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DELEGAT

Delegat Group Limited
Interim Report 2021

NO.1 | *New Zealand wine
exporter to the world.**



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Executive Chairman's Report

On behalf of the Board of Directors of Delegat Group Limited, it is with great pleasure that I present to you another record six months for Delegat Group Limited on our journey to build a leading global Super Premium wine company. I am pleased to present its operating and financial results for the six months ended 31 December 2020, which has been an outstanding period for the Group.

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 financial 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 financial 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.

Operating Performance¹

Table 1

NZ\$ millions	Dec 2020	Dec 2019	% change vs 2019
Operating Revenue ¹	172.8	156.7	10%
Operating Gross Profit²	90.8	82.6	10%
Operating Gross Margin	53%	53%	
Operating Expenses ³	(26.3)	(29.1)	10%
Operating EBIT⁴	64.5	53.5	21%
Operating EBIT % of Revenue	37%	34%	
Interest and Tax	(21.4)	(19.1)	-12%
Operating NPAT⁴	43.1	34.4	25%
Operating NPAT % of Revenue	25%	22%	
Operating EBITDA⁴	76.1	64.2	19%
Operating EBITDA % of Revenue	44%	41%	

Notes:

1. Operating Revenue is before fair value movements on derivative financial 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 financial instruments (if losses).
4. Operating EBIT, EBITDA and NPAT are before any fair value adjustments.

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.

Operating Performance

A record Operating NPAT of \$43.1 million was generated compared to \$34.4 million for the same period the previous year. Operating EBIT of \$64.5 million is \$11.0 million higher than for the same period the previous year (refer to table 1).

Delegat achieved Operating Revenue of \$172.8 million on global case sales of 1,862,000 in the six month period. Revenue is up \$16.1 million on the same period last year due to a 7% increase in global case sales and the favourable impact of market and product mix.

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

Operating Gross Profit is up 10% on the same period last year. This is due to the increased case sales and favourable impact of market and product mix, which have offset an unfavourable impact of foreign exchange rate changes. Operating expenses (before NZ IFRS adjustments) at \$26.3 million are \$2.8 million lower compared to the same period in the previous year. This is primarily due to the impact of COVID-19 restrictions in the current year, whereby travel, entertainment and other operating expenses have been restricted in most markets.

Case Sales and Foreign Currency

Table 2

	Dec 2020	Dec 2019	% change vs 2019
Case Sales (000s)			
UK, Ireland and Europe	675	601	12%
North America (USA and Canada)	843	722	17%
Australia, NZ and Asia Pacific	344	410	-16%
Total Cases	1,862	1,733	7%
Foreign Currency Rates			
GB£	0.5058	0.5054	0%
AU\$	0.9344	0.9393	1%
US\$	0.6691	0.6519	-3%
CA\$	0.8776	0.8651	-1%

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 \$10.3 million for the period (December 2019: write-down of \$8.7 million);
- Derivative Financial 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 \$4.9 million (December 2019: write-up of \$2.4 million).

The adjustments, net of taxation, amount to a write-down of \$3.9 million (December 2019: write-down of \$4.5 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 2020 is reconciled to Operating Profit as detailed in table 4.

Impact of Fair Value Adjustments

Table 3

NZ\$ millions	Dec 2020	Dec 2019	% change vs 2019
Operating NPAT	43.1	34.4	25%
Operating NPAT % of Revenue	25%	22%	
NZ IFRS Fair Value Items			
Biological Produce (Grapes) ¹	(10.3)	(8.7)	-18%
Derivative Financial Instruments	4.9	2.4	104%
Total Fair Value Items	(5.4)	(6.3)	15%
Less: Tax	1.5	1.8	-15%
Fair Value Items after Tax	(3.9)	(4.5)	15%
Reported NPAT	39.2	29.9	31%

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.

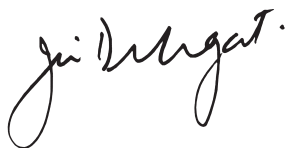
Cash Flow

The Group generated record Cash Flows from Operations of \$42.9 million in the current half-year, which is an increase of \$7.4 million or 21% on the same period last year. This increase is due to strong cash collections from customers, which has more than offset higher net income tax paid. A total of \$37.4 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 \$17.2 million to shareholders in dividends. Net borrowings of \$11.6 million were drawn down during the six month period.

