



# HOT BRAND AWARD USA

*Oyster Bay's consistently strong growth in the world's largest wine market has been applauded by Impact Magazine, who have awarded it Hot Brand Award for the 8th consecutive year.*

— EST 1947 —

## DELEGAT

# Contents

---



<b>1</b>	Executive Chairman's Report
<b>6</b>	Statement of Financial Performance
<b>7</b>	Statement of Other Comprehensive Income
<b>8</b>	Statement of Changes in Equity
<b>10</b>	Statement of Financial Position
<b>12</b>	Statement of Cash Flows
<b>15</b>	Notes to the Financial Statements
<b>20</b>	Directory
<b>21</b>	Notes

---



# Executive Chairman's Report 2018

---

*“Delegat achieved record Operating NPAT in the first half of the 2018 financial year.”*

**JIM DELEGAT**  
EXECUTIVE CHAIRMAN

On behalf of the Board of Directors of Delegat Group Limited, I am pleased to present its operating and financial results for the six months ended 31 December 2017.

## Performance Highlights

---

- Global case sales of 1,377,000.

---

- 10% sales growth in the key North America region.

---

- Record Operating NPAT of \$26.9 million.

---

- Capital investment of \$21.7 million in growth assets including vineyard development and the Hawke's Bay and Marlborough wineries.

---

- Oyster Bay received the 'Hot Brand' award from New York's highly regarded Impact Magazine for an eighth consecutive year.

---

- Oyster Bay Marlborough Chardonnay 2016 received a Gold Medal and 90 points at the San Francisco International Wine Competition 2017.

---

- Oyster Bay Marlborough Pinot Noir 2015 received a Double Gold Medal and 95 points at the San Francisco International Wine Competition 2017.

---

The Group presents its financial statements in accordance with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

To provide further insight into the Group's underlying operational performance, the Group has also included in this report an Operating Performance Report. This Operating Performance Report excludes the impact of fair value adjustments required under NZ IFRS for grapes and derivative instruments. As a fully integrated winemaking and sales operation, Operating Profit includes the fair value adjustment in respect of grapes when packaged wine is sold rather than on harvest of the grapes, and the fair value adjustment on derivative instruments when these foreign exchange contracts and interest rate swaps are realised.

---

The Group has included a reconciliation of Operating Profit to Reported Profit which eliminates from each line in the Statement of Financial Performance the impact of these fair value adjustments<sup>1</sup>.

## Operating Performance

A record Operating NPAT of \$26.9 million was generated compared to \$24.7 million for the same period the previous year. Operating EBIT of \$43.4 million is \$2.0 million higher than for the same period the previous year.

Delegat achieved Operating Revenue of \$136.9 million on global case sales of 1,377,000 in the six month period. Revenue is up \$1.1 million on the same period last year due to the favourable impact of foreign exchange rate changes and increased in-market pricing, partially offset by a 5% decrease in global case sales.

The Group's case sales performance and foreign currency rates achieved are detailed in table 2. In the key North America region, strong case sales growth of 10% was achieved. In the Australia, New Zealand and Asia Pacific region case sales declined 6% based on a return to more typical levels of promotional activity during November and December, compared to the higher levels experienced in the prior year. In the United Kingdom, Ireland and Europe region, case sales declined 20% as in the prior year higher than normal sales were achieved in the first half due to additional promotional activity and customers ordering ahead of price increases. Overall Group case sales declined 5% relative to the prior comparable period, with first half sales volumes expected to account for 50% of forecast full year case sales.

## Operating Performance

TABLE 1

NZ\$ millions	Dec 2017 Actual	Dec 2016 Actual	% change vs 2016
Operating Revenue <sup>1</sup>	136.9	135.8	1%
<b>Operating Gross Profit<sup>2</sup></b>	<b>80.0</b>	<b>76.7</b>	<b>4%</b>
Operating Gross Margin	58%	56%	
Operating Expenses <sup>3</sup>	(36.6)	(35.3)	-3%
<b>Operating EBIT<sup>4</sup></b>	<b>43.4</b>	<b>41.4</b>	<b>5%</b>
Operating EBIT % of Revenue	32%	30%	
Interest and Tax	(16.5)	(16.7)	1%
<b>Operating NPAT<sup>4</sup></b>	<b>26.9</b>	<b>24.7</b>	<b>9%</b>
Operating NPAT % of Revenue	20%	18%	
<b>Operating EBITDA<sup>4</sup></b>	<b>50.9</b>	<b>48.5</b>	<b>5%</b>
Operating EBITDA % of Revenue	37%	36%	

Notes:

1. Operating Revenue is before fair value movements on derivative instruments (if gains).

2. Operating Gross Profit is before the net fair value movements on biological produce (harvest adjustment) and the NZ IFRS adjustments excluded in Note 1.

