TREASURY WINE ESTATES

Treasury Wine Estates

Interim 2018 financial result

Treasury Wine Estates will host an investor and media webcast and conference call commencing at 9:00am (AEDT) on 31 January 2018 (dial-in details below). The webcast and presentation material will be available at www.tweglobal.com. A replay of the presentation will also be available on the website from approximately 11:30am.

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MEDIA RELEASE

31 January 2018

TWE delivers 1H18 Net Profit After Tax growth of 37%[1,2] and announces transformational changes to its US route-to-market

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Announcement highlights

1H18 result and future perspectives

- 1H18 EBITS[3] up 25% to $283.3m; margin accretion of 4.4ppts to 21.9%
- NPAT[1] up 37% to $187.2m; EPS[4] growth of 38% to 25.6 cents per share
- EBITS growth and margin accretion across all regions
- Diageo Wine integration now complete
- Proactive exit from c.1m 9Le cases of lower margin Commercial volume; TWE expects to exit a further 0.5-1m 9Le cases in 2H18
- TWE aligned with current F18 consensus EBITS forecast of $524m[5]
- EBITS growth expected to accelerate to 25% in F19

Route-to-market improvements in the United States (US)

- Transformational changes to US route-to-market to drive portfolio growth:
  - Direct sales and distribution model in California and Washington
  - Hybrid sales and distribution model in Florida
  - New distributor partners in Illinois, Colorado, South Carolina, Minnesota, Indiana, Hawaii, Iowa, West Virginia, Oregon, Alaska, North Dakota and South Dakota

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1H18 result summary

Treasury Wine Estates Ltd (ASX:TWE or "the Company") today announced its interim 2018 financial result, with Reported Net Profit After Tax (NPAT)[1] up 37% to $187.2m and Earnings Per Share (EPS)[4] up 38% to 25.6 cents per share. Excluding a one-off tax benefit[1], EPS would have been 22.7 cents per share.

TWE reported Earnings Before Interest, Tax, SGARA and material items (EBITS) of $283.3m, up 25% on a reported currency basis.

The Company also delivered further EBITS margin accretion of 4.4ppts to 21.9%, highlighting the progress being made in TWE's journey towards an EBITS margin of 25%.

The Board declared an interim dividend of 15 cents per share, 75% franked, representing a 2 cents per share increase (+15%) and a 54% payout ratio (60% excluding the one-off tax benefit[1]).

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[1] Statutory Net Profit After Tax (including material items), includes a one-off tax benefit of $20.9m arising due to the restatement of TWE's net deferred tax liability in respect to its US operations, following the recent enactment of the US Tax Cuts and Jobs Act
[2] Unless otherwise stated, all percentage movements outlined in TWE's Media Release are stated on a reported currency basis
[3] Earnings before interest, tax, SGARA and material items
[4] Reported basic Earnings Per Share or "EPS" (including material items), including the one-off tax expense benefit referenced in footnote 1
[5] As per Bloomberg, as at 30 January 2018

On today's result, TWE's Chief Executive Officer, Michael Clarke, commented: "I am very pleased to report another strong result in 1H18. Performance was delivered sustainably, with all regions contributing to EBITS growth and margin accretion. 'Fixed' regions, Asia, Europe and ANZ, are outperforming expectations, and we are now taking some exciting steps to really transform our route-to-market in the United States, and further strengthen the long-term outlook for the Americas region".

Key highlights from a regional perspective include:

- Americas reported 8% EBITS growth to $100.4m and an EBITS margin of 19.9% (up 3.7ppts), supported by underlying premiumisation, Diageo Wine synergies and cost optimisation ahead of route-to-market changes being made in the US. The EBITS result includes an adverse one-off impact of $10m from reduced shipments as part of the transition process associated with these route-to-market changes that result in TWE selling direct to key retail partners in California and Washington; as well as an increased allocation of US sourced Luxury volume to Asia

- Asia reported EBITS growth of 48% to $117.0m and an EBITS margin of 39.3% (up 3.1ppts), as TWE continued to leverage its route-to-market to drive growth across key brands, particularly in the Masstige segment, as well as US sourced Luxury, which increased volume by 60%. All country of origin portfolios delivered volume growth during the period, with Australian (including Penfolds) up 48%, US increasing by 25% and French growing by 105%[6]

