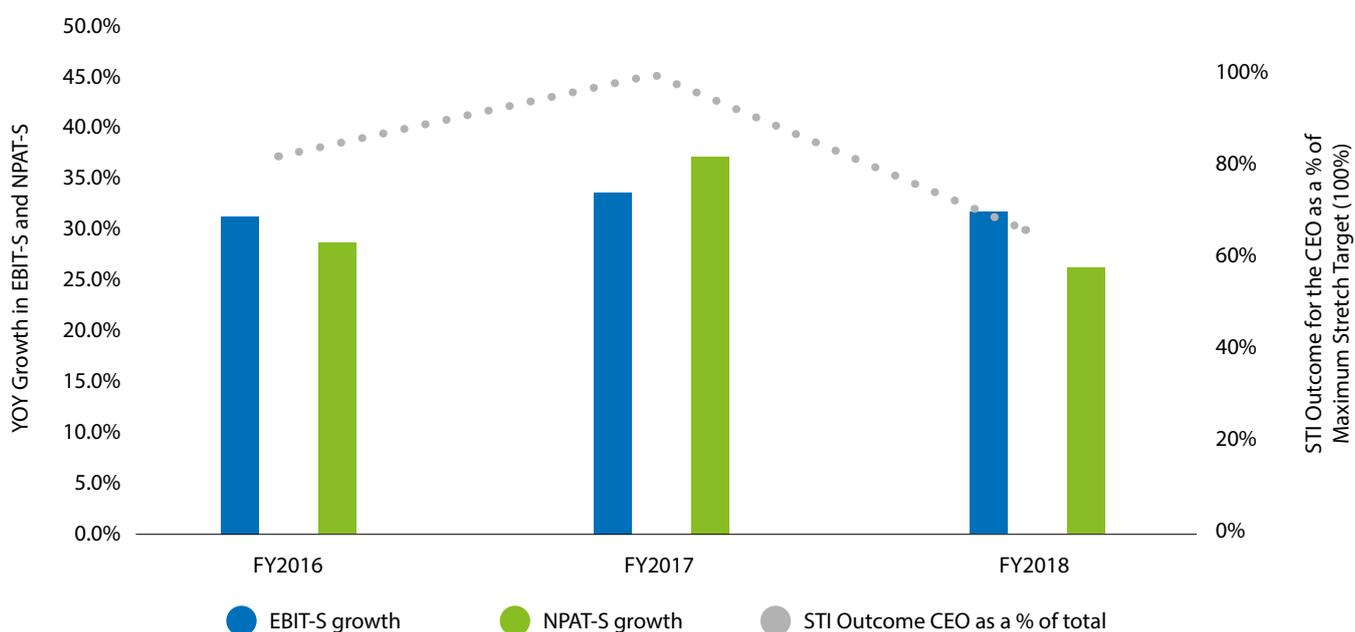
1HFY2018 vs Financial Period performance



Prior to the Company's ASX listing in FY2016, the Company's remuneration policy was consistent with its private company structure and is not reflective of the current policy. From the time of the Company's listing, the Board adopted a remuneration framework that is designed to attract and retain key talent, reward the achievement of strategic objectives and align reward with the creation of shareholder wealth. The table above sets out information about the Group's performance for previous financial years from the time of the Company's ASX listing up to and including FY2018 and this is overlaid with the STI outcome of the CEO in the chart below.

As noted in section 3.2.2, the STI plan covering the Financial Period commenced on 2 July 2018 and will conclude on 29 December 2019, meaning no STI payment will be made for the period that consists solely of the Financial Period. At the conclusion of the period applicable to the current STI plan, any payment of STI for the period including the Financial Period will depend on the STI metrics being satisfied. As the STI metrics have not yet been measured for the current STI plan, the outcome for the Financial Period has not been included in the chart below. While the metrics for that STI plan cannot be tested until the end of the 2019 calendar year, an STI payment for that period is not currently expected based on trading from the commencement of the period to date.

CEO STI outcome relative to profit and earnings growth



Directors' Report continued

For the period ended 30 December 2018

7. Directors' and Executive Officers' Remuneration

Details of the nature and amount of each major element of remuneration of each director of the Company, and other KMP of the consolidated entity are:

		Short-term				Total \$
		Salary & fees \$	STI (cash) \$	Non-monetary benefits \$	Other Monetary Benefits	
Non-executive Directors¹						
Neil Chatfield	Financial Period	114,377	-	-	-	114,377
	FY2018	221,124	-	-	-	221,124
Frank Costa	Financial Period	53,160	-	-	-	53,160
	FY2018	102,942	-	-	-	102,942
Tiffany Fuller (ceased 01.09.18)	Financial Period	19,152	-	-	-	19,152
	FY2018	114,912	-	-	-	114,912
Tim Goldsmith (appointed 01.09.18)	Financial Period	39,571	-	-	-	39,571
	FY2018	-	-	-	-	-
Janette Kendall	Financial Period	54,400	-	-	-	54,400
	FY2018	105,336	-	-	-	105,336
Peter Margin	Financial Period	61,835	-	-	-	61,835
	FY2018	119,700	-	-	-	119,700
Kevin Schwartz	Financial Period	52,428	-	-	-	52,428
	FY2018	104,856	-	-	-	104,856
Managing Director and Executive KMP						
Harry Debney	Financial Period	500,706	-	-	2,184	502,890
	FY2018	976,970	304,504	-	7,973	1,289,447
Linda Kow	Financial Period	260,278	-	-	1,010	261,288
	FY2018	500,228	140,994	-	3,416	644,638
Sean Hallahan (commenced 2.10.17)	Financial Period	289,815	-	-	1,027	290,842
	FY2018	434,963	143,249	-	-	578,212

Notes in relation to the table of Directors' and Executive KMP's remuneration

Reasonable travel, accommodation and other costs incurred by Directors in the course of their duties are reimbursed to Directors, in addition to the remuneration noted above.

Post-employment	Long-term benefits	Termination	Share-based payments	Total
Superannuation benefits	Long service leave	Termination benefits		
\$	\$	\$	\$	\$
10,266	-	-	-	124,643
20,049	-	-	-	241,173
5,050	-	-	-	58,210
9,780	-	-	-	112,722
1,819	-	-	-	20,971
10,917	-	-	-	125,829
3,759	-	-	-	43,330
-	-	-	-	-
5,168	-	-	-	59,568
10,007	-	-	-	115,343
5,874	-	-	-	67,709
11,372	-	-	-	131,072
-	-	-	-	52,428
-	-	-	-	104,856
12,498	11,586	-	248,818	775,792
25,036	18,976	-	473,077	1,806,536
12,498	6,903	-	121,810	402,499
25,036	11,955	-	202,060	883,689
10,266	4,859	-	96,571	402,538
15,037	7,197	-	100,007	700,453

Directors' Report continued

For the period ended 30 December 2018

8. Equity Instruments

8.1 Movements in shares

The movement during the reporting period in the number of ordinary shares in Costa Group Holdings Ltd held, directly, indirectly or beneficially, by each key management person, together with shares held by their close family members, is set out below:

	Held at 2 July 2018	Shares acquired	Shares sold	Shares delivered under STI or LTI plans	Held at 30 December 2018
Neil Chatfield (directly held)	260,000	-	-	-	260,000
Frank Costa ¹	5,005,248	-	-	-	5,005,248
Tiffany Fuller ² (ceased 1 September 2018)	10,000	-	-	-	10,000
Tim Goldsmith (appointed 1 September 2018)	-	-	-	-	-
Janette Kendall (indirectly held)	15,870	3,321	-	-	19,191
Peter Margin (indirectly held)	38,793	4,100	-	-	42,893
Kevin Schwartz	-	-	-	-	-
Harry Debney (directly & indirectly held)	1,310,818	-	-	46,508	1,357,326
Linda Kow (directly & indirectly held)	279,945	-	-	19,927	299,872
Sean Hallahan	2,025	-	-	-	2,025

Notes in relation to Table 8.1 (Movement in shares)

1. Frank Costa's interests represent an indirect interest in approximately 31.67% of the ordinary shares held by Costa AFR Pty Ltd as trustee for the Costa AFR Unit Trust as a result of his shareholding in a series of other entities.
2. Tiffany Fuller ceased to be a director on 1 September 2018. The table above does not reflect any change in her shareholding after her Appendix 3Z was lodged with the ASX on 5 September 2018.

8.2 Options over equity instruments granted as compensation

The number of options over ordinary shares granted as compensation to KMP during the Financial Period was as set out below. Shareholder approval for the issue of options to Harry Debney under the LTIP was obtained in accordance with ASX Listing Rule 10.14 at the Company's 2018 AGM prior to the options being issued.

	Options granted during Financial Period	Grant date	Fair Value per option \$	Exercise price per option \$	Expiry date
Harry Debney	152,212	17 December 2018 ¹	2.35	6.58	1 March 2023
Linda Kow	80,587	23 August 2018	2.35	6.58	1 March 2023
Sean Hallahan	76,595	23 August 2018	2.35	6.58	1 March 2023

Notes in relation to Table 8.2 (Options over equity instruments granted as compensation)

1. The grant date for valuation purposes for all options granted to Executive KMP (including the CEO) during the Financial Period was 23 August 2018, being the date on which the Board approved the offer of the options.

8.3 Details of equity incentives affecting current and future remuneration

The table below outlines each KMP's unvested options and performance rights at the end of the reporting period. Shareholder approval for the issue of performance rights to Harry Debney under the STIP was obtained in accordance with ASX Listing Rule 10.14 at the Company's 2017 AGM. Details of vesting profiles of the options and performance rights held by each KMP are detailed below:

	Instrument	Number	Grant date	Vesting date
Harry Debney	Options	607,938	6 December 2016	August 2019
	Performance rights	17,982 ¹	1 September 2018	September 2019
	Options	352,481	20 November 2017 ²	September 2020
	Options	152,212	17 December 2018 ²	1 March 2021
Linda Kow	Options	260,486	6 December 2016	August 2019
	Performance rights	8,318 ¹	1 September 2018	September 2019
	Options	183,936	24 August 2017	September 2020
	Options	80,587	23 August 2018	1 March 2021
Sean Hallahan	Options	181,818	9 October 2017	September 2020
	Performance rights	8,458 ¹	1 September 2018	September 2019
	Options	76,595	23 August 2018	1 March 2021

Notes in relation to Table 8.3

1. Subject to certain conditions, the performance rights will vest on 1 September 2019 and the holders of those rights will receive one share per vested performance right. At the time of grant, each performance right was valued at \$8.38 (based on the 10 day volume weighted average share price of Costa shares). The value at the time of vesting will depend on the price of Costa shares at that time.
2. The grant date for valuation purposes for options granted to Executive KMP (including the CEO) during the Financial Period was 23 August 2018 and for options granted during FY2018 was 24 August 2017, in each case being the dates on which the Board approved the respective offers of the options.

8.4 LTI grants and movement during the year

The movement during the reporting period, of options over ordinary shares held, directly, indirectly or beneficially, by each KMP, including their related parties, is as follows:

	Held at 2 July 2018	Granted as compensation	Exercised	Value of exercised options (at time of exercise)		Held at 30 December 2018	Vested during the year	Vested and exercisable 30 December 2018
				\$	Lapsed			
Harry Debney	1,577,363	152,212	-	-	-	1,729,575	-	616,944
Linda Kow	444,422	80,587	-	-	-	525,009	-	-
Sean Hallahan	181,818	76,595	-	-	-	258,413	-	-

8.5 Key Management personnel transactions

Mr Frank Costa (Director)

Payment of rent by Costa's Pty Ltd to Frank Costa for the lease of 1111 Aviation Road, Werribee of AUD \$1 (2017: AUD \$1). This property is leased to Costa's Pty Ltd until 2076 at AUD \$1 per annum and is subleased to an unrelated third party on standard commercial terms, with an arms-length commercial rent payable to Costa's Pty Ltd. The Board considers this arrangement to be beneficial, given that it generates revenue greater than the expenses that are incurred in respect of the property.

8.6 Director independence

The Board regularly monitors and assesses the independence of each Director by considering whether the Director is allied with management or a substantial securityholder or other stakeholder and whether the Director is free of any other interest, position, association or relationship that might influence, or reasonably be perceived to influence, in a material respect his or her capacity to bring an independent judgement to bear on issues before the Board and to act in the best interests of the entity and its securityholders generally. The Board considers numerous factors as part of this process, including those identified by the ASX Corporate Governance Council, namely whether the Director:

- is, or recently has been, employed by the Group in an executive capacity;
- is or recently has been, a director, partner or senior employee of a provider of material professional services to the Business;
- is, or recently has been (or is associated with someone who is or recently has been), in a material business relationship with the Group;
- is, or is associated with, as substantial security holder of the Company;
- has a material contractual relationship with the Group;
- has close family ties with someone who falls within the above categories; or
- has been a Director for such a period that his or her independence may have been compromised.

On this basis the Board has made the following assessments in respect of the Company's Directors:

- Independent: Neil Chatfield, Tim Goldsmith, Janette Kendall, Peter Margin, and Kevin Schwartz. Specifically, it is noted that none of these directors is a related party of any substantial shareholder of the Company (or any entities associated with substantial shareholders), nor have they provided any services to the company (other than in their capacity as director) nor been an employee or officer of any such service provider.
- Not independent: Frank Costa (due to his longstanding relationship with the Company) and Harry Debney (due to his executive role). Specifically, it is noted that Frank Costa has no interest in properties occupied by the Group other than the lease referred to in section 8.5. Frank Costa has no legal or beneficial interest in Vitalharvest Pty Ltd (from which the Group leases various berry and citrus properties) or Costa Asset Management Pty Ltd (or the Costa Asset Management Unit Trust), nor has he been employed by or an officer of either of those companies. Non-dependant family members of Frank Costa are directors of Costa Asset Management Pty Ltd and collectively have a significant interest in the Costa Asset Management Unit Trust, but Frank has no control over, and does not seek to exert any influence over, any votes cast by them in relation to the leases between the Company and either Vitalharvest or Costa Asset Management. Notwithstanding that he is not a related party of Vitalharvest or Costa Asset Management, Frank Costa intends to abstain from voting on any significant decisions that are to be made in relation to the Company's dealings with Vitalharvest or Costa Asset Management.