3. Operating Expenses are before fair value movements on derivative instruments (if losses).

4. Operating EBIT, EBITDA and NPAT are before any fair value adjustments.

<sup>1</sup> Operating Performance is a non-GAAP measure and as such does not have a standardised meaning prescribed by GAAP. It may therefore not be comparable to non-GAAP measures presented by other entities.

Operating Gross Margin is up 4% on the same period last year. This is due to the favourable impact of foreign exchange rate changes, the price increase implemented in the United Kingdom from 1 April 2017, and lower cost of sales per case associated with sales of the higher yielding 2016 and 2017 vintages. Operating expenses (before NZ IFRS adjustments) at \$36.6 million are \$1.3 million higher compared to the same period the previous year. This is due to the impact of a stronger New Zealand currency on the translation of off-shore expenditure and an increase in people-related costs.

## NZ IFRS Fair Value Adjustments

In accordance with NZ IFRS, the Group is required to account for certain of their assets at 'fair value' rather than at historic cost. All movements in these fair values are reflected in and impact the Statement of Financial Performance. The Group records adjustments in respect of two significant items at the half-year reporting date, as detailed in table 3:

- **Harvest Provision Release (Grapes)** – Inventory is valued at market value, rather than costs incurred, at harvest. Any fair value adjustment is excluded from Operating Performance for the year, by creating a Harvest Provision. This Harvest Provision is then released through Cost of Sales when inventory is sold in subsequent years. This represents the reversal of prior periods' fair value adjustments in respect of biological produce as finished wine is sold in subsequent years. This adjustment has resulted in a write-down of \$8.9 million for the period (December 2016: write-down of \$8.3 million);

Case Sales and Foreign Currency		TABLE 2	
	Dec 2017 Actual	Dec 2016 Actual	% change vs 2016
Case Sales (000s)			
UK, Ireland and Europe	358	449	-20%
North America (USA and Canada)	568	518	10%
Australia, NZ and Asia Pacific	451	479	-6%
<b>Total Cases</b>	<b>1,377</b>	<b>1,446</b>	<b>-5%</b>
Foreign Currency Rates			
GB£	0.5323	0.5396	1%
AU\$	0.9119	0.9428	3%
US\$	0.7148	0.7132	0%
CA\$	0.8952	0.9438	5%

- Derivative Instruments held to hedge the Group's foreign currency and interest rate exposure. The mark-to-market movement of these instruments at balance date resulted in a fair value write-down of \$1.4 million (December 2016: write-up of \$0.6 million).

The adjustments, net of taxation, amount to a write-down of \$7.5 million (December 2016: write-down of \$5.6 million).

## Reconciliation of Reporting to Operating Performance

Accounting for all fair value adjustments under NZ IFRS, the Group's reported unaudited financial performance for the six months ended 31 December 2017 is reconciled to Operating Profit as detailed in table 4.

## Cash Flow

The Group generated Cash Flows from Operations of \$24.2 million in the current half-year, which is a decrease of \$0.6 million on the same period last year. This decrease is due to financing higher working capital items, primarily in relation to the higher grape intake from the 2017 vintage. A total of \$23.5 million was paid for additional property, plant and equipment during the period, including vineyard developments in New Zealand and the Barossa Valley, and development of the Hawke's Bay and Marlborough wineries, which will provide earnings growth into the years ahead. The Group distributed \$13.1 million to shareholders in dividends. Additional borrowings of \$9.8 million were drawn down to fund the increased capital investment during the six months.

