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Delegat Group Limited Interim Report 2022

WINNING TOGETHER.



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Chairman's Report 2022

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 2021.

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 2021	Dec 2020 Restated*	% change vs 2020
Operating Revenue ¹	178.7	172.8	3%
Operating Gross Profit²	86.8	90.8	-4%
Operating Gross Margin	49%	53%	
Operating Expenses ³	(27.2)	(26.5)	-3%
Operating EBIT⁴	59.6	64.3	-7%
Operating EBIT % of Revenue	33%	37%	
Interest and Tax	(20.1)	(21.3)	6%
Operating NPAT⁴	39.5	43.0	-8%
Operating NPAT % of Revenue	22%	25%	
Operating EBITDA⁴	71.0	75.9	-6%
Operating EBITDA % of Revenue	40%	44%	

Notes:

- Operating Revenue is before fair value movements on derivative financial 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 financial instruments (if losses).
- 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.

*The financial statements for the period ended 31 December 2020 have been restated for Software-as-a-Service arrangements under NZ IAS 38: Intangible Assets and growing costs under NZ IAS 41: Agriculture. Refer to Note 1 of the financial statements.

Operating Performance

An Operating NPAT of \$39.5 million was generated compared to \$43.0 million for the same period in the previous year. Operating EBIT of \$59.6 million is \$4.7 million lower than the same period last year (refer to table 1).

Delegat achieved Operating Revenue of \$178.7 million on record global case sales of 1,893,000 in the six month period. Revenue is up \$5.9 million on the same period last year primarily due to price increases implemented in key markets including the United States, the United Kingdom, Ireland and Australia, and the favourable impact of a 2% increase in global case sales.

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

Operating Gross Profit is down 4% on the same period last year. This is due to higher cost of sales from the lower yielding 2021 vintage, higher supply chain costs associated with ongoing shipping constraints and port congestions and unfavourable foreign exchange rate changes. This has been partially offset by increased case sales and price increases implemented. Operating expenses (before NZ IFRS adjustments) at \$27.2 million are \$0.7 million higher compared to the same period in the previous year.

Case Sales and Foreign Currency

Table 2

	Dec 2021	Dec 2020	% change vs 2020
Case Sales (000s)			
UK, Ireland and Europe	626	675	-7%
North America (USA and Canada)	874	843	4%
Australia, NZ and Asia Pacific	393	344	14%
Total Cases	1,893	1,862	2%
Foreign Currency Rates			
GB£	0.5062	0.5058	0%
AU\$	0.9472	0.9344	-1%
US\$	0.6888	0.6691	-3%
CA\$	0.8746	0.8776	0%

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 has resulted in an adjustment of \$7.1 million for the period (December 2020: adjustment of \$10.3 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 \$3.2 million (December 2020: write-up of \$4.9 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 2021 is reconciled to Operating Profit as detailed in table 4.

Impact of Fair Value Adjustments

Table 3

NZ\$ millions	Dec 2021	Dec 2020 Restated*	% change vs 2020
Operating NPAT	39.5	43.0	-8%
Operating NPAT % of Revenue	22%	25%	
NZ IFRS Fair Value Items			
Biological Produce (Grapes) ¹	(7.1)	(10.3)	31%
Derivative Financial Instruments	3.2	4.9	-35%
Total Fair Value Items	(3.9)	(5.4)	28%
Taxation of NZ IFRS fair value items	1.1	1.5	-27%
Fair Value Items after Tax	(2.8)	(3.9)	28%
Reported NPAT	36.7	39.1	-6%

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.

*The financial statements for the period ended 31 December 2020 have been restated for Software-as-a-Service arrangements under NZ IAS 38: Intangible Assets and growing costs under NZ IAS 41: Agriculture. Refer to Note 1 of the financial statements.

Cash Flow

The Group generated Cash Flows from Operations of \$20.2 million in the current half-year, which is a decrease of \$22.4 million or 53% on the same period last year, associated with funding higher working capital requirements due to the timing of cash collections from customers and payments to suppliers. A total of \$15.9 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 \$20.2 million to shareholders in dividends. Net proceeds from borrowings of \$14.8 million were drawn down during the six month period.