- Europe reported 17% EBITS growth to $24.0m and an EBITS margin of 15.0% (up 3.4ppts), driven by a focus on priority brands and markets, reduced Cost of Goods Sold (COGS) per case, lower cost of doing business (CODB) and favourable foreign currency movements, whilst exiting lower margin and underbond market Commercial volume post the integration of the Diageo Wine business

- Australia & New Zealand (ANZ) reported EBITS growth of 28% to $68.2m and an EBITS margin of 20.4% (up 4.0ppts), underpinned by strong customer relationships driving revenue growth, along with favourable COGS movements and a net $4m one-off benefit relating to profit on asset sales

The integration of Diageo Wine's supply chain is now complete. Additionally, TWE's cumulative run-rate COGS savings target of $100m from its Supply Chain Optimisation initiative was delivered in 1H18. The Company will continue to seek further supply cost optimisation opportunities in the ordinary course of business.

TWE targets financial metrics that are consistent with an investment grade credit profile, and through the cycle leverage of 2.0x net debt / EBITDAS (adjusted for operating leases). To support increased balance sheet efficiency, TWE announced a buyback program of up to $300m at the F17 results, with $162.7m of shares purchased and cancelled to date. At 1H18, TWE's net debt / EBITDAS (adjusted for operating leases) stands at 1.6x (with interest cover of 18.5x).

Robust cash conversion of 83% in 1H18 is in line with TWE's target, and reflects TWE's strong operating performance, after taking into account higher receivables following strong trading in 2Q18 to support key consumption occasions, along with higher inventory, partly reflecting the addition of Maison De Grand Esprit and Mouton Cadet inventory, and the impact of reduced US shipments ahead of route-to-market changes.

Exit from lower margin Commercial volume

The Commercial wine segment continues to decline in the US and the UK (with market volume falling -3%[7] and -10%[8], respectively, excluding bag-in-box).

[6] Includes French brand Piat D'Or that was acquired as part of the Diageo Wine acquisition, as well as the recently launched Maison De Grand Esprit brand

[7] IRI Market Advantage, Commercial Wine Category ($4-$10), table excluding premium box, Total US – Multi Outlet + Liquor, 26 weeks ending 31 December 2017

[8] Nielsen Scantrack, Total UK Coverage, Commercial Wine Category (<£6), Still Light Wine, 26 weeks ending 30 December 2017 (750ml bottled still wine only)

Whilst Commercial wine continues to play an important role in TWE's portfolio, the completion of the Diageo Wine integration, along with the Company's Supply Chain Optimisation initiative and actions to increase access to Masstige and Luxury wine, are now facilitating the exit from lower margin Commercial volume, without materially impacting profit or profitability.

During 1H18, TWE proactively exited approximately 1m 9Le cases from brands including Blossom Hill, Beringer Main & Vine and BV Coastal in the US and the UK, whilst at the same time, delivering lower Group COGS per case. In 2H18, TWE expects to exit a further 0.5m – 1m 9Le cases of lower margin Commercial volume.

US route-to-market improvements

Today, TWE also announced a series of transformational changes to its route-to-market in the US that are expected to strengthen the Company's competitive positioning, increase efficiency and effectiveness, and drive portfolio growth.

Changes span a number of key states, and range from implementing direct and hybrid sales and distribution models, to changing distributors.

In states transitioning to direct and hybrid sales and distribution models, TWE will be better positioned to build long-term strategic relationships with key retail partners, by collaboratively driving growth of the wine category; in the same way that TWE operates in the rest of the world.

In states where TWE has appointed new distributors, greater alignment between TWE and its partners on portfolio growth objectives will underpin stronger route-to-market effectiveness and accelerated growth.

Route-to-market improvements will also better position TWE to deliver value from any future acquisitions in the US, and thus implementing these structural changes prior to executing further M&A activity is a priority.