### Impact of Fair Value Adjustments

TABLE 3

NZ\$ millions	2017 Actual	2016 Actual	% change vs 2016
<b>Operating NPAT</b>	<b>26.9</b>	<b>24.7</b>	<b>9%</b>
Operating NPAT % of Revenue	20%	18%	
<b>NZ IFRS Fair Value Items</b>			
Biological Produce (Grapes) <sup>1</sup>	(8.9)	(8.3)	-7%
Derivative Instruments	(1.4)	0.6	n/m <sup>2</sup>
<b>Total Fair Value Items</b>	<b>(10.3)</b>	<b>(7.7)</b>	<b>-34%</b>
Less: Tax	2.8	2.1	34%
<b>Fair Value Items after Tax</b>	<b>(7.5)</b>	<b>(5.6)</b>	<b>-34%</b>
<b>Reported NPAT</b>	<b>19.4</b>	<b>19.1</b>	<b>2%</b>

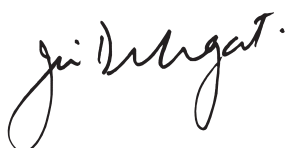
Notes:

1. Biological Produce (Grapes) is the difference between market value paid for grapes versus the cost to grow grapes. The Harvest Provision is reversed and only recognised when the finished wine is sold.
2. n/m means not meaningful.

The Group having secured a \$350.0 million syndicate senior debt facility in 2014 is well positioned to fund both its current operations as well as future capital investment in both New Zealand and Australia. The Group's Net Debt at 31 December 2017 amounted to \$291.3 million, slightly lower than last half-year and well within the Group's long-term bank debt facilities.

## Looking Forward

The results achieved in the six months to December 2017 are testament to the strength of the Group's business model. Delegat Group is well positioned to pursue its strategic goal to build a leading global Super Premium wine company. The Group is on target to achieve global case sales for the full year of 2,782,000, up 5% on last year. The Group forecasts a 2018 operating profit result of at least \$40.7 million, up on last year's record performance by 6%.



**JIM DELEGAT**  
EXECUTIVE CHAIRMAN

**TABLE 4**

### Reconciliation of Reporting to Operating Performance

NZ\$ millions	2017 Actual			2016 Actual		
	Operating	Fair Value Adjustment	Reported	Operating	Fair Value Adjustment	Reported
Revenue	136.9	-	136.9	135.8	0.6	136.4
Cost of Sales	(56.9)	(8.9)	(65.8)	(59.1)	(8.3)	(67.4)
<b>Gross Profit</b>	<b>80.0</b>	<b>(8.9)</b>	<b>71.1</b>	76.7	(7.7)	69.0
Operating Expenses	(36.6)	(1.4)	(38.0)	(35.3)	-	(35.3)
<b>EBIT<sup>1</sup></b>	<b>43.4</b>	<b>(10.3)</b>	<b>33.1</b>	41.4	(7.7)	33.7
Interest and Tax	(16.5)	2.8	(13.7)	(16.7)	2.1	(14.6)
<b>NPAT<sup>2</sup></b>	<b>26.9</b>	<b>(7.5)</b>	<b>19.4</b>	24.7	(5.6)	19.1
EBIT <sup>1</sup>	43.4	(10.3)	33.1	41.4	(7.7)	33.7
Depreciation	7.5	-	7.5	7.1	-	7.1
<b>EBITDA<sup>3</sup></b>	<b>50.9</b>	<b>(10.3)</b>	<b>40.6</b>	48.5	(7.7)	40.8

Notes:

1. EBIT means earnings before interest and tax.

2. NPAT means net profit after tax.

3. EBITDA means earnings before interest, tax, depreciation and amortisation.

# Statement of Financial Performance

	Unaudited Dec 2017 6 Months \$000	Audited June 2017 12 Months \$000	Unaudited Dec 2016 6 Months \$000
Revenue	136,909	252,713	136,374
<b>Profit before finance costs</b>	<b>33,104</b>	70,258	33,691
Finance costs	6,045	13,114	6,862
<b>Profit before income tax</b>	<b>27,059</b>	57,144	26,829
Income tax expense	7,625	16,488	7,688
<b>Profit for the Period attributable to Shareholders of the Parent Company</b>	<b>19,434</b>	40,656	19,141
Earnings Per Share			
– Basic and fully diluted earnings per share (cents per share)	19.22	40.20	18.93

