

IMPACT MAGAZINE NEW YORK
'STAR OF THE INDUSTRY'

BLUE CHIP BRAND



— EST 1947 —
DELEGAT



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IMPACT'S BLUE CHIP BRANDS represent the stars of the industry, saluting the market's best-performing major players over the long term. Highlighting the blockbuster brands that have shown consistent growth amid increasingly competitive conditions, the Blue Chip Brands are nothing less than the stars of the drinks industry. To qualify as Blue Chip Brands, winners must record at least 10 straight years of volume increases or have an average annual compound growth rate of at least 1.5% from 2007-2017 while recording increases in at least eight of those 10 years.

EXECUTIVE CHAIRMAN'S REPORT

“Delegat achieved record Operating NPAT in the first half of the 2019 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 2018.

PERFORMANCE HIGHLIGHTS



Record global case sales of 1,576,000.



13% sales growth in key North America region.



New distribution listing with a major UK independent co-operative has contributed to 31% growth in the UK, Ireland and Europe region.



Record Operating NPAT of \$31.4 million.¹



Capital investment of \$18.5 million in growth assets including vineyard development and the Hawke's Bay and Marlborough wineries, funded by operating cashflow.



Oyster Bay received the 'Blue Chip Brand' title by New York's highly regarded Impact Magazine.



Oyster Bay Sparkling Cuvée Rosé received a Blue Gold Medal at the Sydney International Wine Competition 2019.

1. 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.

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.²

OPERATING PERFORMANCE

A record Operating NPAT of \$31.4 million was generated compared to \$26.9 million for the same period the previous year. Operating EBIT of \$49.8 million is \$6.4 million higher than for the same period the previous year (refer to table 1).

Delegat achieved Operating Revenue of \$143.0 million on global case sales of 1,576,000 in the six month period. Revenue is up \$15.4 million on the same period last year due to the 14% increase in global case sales and the favourable impact of foreign exchange rate changes.

OPERATING PERFORMANCE		TABLE 1	
NZ\$ millions	Dec 2018 Actual	Dec 2017 Actual Restated*	% change vs 2017
Operating Revenue ¹	143.0	127.6	12%
Operating Gross Profit²	78.3	70.7	11%
Operating Gross Margin	55%	55%	
Operating Expenses ³	(28.5)	(27.3)	-4%
Operating EBIT⁴	49.8	43.4	15%
Operating EBIT % of Revenue	35%	34%	
Interest and Tax	(18.4)	(16.5)	-12%
Operating NPAT⁴	31.4	26.9	17%
Operating NPAT % of Revenue	22%	21%	
Operating EBITDA⁴	57.5	50.9	13%
Operating EBITDA % of Revenue	40%	40%	

Notes:

- Operating Revenue is before fair value movements on derivative instruments (if gains).
- Operating Gross Profit is before the net fair value movements on biological produce (harvest adjustment) and the NZ IFRS adjustments excluded in Note 1.
- Operating Expenses are before fair value movements on derivative instruments (if losses).
- Operating EBIT, EBITDA and NPAT are before any fair value adjustments.

2. 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.

*The financial statements for the periods ended 30 June 2018 and 31 December 2017 have been restated following the adoption of NZ IFRS 15: Revenue from Contracts with Customers on 1 July 2018. Refer to Note 1 of the financial statements.

The Group's case sales performance and foreign currency rates achieved are detailed in table 2.

Operating Gross Margin is up 11% on the same period last year. This is due to the increased case sales and favourable impact of foreign exchange rate changes. Operating expenses (before NZ IFRS adjustments) at \$28.5 million are \$1.2 million higher compared to the same period the previous year. This is due to the impact of a weaker 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 \$9.8 million for the period (December 2017: write-down of \$8.9 million);

CASE SALES AND FOREIGN CURRENCY

TABLE 2

	Dec 2018 Actual	Dec 2017 Actual	% change vs 2017
Case Sales (000s)			
UK, Ireland and Europe	469	358	31%
North America (USA and Canada)	640	568	13%
Australia, NZ and Asia Pacific	467	451	4%
Total Cases	1,576	1,377	14%
Foreign Currency Rates			
GB£	0.5138	0.5358	4%
AU\$	0.9301	0.9124	-2%
US\$	0.6787	0.7151	5%
CA\$	0.8789	0.8967	2%

- 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-up of \$1.3 million (December 2017: write-down of \$1.4 million).