Having secured a \$330.0 million syndicate Senior Debt facility in 2019 the Group 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 2020 amounted to \$254.1 million, a decrease of \$13.7 million compared with the last half-year and well within the Group's long-term bank debt facilities.

Looking Forward

The Group is on target to achieve global case sales for the full year of 3,391,000, up 3% on last year. Based on the prevailing exchange rates, the Group forecasts a 2021 Operating Profit result of \$67.0 million, up on last year's performance by 10%.



JIM DELEGAT
EXECUTIVE CHAIRMAN

Reconciliation of Reporting to Operating Performance

Table 4

NZ\$ millions	Dec 2020			Dec 2019		
	Operating	Fair Value Adjustment	Reported	Operating	Fair Value Adjustment	Reported
Revenue	172.8	4.9	177.7	156.7	2.4	159.1
Cost of Sales	(82.0)	(10.3)	(92.3)	(74.1)	(8.7)	(82.8)
Gross Profit	90.8	(5.4)	85.4	82.6	(6.3)	76.3
Operating Expenses	(26.3)	-	(26.3)	(29.1)	-	(29.1)
EBIT¹	64.5	(5.4)	59.1	53.5	(6.3)	47.2
Interest and Tax	(21.4)	1.5	(19.9)	(19.1)	1.8	(17.3)
NPAT²	43.1	(3.9)	39.2	34.4	(4.5)	29.9
EBIT ¹	64.5	(5.4)	59.1	53.5	(6.3)	47.2
Depreciation	11.6	-	11.6	10.7	-	10.7
EBITDA³	76.1	(5.4)	70.7	64.2	(6.3)	57.9

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 2020 6 Months \$000	Audited June 2020 12 Months \$000	Unaudited Dec 2019 6 Months \$000
Revenue	177,684	304,181	159,076
Profit before finance costs	59,089	95,824	47,224
Finance costs	4,897	10,807	5,675
Profit before income tax	54,192	85,017	41,549
Income tax expense	14,960	20,895	11,695
Profit for the Period attributable to Shareholders of the Parent Company	39,232	64,122	29,854
Earnings Per Share			
– Basic and fully diluted earnings per share (cents per share)	38.79	63.41	29.52

Statement of Other Comprehensive Income

	Unaudited Dec 2020 6 Months \$000	Audited June 2020 12 Months \$000	Unaudited Dec 2019 6 Months \$000
Profit after income tax	39,232	64,122	29,854
<i>Other comprehensive income that may subsequently be classified to the profit and loss:</i>			
– Translation of foreign subsidiaries	(2,304)	1,497	(157)
– Net gain/(loss) on hedge of a net investment	140	(722)	169
– Income tax relating to components of other comprehensive income	(39)	202	(47)
Total comprehensive income for the period, net of tax	37,029	65,099	29,819
Comprehensive income attributable to Shareholders of the Parent Company	37,029	65,099	29,819

Statement of Changes in Equity

FOR THE PERIOD ENDED 31 DECEMBER 2020 (UNAUDITED)

	Share Capital	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
	\$000	\$000	\$000	\$000
Audited balance at 30 June 2020	49,815	(2,604)	357,369	404,580
Changes in equity for the period ended 31 December 2020				
<i>Other comprehensive income</i>				
– Translation of foreign subsidiaries	–	(2,304)	–	(2,304)
– Net gain on hedge of a net investment	–	140	–	140
– Income tax relating to components of other comprehensive income	–	(39)	–	(39)
Total other comprehensive income	–	(2,203)	–	(2,203)
– Net profit for the period	–	–	39,232	39,232
Total comprehensive income for the period	–	(2,203)	39,232	37,029
<i>Equity Transactions</i>				
– Dividends paid to shareholders	–	–	(17,217)	(17,217)
Unaudited balance at 31 December 2020	49,815	(4,807)	379,384	424,392

FOR THE YEAR ENDED 30 JUNE 2020 (AUDITED)