The accompanying notes form part of these financial statements



# Statement of Other Comprehensive Income

	Unaudited Dec 2017 6 Months \$000	Audited June 2017 12 Months \$000	Unaudited Dec 2016 6 Months \$000
Profit after income tax	19,434	40,656	19,141
<i>Other comprehensive income that may subsequently be classified to the profit and loss:</i>			
– Translation of foreign subsidiaries	3,063	(1,271)	(1,415)
– Net (loss) / gain on hedge of a net investment	(1,375)	(232)	162
– Income tax relating to components of other comprehensive income	385	65	(45)
<b>Total comprehensive income for the period, net of tax</b>	<b>21,507</b>	<b>39,218</b>	<b>17,843</b>
Comprehensive income attributable to Shareholders of the Parent Company	21,507	39,218	17,843

# Statement of Changes in Equity

FOR THE PERIOD ENDED 31 DECEMBER 2017 (UNAUDITED)

	Share Capital	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
	\$000	\$000	\$000	\$000
Audited balance at 30 June 2017	49,815	(5,135)	262,389	307,069
<b>Changes in equity for the period ended 31 December 2017</b>				
<i>Other comprehensive income</i>				
– Translation of foreign subsidiaries	–	3,063	–	3,063
– Net loss on hedge of a net investment	–	(1,375)	–	(1,375)
– Income tax relating to components of other comprehensive income	–	385	–	385
Total other comprehensive income	–	2,073	–	2,073
– Net profit for the period	–	–	19,434	19,434
Total comprehensive income for the period	–	2,073	19,434	21,507
<i>Equity Transactions</i>				
– Dividends paid to shareholders	–	–	(13,153)	(13,153)
<b>Unaudited balance at 31 December 2017</b>	49,815	(3,062)	268,670	315,423

# Statement of Changes in Equity continued

## FOR THE YEAR ENDED 30 JUNE 2017 (AUDITED)

	Share Capital	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
	\$000	\$000	\$000	\$000
Audited balance at 30 June 2016	49,815	(3,697)	233,871	279,989
<b>Changes in equity for the year ended 30 June 2017</b>				
<i>Other comprehensive income</i>				
– Translation of foreign subsidiaries	–	(1,271)	–	(1,271)
– Net loss on hedge of a net investment	–	(232)	–	(232)
– Income tax relating to components of other comprehensive income	–	65	–	65
Total other comprehensive income	–	(1,438)	–	(1,438)
– Net profit for the year	–	–	40,656	40,656
Total comprehensive income for the year	–	(1,438)	40,656	39,218
<i>Equity Transactions</i>				
– Dividends paid to shareholders	–	–	(12,138)	(12,138)
<b>Audited balance at 30 June 2017</b>	49,815	(5,135)	262,389	307,069

## FOR THE PERIOD ENDED 31 DECEMBER 2016 (UNAUDITED)

	Share Capital	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
	\$000	\$000	\$000	\$000
Audited balance at 30 June 2016	49,815	(3,697)	233,871	279,989
<b>Changes in equity for the period ended 31 December 2016</b>				
<i>Other comprehensive income</i>				
– Translation of foreign subsidiaries	–	(1,415)	–	(1,415)
– Net gain on hedge of a net investment	–	162	–	162
– Income tax relating to components of other comprehensive income	–	(45)	–	(45)
Total other comprehensive income	–	(1,298)	–	(1,298)
– Net profit for the period	–	–	19,141	19,141
Total comprehensive income for the period	–	(1,298)	19,141	17,843
<i>Equity Transactions</i>				
– Dividends paid to shareholders	–	–	(12,141)	(12,141)
<b>Unaudited balance at 31 December 2016</b>	49,815	(4,995)	240,871	285,691

# Statement of Financial Position

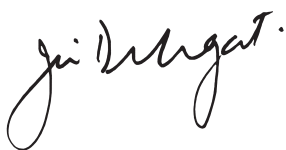
	Unaudited Dec 2017 \$000	Audited June 2017 \$000	Unaudited Dec 2016 \$000
<b>Equity</b>			
Share capital	49,815	49,815	49,815
Foreign currency translation reserve	(3,062)	(5,135)	(4,995)
Retained earnings	268,670	262,389	240,871
<b>Total Equity</b>	<b>315,423</b>	<b>307,069</b>	<b>285,691</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade payables and accruals	21,115	29,324	28,880
Derivative financial instruments	1,942	1,987	1,063
Interest-bearing loans and borrowings	–	–	15,000
Income tax payable	133	3,016	–
	23,190	34,327	44,943
<b>Non-Current Liabilities</b>			
Deferred tax liability	33,706	31,124	32,002
Derivative financial instruments	3,775	3,756	5,952
Interest-bearing loans and borrowings (secured)	295,210	282,513	282,510
	332,691	317,393	320,464
<b>Total Liabilities</b>	<b>355,881</b>	<b>351,720</b>	<b>365,407</b>
<b>Total Equity and Liabilities</b>	<b>671,304</b>	<b>658,789</b>	<b>651,098</b>