TWE is making the following changes by state:

- In California and Washington, states that allow producers to distribute directly, TWE is implementing a direct sales and distribution model to manage customer engagement and planning, merchandising, supply chain, invoicing and other back office activities for its largest key retail partners (national and regional). To service the remainder of the market, including the on premise channel, and independent and small chain retailers, TWE has appointed new full service distributor partners, Classic Wines of California and Vehrs Distributing, in California and Washington, respectively;
- In Florida, TWE is implementing a new hybrid distribution model where the Company will directly manage relationships with its largest key retail partners (national and regional), collaborating with newly appointed distributor partner, Breakthru Beverage Group, to manage sales execution for these customers. Breakthru Beverage Group will operate a full service distribution model for the remainder of the market, including the on premise channel, and independent and small chain retailers; and
- In a number of other states, TWE has appointed new full service distributor partners that it considers best placed to grow its brand portfolio. These include Breakthru Beverage Group in Illinois, Colorado, South Carolina and Minnesota, Johnson Brothers in Indiana, Hawaii, Iowa, West Virginia, North Dakota and South Dakota, Vehrs Distributing in Oregon and Specialty Imports in Alaska.

Once fully embedded, these changes are expected to be margin enhancing for the Americas, underpinned by a more efficient and lower cost value chain, particularly in states where TWE will operate a direct or hybrid sales and distribution model.

Transition is now underway, and TWE expects to have completed implementation by the end of F18, and fully embedded internal operating model changes, and operating rhythms with retail and distributor partners, by 2H19.

In preparation for this important transformation, TWE has invested in sales and marketing capability, and is also reducing shipments to US distributors in states where direct or hybrid sales and distribution models are being implemented, and existing distributors will no longer be required to hold inventory.

Approximately half of the planned distributor destocking has been conducted in 1H18 through reduced shipments, resulting in an adverse one-off EBITS impact of c.$10m. TWE expects to complete the distributor destocking by the end of F18, with the full year EBITS impact anticipated to be broadly double that of 1H18. One-off impacts are recorded in operating results, rather than as material items.

On the route-to-market transformation, CEO Michael Clarke, commented: “Similar to business model changes we implemented in China, Canada and New Zealand, as well as the change in global Penfolds release date – route-to-market transformation in the US demonstrates the relentless focus we have at TWE to continue improving our regional business models. These important changes will also strengthen our ability to deliver value from any future acquisitions in the region”.

To support the implementation of the route-to-market changes, CEO Michael Clarke’s temporary co-location arrangement between Melbourne, Australia and California in the United States, will be extended until the end of calendar year 2018.

Future perspectives

TWE continues to target EBITS growth and margin accretion in F18, and remains aligned with the current F18 consensus EBITS forecast of $524m[9]. Earnings momentum in ‘fixed’ regions (Asia, ANZ and Europe) is anticipated to continue in 2H18, however F18 EBITS is likely to be 1H-weighted, as a result of:

- The re-phasing of some Luxury shipments to 1H18, to capture higher demand in advance of consumption occasions including Singles’ Day, Christmas and Chinese New Year; and
- The transition, upfront investment and short-term execution risk associated with implementing the US route-to-market changes in 2H18 (including the remaining distributor destocking), which is anticipated to impact both EBITS and cash conversion.

TWE estimates that the recent enactment of the US Tax Cuts and Jobs Act will result in a c.2% to 4% EPS[10] accretion in 2H18 as a result of the ongoing reduction in US corporate tax rate.

In F19, the Company currently expects full year EBITS growth to accelerate to approximately 25%, supported by an increase in availability of high-end wine, which is already on TWE’s balance sheet.

TWE reiterates its commitment to margin accretion, that over time delivers an EBITS margin of 25%.

Michael Clarke commented on TWE’s future prospects: “I am very excited about the outlook for the Company, and am confident that the business model changes we are making this year, along with an increased availability of high-end wine, will set TWE up for accelerated growth in F19, F20 and beyond”.

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[9] As per Bloomberg, as at 30 January 2018