This Directors' Report is made in accordance with a resolution of the Directors.



Neil Chatfield

Chairman

Dated at Melbourne 26 February 2019

Auditor's Independence Declaration



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

To the Directors of Costa Group Holdings Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit of Costa Group Holdings Ltd for the period beginning 2 July 2018 and ending 30 December 2018 there have been:

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

A handwritten signature in black ink, appearing to read 'Klaus', positioned above the KPMG text.

KPMG

A handwritten signature in black ink, appearing to read 'Gordon Sangster', positioned above the printed name.

Gordon Sangster
Partner
Melbourne
26 February 2019

Consolidated Statement of Profit and Loss and Other Comprehensive Income

For the Fiscal Period ended 30 December 2018

	Notes	6 months to December 2018 \$ '000	12 months to June 2018 \$ '000
Revenue			
Total revenue	A2	477,604	1,002,027
Other income		-	48,317
		477,604	1,050,344
Less: expenses			
Raw materials, consumables and third party purchases		(152,394)	(320,978)
Depreciation and amortisation expenses		(24,078)	(39,230)
Employee benefits expenses	A2	(181,090)	(331,251)
Occupancy expenses		(41,369)	(71,931)
Net finance costs	A2	(4,216)	(7,167)
Profit/(loss) on sale of assets		454	(345)
Freight and cartage		(26,698)	(53,002)
Leasing expenses		(5,328)	(9,639)
Gain/(loss) on fair value adjustments – biological assets		(1,485)	(3,973)
Gain/(loss) on fair value of derivatives		(23)	(270)
Impairment loss on trade receivables		(455)	(143)
Other expenses	A2	(39,074)	(74,309)
		(475,756)	(912,238)
Share of net profits of associates and joint ventures accounted for using the equity method	D1	4,119	6,818
Profit before income tax expense		5,967	144,924
Income tax expense	E2	(2,030)	(27,146)
Profit for the period		3,937	117,778
Other comprehensive income/(loss) for the period			
Foreign currency translation differences		4,046	681
Cash flow hedges – reclassified to profit or loss	C4	39	-
Cash flow hedges – effective portion of changes in fair value	C4	(47)	(635)
Total other comprehensive income for the period		4,038	46
Total comprehensive income for the period		7,975	117,824
Profit/(loss) attributable to:			
Owners of Costa Group Holdings Ltd		4,325	115,162
Non-controlling interests		(388)	2,616
		3,937	117,778
Total comprehensive income/(loss) attributable to:			
Owners of Costa Group Holdings Ltd		8,363	115,208
Non-controlling interests		(388)	2,616
		7,975	117,824
Earnings per share for profit attributable to ordinary equity holders:			
Basic earnings per share	A4	1.35	36.04
Diluted earnings per share	A4	1.35	35.95

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

Consolidated Statement of Financial Position

As at 30 December 2018

	Notes	December 2018 \$ '000	June 2018 \$ '000
ASSETS			
Current assets			
Cash and cash equivalents	B1	45,802	60,394
Receivables	B2	92,510	109,780
Inventories	B3	25,376	25,998
Biological assets	B6	48,328	47,839
Other assets	B5	14,422	10,603
Current tax assets	E2	3,016	-
Total current assets		229,454	254,614
Non-current assets			
Receivables	B2	2,210	-
Other financial assets		244	244
Equity accounted investments	D1(b)	14,421	11,402
Intangible assets	B8	255,643	255,827
Deferred tax assets	E2	20,798	21,466
Property, plant and equipment	B7	414,189	364,583
Total non-current assets		707,505	653,522
Total assets		936,959	908,136
LIABILITIES			
Current liabilities			
Borrowings	C1	428	-
Payables	B4	130,237	127,039
Provisions	B9	17,323	16,461
Other financial liabilities	B4	3,821	769
Current tax liabilities	E2	-	12,709
Total current liabilities		151,809	156,978
Non-current liabilities			
Borrowings	C1	290,014	236,467
Provisions	B9	9,662	9,665
Deferred tax liabilities	E2	18,844	18,570
Other financial liabilities	B4	3,630	7,189
Total non-current liabilities		322,150	271,891
Total liabilities		473,959	428,869
NET ASSETS		463,000	479,267
EQUITY			
Share capital	C2	404,721	403,410
Other equity reserve		(11,558)	(11,558)
Other reserves	E1, C4	7,735	4,339
Profit reserve	C3	99,736	122,600
Accumulated losses		(56,621)	(56,621)
Equity attributable to owners of the parent		444,013	462,170
Non-controlling interests		18,987	17,097
Total equity		463,000	479,267

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

Consolidated Statement of Changes in Equity

For the Fiscal Period ended 30 December 2018

Consolidated	Share capital \$'000	Other equity reserve \$'000	Share-based payment reserve \$'000	Other reserves			Profit reserve \$'000	Accumulated losses \$'000	Total \$'000	Non-controlling interests \$'000	Total equity \$'000
				Foreign currency translation reserve \$'000	Hedge reserve \$'000	General reserve \$'000					
Balance as at 2 July 2018	403,410	(11,558)	12,000	246	(635)	(7,272)	122,600	(56,621)	462,170	17,097	479,267
Profit for the year	-	-	-	-	-	-	-	4,325	4,325	(388)	3,937
Other comprehensive income/(loss)	-	-	-	4,046	(8)	-	-	-	4,038	-	4,038
Transfer to profit reserve	-	-	-	-	-	-	4,325	(4,325)	-	-	-
Total comprehensive income for the year	-	-	-	4,046	(8)	-	4,325	-	8,363	(388)	7,975

Transactions with owners in their capacity as owners:

Options granted during the year	-	-	843	-	-	-	-	-	843	-	843
Performance rights granted during the year	-	-	220	-	-	-	-	-	220	-	220
Settlement of share-based payments	1,311	-	(1,311)	-	-	-	-	-	-	-	-
Dividend paid on ordinary shares	-	-	-	-	-	-	(27,189)	-	(27,189)	-	(27,189)
Valuation of put & call option of subsidiary	-	-	-	-	-	484	-	-	484	-	484
Tax effect of share plan payment through equity	-	-	(878)	-	-	-	-	-	(878)	-	(878)
Acquisition of subsidiary	-	-	-	-	-	-	-	-	-	(163)	(163)
Capital injected by non-controlling interest without change in control	-	-	-	-	-	-	-	-	-	2,441	2,441
Balance as at 30 December 2018	404,721	(11,558)	10,874	4,292	(643)	(6,788)	99,736	(56,621)	444,013	18,987	463,000

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

Consolidated Statement of Changes in Equity

For the Fiscal Period ended 30 December 2018

	Share capital \$'000	Other equity reserve \$'000	Other reserves	
			Share based payment reserve \$'000	Foreign currency translation reserve \$'000
Consolidated				
Balance as at 26 June 2017	399,902	-	2,501	(435)
Profit for the year	-	-	-	-
Other comprehensive income / (loss)	-	-	-	681
Transfer to profit reserve	-	-	-	-
Total comprehensive income for the year	-	-	-	681

Transactions with owners in their capacity as owners:

Issue of shares	2,228	-	-	-
Own shares acquired	-	(15,144)	-	-
Options granted during the year	-	-	1,016	-
Performance rights granted during the year	-	-	732	-
Share options exercised	-	3,586	-	-
Settlement of share-based payments	1,280	-	(1,280)	-
Dividend paid on ordinary shares	-	-	-	-
Tax effect of share plan payment through equity	-	-	9,031	-
Acquisition of subsidiary	-	-	-	-
Capital injected by non-controlling interest without change in control	-	-	-	-
Balance as at 1 July 2018	403,410	(11,558)	12,000	246

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

Other reserves

Hedge reserve \$ '000	General reserve \$ '000	Profit reserve \$ '000	Accumulated losses \$ '000	Total \$ '000	Non-controlling interests \$ '000	Total equity \$ '000
-	-	45,802	(56,621)	391,149	5,029	396,178
-	-	-	115,162	115,162	2,616	117,778
(635)	-	-	-	46	-	46
	-	115,162	(115,162)	-	-	-
(635)	-	115,162	-	115,208	2,616	117,824
-	-	-	-	2,228	-	2,228
-	-	-	-	(15,144)	-	(15,144)
-	-	-	-	1,016	-	1,016
-	-	-	-	732	-	732
-	-	-	-	3,586	-	3,586
-	-	-	-	-	-	-
-	-	(38,364)	-	(38,364)	-	(38,364)
-	-	-	-	9,031	-	9,031
-	(7,272)	-	-	(7,272)	5,901	(1,371)
-	-	-	-	-	3,551	3,551
(635)	(7,272)	122,600	(56,621)	462,170	17,097	479,267

Consolidated Statement of Cash Flows

For the Fiscal Period ended 30 December 2018

	Notes	6 months to December 2018 \$ '000	12 months to June 2018 \$ '000
Cash flow from operating activities			
Receipts from customers		506,605	990,501
Payments to suppliers and employees		(461,487)	(851,952)
Interest received		41	173
Interest paid		(5,838)	(6,073)
Dividends received		43	121
Income taxes paid		(17,356)	(28,568)
Net cash provided by operating activities	B1(a)	22,008	104,202
Cash flow from investing activities			
Payments for property, plant and equipment		(67,403)	(89,629)
Dividends from equity accounted investments		1,100	5,450
Acquisition of subsidiary (net of cash acquired)		-	(57,411)
Acquisition of business (net of cash acquired)		-	(4,170)
Proceeds from sale of property, plant and equipment		740	691
Net cash used in investing activities		(65,563)	(145,069)
Cash flow from financing activities			
Proceeds from exercise of share options		-	3,586
Proceeds from loans from related party associates		-	88
Dividend payments on ordinary shares		(27,189)	(38,364)
Dividend payment to non-controlling interest		-	(3,678)
Capital injection by non-controlling interest		2,441	3,551
Purchase of treasury shares, net of share issue		-	(12,916)
Proceeds from borrowings		1,205,392	867,922
Repayment of borrowings		(1,152,000)	(742,000)
Net cash provided by/used in financing activities		28,644	78,189
Reconciliation of cash			
Cash at beginning of year		60,394	22,582
Net increase / (decrease) in cash held		(14,911)	37,322
Effect of movement in foreign exchange rate		319	490
Cash at end of year	B1	45,802	60,394

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

Notes to the Consolidated Financial Statements

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Overview

Reporting entity

The financial report is 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 for the purpose of preparing the financial statements.

The Group’s registered office is Unit 1, 275 Robinsons Road, Ravenhall, VIC, Australia, 3023.

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial report complies with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The financial report was authorised for issue by the directors on 26 February 2019.

Basis of preparation of the financial report

The notes to the financial report include additional information required to understand the Group’s financial statements that is material and relevant to its operations, financial position and performance. Information is considered material and relevant if the amount in question is significant because of its size or nature or it helps to explain the impact of significant changes in the business, for example, acquisitions and asset write-downs.

The notes are organised into the following sections:

Group Performance: focuses on the Group’s financial results and performance. It provides disclosures relating to income, expenses, segment information, material items and earnings per share.

Operating assets and liabilities: provides information regarding the physical assets and non-physical assets used by the Group to generate revenues and profits. This section also explains the accounting policies applied and specific judgements and estimates made by management in arriving at the value of these assets and liabilities.

Capital structure and financing: provides information about capital management practices. Particularly, how much capital is raised from shareholders (equity) and how much is borrowed from financial institutions (debt) in order to finance our activities both now and in the future.

Group structure: explains aspects of the Group’s structure, including acquisitions and divestments during the period.

Other: provides information on other items relevant to the Financial Report.

Change in financial year

The Board of Directors resolved to change the Group’s financial year from a June to December year-end to better align to the underlying operating cycles of the majority of Costa’s produce categories and its international segment. To transition, the Group has operated a six-month fiscal period commencing from 2 July 2018 and ending 30 December 2018. The Group will thereafter revert to a calendar year cycle for 2019.

Comparative information

Certain comparative information has been changed in presentation to align to current year presentation.

Historical Cost Convention

The financial report has been prepared under the historical cost convention, except for revaluations to fair value for certain classes of assets and liabilities as described in the accounting policies.

Rounding

The financial report is presented in Australian dollars with all values rounded to the nearest thousand unless otherwise stated, in accordance with ASIC Corporations Instrument 2016/191.

Going concern

The financial report has been prepared on a going concern basis.

Goods and services tax (GST)

Revenues, expenses, liabilities and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the financial report from the date that control commences until the date that control ceases.

Investments in associates and joint ventures (equity accounted investments)

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Joint ventures are those entities over whose activities the Group has joint control established by contractual agreement and requiring unanimous consent for strategic, financial and operating activities.

Investments in associates and joint ventures are accounted for under the equity method and are initially recognised at cost. The cost of the investment includes transaction costs. The financial report includes the Group's share of the profit or loss and other comprehensive income of equity accounted investments after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealised income and expenses arising from intercompany transactions, are eliminated in preparing the financial report. Unrealised gains arising from transactions with equity accounted investments are eliminated against the investment to the extent of the Group's interest in the investments. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currency translations and balances

Functional and presentation currency

The financial statements of each entity within the Group are measured using the currency of the primary economic environment in which that entity operates (the functional currency). The financial report is presented in Australian dollars which is the Group's functional and presentation currency.

Transactions and balances

Transactions in foreign currencies of entities within the consolidated Group are translated into functional currency at the applicable exchange rate at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the reporting period.

All resulting exchange differences arising on settlement or restatement are recognised as revenues and expenses for the reporting period.

Entities that have a functional currency different from the presentation currency are translated as follows:

- Assets and liabilities are translated at reporting period end exchange rates prevailing at that reporting date;
- Income and expenses are translated at actual exchange rates or average exchange rates for the reporting period, where appropriate; and
- All resulting exchange differences are recognised as a separate component of equity.

Critical accounting estimates and judgements

The preparation of the financial report 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 estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year can be found in the following notes:

Accounting estimates and judgements	Note	Page
Valuation of biological assets	B6 – Biological assets	56
Recoverability of goodwill	B8 – Intangible assets	60
Recoverability of non-financial assets other than goodwill	B8 – Intangible assets	60
Fair value measurement	C6 – Financial instruments – fair values and risk management	69
Income tax	E2 – Taxation	84

A. Group Performance

A1. Segment performance

Segment information is reported in a manner consistent with internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, is the Chief Executive Officer (CEO).