The accompanying notes form part of these financial statements

# Statement of Financial Position continued

	Unaudited Dec 2017 \$000	Audited June 2017 \$000	Unaudited Dec 2016 \$000
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	3,897	4,479	5,472
Trade and other receivables	44,875	35,952	55,450
Derivative financial instruments	448	1,822	2,450
Income tax receivable	–	–	1,612
Inventories	124,224	133,680	114,840
	173,444	175,933	179,824
<b>Non-Current Assets</b>			
Property, plant and equipment	493,622	478,675	467,696
Intangible assets	4,225	4,068	3,578
Derivative financial instruments	13	113	–
	497,860	482,856	471,274
<b>Total Assets</b>	<b>671,304</b>	<b>658,789</b>	<b>651,098</b>

For, and on behalf of, the Board who authorised the issue of the financial statements on 23 February 2018.



JN Delegat, Executive Chairman



GS Lord, Managing Director



# Statement of Cash Flows

	Unaudited Dec 2017 6 Months \$000	Audited June 2017 12 Months \$000	Unaudited Dec 2016 6 Months \$000
<b>Operating Activities</b>			
<b>Cash was provided from</b>			
Receipts from customers	133,180	256,192	127,429
Net GST received	693	449	1,326
	133,873	256,641	128,755
<b>Cash was applied to</b>			
Payments to suppliers and employees	95,632	170,603	88,478
Net interest paid	6,446	12,349	5,903
Net income tax paid	7,550	14,470	9,518
	109,628	197,422	103,899
<b>Net Cash Inflows from Operating Activities</b>	<b>24,245</b>	<b>59,219</b>	<b>24,856</b>
<b>Investing Activities</b>			
<b>Cash was provided from</b>			
Proceeds from sale of property, plant and equipment	1,774	1,162	1,147
Dividends received	1	2	2
	1,775	1,164	1,149
<b>Cash was applied to</b>			
Purchase of property, plant and equipment	22,090	40,545	22,453
Purchase of intangible assets	476	585	–
Capitalised interest paid	899	1,459	589
	23,465	42,589	23,042
<b>Net Cash Outflows from Investing Activities</b>	<b>(21,690)</b>	<b>(41,425)</b>	<b>(21,893)</b>

The accompanying notes form part of these financial statements

# Statement of Cash Flows continued

	Unaudited Dec 2017 6 Months \$000	Audited June 2017 12 Months \$000	Unaudited Dec 2016 6 Months \$000
<b>Financing Activities</b>			
<b>Cash was provided from</b>			
Proceeds from borrowings	18,450	33,939	37,982
	18,450	33,939	37,982
<b>Cash was applied to</b>			
Dividends paid to shareholders	13,142	12,132	12,129
Repayment of borrowings	8,636	39,467	27,694
	21,778	51,599	39,823
<b>Net Cash Outflows from Financing Activities</b>	<b>(3,328)</b>	<b>(17,660)</b>	<b>(1,841)</b>
<b>Net (Decrease)/Increase in Cash Held</b>	<b>(773)</b>	<b>134</b>	<b>1,122</b>
Cash and cash equivalents at beginning of the year	4,479	4,425	4,425
Effect of exchange rate changes on foreign currency balances	191	(80)	(75)
<b>Cash and Cash Equivalents at End of the Period</b>	<b>3,897</b>	<b>4,479</b>	<b>5,472</b>