The adjustments, net of taxation, amount to a write-down of \$6.1 million (December 2017: write-down of \$7.5 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 2018 is reconciled to Operating Profit as detailed in table 4.

CASH FLOW

The Group generated Cash Flows from Operations of \$21.3 million in the current half-year, which is a decrease of \$3.0 million on the same period last year. This decrease is due to the timing of income tax payments. A total of \$18.6 million was paid for additional property, plant and equipment during the period, including vineyard developments in New Zealand, and development of the Hawke's Bay and Marlborough wineries, which will provide earnings growth into the years ahead. The Group distributed \$15.2 million to shareholders in dividends. Additional borrowings of \$15.1 million were drawn down to fund the increased capital investment during the six months.

IMPACT OF FAIR VALUE ADJUSTMENTS

TABLE 3

NZ\$ millions	Dec 2018 Actual	Dec 2017 Actual Restated*	% change vs 2017
Operating NPAT	31.4	26.9	17%
Operating NPAT % of Revenue	22%	21%	
NZ IFRS Fair Value Items			
Biological Produce (Grapes) ¹	(9.8)	(8.9)	-10%
Derivative Instruments	1.3	(1.4)	n/m ²
Total Fair Value Items	(8.5)	(10.3)	19%
Less: Tax	2.4	2.8	-19%
Fair Value Items after Tax	(6.1)	(7.5)	19%
Reported NPAT	25.3	19.4	30%

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.

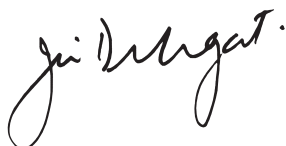
2. n/m means not meaningful.

*The financial statements for the periods ended 30 June 2018 and 31 December 2017 have been restated following the adoption of NZ IFRS 15: Revenue from Contracts with Customers on 1 July 2018. Refer to Note 1 of the financial statements.

The Group, having secured a \$350.0 million syndicated senior debt facility in 2014, is well positioned to fund its current operations as well as future capital investment in both New Zealand and Australia. The Group's Net Debt at 31 December 2018 amounted to \$291.5 million, in line with last half-year and well within the Group's facility.

LOOKING FORWARD

The results achieved in the six months to December 2018 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 forecasts to achieve global case sales for the full year of 3,040,000, up 11% on last year. Based on the prevailing exchange rates, the Group forecasts a 2019 operating profit result of at least \$50.3 million, up on last year's record performance by 12%.



JIM DELEGAT
EXECUTIVE CHAIRMAN

RECONCILIATION OF REPORTING TO OPERATING PERFORMANCE

TABLE 4

NZ\$ millions	2018 Actual			2017 Actual Restated*		
	Operating	Fair Value Adjustment	Reported	Operating	Fair Value Adjustment	Reported
Revenue	143.0	1.3	144.3	127.6	-	127.6
Cost of Sales	(64.7)	(9.8)	(74.5)	(56.9)	(8.9)	(65.8)
Gross Profit	78.3	(8.5)	69.8	70.7	(8.9)	61.8
Operating Expenses	(28.5)	-	(28.5)	(27.3)	(1.4)	(28.7)
EBIT¹	49.8	(8.5)	41.3	43.4	(10.3)	33.1
Interest and Tax	(18.4)	2.4	(16.0)	(16.5)	2.8	(13.7)
NPAT²	31.4	(6.1)	25.3	26.9	(7.5)	19.4
EBIT ¹	49.8	(8.5)	41.3	43.4	(10.3)	33.1
Depreciation	7.7	-	7.7	7.5	-	7.5
EBITDA³	57.5	(8.5)	49.0	50.9	(10.3)	40.6

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.

*The financial statements for the periods ended 30 June 2018 and 31 December 2017 have been restated following the adoption of NZ IFRS 15: Revenue from Contracts with Customers on 1 July 2018. Refer to Note 1 of the financial statements.