On 7 December 2021 the Group successfully completed the renegotiation of its \$333 million syndicated Senior Debt facilities and is well positioned to fund its growth. The Group's Net Debt at 31 December 2021 amounted to \$267.0 million, an increase of \$12.9 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 3,419,000, up 8% on last year. Based on the prevailing exchange rates and a similar trading environment, the Group forecasts the 2022 Operating Profit result remains in line with market guidance in the range of \$57 million to \$61 million.



ALAN JACKSON
CHAIRMAN

Reconciliation of Reporting to Operating Performance

Table 4

NZ\$ millions	Dec 2021			Dec 2020 Restated*		
	Operating	Fair Value Adjustment	Reported	Operating	Fair Value Adjustment	Reported
Revenue	178.7	3.2	181.9	172.8	4.9	177.7
Cost of Sales	(91.9)	(7.1)	(99.0)	(82.0)	(10.3)	(92.3)
Gross Profit	86.8	(3.9)	82.9	90.8	(5.4)	85.4
Operating Expenses	(27.2)	-	(27.2)	(26.5)	-	(26.5)
EBIT¹	59.6	(3.9)	55.7	64.3	(5.4)	58.9
Interest and Tax	(20.1)	1.1	(19.0)	(21.3)	1.5	(19.8)
NPAT²	39.5	(2.8)	36.7	43.0	(3.9)	39.1
EBIT ¹	59.6	(3.9)	55.7	64.3	(5.4)	58.9
Depreciation	11.4	-	11.4	11.6	-	11.6
EBITDA³	71.0	(3.9)	67.1	75.9	(5.4)	70.5

Notes:

- EBIT means earnings before interest and tax.
- NPAT means net profit after tax.
- EBITDA means earnings before interest, tax, depreciation and amortisation.

*The financial statements for the period ended 31 December 2020 have been restated for Software-as-a-Service arrangements under NZ IAS 38: Intangible Assets and growing costs under NZ IAS 41: Agriculture. Refer to Note 1 of the financial statements.

Statement of Financial Performance

	Unaudited Dec 2021 6 Months \$000	Audited June 2021 12 Months \$000 Restated*	Unaudited Dec 2020 6 Months \$000 Restated*
Revenue	181,884	305,376	177,684
Profit before finance costs	55,741	94,970	58,861
Finance costs	5,123	9,777	4,897
Profit before income tax	50,618	85,193	53,964
Income tax expense	13,881	23,270	14,896
Profit for the Period attributable to Shareholders of the Parent Company	36,737	61,923	39,068
Earnings Per Share			
– Basic and fully diluted earnings per share (cents per share)	36.33	61.23	38.63

*The financial statements for the year ended 30 June 2021 have been restated for Software-as-a-Service arrangements under NZ IAS 38: Intangible Assets. The financial statements for the period ended 31 December 2020 have been restated for Software-as-a-Service arrangements under NZ IAS 38: Intangible Assets and growing costs under NZ IAS 41: Agriculture. Refer to Note 1 of the financial statements.

The accompanying notes form part of these financial statements

Statement of Other Comprehensive Income

	Unaudited Dec 2021 6 Months \$000	Audited June 2021 12 Months \$000 Restated*	Unaudited Dec 2020 6 Months \$000 Restated*
Profit after income tax	36,737	61,923	39,068
<i>Other comprehensive income that may subsequently be classified to the profit and loss:</i>			
– Translation of foreign subsidiaries	99	(958)	(2,304)
– Net gain/(loss) on hedge of a net investment	341	(108)	140
– Income tax relating to components of other comprehensive income	(96)	30	(39)
Total comprehensive income for the period, net of tax	37,081	60,887	36,865
Comprehensive income attributable to Shareholders of the Parent Company	37,081	60,887	36,865

*The financial statements for the year ended 30 June 2021 have been restated for Software-as-a-Service arrangements under NZ IAS 38: Intangible Assets. The financial statements for the period ended 31 December 2020 have been restated for Software-as-a-Service arrangements under NZ IAS 38: Intangible Assets and growing costs under NZ IAS 41: Agriculture. Refer to Note 1 of the financial statements.