(a) Basis for segmentation

The reportable segments are based on the aggregation of operating segments determined by the similarity of the nature of products, the production process, types of customers and the method used to distribute the products.

The Group has three reportable segments, as described below, based on the internal reports that are reviewed and used by the CEO 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 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 SGARA, 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 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 based on agreed upon prices. Information regarding the results of each reportable segment is included below.

	Produce \$'000	CF&L \$'000	International \$'000	Adjustments and eliminations \$'000	Total \$'000
6 months ended December 2018					
Revenue					
External customers	396,809	74,213	6,582	-	477,604
Inter-segment	28,751	4,813	-	(33,563)	-
Total revenue	425,560	79,025	6,582	(33,563)	477,604
EBITDA before SGARA	38,834	3,555	(7,073)	-	35,316

	Produce \$'000	CF&L \$'000	International \$'000	Adjustments and eliminations \$'000	Total \$'000
12 months ended June 2018					
Revenue					
External customers	784,694	142,953	74,380	-	1,002,027
Inter-segment	58,651	9,287	-	(67,938)	-
Total revenue	843,345	152,240	74,380	(67,938)	1,002,027
EBITDA before SGARA	119,279	5,680	25,834	-	150,793

The Group principally supplies fresh produce to the major supermarkets in Australia, including Coles, Woolworths and ALDI, which collectively comprise approximately 71% of the Group's Australian based produce sales in the 6 months ended December 2018 (12 months ended June 2018: 75%).

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

	Notes	6 months to December 2018 \$ '000	12 months to June 2018 \$ '000
EBITDA before SGARA for reportable segments		35,316	150,793
Fair value movements in biological assets		(1,485)	(3,973)
Depreciation and amortisation		(20,154)	(34,652)
Material items (before tax)	A3	(3,925)	40,268
Profit / (loss) on sale of assets		454	(345)
Net finance costs		(4,216)	(7,167)
Loss on fair value of derivatives		(23)	-
Income tax expense		(2,030)	(27,146)
Profit after tax		3,937	117,778

(d) Geographical segment of non-current assets

Non-current assets excluding financial assets (including equity accounted investment) and deferred tax balance by geography	December 2018 \$ '000	June 2018 \$ '000
Australia	490,964	453,537
China	30,811	23,441
Morocco	148,417	141,582
	670,192	618,560

A2. Revenue and expenses

Revenue

	6 months to December 2018 \$ '000	12 months to June 2018 \$ '000
Sale of goods and commissions received	455,410	970,297
Rebates and discounts provided	(6,955)	(15,063)
Rendering of services	20,261	30,317
Other revenue	8,888	16,476
Total revenue	477,604	1,002,027

AASB 15 did not have a significant impact on the Group with respect to revenue recognition (see Notes A1 for segment performance and E6 for AASB 15 impact assessment).

Recognition and measurement

Sale of goods

Revenue from sale of goods is recognised when it transfers control over goods to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenue is usually recognised when goods are despatched or at the time of delivery of the goods to the customer when the title is transferred.

Rendering of services

Revenue from the rendering of services is recognised upon the delivery of the service to the customers.

Dividends

Dividend income is recognised when the right to receive a dividend has been established. Dividends received from associates and joint ventures are accounted for in accordance with the equity method of accounting.

Interest income

Interest income is recognised when it becomes receivable on a proportional basis taking into account the interest rates applicable to the financial assets.

Rental income

Rental income is recognised on a straight line basis over the rental term.

Royalty income

Royalty income is recognised on an accrual basis in accordance with the substance of the relevant agreements. Royalty income is recognised in relation to rights provided to entities external to the Group to sell plants and produce that arise from the Group's operations.

Notes to the Consolidated Financial Statements continued

Commission income

Commission income is recognised by the Group for sale of goods undertaken by the Group in its capacity as an agent of the transaction. In respect of commissions, management considers that the following factor indicates that the Group acts as an agent:

- the Group neither takes title to nor is exposed to inventory risk related to the goods; and
- has no significant responsibility in respect of the goods sold.

All revenue is stated net of the amount of goods and services tax (GST).

Expenses

	6 months to December 2018 \$'000	12 months to June 2018 \$'000
Net finance costs		
Interest income	(211)	(172)
Interest expense on borrowings	4,168	6,845
Amortisation/write off of borrowing costs	259	494
	4,216	7,167

Borrowing costs

Borrowing costs can include interest, amortisation of discounts or premiums relating to borrowings, ancillary costs incurred in connection with arrangement of borrowings and foreign exchange losses net of hedged amounts on borrowings.

Borrowing costs are expensed as incurred, except for borrowing costs incurred as part of the cost of the construction of a qualifying asset which are capitalised until the asset is ready for its intended use or sale.

Loan establishment costs of \$1.2 million have been capitalised and amortised over the life of the loan facility. Establishment costs relating to loans extinguished during the reporting period have been expensed.

	6 months to December 2018 \$'000	12 months to June 2018 \$'000
Employee benefits expenses		
Salaries, contractors and wages (including on costs)	162,501	299,541
Superannuation costs	9,983	18,107
Leave entitlements	5,244	9,138
Other employee expenses	3,362	4,465
	181,090	331,251

	6 months to December 2018 \$'000	12 months to June 2018 \$'000
Other expenses		
Repair and maintenance expenses	8,514	16,721
Legal and consulting expenditure	5,287	9,395
Insurance	4,017	6,000
Other*	21,256	42,193
	39,074	74,309

* Other expenses include telecommunications, marketing, information technology and general administration expenditure.

A3. Material items and amortisation

	6 months to December 2018 \$ '000	12 months to June 2018 \$ '000
Individually material items and amortisation of acquired intangibles included in profit before income tax:		
Gain on disposal of 49% equity-accounted investment in African Blue ¹		48,317
Amortisation of intangibles on acquisition of African Blue ²	(3,925)	(4,579)
Transaction costs associated with the acquisition of African Blue ³		(3,470)
Total material items and amortisation of acquired intangibles (before tax)	(3,925)	40,268
Tax effect of material items	785	960
Total material items and amortisation of acquired intangibles (after tax)	(3,140)	41,228

1. In FY2018, 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 \$48.3m. This gain has been included in 'Other income' in the Statement of Profit or Loss.
2. Amortisation of customer relationships and reacquired rights recognised as part of the acquisition of African Blue. These assets are expected to be fully amortised by December 2019.
3. Acquisition related costs associated with the African Blue transaction.

A4. Earnings per share

	6 months to December 2018 Cents per share	12 months to June 2018 Cents per share
<i>Basic EPS</i>		
Basic EPS (cents) based on net profit attributable to members of Costa Group Holdings Limited	1.35	36.04
<i>Diluted EPS</i>		
Diluted EPS (cents) based on net profit attributable to members of Costa Group Holdings Limited	1.35	35.95
	Number ('000)	Number ('000)
<i>Weighted average number of shares</i>		
Weighted average number of ordinary shares on issue used in the calculation of basic EPS	319,831	319,553
<i>Effect of potentially dilutive securities</i>		
Equity-settled share options	835	785
Weighted average number of ordinary shares on issue used in the calculation of diluted EPS	320,666	320,338
	\$ '000	\$ '000
Earnings reconciliation		
<i>Basic and diluted EPS</i>		
Net profit attributable to owners of Costa Group Holdings Limited	4,325	115,162

Calculation of earnings per share

Earnings per share is the amount of post-tax profit attributable to each share. Basic earnings per share is computed using the weighted average number of shares outstanding during the period.

Diluted earnings per share is computed using the weighted average number of shares outstanding during the period plus the dilutive effect of share options outstanding during the period.

A5. Subsequent events

There have been no matters or circumstances other than those referred to in the financial statements or notes thereto, that have arisen since the period ending 30 December 2018, that have significantly affected, or may affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial years.

Notes to the Consolidated Financial Statements continued

B. Operating Assets and Liabilities

B1. Cash and cash equivalents

	6 months to December 2018 \$ '000	12 months to June 2018 \$ '000
Cash on hand	129	80
Cash at bank	45,615	57,166
Cash on deposit	58	3,148
	45,802	60,394

(a) Reconciliation of profit after tax to net cash flows from operating activities

	6 months to December 2018 \$ '000	12 months to June 2018 \$ '000
Profit for the year	3,937	117,778
Non-cash adjustments to reconcile profit before tax to net cash flows:		
Depreciation and amortisation	24,078	39,230
(Profit)/loss on sale of assets	(454)	345
Borrowing costs written-off / amortised	259	494
Fair value gain on disposal of investment	-	(48,317)
(Gain)/loss on fair value adjustments - biological assets	1,485	3,973
(Gain)/loss on fair value of derivatives	23	270
Share-based payments expense	1,063	1,748
Share of profit of equity-accounted investees, net of tax	(4,119)	(6,818)
	26,272	108,703
Change in working capital and tax balances:		
(Increase)/decrease in inventories	606	(6,225)
(Increase)/decrease in receivables	17,633	(19,784)
(Increase)/decrease in biological assets	(1,708)	(776)
(Increase)/decrease in other assets	(3,606)	4,329
Increase/(decrease) in interest payable	(1,841)	918
Increase/(decrease) in payables	(785)	17,327
Increase/(decrease) in provisions	862	690
(Increase)/decrease in deferred taxes	331	4,797
Increase/(decrease) in current tax payables	(15,756)	(5,777)
Net cash generated from operating activities	22,008	104,202

Recognition and measurement

Cash comprises cash on hand and demand deposits. Cash equivalents comprise short-term and highly liquid cash deposits that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. For the purposes of the Statement of Cash Flows, cash includes cash on hand, demand deposits and cash equivalents. All cash on deposit has maturing terms of less than 90 days.

B2. Receivables

	December 2018 \$ '000	June 2018 \$ '000
CURRENT		
Trade debtors	74,047	93,421
Less: Allowance for impairment losses on trade receivables	(678)	(435)
	73,369	92,986
<hr/>		
Other receivables	19,141	16,794
	92,510	109,780
<hr/>		
NON-CURRENT		
Other receivables	2,210	-

Other current and non-current receivables relates to sales tax receivable and amounts generally arising from transactions outside the usual operating activities of the Group. They do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

A portion of the sales tax receivable includes value added tax credits sold with recourse to a bank for cash proceeds by the Group's subsidiary, African Blue. These value added tax credits have not been derecognised from the statement of financial position, because African Blue retains substantially all of the risk and rewards – primarily credit risk. The amount received on transfer has been recognised as a secured bank loan (refer note C1). The arrangement with the bank is such that value added tax credits received by African Blue will be remitted to bank.

The following information shows the carrying amount of other receivables at reporting date that have been transferred but have not been derecognised and the associated liabilities.

	Note	December 2018 \$ '000	June 2018 \$ '000
Carrying amount of other receivables transferred to a bank		2,180	2,261
Carrying amount of associated liabilities	C1	(2,652)	(2,539)

Recognition and measurement

Trade receivables are recognised initially at invoice value (fair value) and subsequently measured at amortised cost, less allowance for doubtful debts.

Credit terms are generally between 15-60 days depending on the nature of the transaction. An allowance for doubtful debt is raised to reduce the carrying amount of trade receivables based on a review of outstanding amounts at reporting date where there is credit risk.

B3. Inventories

	December 2018 \$ '000	June 2018 \$ '000
CURRENT		
<i>At cost</i>		
Raw materials	15,333	15,409
Finished goods	10,043	10,589
	25,376	25,998

Recognition and measurement

Inventories are measured at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials and consumables: purchase cost on a first in, first out basis and weighted average; and
- Finished goods and work in progress: cost of direct material and labour and a proportion of manufacturing overheads based on normal operating capacity.

Raw materials and consumables include packaging, supplies and other materials not consumed in the production or growing processes. Finished goods include purchased agricultural produce and own farm fruit held for sale and other stock held for sale.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of production and the estimated costs necessary to complete the sale.

Notes to the Consolidated Financial Statements continued

B4. Payables and other liabilities

	December 2018 \$ '000	June 2018 \$ '000
CURRENT		
<i>Unsecured liabilities</i>		
Trade creditors	65,095	69,614
Sundry creditors and accruals	65,142	57,425
	130,237	127,039

Recognition and measurement

Trade and other payables including accruals are recorded as future payments required to be made as a result of purchases of goods or services. Trade and other payables are carried at cost less accumulated amortisation (if applicable).

Other financial liabilities	December 2018 \$ '000	June 2018 \$ '000
CURRENT		
Forward exchange contracts	415	368
Put and call options liability	3,406	401
	3,821	769
NON-CURRENT		
Interest rate swaps	251	267
Put and call options liability	3,379	6,922
	3,630	7,189

Recognition and measurement

Recognition and measurement of other financial liabilities above are further detailed in note C6.

B5. Other assets

	December 2018 \$ '000	June 2018 \$ '000
CURRENT		
Prepayments	14,422	10,603
	14,422	10,603

B6. Biological assets

	December 2018 \$ '000	June 2018 \$ '000
CURRENT		
Produce at fair value	42,137	41,771
Produce – at cost	6,191	6,068
Total biological assets	48,328	47,839
Reconciliation of changes in carrying amount of biological assets		
Opening balance	47,839	46,042
Loss arising from changes in fair value	(1,485)	(3,973)
Increases due to purchases	132,367	281,182
Decreases due to harvest	(135,577)	(281,605)
Increase resulting from acquisitions	5,184	6,193
Closing balance	48,328	47,839

Recognition and measurement

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.

Net increments and decrements in the fair value of the growing assets are recognised as income or expense in the statement of profit/loss and other comprehensive income, determined as:

- The difference between the total fair value of the biological assets recognised at the beginning of the reporting period and the total fair value of the biological assets recognised at reporting date.
- Costs incurred in maintaining or enhancing the biological assets recognised at the beginning of the reporting period and the total fair value of the biological assets recognised at the reporting date.
- The market value of the produce picked during the reporting period is measured at their fair value less estimated costs to be incurred up until the time of picking. Market price is determined based on estimated market prices of the product.

Critical accounting estimate and judgement

Valuation of biological assets

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

Measurement of fair values

Fair value hierarchy

The fair value measurements for the Group's hanging crop have been categorised as Level 3 fair values based on the inputs to the valuation techniques used, which are not based on observable market data.