# Statement of Cash Flows continued

	Unaudited Dec 2017 6 Months \$000	Audited June 2017 12 Months \$000	Unaudited Dec 2016 6 Months \$000
<b>Reconciliation of Profit for the Period with Cash Flows from Operating Activities:</b>			
<b>Reported profit after tax</b>	19,434	40,656	19,141
<b>Add/(deduct) items not involving cash flows</b>			
Depreciation expense	7,493	13,791	7,117
Other non-cash items	2,582	(565)	(707)
Gain on disposal of assets	–	(120)	(225)
Movement in derivative financial instruments	1,448	(1,365)	(608)
Movement in deferred tax liability	2,582	2,277	3,155
	14,105	14,018	8,732
<b>Movement in working capital balances are as follows:</b>			
Trade payables and accruals	(8,209)	(1,866)	(2,310)
Trade and other receivables	(8,923)	7,794	(11,704)
Inventories	9,456	(3,070)	15,770
Income tax	(2,883)	(322)	(4,950)
<b>Add items classified as investing and financing activities</b>			
Capital purchases included within trade payables and inventories	1,265	2,009	177
	(9,294)	4,545	(3,017)
<b>Net Cash Inflows from Operating Activities</b>	24,245	59,219	24,856
<b>Reconciliation of movement in Net Debt:</b>			
Opening balance at beginning of the year	278,034	282,723	282,723
Per statement of cash flows:			
– Proceeds/(repayment) of borrowings	9,814	(5,528)	10,288
– Net decrease/(increase) in cash held	773	(134)	(1,122)
Foreign exchange movement	2,615	817	71
Other non-cash movements	77	156	78
<b>Closing balance at end of the Period</b>	291,313	278,034	292,038

The accompanying notes form part of these financial statements

# Notes to the Financial Statements

---

## 1. GENERAL INFORMATION

### REPORTING ENTITY

The financial statements presented are those of Delegat Group Limited and its subsidiaries (the Group). Delegat Group Limited is a company limited by shares, incorporated and domiciled in New Zealand and registered under the Companies Act 1993. The Parent shares are publicly traded on the New Zealand Stock Exchange.

The financial statements for the Group for the six months ended 31 December 2017 were authorised for issue in accordance with a resolution of the Directors on 23 February 2018.

### BASIS OF PREPARATION

The interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP), the requirements of the Companies Act 1993 and the Financial Markets Conduct Act 2013, and NZ IAS 34: Interim Financial Reporting. Accounting policies applied in these interim financial statements comply with New Zealand equivalents to International Financial Reporting Standards, and other applicable Financial Reporting Standards (NZ IFRS) as applicable to the Group as a profit-oriented entity.

The interim financial statements are presented in New Zealand Dollars, rounded to the nearest thousand. They are prepared on a historical cost basis except for derivative financial instruments and biological produce which have been measured at fair value.

The preparation of the interim financial statements in conformity with NZ IAS 34 requires the Group to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may vary from these estimates. The 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 if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

### FINANCIAL INSTRUMENTS

The Group holds interest rate swaps at fair value through the statement of financial performance. In estimating the fair value of the interest rate swaps the Group uses level 2 inputs of the fair value measurement hierarchy. The Group's interest rate swaps fall into level 2 of the fair value measurement hierarchy because their fair value is determined 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). The fair values are derived through valuation techniques that maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

### CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year. Refer to the published financial statements for the year ended 30 June 2017 for a complete listing of the Group accounting policies.

# Notes to the Financial Statements continued

## 2. SEGMENTAL REPORTING

The Group reviews its operational performance based upon the management and the geographic areas in which their customers are based. Financial information which is available to management in order to assess segment performance and investment opportunities is presented on the same basis. In accordance with NZ IFRS 8: Operating Segments this forms the basis of presentation for Segment Reporting and is the format adopted below:

- Delegat Limited (Delegat) is party to vineyard leases and has interests in freehold land and winery infrastructure which allows the company to grow, harvest and make finished wine to be marketed, distributed and sold into the Super Premium wine markets. Delegat sells and markets its product through a combination of subsidiary companies based overseas or to customers and distributors directly in the New Zealand, Canadian, Asian and Pacific Island markets. Delegat Australia Pty Limited, Delegat Europe Limited and Delegat USA, Inc. act as distributors and assist in the marketing of product in their respective geographic regions. Wines are sold all year round to all regions and the Group considers there is no significant variation in revenues throughout the year.

The Group implements appropriate transfer pricing regimes within the operating segments on an arm's length basis in a manner similar to transactions with third parties.

Management monitors the operating results of its business units separately for the purpose of making resource allocations and performance assessments. Segment performance is evaluated based on operating profit or loss, which may be measured differently from operating profit or loss in the consolidated financial statements as segment reporting is based upon internal management reports. The main differences are a result of some deferred tax balances being recognised upon consolidation not being allocated to individual subsidiaries. Also intercompany stock margin eliminations are managed on a group basis and are not allocated to operating segments.