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Statement of Changes in Equity

FOR THE PERIOD ENDED 31 DECEMBER 2021 (UNAUDITED)

	Share Capital	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
	\$000	\$000	\$000	\$000
Unaudited balance at 30 June 2021	49,815	(3,640)	407,675	453,850
Changes in equity for the period ended 31 December 2021				
<i>Other comprehensive income</i>				
– Translation of foreign subsidiaries	–	99	–	99
– Net gain on hedge of a net investment	–	341	–	341
– Income tax relating to components of other comprehensive income	–	(96)	–	(96)
Total other comprehensive income	–	344	–	344
– Net profit for the period	–	–	36,737	36,737
Total comprehensive income for the period	–	344	36,737	37,081
<i>Equity Transactions</i>				
– Dividends paid to shareholders	–	–	(20,241)	(20,241)
Unaudited balance at 31 December 2021	49,815	(3,296)	424,171	470,690

FOR THE YEAR ENDED 30 JUNE 2021 (AUDITED) RESTATED*

	Share Capital	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
	\$000	\$000	\$000	\$000
Audited balance at 30 June 2020	49,815	(2,604)	362,969	410,180
Changes in equity for the year ended 30 June 2021				
<i>Other comprehensive income</i>				
– Translation of foreign subsidiaries	–	(958)	–	(958)
– Net loss on hedge of a net investment	–	(108)	–	(108)
– Income tax relating to components of other comprehensive income	–	30	–	30
Total other comprehensive income	–	(1,036)	–	(1,036)
– Net profit for the year	–	–	61,923	61,923
Total comprehensive income for the year	–	(1,036)	61,923	60,887
<i>Equity Transactions</i>				
– Dividends paid to shareholders	–	–	(17,217)	(17,217)
Audited balance at 30 June 2021	49,815	(3,640)	407,675	453,850

*The financial statements for the year ended 30 June 2021 have been restated for Software-as-a-Service arrangements under NZ IAS 38: Intangible Assets. The financial statements for the period ended 31 December 2020 have been restated for Software-as-a-Service arrangements under NZ IAS 38: Intangible Assets and growing costs under NZ IAS 41: Agriculture. Refer to Note 1 of the financial statements.

The accompanying notes form part of these financial statements

Statement of Changes in Equity continued

FOR THE PERIOD ENDED 31 DECEMBER 2020 (UNAUDITED) RESTATED*

	Share Capital	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
	\$000	\$000	\$000	\$000
Unaudited balance at 30 June 2020	49,815	(2,604)	362,969	410,180
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	–	–	39,068	39,068
Total comprehensive income for the period	–	(2,203)	39,068	36,865
<i>Equity Transactions</i>				
– Dividends paid to shareholders	–	–	(17,217)	(17,217)
Unaudited balance at 31 December 2020	49,815	(4,807)	384,820	429,828

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Statement of Financial Position

	Unaudited Dec 2021 \$000	Audited June 2021 \$000 Restated*	Unaudited Dec 2020 \$000 Restated*
Equity			
Share capital	49,815	49,815	49,815
Foreign currency translation reserve	(3,296)	(3,640)	(4,807)
Retained earnings	424,171	407,675	384,820
Total Equity	470,690	453,850	429,828
Liabilities			
Current Liabilities			
Trade payables and accruals	28,249	28,898	27,573
Derivative financial instruments	1,698	2,879	4,432
Income tax payable	2,336	8,235	3,144
Lease liability	4,927	4,840	4,975
	37,210	44,852	40,124
Non-Current Liabilities			
Deferred tax liability	35,200	31,650	35,131
Derivative financial instruments	104	1,590	3,616
Interest-bearing loans and borrowings (secured)	271,502	258,001	265,739
Lease liability	93,832	93,863	95,581
	400,638	385,104	400,067
Total Liabilities	437,848	429,956	440,191
Total Equity and Liabilities	908,538	883,806	870,019

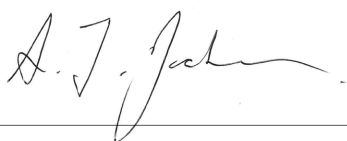
*The financial statements for the year ended 30 June 2021 have been restated for Software-as-a-Service arrangements under NZ IAS 38: Intangible Assets. The financial statements for the period ended 31 December 2020 have been restated for Software-as-a-Service arrangements under NZ IAS 38: Intangible Assets and growing costs under NZ IAS 41: Agriculture. Refer to Note 1 of the financial statements.