Valuation techniques and significant unobservable inputs

The following table provides a description of the various biological asset types, shows the valuation techniques used in measuring Level 3 fair values, as well as the significant unobservable inputs used. Refer to note C6 for further detail on Level 3 fair value measurement.

Type	Description	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Hanging crop (citrus, grapes, avocados, tomatoes, blueberries, raspberries and bananas)	These are crops from trees and bushes that have an annual crop production cycle and a reasonably stable development cycle.	<i>Discounted cash flows:</i> The valuation model considers the present value of the net cash flows expected to be generated by the plantation. The cash flow projections include specific estimates for one year. The expected net cash flows are discounted using a risk-adjustment factor to factor in volatility for weather, production and pricing and future farming costs.	<i>Inclusive of:</i> <ul style="list-style-type: none">• Estimated future crop prices.• Estimated cash inflows based on forecasted sales.• Estimated yields per hectare.• Estimated remaining farming, harvest and transportation costs.• Risk adjustment factor.	<i>The estimated fair value would increase (decrease) if:</i> <ul style="list-style-type: none">• the estimated fruit prices were higher (lower);• the estimated yields per hectare were higher (lower);• the estimated harvest and transportation costs were lower (higher); or• the risk-adjusted discount rates were lower (higher).

Measurement of biological assets at cost

Short lived crops (mushrooms) are measured at cost. These crops typically have a short term development cycle of less than three months. The calculation of market value for these crops is based on total cost due to the inherent difficulty in accurately determining the biological advancement percentage of the crop. As such, the cost approach takes into account actual costs for preparation and cultivation.

Risk management strategy related to biological activities

Regulatory and environmental risks

The Group is subject to laws and regulations in the various locations in which it operates. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws.

Supply and demand risk

The Group is exposed to risks arising from fluctuations in the price and sales volume of all its fruit and vegetables. Management performs regular industry trend analysis to project harvest volumes and pricing. Where possible, the Group manages this risk by aligning its harvest volume to market supply and demand.

Climate and other risks

The Group's biological assets are exposed to the risk of damage from climatic changes, diseases and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating these risks, including protected cropping techniques across most crops, and geographical diversification.

Notes to the Consolidated Financial Statements continued

B7. Property, plant and equipment

	December 2018 \$ '000	June 2018 \$ '000
Land and buildings at cost	164,484	163,867
Accumulated depreciation and impairment	(52,932)	(50,192)
	111,552	113,675
Assets Under Construction at cost	82,796	43,184
Plant and equipment at cost	317,735	304,537
Accumulated depreciation and impairment	(145,543)	(138,844)
	172,192	165,693
Improvements at cost	30,718	29,595
Accumulated depreciation and impairment	(9,087)	(8,128)
	21,631	21,467
Bearer plants at cost	40,670	32,632
Accumulated depreciation and impairment	(14,652)	(12,068)
	26,018	20,564
Total property, plant and equipment	414,189	364,583

(a) Reconciliations

Reconciliation of the carrying amounts of property, plant and equipment at the beginning and end of the current financial year.

	December 2018 \$ '000	June 2018 \$ '000
<i>Land and buildings</i>		
Opening carrying amount	113,675	111,294
Additions	472	4,265
Acquisitions through business combinations ¹	-	1,785
Disposals	-	(9)
Depreciation expense	(2,736)	(5,401)
Transfers, reclassifications and adjustments and effect of movement in FX rate	141	1,741
Closing carrying amount	111,552	113,675
<i>Assets Under Construction</i>		
Opening carrying amount	43,184	17,426
Additions	59,632	48,189
Acquisitions through business combinations ¹	-	5,848
Disposals	(1,624)	-
Transfers, reclassifications and adjustments and effect of movement in FX rate	(18,396)	(28,279)
Closing carrying amount	82,796	43,184
<i>Plant and equipment</i>		
Opening carrying amount	165,693	127,094
Additions	8,458	25,169
Acquisitions through business combinations ¹	(1,028)	11,330
Disposals	(517)	(518)
Depreciation expense	(13,762)	(23,019)
Transfers, reclassifications and adjustments and effect of movement in FX rate	13,348	25,693
Closing carrying amount	172,192	165,693
<i>Leasehold Improvements</i>		
Opening carrying amount	21,467	16,771
Additions	133	3,532
Acquisitions through business combinations ¹	-	1,395
Depreciation expense	(850)	(1,447)
Transfers, reclassifications and adjustments and effect of movement in FX rate	881	1,216
Closing carrying amount	21,631	21,467
<i>Bearer Plants</i>		
Opening carrying amount	20,564	9,364
Additions	1,453	7,410
Acquisitions through business combinations ¹	-	5,876
Disposals	-	(517)
Depreciation expense	(2,240)	(3,554)
Transfers, reclassifications and adjustments and effect of movement in FX rate	6,241	1,985
Closing carrying amount	26,018	20,564
<i>Total property, plant and equipment</i>		
Opening carrying amount	364,583	281,949
Additions	70,148	88,564
Acquisitions through business combinations ¹	(1,028)	26,234
Disposals	(2,141)	(1,044)
Depreciation expense	(19,588)	(33,421)
Transfers, reclassifications and adjustments and effect of movement in FX rate	2,215	2,301
Closing carrying amount	414,189	364,583

1. Includes property, plant and equipment acquired as part of the African Blue acquisition (refer note D6) and other farm acquisitions that are not material.

Notes to the Consolidated Financial Statements continued

Recognition and measurement

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and any accumulated impairment losses.

Depreciation

The depreciable amount of all fixed assets is depreciated over their estimated useful lives commencing from the time the asset is held ready for use. Land owned by the Group is freehold land and accordingly is not depreciated.

Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

Class of fixed asset	Depreciation rates	Depreciation basis
Land and buildings at cost	3% – 10%	Straight line
Plant and equipment at cost	4% – 33%	Straight line
Leased plant and equipment at cost	10% – 20%	Straight line
Bearer plants at cost	4% – 25%	Straight line

Assets under construction are measured at cost and not depreciated until the assets are ready for use.

Capital commitments

As at 30 December 2018, the Group has capital commitments amounting to \$19,706,827 (June 2018: \$21,495,372) in relation to the purchase of property, plant and equipment, which are contracted for but not provided for.

B8. Intangible assets

	December 2018 \$'000	June 2018 \$'000
Goodwill at cost	236,052	232,704
Brand names at cost	3,184	3,182
Lease premiums at cost	3,008	2,924
Water rights at cost	3,796	2,924
Capitalised software costs	8,724	8,724
Accumulated amortisation and impairment	(5,917)	(5,351)
	2,807	3,373
Reacquired rights at cost	3,600	3,600
Accumulated amortisation and impairment	(2,167)	(1,167)
	1,433	2,433
Customer relationships at cost	11,700	11,700
Accumulated amortisation and impairment	(6,337)	(3,413)
	5,363	8,287
Total intangible assets	255,643	255,827

Reconciliations

Reconciliation of the carrying amounts of intangible assets at the beginning and end of the current financial year.

	December 2018 \$ '000	June 2018 \$ '000
<i>Goodwill</i>		
Opening balance	232,704	133,007
Acquisitions through business combinations ¹	999	99,697
Net exchange differences on translation of foreign subsidiaries	2,349	-
Closing balance	236,052	232,704
<i>Capitalised software costs</i>		
Opening balance	3,373	4,601
Amortisation expense ²	(566)	(1,228)
Closing balance	2,807	3,373
<i>Brand names</i>		
Opening balance	3,182	1,730
Additions	2	-
Acquisitions through business combinations ¹	-	1,452
Opening balance/closing balance	3,184	3,182
<i>Lease premiums</i>		
Opening balance / closing balance	2,924	1,022
Additions	-	-
Acquisitions through business combinations ¹	-	1,902
Net exchange differences on translation of foreign subsidiaries	84	-
	3,008	2,924
<i>Water rights</i>		
Opening balance	2,924	2,741
Additions	872	183
Closing balance	3,796	2,924
<i>Reacquired rights</i>		
Opening balance	2,433	-
Acquisitions through business combinations ¹	-	3,600
Amortisation expense ²	(1,000)	(1,167)
	1,433	2,433
<i>Customer relationships</i>		
Opening balance	8,287	-
Acquisitions through business combinations ¹	-	11,700
Amortisation expense ²	(2,924)	(3,413)
	5,363	8,287
<i>Total Intangibles assets</i>		
Opening carrying amount	255,827	143,101
Additions	874	183
Acquisitions through business combinations ¹	999	118,351
Amortisation expense ²	(4,490)	(5,808)
Net exchange differences on translation of foreign subsidiaries	2,433	-
Closing carrying amount	255,643	255,827

1. Includes other farm acquisitions that are not material and intangibles acquired as part of the African Blue acquisition and finalisation of provisional accounting as disclosed in note D6.

2. Amortisation expense in relation to intangible assets is included within depreciation and amortisation expenses in the statement of profit or loss and other comprehensive income. Amortisation expense on re-acquired rights and customer relationships associated with the African Blue acquisition has been treated as material items (refer Note A3).

Recognition and measurement

Goodwill

Goodwill is recognised initially as the excess over the aggregate of the consideration transferred, the fair value of the non-controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest (in case of step acquisition), less the fair value of the identifiable assets acquired and liabilities assumed.

Goodwill is not amortised, but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

Brand names

Brand names are measured initially at their cost of acquisition. Brand names are an indefinite useful life intangible asset as there is no expiry date associated with the underlying assets in terms of its generation of future economic benefits to the Group, and are therefore tested for impairment annually.

Lease premiums

The value of market lease premiums is recorded in the financial report at cost. Market lease premiums are an indefinite life intangible asset as there is no expiry date associated with the underlying assets in terms of its generation of future economic benefits to the Group, and are therefore tested for impairment annually.

Water rights

Water rights are measured initially at their cost of acquisition. Water rights are an indefinite life intangible asset as there is no expiry date associated with the underlying assets in terms of its generation of future economic benefits to the Group, and are therefore tested for impairment annually. The carrying amount of water rights is supported by a value in use calculation.

Software

Software is measured initially at the cost of acquisition and amortised over the useful life of the software. Expenditure on software development activities is capitalised only when it is expected that future benefits will exceed the deferred costs, and these benefits can be reliably measured. Capitalised development expenditure is stated at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost of the intangible asset over its estimated useful life (not exceeding seven years) commencing when the intangible asset is available for use. Other development expenditure is recognised as an expense when incurred.

Reacquired rights

Reacquired rights arise when the acquirer has granted a right to the acquiree to use one or more of the acquirer's asset, such as intellectual property. Reacquired rights are measured initially at fair value of the remaining contractual term of the contract and amortised over the remaining contractual period.

Customer relationship assets

Customer relationship assets are measured initially at fair value and amortised over the period of the associated contracts. The carrying amount of customer relationship asset is supported by a value in use calculation.

Acquisitions

Intangible assets acquired separately are capitalised at cost. Intangible assets acquired through a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Internally generated intangible assets are capitalised when the Group is certain that there are future economic benefits that will arise from these assets. Other internally generated intangible assets that do not fit this recognition criteria are charged against the statement of comprehensive income in the reporting period in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the nature of the intangible asset.

Allocation of goodwill

The allocation of goodwill across the Group's reportable segments is provided below:

December 2018 \$'000	Produce	CF&L	International	Total
Goodwill				
Carrying amount at start of year	131,483	1,674	99,547	232,704
Acquisitions through business combinations	-	-	999	999
Net exchange differences on translation of foreign subsidiaries	-	-	2,349	2,349
Carrying amount at end of year	131,483	1,674	102,895	236,052

June 2018 \$'000	Produce	CF&L	International	Total
Goodwill				
Carrying amount at start of year	131,333	1,674	-	133,007
Acquisitions through business combinations	150	-	99,547	99,697
Carrying amount at end of year	131,483	1,674	99,547	232,704

Impairment testing

Goodwill and indefinite life intangible assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows or other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes.

Impairment losses are recognised in the statement of comprehensive income. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

In the 6 months ended 30 December 2018, the recoverable amount of our CGUs exceeds their carrying values and as a result no impairment loss has been recognised (FY2018: Nil impairment).

Useful life

Intangibles with indefinite useful life are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

Critical accounting estimate and judgement

Projected cash flows

Goodwill is allocated to CGUs according to applicable business operations. The recoverable amount of a CGU is based on value in use calculations that are based on the board approved budget covering a one year period together with management prepared cash flow through to CY2021. For CY2022 onwards, the Group assumes a long-term growth rate to allow for organic growth on the existing asset base. Management's determination of cash flow projections and gross margins are based on past performance and its expectation for the future.

Long-term growth rate

An average growth rate of 2.5% (June 2018: 2.5%) has been used for cash flows for CY2022 onwards with a terminal value growth rate of 3.0% (June 2018: 3.0%).

Discount rate

A post-tax discount rate to post-tax cash flows has been applied as the valuation calculated using this method closely approximates applying pre-tax discount rates to pre-tax cash flows. The Group used a pre-tax discount rate of 10.0% to 13.0% for domestic and 14% to 17% for International (June 2018: 10.0% to 13.0% for Domestic and 14% to 17% for International).

Sensitivity Analysis

The Group believes that for all CGUs, any reasonable possible change in the key assumptions would not cause the carrying value of the CGUs to exceed their recoverable amount.

Critical accounting estimates and judgements

Recoverability of non-financial assets other than goodwill

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.

B9. Provisions

		December 2018 \$ '000	June 2018 \$ '000
CURRENT			
Employee benefits	(a)	16,095	15,233
Onerous leases	(b)	1,228	1,228
		17,323	16,461
NON CURRENT			
Employee benefits	(a)	5,906	5,490
Onerous leases	(b)	1,812	2,426
Other	(c)	1,944	1,749
		9,662	9,665

(a) Employee benefits liability

These consist of provisions for annual leave and long service leave.

(b) Onerous leases

The Group currently holds a long-term lease for the Eastern Creek warehouse in New South Wales. The lease expires in FY2026. A provision has been recognised for the fact that the unavoidable lease expenses are higher than the economic benefits available from the site. The obligation for the discounted future payments, net of expected economic benefits, has been provided for.