For the 6 months ended 31 December 2017	Delegat Limited	Delegat Australia Pty Ltd	Delegat Europe Limited	Delegat USA, Inc.	Other Segments <sup>9</sup>	Eliminations and Adjustments <sup>10</sup>	6 months ended 31 December 2017
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Operating income</b>							
External sales <sup>7</sup>	29,865	46,664	34,581	47,237	3,110	(24,590)	136,867
Internal sales	110,385	–	–	–	6,647	(117,032)	–
Dividend revenue	7,873	–	–	–	5	(7,869)	9
Interest revenue	1	2	–	–	1,808	(1,778)	33
Total segment revenues <sup>1</sup>	148,124	46,666	34,581	47,237	11,570	(151,269)	136,909
<b>Operating expenses</b>							
Interest expense <sup>2</sup>	7,319	–	–	–	504	(1,778)	6,045
Depreciation <sup>3</sup>	6,589	71	12	32	789	–	7,493
Income tax expense/(credit) <sup>4</sup>	5,911	426	304	391	871	(278)	7,625
<b>Segment profit/(loss)</b>	23,042	977	1,285	546	2,168	(8,584)	19,434
<b>Assets</b>							
Segment assets <sup>5</sup>	623,048	25,617	16,363	23,786	123,816	(141,326)	671,304
Capital expenditure <sup>6</sup>	21,337	–	–	–	928	–	22,265
<b>Segment liabilities</b>	366,410	13,016	13,351	14,452	46,271	(97,619)	355,881



# Notes to the Financial Statements continued

## 2. SEGMENTAL REPORTING (CONTINUED)

For the 6 months ended 31 December 2016	Delegat Limited	Delegat Australia Pty Ltd	Delegat Europe Limited	Delegat USA, Inc.	Other Segments <sup>9</sup>	Eliminations and Adjustments <sup>10</sup>	6 months ended 31 December 2016
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Operating income</b>							
External sales <sup>8</sup>	32,222	46,344	39,010	41,886	1,663	(26,789)	134,336
Internal sales	110,398	–	–	–	5,555	(115,953)	–
Unrealised foreign exchange gains	911	–	65	–	591	(166)	1,401
Fair value movement on derivative instruments	608	–	–	–	–	–	608
Dividend revenue	19	–	–	–	5	–	24
Interest revenue	1	2	–	1	2,637	(2,636)	5
<b>Total segment revenues<sup>1</sup></b>	<b>144,159</b>	<b>46,346</b>	<b>39,075</b>	<b>41,887</b>	<b>10,451</b>	<b>(145,544)</b>	<b>136,374</b>
<b>Operating expenses</b>							
Interest expense <sup>2</sup>	8,713	–	–	–	785	(2,636)	6,862
Depreciation <sup>3</sup>	6,369	67	8	33	640	–	7,117
Income tax expense/(credit) <sup>4</sup>	5,772	352	196	418	1,120	(170)	7,688
<b>Segment profit/(loss)</b>	<b>14,530</b>	<b>809</b>	<b>780</b>	<b>629</b>	<b>2,828</b>	<b>(435)</b>	<b>19,141</b>
<b>Assets</b>							
Segment assets <sup>5</sup>	594,243	27,378	18,687	21,165	124,067	(134,442)	651,098
Capital expenditure <sup>6</sup>	20,049	7	104	26	2,639	–	22,825
<b>Segment liabilities</b>	<b>379,176</b>	<b>16,876</b>	<b>10,528</b>	<b>13,044</b>	<b>37,115</b>	<b>(91,332)</b>	<b>365,407</b>

1. Intersegment revenues are eliminated on consolidation. Intercompany profit margins are also eliminated.

2. Interest expense is net of any interest capitalised to long-term assets. During the period \$899,000 (December 2016: \$589,000) was capitalised to long-term assets.

3. Depreciation expense presented above is gross of \$6,849,000 (December 2016: \$6,519,000) which has been included within inventory.

4. Segment income tax expense does not include the deferred tax impacts of temporary differences arising from intercompany stock margin eliminations or fair value adjustments resulting from the purchase of subsidiary companies as these are managed on a group level.

5. Segment assets include the value of investments and loan balances for subsidiaries which reside in Delegat Limited however do not include the effects of stock margin eliminations for stock on hand in subsidiaries.