The accompanying notes form part of these financial statements

Statement of Financial Position continued

	Unaudited Dec 2021 \$000	Audited June 2021 \$000 Restated*	Unaudited Dec 2020 \$000 Restated*
Assets			
Current Assets			
Cash and cash equivalents	4,477	8,943	11,679
Trade and other receivables	74,304	43,997	55,839
Derivative financial instruments	73	271	6,058
Inventories	115,244	159,982	112,333
Biological work in progress	49,044	12,080	40,012
	243,142	225,273	225,921
Non-Current Assets			
Property, plant and equipment	586,835	580,156	563,640
Right-of-use assets	71,120	71,335	73,580
Intangible assets	6,725	7,042	6,814
Derivative financial instruments	716	–	64
	665,396	658,533	644,098
Total Assets	908,538	883,806	870,019

For, and on behalf of, the Board who authorised the issue of the financial statements on 25 February 2022.



AT Jackson, Chairman



SD Carden, Managing Director

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Statement of Cash Flows

	Unaudited Dec 2021 6 Months \$000	Audited June 2021 12 Months \$000 Restated*	Unaudited Dec 2020 6 Months \$000 Restated*
Operating Activities			
Cash was provided from			
Receipts from customers	150,290	300,556	160,184
Net GST received	1,681	603	688
	151,971	301,159	160,872
Cash was applied to			
Payments to suppliers and employees	110,418	194,209	97,222
Net interest paid	4,989	9,300	4,344
Net income tax paid	16,323	23,370	16,653
	131,730	226,879	118,219
Net Cash Inflows from Operating Activities	20,241	74,280	42,653
Investing Activities			
Cash was provided from			
Proceeds from sale of property, plant and equipment	53	60	45
Dividends received	1	1	1
	54	61	46
Cash was applied to			
Purchase of property, plant and equipment	14,955	59,816	36,058
Purchase of intangible assets	301	611	494
Capitalised interest paid	745	1,325	688
	16,001	61,752	37,240
Net Cash Outflows from Investing Activities	(15,947)	(61,691)	(37,194)

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The accompanying notes form part of these financial statements

Statement of Cash Flows continued

	Unaudited Dec 2021 6 Months \$000	Audited June 2021 12 Months \$000 Restated*	Unaudited Dec 2020 6 Months \$000 Restated*
Financing Activities			
Cash was provided from			
Proceeds from borrowings	27,483	53,787	21,290
	27,483	53,787	21,290
Cash was applied to			
Dividends paid to shareholders	20,225	17,208	17,202
Borrowing facility fees	965	–	–
Repayment of borrowings	12,660	50,628	9,712
Repayment of lease liability	2,500	4,179	2,548
	36,350	72,015	29,462
Net Cash Outflows from Financing Activities	(8,867)	(18,228)	(8,172)
Net decrease in Cash Held	(4,573)	(5,639)	(2,713)
Cash and cash equivalents at beginning of the year	8,943	14,755	14,755
Effect of exchange rate changes on foreign currency balances	107	(173)	(363)
Cash and Cash Equivalents at End of the Period	4,477	8,943	11,679

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The accompanying notes form part of these financial statements

Statement of Cash Flows continued

	Unaudited Dec 2021 6 Months \$000	Audited June 2021 12 Months \$000 Restated*	Unaudited Dec 2020 6 Months \$000 Restated*
Reconciliation of Profit for the Period with Cash Flows from Operating Activities:			
Reported profit after tax	36,737	61,923	39,068
Add/(deduct) items not involving cash flows			
Depreciation expense	11,434	22,843	11,559
Other non-cash items	400	(462)	(748)
Net gain/(loss) on disposal of assets	2	(19)	–
Movement in derivative financial instruments	(3,185)	(2,664)	(4,936)
Movement in deferred tax liability	3,550	1,342	4,823
	12,201	21,040	10,698
Movement in working capital balances are as follows:			
Trade payables and accruals	(649)	1,019	(306)
Trade and other receivables	(30,307)	(2,209)	(14,051)
Inventories	44,738	(7,142)	40,507
Biological work in progress	(36,964)	613	(27,319)
Income tax payable	(5,899)	(1,439)	(6,530)
Add items classified as investing and financing activities			
Capital purchases included within trade payables and inventories	384	475	586
	(28,697)	(8,683)	(7,113)
Net Cash Inflows from Operating Activities	20,241	74,280	42,653
Reconciliation of movement in Net Debt:			
Opening balance at beginning of the year	249,058	239,541	239,541
Per statement of cash flows:			
– Proceeds from borrowings	14,823	3,159	11,578
– Borrowing facility fees	(965)	–	–
– Net decrease in cash held	4,573	5,639	2,713
Foreign exchange movement	(826)	400	67
Other non-cash movements	362	319	161
Closing balance at end of the Period	267,025	249,058	254,060

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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 2021 were authorised for issue in accordance with a resolution of the Directors on 25 February 2022.