[10] EPS pre material items and SGARA

Profit Report
Financial Performance

		Reported Currency		Constant Currency	
$Am (unless otherwise stated)	**1H18**	**1H17**	**Change**	**1H17**	**Change**
Volume (m 9L cases)	18.4	18.7	(1.6)%	18.7	(1.6)%
Net sales revenue	1,295.4	1,294.7	0.1 %	1,280.1	1.2 %
NSR per case ($)	*70.26*	*69.08*	*1.7 %*	*68.31*	*2.9 %*
Other Revenue	41.2	73.7	(44.1)%	69.5	(40.7)%
Cost of goods sold	(790.8)	(867.8)	8.9 %	(854.5)	7.5 %
Cost of goods sold per case ($)	*42.89*	*46.31*	*7.4 %*	*45.60*	*5.9 %*
Gross profit	545.8	500.6	9.0 %	495.1	10.2 %
Gross profit margin (% of NSR)	*42.1%*	*38.7%*	*8.8 %*	*38.7%*	*8.8 %*
Cost of doing business	(262.5)	(273.8)	4.1 %	(270.5)	3.0 %
Cost of doing business margin (% of NSR)	*20.3%*	*21.1%*	*0.8ppts*	*21.1%*	*0.8ppts*
EBITS	**283.3**	**226.8**	**24.9 %**	**224.6**	**26.1 %**
EBITS margin (%)	*21.9%*	*17.5%*	*4.4ppts*	*17.5%*	*4.4ppts*
SGARA	(24.0)	(10.5)	NM	(10.0)	NM
EBIT	**259.3**	**216.3**	**19.9 %**	**214.6**	**20.8 %**
Net finance costs	(15.1)	(13.1)	(15.3)%	(12.8)	(18.0)%
Tax expense	(56.1)	(60.4)	7.1 %	(59.7)	6.0 %
Net profit after tax (before material items)	**188.1**	**142.8**	**31.7 %**	**142.1**	**32.4 %**
Material items (after tax)	(0.9)	(6.1)	85.2 %	(5.7)	84.2 %
Non-controlling interests	-	(0.5)	100.0 %	(0.5)	100.0 %
Net profit after tax	**187.2**	**136.2**	**37.4 %**	**135.9**	**37.7 %**
Reported EPS (A¢)	25.6	18.5	38.4 %	18.4	39.1 %
Net profit after tax (before material items and SGARA)	**203.2**	**148.6**	**36.7 %**	**148.6**	**36.7 %**
EPS (before material items and SGARA) (A¢)	27.8	20.2	37.6 %	20.2	37.6 %
Average no. of shares (m)	731.2	736.6		736.6	
Dividend (A¢)		13.0		13.0	

Financial headlines[11,12]

- Net Sales Revenue (NSR) flat (+0.1%) on a reported currency basis and up 1.2% on a constant currency basis; impacted by the proactive exit of lower margin Commercial volume and reduced shipments ahead of US route-to-market changes
- EBITS of $283.3m, up 25% on a reported currency basis and 26% on a constant currency basis
- EBITS margin accretion of 4.4ppts to 21.9%
- Strong uplift in NPAT, Reported EPS and EPS (before material items & SGARA)
- Lower tax expense reflects a one-off benefit of $20.9m arising due to the restatement of TWE's US net deferred tax liability following the enactment of the US Tax Cuts and Jobs Act
- Robust cash conversion at 83%; in line with target
- Net debt[13] / EBITDAS, adjusted for operating leases of 1.6x and interest cover 18.5x[14]

Business headlines

- Proactive exit from lower margin Commercial volume in the US and the UK, facilitated by the integration of Diageo Wine, TWE's Supply Chain Optimisation initiative and increasing access to Luxury and Masstige wine
- Route-to-market changes initiated in the US, spanning a number of states and ranging from implementing direct and hybrid sales and distribution models, to changing distributors
- EBITS growth and margin accretion delivered by all regions
- Margin accretion principally driven by premiumisation, strong momentum in Asia, above category growth in ANZ, Supply Chain savings, Diageo Wine synergies and lower CODB
- Investment in strategic partnerships with distributor and retail partners in priority markets, supported by joint business planning and insight-led category growth initiatives
- Diageo Wine supply chain integration now complete
- TWE's cumulative run-rate COGS savings target of $100m from its Supply Chain Optimisation initiative delivered in 1H18

Dividend and share buyback

- Interim dividend of 15 cents per share, 75% franked; delivering 15% growth vs. 1H17, and a pay-out ratio of 54%[15]
- On-market share buyback commenced in 1H18; $162.7m purchased during period

Outlook

- TWE remains aligned with the current F18 consensus EBITS forecast of $524m[9]. F18 EBITS expected to be 1H-weighted, due to:
  - The re-phasing of some Luxury shipments to 1H18; and
  - The transition, upfront investment and execution risk associated with implementing US route-to-market changes in 2H18
- Estimated c.2% to 4% EPS[10] accretion in 2H18 as a result of recently enacted US Tax Cuts and Jobs Act
- F19 EBITS growth anticipated to be approximately 25%
- Commitment to EBITS margin accretion and journey towards EBITS margin of 25% reiterated