(c) Other provisions

This relates to provision for warranty and lease make good.

(d) Reconciliations

Reconciliation of the carrying amounts of provisions at the beginning and end of the current financial year:

		December 2018 \$ '000	June 2018 \$ '000
<i>Employee benefits</i>			
Opening balance		20,723	19,528
Amounts used		(4,387)	(7,352)
Additional amounts recognised		5,665	8,547
Closing balance		22,001	20,723
<i>Onerous leases</i>			
Opening balance		3,654	5,000
Amounts used		(614)	(1,346)
Closing balance		3,040	3,654
<i>Other provisions</i>			
Opening balance		1,749	456
Amounts used		(4)	(9)
Additional amounts recognised		199	1,302
Closing balance		1,944	1,749

Recognition and measurement

Provisions are recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Short-term employee benefit obligations

Liabilities arising in respect of wages and salaries, annual leave, long service leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. The expected cost of short term employee benefits in the form of compensated absences such as annual leave is recognised in the provision for employee benefits. All other short term employee benefit obligations are presented as payables.

Long-term employee benefit obligations

Liabilities arising in respect of long service leave and annual leave which is not expected to be settled within twelve months of the reporting date are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

B10. Contingent Liabilities

From time to time the Group is party to claims from customers and suppliers arising from operations in the ordinary course of business. At the date of this report there are no claims or contingent liabilities that are expected to materially impact, either individually or in aggregate, the Group's financial position or results from operations.

C. Capital Structure and Financing

C1. Borrowings

	December 2018 \$ '000	June 2018 \$ '000
Current liabilities		
<i>Secured liabilities</i>		
Bank loans	428	-
Non-current liabilities		
<i>Secured liabilities</i>		
Bank loans	9,669	8,290
<i>Unsecured liabilities</i>		
Bank loans	280,345	228,177
	290,014	236,467
Total borrowings	290,442	236,467

Terms and conditions relating to the above financial instruments

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 key terms of the Group's banking facilities detailed as below:

Secured

- Secured bank loan with \$0.4m facility that can be drawn upon as required. This facility matures in July 2019.
- Secured bank loan with \$7.0m facility that can be drawn upon as required. This facility matures in November 2023.
- Secured bank loan of \$2.6m that matures in January 2023.
- The above secured bank loans are secured over buildings and VAT receivables (see Note B2).

Unsecured

- Facility A – \$175m facility that can be drawn upon as required. This facility matures in July 2020.
- Facility B – \$175m facility that can be drawn upon as required. This facility matures in July 2021.
- 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 Gearing Ratio.

The Group has financial guarantees to other persons of \$12.4 million that could be called up at any time in the event of a breach of our financial obligations. We do not expect any payments will eventuate under these financial guarantees as we expect to meet our respective obligations to the beneficiaries of these guarantees. The financial guarantees are applied against the available drawdown limit for Facility A as detailed above.

Recognition and measurement

Borrowings are initially recognised at fair value of the consideration received, net of directly attributable costs.

After initial recognition, borrowings are measured at amortised cost, using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on issuance. Gains and losses are recognised in the statement of profit or loss and other comprehensive income if borrowings are derecognised. The fair value approximates carrying value as borrowings are fully variable.

Borrowings are presented net of capitalised loan establishment costs.

Notes to the Consolidated Financial Statements continued

C2. Share Capital

	December 2018 \$ '000	June 2018 \$ '000
<i>Issued and paid up capital</i>		
Ordinary shares	401,673	401,673
Transaction costs directly transferred to equity (net of tax)	(7,087)	(7,087)
Tax effect on legacy share options	3,566	3,566
Settlement of share-based payments	6,569	5,258
	404,721	403,410

	December 2018		June 2018	
	Number '000	\$ '000	Number '000	\$ '000
Ordinary shares				
Opening balance	319,698	403,410	319,280	399,902
Ordinary shares issued	-	-	418	2,228
Settlement of share-based payment	239	1,311	-	1,280
At reporting date	319,937	404,721	319,698	403,410

Ordinary shares

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholders' meetings, each ordinary share is entitled to one vote when a poll is called; otherwise each shareholder has one vote on a show of hands.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

C3. Profit reserve

The profit reserve comprises the transfer of net profit for the year and characterises profits available for distribution as dividends in future years. The profit reserve balance as at balance sheet date (in thousands) is \$99,736 (June 2018: \$122,600).

C4. Other reserves

The nature and purpose of other equity reserves is as follows:

Other equity reserve

Other equity reserve comprises the treasury shares in Costa Group Holdings Limited that are held by the Employee share Trust for the purpose of issuing shares under the employee share scheme and the executive short-term incentive (STI) scheme. Shares issued to employees are recognised on first-in-first out basis. As at 30 December 2018, no shares were held by the Trust.

Share based payment reserve

The share based payment reserve is used to recognise the value of equity-settled share based payments provided to employees, including key management personnel, as part of their remuneration. Refer to E1 for further details of these plans.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Cash flow hedge reserve

The hedging reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge relationship.

General reserve

General reserve consists of put and call option as part of the acquisition of African Blue, measured under the present-access method. Refer note C6 for further details.

C5. Dividends

Dividends paid or declared by the Company to members since the end of the previous financial year were:

Declared and paid during the 6 months ended 30 December 2018	Cents per share	Total amount \$'000	Date of payment
Final June 2018 ordinary	8.5	27,189	4 October 2018

Declared after end of year

After the balance sheet date, the following dividends were proposed by the directors. The dividends have not been provided for and there are no income tax consequences.

	Cents per share	Total amount \$'000	Date of payment
Final December 2018 ordinary	5.0	15,997	12 April 2019

C6. Financial instruments – fair values and risk management

(A) Valuation of financial instruments

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Fair value hierarchy	December 2018 \$'000	June 2018 \$'000
Financial assets			
<i>Amortised costs</i>			
Current receivables	-	92,510	109,780
Non-current receivables	-	2,210	-
Cash and cash equivalents	-	45,802	60,394
		140,522	170,174
<i>Fair value through profit & loss</i>			
Shares in other corporations	Level 2	244	244
		244	244
Financial liabilities			
<i>Fair value through other comprehensive income</i>			
Forward exchange contracts	Level 2	415	368
Interest rate swaps	Level 2	251	267
		666	635
<i>Other financial liabilities not measured at fair value</i>			
Payables	-	130,237	127,039
Bank loans	Level 2	290,442	236,467
Put and call options	-	6,785	7,322
		427,419	370,828

Notes to the Consolidated Financial Statements continued

Recognition, classification and measurement

On initial recognition, the Group classifies its financial assets and liabilities into the following categories: amortised costs, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification depends on the purpose for which the instruments were acquired. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Amortised costs

Financial assets or liability with contractual cash flows that comprise the payment of principal and interest only and which are held in a business model whose objective is to collect their cash flows are measured at amortised costs.

Fair value through other comprehensive income (FVOCI)

Financial assets or liability with contractual cash flows that comprise the payment of principal and interest only and which are held in a business model whose objective is to both collect their cash flows and sell them are measured at FVOCI; and

Fair value through profit or loss (FVTPL)

Other financial assets or liability that do not fall in the above categories are measured at FVTPL

For all fair value measurement and disclosures, the Group uses the following to categorise the method used:

- Level 1: the fair value is calculated using quoted prices in active markets
- Level 2: the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
- Level 3: the fair value is estimated using inputs for the asset or liability that are not based on observable market data

Derivative financial instruments

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Foreign exchange forward contracts and interest rate swap contracts are all valued using forward pricing techniques. This includes the use of market observable inputs, such as foreign exchange spot, forward rates and interest rate curves. Accordingly, these derivatives are classified as Level 2.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of the fair value of the derivative is recognised in other comprehensive income and accumulated in the hedging reserve. Any ineffective portion of the fair value of the derivative is recognised immediately in the profit or loss.

The amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period or periods during which the hedge forecast cash flow affect profit or loss or the hedged item affects profit or loss.

If the forecast transaction is no longer expected to occur, the hedge no longer meets the criteria for hedge accounting, the hedging instrument expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss.

Non-derivative financial instruments

Non-derivative financial instruments consist of investments in equity securities, trade and other receivables, cash and cash equivalents, borrowings, and trade and other payables.

Non-derivative financial instruments are initially recognised at fair value, plus directly attributable transaction costs (if any). After initial recognition, non-derivative financial instruments are measured as prescribed above.

Other Financial liabilities

Financial liabilities include trade payables, other creditors and loans from third parties and loans from or other amounts due to related entities.

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

Put and call options

The Group has put and call options arising from the African Blue acquisition in prior year. As part of the agreement, the Group will make further payments to existing shareholders on reaching certain earnings targets over the next two years by way of 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.

Impairment

Non-derivative financial assets

Financial assets measured at amortised cost

The new impairment model using expected credit loss under AASB 9 applies to financial assets measured at amortised cost. The Group has applied the required model as disclosed in credit risk section of this note. Any losses are recognised in the consolidated statement of profit and loss and other comprehensive income and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment was recognised causing the amount of the impairment loss to decrease, the decrease in impairment loss is reversed through the consolidated statement of profit and loss and other comprehensive income.

(B) Risk management

The Group's financial risk management objective is to minimise the potential adverse effects of financial performance arising from changes in financial risk. Financial risks are managed centrally by the Group's finance team under the direction of the directors and the Board's Risk and Audit Committee. Management regularly monitors the Group's exposure to any of these financial risks and reports to the Board.

The Group's activities expose it to a number of financial risks, including market risk (interest rate risk and foreign currency risk), liquidity risk and credit risk.

The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

(a) Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial asset or financial liability will change as a result of changes in market interest rates. The Group's exposure to market interest rate risk relates primarily to its borrowings. The Group has historically managed its cash flow interest rate risk by using floating to fixed interest rate swaps for a portion of variable rate borrowings. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates.

As at reporting date, the Group had the following financial assets and liabilities exposed to variable interest rate risk:

	December 2018 \$ '000	June 2018 \$ '000
Variable rate instruments		
Assets		
Cash and cash equivalents	45,802	60,394
Liabilities		
Bank loans ¹	(241,097)	(237,290)
Total financial liabilities	(195,295)	(176,896)

Sensitivity analysis for variable rate instruments

At 30 December 2018, if interest rates had changed by +/- 100 basis points from the year end rates with all other variables held constant, profit or loss would have increased/(decreased) by:

	December 2018 \$ '000	June 2018 \$ '000
Increase of 100 basis points in interest rate ¹	1,953	1,769
Decrease of 100 basis points in interest rate ¹	(1,953)	(1,769)

1. The Group has taken \$50m of interest rate swaps to hedge a portion of the variable rate exposure on the bank loans. These have been excluded for the purpose of the above analysis.

Notes to the Consolidated Financial Statements continued

Foreign currency risk

The Group's exposure to the risk of changes in foreign exchange rates relates to the Group's operating activities and investments in foreign joint ventures. The Group imports and exports produce and is exposed to foreign exchange risk, primarily movements in exchange rates of US dollar (USD) and Japanese Yen (JPY). In addition, it is also exposed to exchange rate movements in Moroccan Dirhams (MAD) and Chinese Yuan (CNY) through its investment in the International subsidiaries. The Group also makes purchases and capital expenditure that expose it to movements in exchange rates of USD, Euro (EUR), British Pound (GBP) and New Zealand dollar (NZD). The Group enters into forward contracts to hedge some of its exposure against foreign currency risk.

The Group's exposure to foreign exchange risk at the end of the reporting period, expressed in Australian dollars, was as follows:

December 2018	USD \$ '000	JPY \$ '000	EUR \$ '000	CNY \$ '000	MAD \$ '000
Cash	683	444	233	4,324	1,740
Trade and other receivables	1,897	292	83	2,054	1,606
Trade and other payables	(51)	-	(175)	(2,088)	(11,007)
Derivative financial assets/(liabilities)	(71)	(272)	(54)	-	-
Net exposure	2,458	464	88	4,289	(7,661)

June 2018	USD \$ '000	JPY \$ '000	EUR \$ '000	CNY \$ '000	MAD \$ '000
Cash	417	1,475	432	8,073	19,816
Trade and other receivables	9,254	7,789	2,727	600	14,991
Trade and other payables	-	-	(739)	(1,252)	(25,582)
Derivative financial assets/(liabilities)	(190)	(155)	(23)	-	-
Net exposure	9,481	9,109	2,397	7,421	9,225

Sensitivity analysis

At 30 December 2018, had the Australian dollar weakened/strengthened by 10% against these currencies with all other variables held constant, the impact to profit or loss and equity would be an increase/(decrease) of:

	USD \$ '000	JPY \$ '000	EUR \$ '000	CNY \$ '000	MAD \$ '000
Australian dollar weakened by 10%	228	87	10	484	(646)
Australian dollar strengthened by 10%	(228)	(87)	(10)	(484)	646

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity risk is to ensure it always has sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages its liquidity risk using a recurring planning tool, and maintaining, at all times, an appropriate minimum level of liquidity, comprising committed, unused bank facilities and cash resources, to meet the Group's financial obligations as and when they fall due.

As at reporting date, unused Australian credit facilities net of bank guarantees of the Group was \$56.5 million. In addition, the Group maintains a domestic overdraft facility of \$3.0 million.

The Group is in compliance with all undertakings under its various financial arrangements.

The following are the remaining contractual maturities at the end of the reporting period of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

	Less than 6 months \$'000	6 – 12 months \$'000	1 – 5 years \$'000	Over 5 years \$'000	Total \$'000
December 2018					
Non-derivative financial liabilities					
Bank loans*	291,097	-	-	-	291,097
Trade payables	130,237	-	-	-	130,237
	421,334	-	-	-	421,334
Derivative financial liabilities					
Forward exchange contracts	415	-	-	-	415
Interest rate swaps	-	-	251	-	-
	415	-	251	-	415
June 2018					
Non-derivative financial liabilities					
Bank loans*	237,290	-	-	-	237,290
Trade payables	127,039	-	-	-	127,039
	364,329	-	-	-	364,329
Derivative financial liabilities					
Forward exchange contracts	368	-	-	-	368
Interest rate swaps	-	-	267	-	267
	368	-	267	-	635

* 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.

Notes to the Consolidated Financial Statements continued

(c) Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Group.