STATEMENT OF FINANCIAL PERFORMANCE

	Unaudited Dec 2018 6 Months \$000	Audited June 2018 12 Months \$000 Restated*	Unaudited Dec 2017 6 Months \$000 Restated*
Revenue	144,339	255,762	127,629
Profit before finance costs	41,365	77,119	33,104
Finance costs	6,100	11,957	6,045
Profit before income tax	35,265	65,162	27,059
Income tax expense	9,955	18,326	7,625
Profit for the Period attributable to Shareholders of the Parent Company	25,310	46,836	19,434
Earnings Per Share			
– Basic and fully diluted earnings per share (cents per share)	25.03	46.31	19.22

* The financial statements for the periods ended 30 June 2018 and 31 December 2017 have been restated following the adoption of NZ IFRS 15: Revenue from Contracts with Customers on 1 July 2018. Refer to Note 1 of the financial statements.

The accompanying notes form part of these financial statements

STATEMENT OF OTHER COMPREHENSIVE INCOME

	Unaudited Dec 2018 6 Months \$000	Audited June 2018 12 Months \$000	Unaudited Dec 2017 6 Months \$000
Profit after income tax	25,310	46,836	19,434
<i>Other comprehensive income that may subsequently be classified to the profit and loss:</i>			
– Translation of foreign subsidiaries	(1,703)	3,238	3,063
– Net gain/(loss) on hedge of a net investment	1,154	(1,112)	(1,375)
– Income tax relating to components of other comprehensive income	(323)	311	385
Total comprehensive income for the period, net of tax	24,438	49,273	21,507
Comprehensive income attributable to Shareholders of the Parent Company	24,438	49,273	21,507

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 31 DECEMBER 2018 (UNAUDITED)

	Share Capital	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
	\$000	\$000	\$000	\$000
Audited balance at 30 June 2018	49,815	(2,698)	296,072	343,189
Changes in equity for the period ended 31 December 2018				
<i>Other comprehensive income</i>				
– Translation of foreign subsidiaries	–	(1,703)	–	(1,703)
– Net gain on hedge of a net investment	–	1,154	–	1,154
– Income tax relating to components of other comprehensive income	–	(323)	–	(323)
Total other comprehensive income	–	(872)	–	(872)
– Net profit for the period	–	–	25,310	25,310
Total comprehensive income for the period	–	(872)	25,310	24,438
<i>Equity Transactions</i>				
– Dividends paid to shareholders	–	–	(15,177)	(15,177)
Unaudited balance at 31 December 2018	49,815	(3,570)	306,205	352,450

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY **CONTINUED**

FOR THE YEAR ENDED 30 JUNE 2018 (AUDITED)

	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
Changes in equity for the year ended 30 June 2018				
<i>Other comprehensive income</i>				
– Translation of foreign subsidiaries	–	3,238	–	3,238
– Net loss on hedge of a net investment	–	(1,112)	–	(1,112)
– Income tax relating to components of other comprehensive income	–	311	–	311
Total other comprehensive income	–	2,437	–	2,437
– Net profit for the year	–	–	46,836	46,836
Total comprehensive income for the year	–	2,437	46,836	49,273
<i>Equity Transactions</i>				
– Dividends paid to shareholders	–	–	(13,153)	(13,153)
Audited balance at 30 June 2018	49,815	(2,698)	296,072	343,189

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
Changes in equity for the period ended 31 December 2017				
<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)
Unaudited balance at 31 December 2017	49,815	(3,062)	268,670	315,423

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION

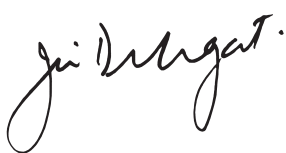
	Unaudited Dec 2018 \$000	Audited June 2018 \$000	Unaudited Dec 2017 \$000
Equity			
Share capital	49,815	49,815	49,815
Foreign currency translation reserve	(3,570)	(2,698)	(3,062)
Retained earnings	306,205	296,072	268,670
Total Equity	352,450	343,189	315,423
Liabilities			
Current Liabilities			
Trade payables and accruals	27,116	32,941	21,115
Derivative financial instruments	2,076	3,020	1,942
Income tax payable	1,069	6,485	133
	30,261	42,446	23,190
Non-Current Liabilities			
Deferred tax liability	37,792	33,754	33,706
Derivative financial instruments	4,288	3,711	3,775
Interest-bearing loans and borrowings (secured)	298,528	285,754	295,210
	340,608	323,219	332,691
Total Liabilities	370,869	365,665	355,881
Total Equity and Liabilities	723,319	708,854	671,304