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, with the exception of growing costs and Software-as-a-Service arrangements as detailed below. Refer to the published financial statements for the year ended 30 June 2021 for a complete listing of the Group accounting policies.

Growing Costs

An adjustment has been made to restate the 2020 comparatives to align the accounting treatment for growing costs. Previously a distinction was made between where the Group maintains beneficial ownership in bearer plants and where the Group is not the beneficial owner of bearer plants. All vineyard costs that are incurred subsequent to harvest up to balance sheet date are now treated consistently and are carried forward in the Statement of Financial Position and included in the subsequent year's fair value adjustment at point of harvest.

Notes to the Financial Statements continued

1. General Information (continued)

Software-as-a-Service Arrangements

The Group accounting policy on intangible software has been changed subsequent to an agenda decision published by the IFRS Interpretations Committee in April 2021, for the configuration and customisation costs incurred in relation to Software-as-a-Service (SaaS) arrangements. SaaS arrangements are those in which the Group does not currently control the underlying software used in the arrangement, but pays a fee in exchange for a right to receive access to a supplier's application software for a specified term.

Under the new Group accounting policy, costs incurred to configure or customise SaaS arrangements are recognised as a separate intangible software asset when they meet the definition of and recognition criteria for, an intangible asset. These costs are recognised as intangible software assets and amortised over their useful lives on a straight-line basis. If costs do not meet the recognition criteria, they are expensed as incurred.

The Group has applied the change in accounting policy retrospectively, with the impact shown in the table below.

	Audited Previously Reported June 2021 12 Months \$000	Unaudited SaaS Adjustment \$000	Audited Restated June 2021 12 Months \$000	Unaudited Previously Reported Dec 2020 6 Months \$000	Audited Growing Cost Adjustment \$000	Unaudited SaaS Adjustment \$000	Unaudited Restated Dec 2020 6 Months \$000
Statement of Financial Performance							
Profit before finance costs	95,311	(341)	94,970	59,089	–	(228)	58,861
Income tax expense	23,365	(95)	23,270	14,960	–	(64)	14,896
– Basic and fully diluted earnings per share (cents per share)	61.47	(0.24)	61.23	38.79	–	(0.16)	38.63
Statement of Financial Position							
Retained earnings	408,247	(572)	407,675	379,384	5,926	(490)	384,820
Deferred tax liability	31,872	(222)	31,650	33,343	1,979	(191)	35,131
Inventories	159,982	–	159,982	144,440	(32,107)	–	112,333
Biological work in progress	12,080	–	12,080	–	40,012	–	40,012
Property, plant and equipment	582,143	(1,987)	580,156	565,648	–	(2,008)	563,640
Intangible assets	5,849	1,193	7,042	5,487	–	1,327	6,814
Statement of Cash Flows							
Payments to suppliers and employees	193,767	442	194,209	96,976	–	246	97,222
Purchase of property, plant and equipment	60,375	(559)	59,816	36,304	–	(246)	36,058
Purchase of intangible assets	494	117	611	494	–	–	494
Reconciliation of Profit for the Year with Cash Flows from Operating Activities							
Reported profit after tax	62,169	(246)	61,923	39,232	–	(164)	39,068
Depreciation expense	22,998	(155)	22,843	11,631	–	(72)	11,559
Other non-cash items	(516)	54	(462)	(802)	–	54	(748)
Movement in deferred tax liability	1,437	(95)	1,342	4,887	–	(64)	4,823
Inventories	(7,142)	–	(7,142)	13,188	27,319	–	40,507
Biological work in progress	613	–	613	–	(27,319)	–	(27,319)

Retained earnings as at 1 July 2020 decreased by \$326,000 as a result of SaaS arrangements.