The Group is exposed to counterparty credit risk arising from its operating activities, primarily from trade receivables. Trade receivable balances are monitored on a weekly basis. The finance function assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings and regularly monitored by management. The Group also takes out trade credit insurance in relation to its citrus export sales.

The maximum exposure to credit risk is as follows:

	December 2018 \$ '000	June 2018 \$ '000
Cash and cash equivalents	45,802	60,394
Shares in other corporations	244	244
Receivables	92,510	109,780
	138,556	170,418

The ageing analysis of trade receivables is set out in the table below. The credit quality of financial assets that are neither past due nor impaired is assessed based on the application of the credit risk policies described above.

	December 2018 \$ '000	June 2018 \$ '000
Neither past due nor impaired	56,702	68,322
Past due 1 – 30 days	10,172	18,119
Past due 31 – 60 days	2,352	3,540
Past due over 60 days	4,821	3,440
	74,047	93,421

Management believes that the unimpaired amounts that are past due by more than 30 days are still collectible in full, based on historical payment behaviour and extensive analysis of customer credit risk, including underlying customers' credit ratings if they are available. Major Australian supermarkets, including Coles, Woolworths, Aldi and IGA comprise approximately 39% of the Group's trade debtors at 30 December 2018.

Expected credit loss assessment for trade receivables

The Group uses an allowance matrix to measure the ECLs of trade receivables from individual customers. Loss rates are calculated using combination of estimated potential bad debts for debts past due more than 90 days and actual write-offs in the past three years.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows. Comparative amounts for June 2018 represent the allowance account for bad debt under IAS 39. There were no changes from adoption of AASB 9.

	December 2018 \$ '000	June 2018 \$ '000
Opening balance at 2 July 2018	(435)	(538)
Impairment loss (recognised)/reversed	(381)	(144)
Amounts written off	138	247
Closing balance at 30 December 2018	(678)	(435)

(d) Capital management

The primary objective of the Group's capital management is to maintain investor, creditor and market confidence and a strong credit rating and healthy capital ratios to support its business and maximise shareholder value. Capital includes equity attributable to the equity holders of the parent.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

Various financial ratios and internal targets are assessed and reported to the Board on a regular basis by management to monitor and support the key objectives as set out above. These ratios and targets include;

- an earnings to net interest expense ratio;
- a total net indebtedness to earnings ratio; and
- adjusted earnings to interest expense ratio.

C7. Capital and leasing commitments

(a) Operating lease commitments

Non cancellable operating leases contracted for but not capitalised in the financial statements:

	December 2018 \$ '000	June 2018 \$ '000
Payable		
– not later than one year	48,962	45,386
– later than one year and not later than five years	178,016	162,394
– later than five years	278,556	246,514
	505,534	452,294

Operating lease commitments are in relation to property rentals and various rentals of plant and equipment.

(b) Bank guarantees

The Group maintains bank guarantees of \$12,496,620 (June 2018: \$11,537,591).

In addition to the above, bank guarantees of \$2.5 million are committed in relation to an overdraft facility for the Driscoll's Australia joint venture.

(c) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Finance leases

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the Group are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. The interest expense is calculated using the interest rate implicit in the lease and is included in finance costs in the statement of profit and loss and other comprehensive income. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the group will obtain ownership of the asset, or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Operating leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as an expense on a straight line basis over the term of the lease.

Lease incentives received under operating leases are recognised as a liability and amortised on a straight line basis over the life of the lease term.

AASB 16 replaces existing lease guidance, including AASB 117 Leases. The standard is effective for annual periods beginning on or after 1 January 2019. Further details of the Group's assessment and position of the standard is disclosed in Note E3.

D. Group Structure

D1. Joint ventures and associates

(a) Details of Associates and Joint Ventures

	Equity instrument	Ownership interest December 2018 %	Ownership interest June 2018 %	Measurement basis	Principal place of business and country of incorporation
Associates					
Polar Fresh Partnership	Ordinary shares	50	50	Equity Accounted	Victoria, Australia
Joint Ventures					
Driscoll's Australia Partnership	Ordinary shares	50	50	Equity Accounted	Victoria, Australia

(b) Summarised financial information for associates and joint ventures

	Polar Fresh Partnership \$ '000	Driscoll's Australia Partnership \$ '000	Total \$ '000
Reconciliation of carrying amount in joint ventures and associates:			
Opening balance at 2 July 2018	92	11,310	11,402
Total share of profit/(loss)	-	4,119	4,119
Dividends paid	-	(1,100)	(1,100)
Closing balance at 30 December 2018	92	14,329	14,421

(a) Polar Fresh Partnership

The Polar Fresh Partnership is a provider of cold storage, warehousing and distribution solutions. As disclosed in prior year annual report, Polar Fresh Partnership's final contract was completed in October 2017 and operations have now ceased and is in the process of winding down.

(b) Driscoll's Australia Partnership

In 2010, the Group entered into a partnership with Driscoll's Strawberry Associates Inc. to form Driscoll's Australia Partnership, which is an Australian berry marketing business. The majority of the Group's Australian grown berries are marketed in Australia through the Driscoll's brand. In the 6 months ended December 2018, gross sales revenue for the Driscoll's Australia Partnership was \$237,748,097 (FY2018: \$421,428,603), and net assets were \$28,659,130 (June 2018: \$22,620,736).

Recognition and measurement

Investments in joint ventures

Investments in joint ventures are accounted for using the equity method of accounting.

Investments in associates

Investments in entities over which the Group has the ability to exercise significant influence, but not control, are accounted for using equity method of accounting. The investment in associates is carried at cost plus post-acquisition changes in the Group's share of the associates' net assets, less any impairment in value.

D2. List of subsidiaries

The following are the Group's significant subsidiaries:

Subsidiaries of Costa Group Holdings Ltd:	Country of incorporation	Ownership interest held by the group	
		December 2018 %	June 2018 %
Costa Group Holdings (Finance) Pty Ltd	Australia	100	100
Costa's Pty Ltd	Australia	100	100
ACN 151 702 251 Pty Ltd	Australia	100	100
Costa Exchange Holdings Pty Ltd	Australia	100	100
Costa Asia Pty Ltd (formerly ACN 125 158 741 Pty Ltd)	Australia	100	100
Grape Exchange Management Euston Pty Ltd	Australia	100	100
North Fresh Pty Ltd	Australia	100	100
Vinefresh Pty Ltd	Australia	100	100
Costa Berry International Pty Ltd (formerly Southern Cross Overseas Pty Ltd)	Australia	100	100
CostaExchange Pty Ltd (formerly CostaExchange Ltd)	Australia	100	100
Costa Berry Holdings Pty Ltd	Australia	100	100
Costa Berry Pty Ltd	Australia	100	100
Blueberry Investments Morocco Pty Ltd	Australia	100	100
Raspberry Fresh Pty Ltd	Australia	100	100
CBSPT Pty Ltd	Australia	100	100
FruitExpress Pty Ltd	Australia	100	100
Blueberry Investments Africa Pty Ltd (formerly ACN 057 689 246 Pty Ltd)	Australia	100	100
Exchange Innisfail Pty Ltd	Australia	100	100
FreshExchange Pty Ltd	Australia	100	100
Yandilla Park Pty Ltd	Australia	100	100
East African Coffee Plantations Pty Ltd	Australia	100	100
AgriExchange Pty Ltd	Australia	100	100
Vitor Marketing Pty Ltd	Australia	100	100
AgriExchange Farm Management Pty Ltd	Australia	100	100
Mushroom Holdings Exchange Pty Ltd	Australia	100	100
Mushroom Exchange Pty Ltd	Australia	100	100
Costa Fresh Logistics Pty Ltd	Australia	100	100
Tomato Exchange Pty Ltd	Australia	100	100
Grape Exchange Farming Pty Ltd	Australia	100	100
Grape Exchange Farming Mundubbera Pty Ltd	Australia	100	100
Grape Exchange Pty Ltd	Australia	100	100
Costa Group Finance Pty Ltd	Australia	100	100
Costa Farms Pty Ltd	Australia	100	100
Costa Logistics Pty Ltd	Australia	100	100
AgriExchange Murtho Pty Ltd	Australia	100	100
Hillston Investments Pty Ltd	Australia	100	100
Banana Exchange Pty Ltd	Australia	100	100
Innisfail Holdings Pty Ltd	Australia	100	100
Exchange Brisbane Pty Ltd	Australia	100	100
Costa Asia Ltd	Hong Kong	100	100
Costa China (Hong Kong) Ltd	Hong Kong	70	70
Costa (Honghe) Fruit Planting Co. Ltd	China	70	70
Costa (Yunnan) Agricultural Development Co. Ltd	China	70	70
African Blue S.A.	Morocco	86	86
Sweet Berry	Morocco	86	86
Blue Flavor	Spain	77	77

Notes to the Consolidated Financial Statements continued

D3. Related party disclosures

(a) Transactions with associates and joint ventures

The Group transacted with jointly controlled entities during the 6 months ended December 2018 as follows:

- Driscoll's Australia Partnership – Commission paid on sale of berries \$11,231,680 (FY2018: \$21,691,745)
- Driscoll's Australia Partnership – Sales of produce \$91,262,986 (FY2018: \$166,354,252)
- Driscoll's Australia Partnership – Logistic services \$1,661,128 (FY2018: \$2,166,021)
- Driscoll's Australia Partnership – Receivable of \$18,681,318 (FY2018: \$6,834,103) for sale of produce and logistic services
- Driscoll's Australia Partnership – Dividends received amounting to \$1,100,000 (FY2018: \$4,350,000)

(b) Transactions with key management personnel of the entity or its parent and their personally related entities

Mr Frank Costa (Director)

Payment of leasing fee to Frank Costa paid by Costa's Pty Ltd for 1111 Aviation Road, Werribee of AUD \$1 (FY2018: AUD \$1). This property is leased to Costa's Pty Ltd until 2076 at AUD \$1 per annum and is subleased to an unrelated third party on standard commercial terms, with an arms-length commercial rent payable to Costa's Pty Ltd. The Board considers this arrangement to be beneficial, given that it generates revenue greater than the expenses that are incurred in respect of the property.

	December 2018 \$ '000	June 2018 \$ '000
Key Management Personnel		
Compensation received by key management personnel of the Group:		
– Short-term employee benefits	1,446	3,281
– Post-employment benefits	67	127
– Other monetary benefits	4	11
– Long-term employee benefits	23	38
– Share-based payment benefits	467	775
	2,007	4,232

D4. Parent entity disclosures

(a) Summarised presentation of the parent entity, Costa Group Holdings Ltd

	December 2018 \$ '000	June 2018 \$ '000
Assets		
Current assets	256	171
Non-current assets	480,744	506,998
Total assets	481,000	507,169
Liabilities		
Current liabilities	3,316	15,928
Non-current liabilities	59,978	43,635
Total liabilities	63,294	59,563
Net assets	417,706	447,606
Equity		
Contributed equity	404,721	403,410
Profit reserve	53,408	83,493
Share-based payment reserve	10,874	12,000
Accumulated losses	(51,297)	(51,297)
Total equity	417,706	447,606

(b) Summarised statement of comprehensive income

	December 2018 \$ '000	June 2018 \$ '000
Profit/(Loss) for the period	(2,895)	76,055
Total comprehensive profit/(loss) for the period	(2,895)	76,055

(c) Parent entity guarantees in respect of debts of its subsidiaries

The parent entity has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of certain subsidiaries. Further details of the Deed of Cross Guarantee and the subsidiaries subject to the Deed are disclosed in Note D5.

D5. Deed of cross guarantee

The wholly owned subsidiaries listed in Note D2 (excluding Hillston Investments Pty Ltd and Innisfail Holdings Pty Ltd) are parties to a deed of cross guarantee under which each company guarantees the debts of the others. These parties to the deed of cross guarantee consist of only the Australian wholly owned subsidiaries.

Pursuant to ASIC Corporations (*Wholly-owned Companies*) Instrument 2016/785, the wholly-owned subsidiaries listed in Note D2 (excluding Hillston Investments Pty Ltd and Innisfail Holdings Pty Ltd) are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports, and Directors' report.

A consolidated statement of profit or loss and other comprehensive income and a consolidated statement of financial position for the 6 months ended 30 December 2018, comprising the above listed parties to the deed which represent the "closed group", are set out below:

(a) Consolidated Statement of Comprehensive Income of the closed group

	6 months to December 2018 \$ '000	12 months to June 2018 \$ '000
Revenue	474,389	957,707
Less: Expenses	(468,951)	(837,714)
Share of net profits of associates and joint ventures accounted for using the equity method	4,119	6,818
Profit before income tax expense	9,557	126,811
Income tax expense	(2,110)	(24,259)
Profit for the period	7,447	102,552
Other comprehensive income/(loss) for the period		
Cash flow hedges – reclassified to profit or loss	39	-
Cash flow hedges – effective portion of changes in fair value	(47)	(635)
Total other comprehensive income/(loss) for the period	(8)	(635)
Total comprehensive income for the period	7,439	101,917

The presentation of the above have been updated to be consistent with the consolidated statement of profit and loss and other comprehensive income of the Group and as a result, comparative for June 2018 is updated accordingly. There is no change in the underlying values.

Notes to the Consolidated Financial Statements continued

(b) Consolidated Statement of Financial Position of the closed group

	December 2018 \$ '000	June 2018 \$ '000
ASSETS		
Current assets		
Cash and cash equivalents	38,951	31,582
Receivables	131,420	134,660
Inventories	21,076	21,729
Biological assets	39,241	47,663
Other assets	6,731	7,496
Total current assets	237,418	243,130
Non-current assets		
Receivables	1,850	-
Other financial assets	125,361	120,981
Equity accounted investments	14,421	11,402
Intangible assets	142,519	145,250
Deferred tax assets	3,266	3,583
Property, plant and equipment	345,402	310,137
Total non-current assets	632,819	591,353
Total assets	870,237	834,483
LIABILITIES		
Current liabilities		
Payables	116,044	98,154
Provisions	17,323	16,461
Other financial liabilities	415	369
Current tax liabilities	(4,479)	12,017
Total current liabilities	129,303	127,001
Non-current liabilities		
Borrowings	280,300	228,125
Provisions	9,662	9,665
Other financial liabilities	252	267
Total non-current liabilities	290,214	238,057
Total liabilities	419,517	365,058
NET ASSETS	450,720	468,425
EQUITY		
Share capital	404,721	404,721
Other equity reserve	(11,558)	(11,558)
Other reserves	10,231	11,367
Profit reserve	105,992	110,107
Accumulated losses	(58,666)	(45,212)
Total equity	450,720	469,425

D6. Acquisition of subsidiary

There have been no business acquisitions for the period ended 30 December 2018.