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION CONTINUED

	Unaudited Dec 2018 \$000	Audited June 2018 \$000	Unaudited Dec 2017 \$000
Assets			
Current Assets			
Cash and cash equivalents	6,994	4,264	3,897
Trade and other receivables	52,732	42,635	44,875
Derivative financial instruments	949	–	448
Inventories	139,149	147,431	124,224
	199,824	194,330	173,444
Non-Current Assets			
Property, plant and equipment	518,982	509,861	493,622
Intangible assets	4,513	4,663	4,225
Derivative financial instruments	–	–	13
	523,495	514,524	497,860
Total Assets	723,319	708,854	671,304

For, and on behalf of, the Board who authorised the issue of the financial statements on 25 February 2019.



JN Deleat, Executive Chairman



JA Freeman, Managing Director

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS

	Unaudited Dec 2018 6 Months \$000	Audited June 2018 12 Months \$000 Restated*	Unaudited Dec 2017 6 Months \$000 Restated*
Operating Activities			
Cash was provided from			
Receipts from customers	136,996	250,359	123,900
Net GST received	274	74	693
	137,270	250,433	124,593
Cash was applied to			
Payments to suppliers and employees	98,449	168,293	86,352
Net interest paid	5,928	12,457	6,446
Net income tax paid	11,613	11,914	7,550
	115,990	192,664	100,348
Net Cash Inflows from Operating Activities	21,280	57,769	24,245
Investing Activities			
Cash was provided from			
Proceeds from sale of property, plant and equipment	80	2,058	1,774
Dividends received	4	1	1
	84	2,059	1,775
Cash was applied to			
Purchase of property, plant and equipment	17,196	45,896	22,090
Purchase of intangible assets	494	451	476
Capitalised interest paid	883	1,692	899
	18,573	48,039	23,465
Net Cash Outflows from Investing Activities	(18,489)	(45,980)	(21,690)

* The financial statements for the periods ended 30 June 2018 and 31 December 2017 have been restated following the adoption of NZ IFRS 15: Revenue from Contracts with Customers on 1 July 2018. Refer to Note 1 of the financial statements.

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS **CONTINUED**

	Unaudited Dec 2018 6 Months \$000	Audited June 2018 12 Months \$000 Restated*	Unaudited Dec 2017 6 Months \$000 Restated*
Financing Activities			
Cash was provided from			
Proceeds from borrowings	25,375	28,514	18,450
	25,375	28,514	18,450
Cash was applied to			
Dividends paid to shareholders	15,165	13,147	13,142
Repayment of borrowings	10,250	27,687	8,636
	25,415	40,834	21,778
Net Cash Outflows from Financing Activities	(40)	(12,320)	(3,328)
Net increase/(decrease) in Cash Held	2,751	(531)	(773)
Cash and cash equivalents at beginning of the year	4,264	4,479	4,479
Effect of exchange rate changes on foreign currency balances	(21)	316	191
Cash and Cash Equivalents at End of the Period	6,994	4,264	3,897

* The financial statements for the periods ended 30 June 2018 and 31 December 2017 have been restated following the adoption of NZ IFRS 15: Revenue from Contracts with Customers on 1 July 2018. Refer to Note 1 of the financial statements.