	Share Capital	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
	\$000	\$000	\$000	\$000
Audited balance at 30 June 2019	49,815	(3,581)	310,462	356,696
Changes in equity for the year ended 30 June 2020				
<i>Other comprehensive income</i>				
– Translation of foreign subsidiaries	–	1,497	–	1,497
– Net loss on hedge of a net investment	–	(722)	–	(722)
– Income tax relating to components of other comprehensive income	–	202	–	202
Total other comprehensive income	–	977	–	977
– Net profit for the year	–	–	64,122	64,122
Total comprehensive income for the year	–	977	64,122	65,099
<i>Equity Transactions</i>				
– Dividends paid to shareholders	–	–	(17,215)	(17,215)
Audited balance at 30 June 2020	49,815	(2,604)	357,369	404,580

Statement of Changes in Equity continued

FOR THE PERIOD ENDED 31 DECEMBER 2019 (UNAUDITED)

	Share Capital	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
	\$000	\$000	\$000	\$000
Audited balance at 30 June 2019	49,815	(3,581)	310,462	356,696
Changes in equity for the period ended 31 December 2019				
<i>Other comprehensive income</i>				
– Translation of foreign subsidiaries	–	(157)	–	(157)
– Net gain on hedge of a net investment	–	169	–	169
– Income tax relating to components of other comprehensive income	–	(47)	–	(47)
Total other comprehensive income	–	(35)	–	(35)
– Net profit for the period	–	–	29,854	29,854
Total comprehensive income for the period	–	(35)	29,854	29,819
<i>Equity Transactions</i>				
– Dividends paid to shareholders	–	–	(17,215)	(17,215)
Unaudited balance at 31 December 2019	49,815	(3,616)	323,101	369,300

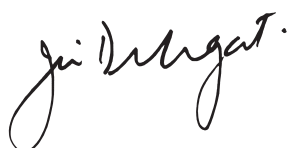
Statement of Financial Position

	Unaudited Dec 2020 \$000	Audited June 2020 \$000	Unaudited Dec 2019 \$000
Equity			
Share capital	49,815	49,815	49,815
Foreign currency translation reserve	(4,807)	(2,604)	(3,616)
Retained earnings	379,384	357,369	323,101
Total Equity	424,392	404,580	369,300
Liabilities			
Current Liabilities			
Trade payables and accruals	27,573	27,879	26,300
Derivative financial instruments	4,432	4,649	3,103
Income tax payable	3,144	9,674	980
Lease liability	4,975	4,538	4,589
	40,124	46,740	34,972
Non-Current Liabilities			
Deferred tax liability	33,343	28,456	33,948
Derivative financial instruments	3,616	5,900	4,782
Interest-bearing loans and borrowings (secured)	265,739	254,296	275,771
Lease liability	95,581	79,524	80,299
	398,279	368,176	394,800
Total Liabilities	438,403	414,916	429,772
Total Equity and Liabilities	862,795	819,496	799,072

Statement of Financial Position continued

	Unaudited Dec 2020 \$000	Audited June 2020 \$000	Unaudited Dec 2019 \$000
Assets			
Current Assets			
Cash and cash equivalents	11,679	14,755	7,968
Trade and other receivables	55,839	41,788	52,613
Derivative financial instruments	6,058	3,618	2,098
Inventories	144,440	157,628	142,888
	218,016	217,789	205,567
Non-Current Assets			
Property, plant and equipment	565,648	537,708	529,127
Right-of-use assets	73,580	58,494	59,452
Intangible assets	5,487	5,436	4,926
Derivative financial instruments	64	69	–
	644,779	601,707	593,505
Total Assets	862,795	819,496	799,072

For, and on behalf of, the Board, who authorised the issue of the financial statements on 24 February 2021.



JN Delegat, Executive Chairman



JA Freeman, Managing Director

Statement of Cash Flows

	Unaudited Dec 2020 6 Months \$000	Audited June 2020 12 Months \$000	Unaudited Dec 2019 6 Months \$000
Operating Activities			
Cash was provided from			
Receipts from customers	160,184	300,923	147,049
Net GST received	688	307	1,142
	160,872	301,230	148,191
Cash was applied to			
Payments to suppliers and employees	96,976	189,173	96,549
Net interest paid	4,344	10,037	4,227
Net income tax paid	16,653	17,707	11,945
	117,973	216,917	112,721
Net Cash Inflows from Operating Activities	42,899	84,313	35,470
Investing Activities			
Cash was provided from			
Proceeds from sale of property, plant and equipment	45	45	24
Dividends received	1	1	1
	46	46	25
Cash was applied to			
Purchase of property, plant and equipment	36,304	27,176	11,537
Purchase of intangible assets	494	424	464
Capitalised interest paid	688	1,460	733
	37,486	29,060	12,734
Net Cash Outflows from Investing Activities	(37,440)	(29,014)	(12,709)