Acquisition of African Blue SAR

On 27 November 2017, the Group acquired an 86% interest in African Blue SAR (African Blue). The group had provisionally accounted for this transaction in June 2018, which has now been finalised.

The final acquisition accounting resulted in a \$1.1m increase to goodwill recognised on acquisition, predominately attributable to non-current assets. This finalisation had no impact to the consolidated income statement and other comprehensive income.

(a) Consideration transferred

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

	\$'000
Cash	68,551
Total consideration	68,551

(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 three years from acquisition date, 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 against 'general reserve' in equity. The fair value of the put option recognised on acquisition was \$9.1m. The value as at 30 December 2018 has reduced to \$6.8m. Any subsequent changes to the fair value of these options will be recognised in equity in accordance with Costa's policy on accounting for such options.

(c) Acquisition related costs

In FY18, the Group incurred acquisition related costs of \$3.5m 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 as disclosed in note A3.

(d) Identifiable assets acquired and liabilities assumed

The following table summarises the recognition amounts, the revised and final acquired assets and liabilities assumed since date of acquisition:

	Final \$'000	Provisional \$'000
27 November 2017		
Property, plant and equipment	22,017	23,044
Intangible assets	18,586	18,586
Other assets	1,911	1,911
Inventories	1,468	1,658
Receivables	7,448	7,683
Biological assets	3,263	3,263
Cash and cash equivalents	11,141	11,141
Borrowings	(2,118)	(2,118)
Payables	(11,243)	(11,243)
Dividends payable	(7,357)	(7,357)
Contingent liabilities	(174)	(174)
Deferred tax liability	(4,081)	(4,240)
Total identifiable net assets acquired	40,860	42,154

Notes to the Consolidated Financial Statements continued

(i) Measurement of fair values

The measurement valuation techniques used for measuring the fair value of material assets acquired were as follows:

Asset Acquired	Valuation technique
Property, plant and equipment (Bearer assets)	The valuation model considers cost of acquiring the plants as well as any directly attributable cost incurred for planting. These include soil preparation, labour, cost of pots and pelemix for substrate planting. From thereon, the aging profile of the plants are estimated and have also been taken into consideration to arrive at the final valuations.
Intangible assets (customer relationships, reacquired rights and African Blue brand name)	Relief-from-royalty method ("RRM") and multi-period excess earnings method ("MEEM"): RRM method considers the discounted estimated royalty payments that are expected to be avoided as a result of rights and brand being owned. MEEM method considers the present value of net cash flows expected to be generated by the customer relationship, by excluding any contributory assets.

(e) Goodwill

Goodwill arising from the acquisition has been recognised as follows:

	Final \$'000	Provisional \$'000
Consideration transferred	68,551	68,551
Non-controlling interest based on their proportionate interest in the recognised amounts of the assets and liabilities of African Blue	5,720	5,901
Fair value of pre-existing interest in African Blue	67,247	67,247
Fair value of net identifiable net assets	(40,860)	(42,154)
Goodwill	100,659	99,545

Goodwill primarily comprises the skills and technical talent of African Blue's workforce and the synergies expected to be achieved from integrating the company into the Group's operations and existing governance and risk mitigating practices. Goodwill is not deductible for tax purposes.

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

The fair value of pre-existing interest in African Blue is adjusted for any control premium paid on acquisition and has not changed since prior year.

	Final \$'000
Fair value of 49% interest (adjusted for control premium)	67,247
Carrying value of the equity-accounted investee	(18,930)
Gain of fair value of investment	48,317

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 in FY18. The fair value of \$67.2m has been adjusted for any control premium paid on the current transaction.

E. Other

E1. Share-based payments

	December 2018 \$'000	June 2018 \$'000
Share-based payments reserve	10,874	12,000

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

Share-Based Payment Plan – Employee Share Option Plan

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

During the 6 months ended December 2018, a total of 784,762 options (FY2018: 1,706,229) have been granted to key management personnel and the executive team under new option plans. 38,164 of these were subsequently forfeited.

The Group also granted 75,498 (FY2018: 142,689) performance rights to key management personnel and the executive team during the 6 months ended December 2018, associated with the 2018 short term incentive plan.

Recognition and measurement

The Group provides benefits to its employees and Directors in the form of share-based payment transactions, whereby services are rendered in exchange for shares or options ("equity-settled transactions").

The fair value of options and performance rights is recognised as an expense with the corresponding increase in equity (share-based payments reserve). The fair value is measured at grant date and recognised over the period during which the holder becomes unconditionally entitled to the options and performance rights.

Measurement of Fair Values

The fair value of the options issued under this Option Plan was measured on using a Binomial tree pricing model. The inputs used in the measurement of the fair values at grant date of the options were as follows:

Employee share option programs	December 2018		June 2018	
	KMP and executives		KMP and executives	
Grant date	23/08/2018	22/11/2018	9/10/2017	24/08/2017
Number issued	739,975	44,787	265,151	1,441,078
Fair value at grant date	\$2.79	\$1.33	\$1.51	\$1.37
Share price at grant date	\$8.74	\$6.59	\$5.40	\$5.62
Exercise price	\$6.58	\$6.58	\$4.82	\$4.82
Expected volatility	30%	30%	30%	30%
Expected dividend yield	2.20%	2.20%	2.50%	2.50%
Risk-free rate	2.06%	2.14%	2.10%	2.21%

The expected volatility has been based on an evaluation of the historical volatility using comparable companies to the Group. The Group has accounted for the options as equity settled share based payments.

The fair value of the performance rights issued under this STI plan was based on the 10 day market volume weighted average price of the shares of Costa Group Holdings Ltd ending on 22 August 2018. Details are as follows:

Employee performance rights program	December 2018	June 2018
	KMP and executives	KMP and executives
Numbers issued	75,498	142,689
Fair value at grant date	8.38	4.88

Reconciliation of outstanding share options

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

	December 2018		June 2018	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Opening balance	4,798,546	\$3.46	5,877,223	\$2.63
Disposed for cash or settled for shares during the year	-	-	(2,534,524)	\$2.53
Forfeited during the year	(166,591)	-	(250,382)	-
Granted during the year	784,762	\$6.58	1,706,229	\$4.82
Closing balance	5,416,717	\$4.02	4,798,546	\$3.46
Exercisable at year end	1,028,848	\$2.55	1,028,848	\$2.55

The options outstanding as at 30 December 2018, which have not been vested, have an average exercise price of \$4.06 (June 2018: \$3.70).

Notes to the Consolidated Financial Statements continued

E2. Taxation

	6 months to December 2018 \$ '000	12 months to June 2018 \$ '000
(a) Components of tax expense		
Current tax	5,246	27,442
Deferred tax	(2,140)	(351)
Under/(Over) provision in prior years	(1,076)	55
	2,030	27,146
Profit before income tax	5,967	144,924
Prima facie income tax expense on profit before income tax at 30.0%	1,790	43,477
– Effect of tax rates in foreign jurisdictions ¹	730	(1,304)
Tax effect of:		
– non-deductible expenses	1,164	1,942
– deferred tax asset previously not recognised	-	(1,081)
– non-creditable foreign withholding tax	(515)	774
– under/(over) provision in prior years	(1,076)	55
– research and development tax credits	-	(710)
– non-assessable income	(63)	(15,302)
– deductible/(non-deductible) share plan trust payments	-	(705)
Income tax expense attributable to profit	2,030	27,146

	December 2018 \$ '000	June 2018 \$ '000
(c) Current tax		
Current tax relates to the following:		
<i>Current tax liabilities/(assets)</i>		
Opening balance	12,709	17,561
Current year tax expense	5,246	27,442
Tax payments	(16,986)	(28,567)
Tax provision acquired from business combination	-	895
Foreign withholding tax credits claimable	(319)	(180)
Over provisions	(3,616)	(1,170)
Share plan payments – tax effect recognised through equity	(50)	(3,272)
Closing balance	(3,016)	12,709

	December 2018 \$ '000	June 2018 \$ '000
(d) Deferred tax		
Deferred tax relates to the following:		
Deferred tax assets		
The balance comprises:		
Provisions	8,299	7,969
Trade and other payables	3,821	2,917
Inventories	39	-
Capital (black hole) deductions (section 40-880)	2,899	3,986
Borrowings	73	92
Equity Accounted Investments	588	553
Other financial liabilities	9	190
Future deductible share plan trust payment – tax effect through equity	4,831	5,759
Tax losses – foreign subsidiaries	239	-
	20,798	21,466
Deferred tax liabilities		
The balance comprises:		
Biological assets	9,421	12,478
Property, plant and equipment	3,413	1,076
Intangible assets	3,432	4,315
Trade and other receivables	2,578	700
Other financial assets	-	1
	18,844	18,570
Net deferred tax assets	1,954	2,897
(e) Deferred tax expense included in income tax comprises		
(Increase)/decrease in deferred tax assets	(339)	1,224
Increase/(decrease) in deferred tax liabilities	(1,801)	(1,575)
	(2,140)	(351)
(f) Deferred tax movement		
Opening balance – net deferred tax asset	2,897	3,518
Over provision in prior years	(2,512)	(1,279)
Increase in deferred tax asset recognised in profit or loss	2,140	351
Increase/(decrease) in deferred tax liability as a result of acquisitions ²	382	(5,452)
Increase/(decrease) in deferred tax asset recognised in equity	(928)	5,759
FX revaluation	(25)	-
Closing balance – net deferred tax asset	1,954	2,897

1. Losses incurred in foreign jurisdictions with tax rates lower than 30% will result in an increasing tax effect to reflect the actual tax benefit available at a tax rate less than 30%.

2. Includes intangibles acquired as part of the African Blue acquisition and other farm acquisitions that are not material.

The Group's franking account balance as at 30 December 2018 is \$17,877,899 (1 July 2018: \$12,495,941).

Recognition and measurement

Current income tax expense or benefit is the tax payable or receivable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

Deferred tax assets and liabilities are recognised for temporary differences at the applicable tax rates when the assets are expected to be recovered or liabilities are settled. No deferred tax asset or liability is recognised in relation to temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Notes to the Consolidated Financial Statements continued

Tax Consolidation

The parent entity Costa Group Holdings Ltd and its subsidiaries have implemented the tax consolidation legislation and have formed a tax consolidated Group. The parent entity and subsidiaries in the tax consolidated Group have entered into a tax funding agreement such that each entity in the tax consolidated Group recognises the assets, liabilities, expenses and revenues in relation to its own transactions, events and balances only. This means that:

- the parent entity recognises all current and deferred tax amounts relating to its own transactions, events and balances only;
- the subsidiaries recognise current or deferred tax amounts arising in respect of their own transactions, events and balances; and
- current tax liabilities and deferred tax assets arising in respect of tax losses are transferred from the subsidiary to the head entity as inter-company payables or receivables.

The tax consolidated Group also has a tax sharing agreement in place to limit the liability of subsidiaries in the tax consolidated Group arising under the joint and several liability requirements of the tax consolidation system, in the event of default by the parent entity to meet its payment obligations.

Critical accounting estimate and judgement

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.

E3. New accounting standards

Recently issued or amended Accounting Standards

The following relevant Australian Accounting Standards and Interpretations have been issued or amended but are not yet effective and the Group has not yet adopted them:

- AASB 16 Leases
- AASB 17 Insurance Contracts
- AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- AASB 2017-4 Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments
- AASB 2017-6 Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation
- AASB 2017-7 Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures
- AASB 2018-1 Amendments to Australian Accounting Standards – Annual Improvements 2015-2017 Cycle
- AASB 2018-2 Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement
- AASB 2017-1 Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments
- AASB 2016-6 Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts
- Interpretation 23 Uncertainty over Income Tax Treatments
- AASB 1059 Service Concession Arrangements: Grantors

The Group is currently assessing the impact of these standards on its financial position and performance.

AASB 16 Leases

The Group is required to adopt AASB 16 Leases from 1 January 2019. The Group's new IT system in relation to lease accounting and management has been implemented from 31 December 2019 (Costa's new financial year in accordance with the calendar year) and is currently running. The estimated impact that initial application of AASB 16 will have on its consolidated financial statements is described below.

This estimate is subject to change as the Group continues to improve on its new system and policies until the Group presents its interim financial statements as at June 2019 that include the date of initial application.

AASB 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases.

a. Leases in which the Group is lessee

The Group will recognise new assets and liabilities for its operating leases of property, vehicle and office equipment. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

In addition, the Group will no longer recognise provision for operating leases that it assesses to be onerous as described in Note B9. Instead, the Group will include the payments due under the lease in its lease liabilities.

No significant impact is expected for the Group's finance leases.

Based on the information currently available, the Group estimates that it will recognise additional right of use assets and lease liabilities in the range of \$300 million to \$320 million as at 31 December 2018. The Group does not expect the adoption of AASB 16 to affect its ability to comply with its loan covenants.

b. Leases in which the Group is a lessor

The Group will reassess the classification of sub-leases in which the Group is a lessor. Based on information currently available, the Group does not expect significant impact for leases in which the Group is a lessor.

c. Transition

The Group plans to apply AASB 16 initially on 31 December 2018, using the modified retrospective approach. Therefore, there is no difference recognised in retained earnings on date of initial application of the standard as the Group adopted the approach whereby the right-of-use assets are initially measured equal to the lease liability.

d. Alternative performance measures (APMs)

The Group expects the APMs as disclosed in the Non-IFRS measures of the Directors' Report will need to be amended or extended for impact of the new standard above. Current proposed APMs are as follows:

Amended Non-IFRS Financial measures	Description
EBITDA before SGARA & Lease (EBITDA-SL)	EBITDA before fair value movements in biological assets and movement in lease liability attributable to AASB 16.
NPAT before SGARA & Lease (NPAT-SL)	Net profit attributable to members of Costa before fair value movements in biological assets, movement in lease liability, and depreciation of right-of-use assets attributable to AASB 16.