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS CONTINUED

	Unaudited Dec 2018 6 Months \$000	Audited June 2018 12 Months \$000	Unaudited Dec 2017 6 Months \$000
Reconciliation of Profit for the Period with Cash Flows from Operating Activities:			
Reported profit after tax	25,310	46,836	19,434
Add/(deduct) items not involving cash flows			
Depreciation expense	7,731	15,089	7,493
Other non-cash items	(1,382)	2,733	2,582
Loss/(gain) on disposal of assets	45	(11)	–
Movement in derivative financial instruments	(1,316)	2,923	1,448
Movement in deferred tax liability	4,038	2,630	2,582
	9,116	23,364	14,105
Movement in working capital balances are as follows:			
Trade payables and accruals	(5,825)	3,617	(8,209)
Trade and other receivables	(10,097)	(6,683)	(8,923)
Inventories	8,282	(13,751)	9,456
Income tax	(5,416)	3,469	(2,883)
Add items classified as investing and financing activities			
Capital purchases included within trade payables and inventories	(90)	917	1,265
	(13,146)	(12,431)	(9,294)
Net Cash Inflows from Operating Activities	21,280	57,769	24,245
Reconciliation of movement in Net Debt:			
Opening balance at beginning of the year	281,490	278,034	278,034
Per statement of cash flows:			
– Proceeds from borrowings	15,125	827	9,814
– Net (increase)/decrease in cash held	(2,751)	531	773
Foreign exchange movement	(2,407)	1,940	2,615
Other non-cash movements	77	158	77
Closing balance at end of the Period	291,534	281,490	291,313

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 2018 were authorised for issue in accordance with a resolution of the Directors on 25 February 2019.

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 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year, with the exception of the adoption of NZ IFRS 15: Revenue from Contracts with Customers and NZ IFRS 9: Financial Instruments on 1 July 2018. Refer to the published financial statements for the year ended 30 June 2018 for a complete listing of the Group accounting policies.

On 1 July 2018, the Group adopted NZ IFRS 15: Revenue from Contracts with Customers, applying the fully retrospective transition provision. NZ IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. NZ IFRS 15 supersedes NZ IAS 18: Revenue. The changes in NZ IFRS 15 do not have an impact on the timing of revenue recognition or net profit after tax for the Group, however there are some selling, marketing and promotion expenses that have been reclassified to revenue as part of the determination of the transaction price under NZ IFRS 15. In accordance with the requirements of NZ IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors, the financial statements for the periods ended 30 June 2018 and 31 December 2017 have been restated. The adoption of NZ IFRS 15 has not had an impact on the statement of financial position. The effect on the Group's financial statements of the adoption of NZ IFRS 15 has been demonstrated in the table below:

	Unaudited June 2018 \$000 Increase / (Decrease)	Unaudited Dec 2017 \$000 Increase / (Decrease)
Financial statement line:		
<i>Statement of Financial Performance</i>		
Revenue	(16,360)	(9,280)
Selling, marketing and promotion expenses	(16,360)	(9,280)
<i>Statement of Cash Flows</i>		
Receipts from customers	(16,360)	(9,280)
Payments to suppliers and employees	(16,360)	(9,280)

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 2018	Delegat Limited	Delegat Australia Pty Ltd	Delegat Europe Limited	Delegat USA, Inc.	Other Segments ¹⁰	Eliminations and Adjustments ¹¹	6 months ended 31 December 2018
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Operating income							
External sales ^{2,8}	32,666	45,551	43,201	58,395	2,123	(38,930)	143,006
Internal sales	128,491	–	–	–	3,941	(132,432)	–
Fair value gain on derivative financial instruments	1,316	–	–	–	–	–	1,316
Dividend revenue	4	–	–	–	7	–	11
Interest revenue	3	2	–	–	1,480	(1,479)	6
Total segment revenues¹	162,480	45,553	43,201	58,395	7,551	(172,841)	144,339
Operating expenses							
Interest expense ³	6,926	–	–	–	653	(1,479)	6,100
Depreciation ⁴	6,738	63	9	30	891	–	7,731
Income tax expense ⁵	8,258	415	372	306	527	77	9,955
Segment profit	20,373	954	1,572	862	1,349	200	25,310
Assets							
Segment assets ⁶	670,954	26,419	23,678	27,682	101,641	(127,055)	723,319
Capital expenditure ⁷	17,790	12	2	64	755	–	18,623
Segment liabilities	369,024	12,793	17,971	16,107	38,262	(83,288)	370,869

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. SEGMENTAL REPORTING (CONTINUED)