Statement of Cash Flows continued

	Unaudited Dec 2020 6 Months \$000	Audited June 2020 12 Months \$000	Unaudited Dec 2019 6 Months \$000
Financing Activities			
Cash was provided from			
Proceeds from borrowings	21,290	10,290	8,270
	21,290	10,290	8,270
Cash was applied to			
Dividends paid to shareholders	17,202	17,204	17,202
Borrowing facility fees	–	989	989
Repayment of borrowings	9,712	33,826	8,293
Repayment of lease liability	2,548	4,573	2,263
	29,462	56,592	28,747
Net Cash Outflows from Financing Activities	(8,172)	(46,302)	(20,477)
Net (decrease)/increase in Cash Held	(2,713)	8,997	2,284
Cash and cash equivalents at beginning of the year	14,755	5,647	5,647
Effect of exchange rate changes on foreign currency balances	(363)	111	37
Cash and Cash Equivalents at End of the Period	11,679	14,755	7,968

Statement of Cash Flows continued

	Unaudited Dec 2020 6 Months \$000	Audited June 2020 12 Months \$000	Unaudited Dec 2019 6 Months \$000
Reconciliation of Profit for the Period with Cash Flows from Operating Activities:			
Reported profit after tax	39,232	64,122	29,854
Add/(deduct) items not involving cash flows			
Depreciation expense	11,631	21,629	10,689
Other non-cash items	(802)	1,569	(6)
Net loss on disposal of assets	–	(71)	(73)
Movement in derivative financial instruments	(4,936)	(1,331)	(2,406)
Movement in deferred tax liability	4,887	(232)	5,260
	10,780	21,564	13,464
Movement in working capital balances are as follows:			
Trade payables and accruals	(306)	(4,432)	(6,011)
Trade and other receivables	(14,051)	(1,804)	(12,629)
Inventories	13,188	252	14,992
Income tax payable	(6,530)	3,229	(5,465)
Add items classified as investing and financing activities			
Capital purchases included within trade payables and inventories	586	393	276
Borrowing facility fees	–	989	989
	(7,113)	(1,373)	(7,848)
Net Cash Inflows from Operating Activities	42,899	84,313	35,470
Reconciliation of movement in Net Debt:			
Opening balance at beginning of the year	239,541	270,342	270,342
Per statement of cash flows:			
– Proceeds from/(repayments of) borrowings	11,578	(23,536)	(23)
– Net decrease/(increase) in cash held	2,713	(8,997)	(2,284)
Foreign exchange movement	67	1,413	(391)
Other non-cash movements	161	319	159
Closing balance at end of the Period	254,060	239,541	267,803

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 2020 were authorised for issue in accordance with a resolution of the Directors on 24 February 2021.

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.

Derivative Financial Instruments

The Group uses derivative financial instruments such as forward currency contracts and options to economically hedge its risk associated with foreign currency and interest rate swaps to manage interest rate risk. Such financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into, and are subsequently remeasured to fair value at balance date. In estimating the fair value of the derivative financial instruments the Group uses level 2 inputs of the fair value measurement hierarchy. The Group's derivative financial instruments 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 2020 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 2020	Delegat Limited	Delegat Australia Pty Ltd	Delegat Europe Limited	Delegat USA, Inc.	Other Segments ¹⁰	Eliminations and Adjustments ¹¹	6 months ended 31 December 2020
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Operating income							
External sales ^{2,8}	38,928	30,157	60,914	80,936	5,381	(44,253)	172,063
Internal sales	153,126	–	–	–	1,698	(154,824)	–
Unrealised foreign exchange gains/(losses)	423	–	51	–	(7)	199	666
Fair value gain on derivative financial instruments	4,936	–	–	–	–	–	4,936
Dividend revenue	3,843	–	–	–	10,552	(14,377)	18
Interest revenue	–	–	–	–	1	–	1
Total segment revenues¹	201,256	30,157	60,965	80,936	17,625	(213,255)	177,684
Operating expenses							
Interest expense ³	4,453	24	1	42	377	–	4,897
Depreciation ⁴	10,027	302	90	255	957	–	11,631
Income tax expense ⁵	13,209	267	519	481	83	401	14,960
Segment profit/(loss)	37,424	614	2,224	1,501	10,815	(13,346)	39,232
Assets							
Segment assets ⁶	804,901	19,550	26,668	34,142	79,840	(102,306)	862,795
Capital expenditure ⁷	36,508	15	–	–	372	–	36,895
Segment liabilities	406,602	13,899	17,785	18,966	39,647	(58,496)	438,403