6. Capital expenditure consists of additions of property, plant and equipment inclusive of capitalised interest. Capital expenditure is included within each of the reported segment assets noted above.

7. For the six months ended 31 December 2017 Delegat Australia Pty Limited had a single customer which comprised 10% or more of Group sales amounting to \$20,964,000, and Delegat USA, Inc. had a single customer which comprised 10% or more of Group sales amounting to \$23,304,000.

8. For the six months ended 31 December 2016 Delegat Australia Pty Limited had a single customer which comprised 10% or more of Group sales amounting to \$21,352,000.

9. Other segments' assets include non-current assets of Barossa Valley Estate Pty Limited of \$49,400,000 (December 2016: \$44,413,000) which are located in Australia.

10. The eliminations and adjustments of segment profit, assets and liabilities relate to intercompany transactions and balances which are eliminated on consolidation.

# Notes to the Financial Statements continued

## 3. EXPENSES

Expenses by function have been categorised as follows:

	Unaudited Dec 2017 6 Months \$000	Audited June 2017 12 Months \$000	Unaudited Dec 2016 6 Months \$000
Cost of sales	65,800	115,764	67,341
Selling, marketing and promotion expenses	30,338	55,485	30,003
Corporate governance expenses	459	911	417
Administration expenses	5,630	10,295	4,922
Unrealised foreign exchange losses	130	–	–
Fair value movement on derivative instruments	1,448	–	–

# Notes to the Financial Statements continued

---

## **4. ACQUISITION AND DISPOSAL OF ASSETS**

During the six months ended 31 December 2017 the Group incurred total capital expenditure of \$22,265,000 (31 December 2016: \$22,825,000). During the six months ended 31 December 2017 the Group disposed of property, plant and equipment with a net book value of \$1,774,000 (31 December 2016: \$922,000).

## **5. CAPITAL COMMITMENTS**

The estimated capital expenditure contracted for at 31 December 2017 but not provided for is \$11,588,000 (31 December 2016: \$10,730,000).

## **6. EVENTS SUBSEQUENT TO BALANCE SHEET DATE**

On 25 January 2018, Delegat entered into an unconditional agreement to purchase land in the Wairau Valley, Marlborough for total consideration of \$7,150,000.

# Directory

---

## Directors

Jakov Nikola Delegat  
Rosemari Suzan Delegat  
Robert Lawrence Wilton  
Alan Trevor Jackson  
Shelley Jane Cave  
Graeme Stuart Lord

## Registered Office

Level 1, 10 Viaduct Harbour Avenue  
Auckland 1010  
PO Box 91681  
Victoria Street West  
Auckland 1142

## Solicitors

Heimsath Alexander  
Level 1, Shed 22, Prince's Wharf  
147 Quay Street  
PO Box 105884  
Auckland 1143

## Auditors

Ernst & Young  
EY Building  
2 Takutai Square  
Britomart  
Auckland 1010

## Share Registrar

Computershare Investor Services Limited  
Private Bag 92119  
Auckland 1142  
Level 2, 159 Hurstmere Road  
Takapuna  
Auckland 0622

## Managing your shareholding online:

To change your address, update your payment instructions and to view your registered details including transactions please visit

[www.investorcentre.com/NZ](http://www.investorcentre.com/NZ)

## General enquiries can be directed to:

[enquiry@computershare.co.nz](mailto:enquiry@computershare.co.nz)

Private Bag 92119  
Auckland 1142

Telephone:  
+64 9 488 8777  
Facsimile:  
+64 9 488 8787

Please assist our registry by quoting your CSN or shareholder number.

# Notes

---





# OUT OF THE BLUE, GOLD.

*Barossa Valley Estate Shiraz 2014  
Blue-Gold Medal, Sydney International Wine Competition*

Of all the wines judged at the Sydney International Wine Competition, few are selected for the ultimate challenge; to be judged with food for a chance to win the coveted Blue-Gold medal.

On the night, the expressive flavours of plum, berry fruits and exotic spice in our Barossa Valley Estate Shiraz 2014 proved to be a 'stand out' combination with the food,

and the judges had no hesitation in awarding it a Blue-Gold medal.

We are renowned for our single-minded dedication to red; we only make three red wines, but in this instance blue and gold are certainly an exception.

The perfect dinner companion, perhaps? You be the judge of that.