The Group is currently assessing the impact of the requirements on the Group's Consolidated Financial Statements; however, the impact is expected to materially 'gross-up' the Group's Consolidated Statement of Financial Position impacting key financial ratios. As the project develops further, quantitative and qualitative disclosure will be provided.

E4. Auditor's remuneration

	December 2018 \$'000	June 2018 \$'000
Audit and review services		
Services provided by KPMG Australia	310	395
Services provided by associate firms of KPMG Australia	83	161
	393	556
Other services provided by KPMG Australia		
Taxation compliance and other taxation advisory services (including R&D)	165	248
Other services	12	10
	177	258
Total remuneration of KPMG	570	814

E5. Other accounting policies

Research and development expenditure

Expenditure on research activities is recognised as an expense when incurred.

Expenditure on development activities is capitalised only when technical feasibility studies demonstrate that the project will deliver future economic benefits and these benefits can be measured reliably. Capitalised development expenditure is stated at cost less accumulated amortisation.

Amortisation is calculated using the straight line method to allocate the cost of its estimated useful life commencing when the intangible asset is available for use.

Other development expenditure is recognised as an expense when incurred.

Notes to the Consolidated Financial Statements continued

Bonus plan

The Group recognises a provision when a bonus is payable in accordance with the employee's contract of employment, and the amount can be reliably measured.

Government grants

Government grants are initially recognised as deferred income at fair value when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Subsequently, they are recognised in the statement of comprehensive income to offset the applicable expenses incurred by the Group as stated in the provisions of the government grant.

E6. Change in accounting policies

AASB 15 Revenue from Contracts with Customers

The Group has adopted AASB 15 Revenue from Contracts with Customers from the start of the financial period. Consistent with disclosure made in the prior year, existing policy and practice is in line with the new standard with exception of classification of certain export claims and rebates.

Export claims and rebates

The Group previously recognised export claims provision and rebates based on historical estimates as part of expenses. Under AASB 15, the Group is required to reduce revenue by the expected amount of claims and rebates and as a result, the claims provision and rebate is reclassified to net at revenue line in the consolidated statement of profit and loss and other comprehensive income. The Group continues to estimate the amount of claims and rebates based on historical data.

Transition

The Group has applied AASB 15 using the cumulative effect method by recognising the cumulative effect of initially applying AASB 15 as an adjustment to the opening balance of equity. As a result, the comparative information has not been restated and continues to be reported under AASB 118.

For the period ended 30 December 2018	As reported under AASB 118 \$'000	Impact of changes in accounting polices Adjustments \$'000	As reported under AASB 15 \$'000
Revenue	479,609	(2,005)	477,604
	479,609	(2,005)	477,604
Less: expenses			
Raw materials, consumables and third party purchases	(154,398)	2,005	(152,393)
Other expenses	(323,363)	-	(323,363)
	(477,761)	-	(475,756)
Share of net profits of associates and joint ventures accounted for using the equity method	4,119	-	4,119
Profit before income tax expense	5,967	-	5,967
Income tax expense	(2,030)	-	(2,030)
Profit for the period	3,937	-	3,937
Total comprehensive income	7,949	-	7,949

AASB 9 Financial Instruments

The Group has adopted AASB 9 Financial Instruments from the start of the financial period. As disclosed in prior year, there is no material impact from adoption of the new standard. The Group has adopted the following new policies in accordance with the standard:

(i) Introduction of new classifications for financial assets and liabilities under AASB 9 as disclosed in note C6. The following table summarises the changes:

\$'000	Original Classification under AASB 139	New classification under AASB 9	Original carrying amount under AASB 139	New carrying amount under AASB 9
Trade and other receivables	Loans and receivables	Amortised costs	92,510	92,510
Cash and cash equivalents	Loans and receivables	Amortised costs	45,802	45,802
Non-current receivable	Loans and receivables	Amortised costs	2,210	2,210
Interest rate swap	Cash flow hedge	Cash flow hedge	(251)	(267)
Forward exchange contracts	Cash flow hedge	Cash flow hedge	(415)	(368)
Shares in other corporations	FVTPL	FVTPL	244	244

(ii) practical expedient for low credit risk financial assets, which allow impairment of trade receivables balances to be measured using an expected credit loss model. The Group utilises a provision matrix using the ageing profiles of trade receivables balances and applies an expected default rate based on its historical observed default rate, adjusted for forward looking estimates.

(iii) the new general hedge accounting model under IFRS 9. The Group ensures that hedge accounting relationships are aligned with its risk management objectives and strategy and applies both quantitative, qualitative and forward-looking approach to assessing hedge effectiveness.

Directors' Declaration

Directors' Declaration

1. In the opinion of the Directors of Costa Group Holdings Ltd ("the Company"):

- (a) the consolidated financial report and notes A1 to E6 and the Remuneration Report in the Directors' Report, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 December 2018 and of its performance, for the financial period ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. There are reasonable grounds to believe that the Company and the Group entities identified in Note D5 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those Group entities pursuant to ASIC Corporations (Wholly owned Companies) Instrument 2016/785.

3. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the 6 months ended 30 December 2018.

4. The Directors draw attention to the "Overview" section of the consolidated financial report, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:

Dated at Melbourne 26th day of February 2019.



Harry Debney
Managing Director & CEO



Neil Chatfield
Chairman



Independent Auditor's Report

To the shareholders of Costa Group Holdings Ltd

Report on the audit of the Financial Report

Opinion

We have audited the **Financial Report** of Costa Group Holdings Ltd (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 30 December 2018 and of its financial performance for the period beginning 2 July 2018 and ending 30 December 2018; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The Financial Report comprises:

- *Consolidated statement of financial position* as at 30 December 2018
- *Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows* for the period beginning 2 July 2018 and ending 30 December 2018
- Notes including a summary of significant accounting policies
- *Directors' Declaration*.

The **Group** consists of Costa Group Holdings Ltd (the Company) and the entities it controlled at the *period* end or from time to time during the financial period beginning 2 July 2018 and ending 30 December 2018.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with *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* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.



Key Audit Matters

The **Key Audit Matters** we identified are:

- Valuation of biological assets
- Recoverability of goodwill

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of biological assets (\$48.3m)

Refer to note B6. Biological Assets

The key audit matter	How the matter was addressed in our audit
<p>Biological assets consist of un-harvested agricultural produce and are recorded at their fair value, which entails an assessment of expected future cash outflows and inflows. This is a key audit matter due to the judgment required by us in considering the complexities and assumptions adopted by the Group in its biological assets valuation model.</p> <p>The areas involving significant judgment by us in evaluating and assessing assumptions included:</p> <ul style="list-style-type: none"> • Yield expectations: the Group has a portfolio of product categories each with unique agricultural characteristics bringing a variety of factors relating to growth patterns and yield per hectare into consideration. • Extent of biological advancement: the crops are seasonal in nature and, at valuation date, are at various stages in the development cycle. • Expectations of future market pricing: pricing for each product category fluctuates based on quality and supply. Final prices are negotiated when the produce is ready for sale, which may be some time from valuation date. 	<p>Our procedures included:</p> <ul style="list-style-type: none"> • assessing the design and implementation over key controls in the review of the biological asset models • performing analytical procedures, including comparing the assumptions to historical and current trends and, where possible, actual outcomes in subsequent periods • performing site visits on a sample basis, inspecting the actual biological advancement and comparing this to the assumptions in the model • analysing expected pricing in comparison with prior periods and using our knowledge of the business and market conditions • assessing previous forecasting accuracy to evidence the precision of the Group's forecasting and identifying particular areas where there may be a higher risk of inaccuracies or bias • evaluating the consistency of key assumptions within the biological asset valuation models against those used in the goodwill impairment testing • assessing the specific disclosures required for biological assets in the financial report by considering the requirements of relevant accounting standards.



<ul style="list-style-type: none"> Environmental factors: the Group's crops are subject to variations in climate conditions and weather events. This creates inherent uncertainty around yield per hectare, prices, quality and estimation of timing of harvest, which must be factored into the assessment of fair value. 	
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Recoverability of goodwill (\$236m)	
Refer to note B8. Intangible Assets	
The key audit matter	How the matter was addressed in our audit
<p>The Group's annual testing of goodwill for impairment was a key audit matter given the size of the balance (being 26% of total assets).</p> <p>We focussed on the significant forward-looking assumptions the Group applied in their value in use models including:</p> <ul style="list-style-type: none"> Forecast operating cash flows impacted by pricing and yield, growth rates and terminal growth rates – the Group's models are sensitive to changes in these assumptions. This drives additional audit effort specific to their feasibility and consistency of application. Discount rate – these are complicated in nature and vary according to the conditions and environment the specific Cash Generating Unit (CGU) is subject to from time to time. We involve our valuation specialists with the assessment. Forecast capital expenditure - The impact of the expansion of the business, including additional investment in the Berry, African Blue 	<p>Our procedures included:</p> <ul style="list-style-type: none"> we considered the appropriateness of the value in use method applied by the Group to perform the annual test of goodwill for impairment against the requirements of the accounting standards assessing the integrity of the value in use models used, including the accuracy of the underlying calculation formulas comparing the forecast cash flows and capital expenditure where relevant and contained in the value in use models to Board approved forecasts assessing the accuracy of previous Group forecasts to inform our evaluation of forecasts incorporated in the models challenging the Group's significant forecast cash flow and growth assumptions. We compared key events to the Board approved plan and strategy. We compared forecast growth rates to published studies of industry trends and expectations, and considered differences for the Group's operations. We used our knowledge of the Group, its past performance, business and customers, and our industry experience checking the consistency of the growth rates to the Group's stated plan and strategy, past performance of the Group, and our experience regarding the feasibility of these in the industry in which they operate working with our valuation specialists, we analysed



and Mushroom categories on estimates of future cash flows.	<p>the Group's discount rates against publicly available data of a group of comparable entities. We independently developed a discount rate range considered comparable using publicly available market data for comparable entities, adjusted by risk factors to the Group and the industry it operates in</p> <ul style="list-style-type: none">• considering the sensitivity of the models by varying key assumptions, such as forecast growth rates and terminal growth rates, pricing, yield and discount rates, within a reasonably possible range. We did this to identify those CGUs at higher risk of impairment and assumptions at higher risk of bias or inconsistency in application and to focus our further procedures• assessing the disclosures in the financial report using our understanding of the matter obtained from our testing and against the requirements of the accounting standards.
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Other Information

Other Information is financial and non-financial information in Costa Group Holdings Ltd's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the *Directors' Report including the Operating and Financial Review and Remuneration Report. The Chairman's Report, Managing Director's Review, Company Profile, Harvest Calendar, Shareholder Information and Corporate Directory* are expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*



- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Costa Group Holdings Ltd for the period beginning 2 July 2018 and ending 30 December 2018, complies with Section 300A of the Corporations Act 2001.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A of the Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in the Directors' report for the period ended 30 December 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

Gordon Sangster
Partner
Melbourne
26 February 2019

Shareholder Information

Twenty Largest Registered Shareholders (as at 13 March 2019)

Rank	Name of Shareholder	Number of Shares	% of Issued Capital
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	117,091,751	36.60
2	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	35,704,843	11.16
3	CITICORP NOMINEES PTY LIMITED	31,664,134	9.90
4	NATIONAL NOMINEES LIMITED	13,688,964	4.28
5	COSTA AFR PTY LTD	11,000,000	3.44
6	COSTA AFR PTY LTD	4,804,382	1.50
7	BNP PARIBAS NOMINEES PTY LTD	3,804,358	1.19
8	BNP PARIBAS NOMS PTY LTD	3,740,845	1.17
9	CITICORP NOMINEES PTY LIMITED	2,357,854	0.74
10	NETWEALTH INVESTMENTS LIMITED	1,851,265	0.58
11	3RD WAVE INVESTORS LTD	1,500,000	0.47
12	MR HARRY DEBNEY	1,334,285	0.42
13	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	1,024,224	0.32
14	UBS NOMINEES PTY LTD	962,590	0.30
15	AMP LIFE LIMITED	843,768	0.26
16	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	788,647	0.25
17	BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	767,200	0.24
18	INVIA CUSTODIAN PTY LIMITED	464,634	0.15
19	CS THIRD NOMINEES PTY LIMITED	401,437	0.13
20	DARRELL JAMES PTY LTD	400,000	0.13

Distribution of Holdings (as at 13 March 2019)

Range	No. of holders	No. of shares	% of issued capital
100,001 and Over	64	243,100,109	75.98%
10,001 to 100,000	1,569	35,970,805	11.24%
5,001 to 10,000	2,145	16,116,054	5.04%
1,001 to 5,000	8,125	21,327,901	6.67%
1 to 1,000	7,085	3,422,449	1.07%
Total	18,988	319,937,318	100.00%

The number of shareholders holding less than a marketable parcel of shares (as at 13 March 2019) is 419 and they hold 25,095 shares.

Substantial Shareholders (as disclosed in substantial holder notices given to the Company at 13 March 2019)

Shareholder	No. of shares	% of issued capital
Bennelong Funds Management Group Pty Ltd	40,000,492	12.5026
Commonwealth Bank of Australia and its related bodies corporate	23,054,319	7.21

Escrow Shares

As at 13 March 2019, there are no shares subject to voluntary escrow arrangements.

Unquoted Securities

As at 13 March 2019, there were 5,238,830 options over unissued shares of Costa Group Holdings Ltd, as described in item 12 of the Directors' Report. These options were held by 17 current and former members of management (including the CEO) and a former director of the Company. All of the unissued shares which are the subject of these options are ordinary shares in the Company, or will be converted into ordinary shares immediately after exercise of the relevant option.

Shares and Voting Rights

All issued shares in the Company are ordinary shares. Voting rights for ordinary shares are:

- on a show of hands, one vote for each shareholder; and
- on a poll, one vote for each fully paid ordinary share.

As at 13 March 2019, there is no current on-market buy-back.

Corporate Directory

Directors

Neil Chatfield (Chairman)
Frank Costa
Harry Debney (CEO)
Tim Goldsmith
Janette Kendall
Peter Margin
Dr Jane Wilson – appointed 1 April 2019

Company Secretary

David Thomas

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Auditor

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Australian Securities Exchange

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