For the 6 months ended 31 December 2017 Restated*	Delegat Limited	Delegat Australia Pty Ltd	Delegat Europe Limited	Delegat USA, Inc.	Other Segments ¹⁰	Eliminations and Adjustments ¹¹	6 months ended 31 December 2017
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Operating income							
External sales ^{2,9}	29,865	46,664	34,581	47,237	3,110	(33,870)	127,587
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 revenues¹	148,124	46,666	34,581	47,237	11,570	(160,549)	127,629
Operating expenses							
Interest expense ³	7,319	–	–	–	504	(1,778)	6,045
Depreciation ⁴	6,589	71	12	32	789	–	7,493
Income tax expense/(credit) ⁵	5,911	426	304	391	871	(278)	7,625
Segment profit/(loss)	23,042	977	1,285	546	2,168	(8,584)	19,434
Assets							
Segment assets ⁶	623,048	25,617	16,363	23,786	123,816	(141,326)	671,304
Capital expenditure ⁷	21,337	–	–	–	928	–	22,265
Segment liabilities	366,410	13,016	13,351	14,452	46,271	(97,619)	355,881

1. Intersegment revenues are eliminated on consolidation. Intercompany profit margins are also eliminated.
2. External sales revenue includes various payments to customers for volume discounts, rebates and other promotional support. For volume discounts, rebates and other promotional support not invoiced at 30 June 2018 the Group recognised accruals of \$23,137,000 (June 2017: \$19,307,000). During the six months ended 31 December 2018 \$2,641,000 of these accruals have been released (December 2017: \$2,369,000).
3. Interest expense is net of any interest capitalised to long-term assets. During the period \$883,000 (December 2017: \$899,000) was capitalised to long-term assets.
4. Depreciation expense presented above is gross of \$6,997,000 (December 2017: \$6,849,000), which has been included within inventory.
5. 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.
6. 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.
7. 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.
8. For the six months ended 31 December 2018 Delegat Australia Pty Limited had a single customer which comprised 10% or more of Group sales amounting to \$18,491,000, and Delegat USA, Inc. had a single customer which comprised 10% or more of Group sales amounting to \$30,689,000.
9. 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 \$18,128,000, and Delegat USA, Inc. had a single customer which comprised 10% or more of Group sales amounting to \$21,775,000.*
10. Other segments' assets include non-current assets of Barossa Valley Estate Pty Limited of \$48,017,000 (December 2017: \$49,400,000) which are located in Australia.
11. The eliminations and adjustments of segment profit, assets and liabilities relate to intercompany transactions and balances which are eliminated on consolidation.

* The financial statements for the periods ended 30 June 2018 and 31 December 2017 have been restated following the adoption of NZ IFRS 15: Revenue from Contracts with Customers on 1 July 2018. Refer to Note 1 of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. EXPENSES

Expenses by function have been categorised as follows:

	Unaudited Dec 2018 6 Months \$000	Audited June 2018 12 Months \$000 Restated*	Unaudited Dec 2017 6 Months \$000 Restated*
Cost of sales	74,491	119,960	65,800
Selling, marketing and promotion expenses	21,794	42,673	21,058
Corporate governance expenses	418	934	459
Administration expenses	6,050	12,153	5,630
Unrealised foreign exchange losses	221	–	130
Fair value movement on derivative instruments	–	2,923	1,448

4. ACQUISITION AND DISPOSAL OF ASSETS

During the six months ended 31 December 2018 the Group incurred total capital expenditure of \$18,623,000 (31 December 2017: \$22,265,000). During the six months ended 31 December 2018 the Group disposed of property, plant and equipment with a net book value of \$125,000 (31 December 2017: \$1,774,000).

5. CAPITAL COMMITMENTS

The estimated capital expenditure contracted for at 31 December 2018 but not provided for is \$17,224,000 (31 December 2017: \$11,588,000).

* The financial statements for the periods ended 30 June 2018 and 31 December 2017 have been restated following the adoption of NZ IFRS 15: Revenue from Contracts with Customers on 1 July 2018. Refer to Note 1 of the financial statements.

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ONE OF THE BAROSSA VALLEY’S
GOLD STANDARD REDS
OF THE CURRENT ERA.”