Notes to the Financial Statements continued

2. Segmental Reporting (continued)

For the 6 months ended 31 December 2019	Delegat Limited	Delegat Australia Pty Ltd	Delegat Europe Limited	Delegat USA, Inc.	Other Segments ¹⁰	Eliminations and Adjustments ¹¹	6 months ended 31 December 2019
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Operating income							
External sales ^{2,9}	33,281	38,285	53,777	71,009	3,346	(43,043)	156,655
Internal sales	140,307	–	–	–	2,500	(142,807)	–
Fair value gain on derivative financial instruments	2,407	–	–	–	–	–	2,407
Dividend revenue	2	–	–	–	8	–	10
Interest revenue	3	1	–	–	–	–	4
Total segment revenues¹	176,000	38,286	53,777	71,009	5,854	(185,850)	159,076
Operating expenses							
Interest expense ³	5,040	32	3	54	546	–	5,675
Depreciation ⁴	9,073	294	90	271	961	–	10,689
Income tax expense ⁵	10,057	339	461	366	54	418	11,695
Segment profit	24,963	778	1,959	1,000	78	1,076	29,854
Assets							
Segment assets ⁶	736,022	24,651	26,519	32,794	90,981	(111,895)	799,072
Capital expenditure ⁷	11,925	258	3	3	263	–	12,452
Segment liabilities	405,876	9,920	17,307	19,567	45,129	(68,027)	429,772

- Intersegment revenues are eliminated on consolidation. Intercompany profit margins are also eliminated.
- 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 2020 the Group recognised accruals of \$22,390,000 (30 June 2019: \$22,712,000). During the six months ended 31 December 2020 \$572,000 of these accruals have been released (December 2019: \$614,000).
- Interest expense is net of any interest capitalised to long-term assets and inventory. During the period \$688,000 (December 2019: \$733,000) was capitalised to long-term assets. During the period \$2,619,000 (December 2019: \$2,732,000) was capitalised to inventory.
- Depreciation expense presented above is gross of \$9,467,000 (December 2019: \$8,988,000), which has been included within inventory.
- 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.
- 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.
- 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.
- For the six months ended 31 December 2020 Delegat USA, Inc. had a single customer which comprised 10% or more of Group sales amounting to \$40,171,000.
- For the six months ended 31 December 2019 Delegat USA, Inc. had a single customer which comprised 10% or more of Group sales amounting to \$34,523,000.
- Other segments' assets include non-current assets of Barossa Valley Estate Pty Limited of \$47,730,000 (December 2019: \$47,579,000) which are located in Australia.
- 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 2020 6 Months \$000	Audited June 2020 12 Months \$000	Unaudited Dec 2019 6 Months \$000
Cost of sales	92,291	152,251	82,817
Selling, marketing and promotion expenses	18,976	39,884	21,787
Corporate governance expenses	480	941	450
Administration expenses	6,848	15,281	6,489
Unrealised foreign exchange losses	–	–	309

4. Acquisition and Disposal of Assets

During the six months ended 31 December 2020 the Group incurred total capital expenditure of \$36,895,000 (31 December 2019: \$12,452,000). During the six months ended 31 December 2020 the Group disposed of property, plant and equipment with a net book value of \$44,000 (31 December 2019: \$13,000).

5. Capital Commitments

The estimated capital expenditure contracted for at 31 December 2020 but not provided for is \$21,516,000 (31 December 2019: \$14,061,000).

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