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 2021	Delegat Limited	Delegat Australia Pty Ltd	Delegat Europe Limited	Delegat USA, Inc.	Other Segments ¹⁰	Eliminations and Adjustments ¹¹	6 months ended 31 December 2021
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Operating income							
External sales ^{2,8}	40,920	33,841	58,427	86,858	3,632	(45,709)	177,969
Internal sales	180,735	–	–	–	3,381	(184,116)	–
Unrealised foreign exchange gains/(losses)	865	–	144	–	–	(299)	710
Fair value gain on derivative financial instruments	3,184	–	–	–	–	–	3,184
Dividend revenue	1	–	–	–	1,059	(1,042)	18
Interest revenue	–	–	–	–	3	–	3
Total segment revenues¹	225,705	33,841	58,571	86,858	8,075	(231,166)	181,884
Operating expenses							
Interest expense ³	4,689	16	5	31	382	–	5,123
Depreciation ⁴	9,935	285	69	243	902	–	11,434
Income tax expense ⁵	15,410	301	499	525	(27)	(2,827)	13,881
Segment profit/(loss)	39,496	698	2,125	1,615	1,115	(8,312)	36,737
Assets							
Segment assets ⁶	859,594	17,684	42,961	27,540	77,267	(116,508)	908,538
Capital expenditure ⁷	15,384	–	–	6	221	–	15,611
Segment liabilities	397,330	11,930	30,177	8,665	55,187	(65,441)	437,848

Notes to the Financial Statements continued

2. Segmental Reporting (continued)

For the 6 months ended 31 December 2020 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 2020
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Operating income							
External sales ^{2,9}	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	9,955	302	90	255	957	–	11,559
Income tax expense ⁵	13,145	267	519	481	83	401	14,896
Segment profit	37,260	614	2,224	1,501	10,815	(13,346)	39,068
Assets							
Segment assets ⁶	812,125	19,550	26,668	34,142	79,840	(102,306)	870,019
Capital expenditure ⁷	36,508	15	–	–	372	–	36,895
Segment liabilities	408,390	13,899	17,785	18,966	39,647	(58,496)	440,191

- 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 2021 the Group recognised accruals of \$18,105,000 (30 June 2020: \$22,390,000). During the six months ended 31 December 2021 \$188,000 of these accruals have been released (December 2020: \$572,000).
- Interest expense is net of any interest capitalised to long term assets and inventory. During the period \$745,000 (December 2020: \$688,000) was capitalised to long term assets. During the period \$2,614,000 (December 2020: \$2,619,000) was capitalised to inventory.
- Depreciation expense presented above is gross of \$9,624,000 (December 2020: \$9,467,000), 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 2021 Delegat USA, Inc. had a single customer which comprised 10% or more of Group sales amounting to \$40,114,000.
- 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.
- Other segments' assets include non-current assets of Barossa Valley Estate Pty Limited of \$46,583,000 (December 2020: \$47,730,000) 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.

*The financial statements for the year ended 30 June 2021 have been restated for Software as a Service arrangements under NZ IAS 38: Intangible Assets. The financial statements for the period ended 31 December 2020 have been restated for Software as a Service arrangements under NZ IAS 38: Intangible Assets and growing costs under NZ IAS 41: Agriculture. 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 2021 6 Months \$000	Audited June 2021 12 Months \$000 Restated*	Unaudited Dec 2020 6 Months \$000 Restated*
Cost of sales	98,996	159,118	92,291
Selling, marketing and promotion expenses	19,123	36,016	18,976
Corporate governance expenses	436	991	480
Administration expenses	7,588	14,281	7,076

4. Acquisition and Disposal of Assets

During the six months ended 31 December 2021 the Group incurred total capital expenditure of \$15,611,000 (31 December 2020: \$36,895,000). During the six months ended 31 December 2021 the Group disposed of property, plant and equipment with a net book value of \$55,000 (31 December 2020: \$44,000).

5. Capital Commitments

The estimated capital expenditure contracted for at 31 December 2021 but not provided for is \$28,941,000 (31 December 2020: \$21,516,000).

*The financial statements for the year ended 30 June 2021 have been restated for Software as a Service arrangements under NZ IAS 38: Intangible Assets. The financial statements for the period ended 31 December 2020 have been restated for Software as a Service arrangements under NZ IAS 38: Intangible Assets and growing costs under NZ IAS 41: Agriculture. Refer to Note 1 of the financial statements.

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