[11] Financial information in this report is based on reviewed financial statements. Non-IFRS measures have not been subject to audit or review. The non-IFRS measures are used internally by Management to assess the operational performance of the business and make decisions on the allocation of resources
[12] Unless otherwise stated, all percentage or dollar movements from prior periods are pre any material items and on a constant currency basis
[13] Borrowings have been adjusted by $0.4m (1H17: $3.6m, F17: $4.1m) to reflect a fair value hedge of a portion of US Private Placement notes
[14] Interest cover is calculated as the ratio of earnings to net interest expense, where earnings is the consolidated pre-tax profit (pre material items and SGARA) plus the sum of the amount of net interest expense adjusted for amortised interest costs, per financial covenants
[15] TWE targets a dividend payout ratio of between 55%-70% of Net Profit After Tax (pre-material items and SGARA) over a fiscal year

Revenue by region[16]

A$m	1H18	1H17	%	1H17	%
		Reported currency		Constant currency	
Net Sales Revenue					
ANZ	333.9	322.8	3.4%	321.6	3.8%
Asia	297.5	218.1	36.4%	217.8	36.6%
Americas & LATAM	503.8	576.6	(12.6)%	562.5	(10.4)%
Europe	160.2	177.2	(9.6)%	178.2	(10.1)%
Total sales revenue	**1,295.4**	**1,294.7**	**0.1%**	**1,280.1**	**1.2%**
Other revenue	41.2	73.7	(44.1)%	69.5	(40.7)%
Total Revenue	**1,336.6**	**1,368.4**	**(2.3)%**	**1,349.6**	**(1.0)%**

Volume

Volume down 0.3m 9Le cases (-1.6%) to 18.4m 9Le, driven by:

- Proactive exit of lower margin Commercial volume in the US and UK, reduced shipments in the US to support route-to-market transition, and the cycling of Non-Priority Commercial (NPC) brand volume in 1H17 (prior to divestment of the portfolio)[17]; and
- Volume growth delivered in Asia and ANZ through strategic customer partnerships, focused brand investment and optimised routes-to-market

Revenue

- Net Sales Revenue up 1.2%, with NSR per case up 3%, supported by portfolio premiumisation, top line momentum in Asia and ANZ, and price increases, particularly for key Luxury brands
- Other revenue down 41%, reflecting the exit of third party distribution arrangements in New Zealand as part of the route-to-market change, and revenue in 1H17 recognised on sale of bulk wine associated with the divestment of the NPC brand portfolio in July 2016

Cost of Goods Sold (COGS)

- Lower COGS per case driven by Supply Chain Optimisation savings and realisation of Diageo Wine synergies, partially offset by portfolio premiumisation
- Cumulative run-rate COGS savings target of $100m from TWE's Supply Chain Optimisation initiative delivered in 1H18

Cost of Doing Business (CODB)

- CODB down $8.0m (-3%) to $262.5m, and CODB margin lower than pcp, driven by reduced Overheads (partly reflecting organisational structure changes in 2H17) and A&P optimisation (including reallocation of brand building to discounts and rebates (D&R) in the US)

EBITS by region[16]

A$m	1H18	1H17	%	1H17	%
		Reported currency		Constant currency	
ANZ	68.2	53.1	28.4%	54.0	26.3%
Asia	117.0	79.0	48.1%	79.4	47.4%
Americas & LATAM	100.4	93.3	7.6%	88.6	13.3%
Europe	24.0	20.5	17.1%	23.7	1.3%
Corporate	(26.3)	(19.1)	(37.7)%	(21.1)	(24.6)%
TWE EBITS	**283.3**	**226.8**	24.9%	**224.6**	26.1%

Corporate costs

- Corporate costs up $5.2m to $26.3m reflecting investment in organisational capability and higher amortisation as a result of investment in TWE's global IT system

EBITS

- EBITS up 26% on a constant currency basis to $283.3m, principally driven by premiumisation, strong momentum in Asia, above category growth in ANZ, Supply Chain savings, Diageo Wine synergies and lower CODB
- EBITS includes a $10m adverse one-off impact associated with the transition of the US route-to-market changes, and a $4m one-off benefit relating to profit on asset sales in ANZ
- EBITS margin up 4.4ppts to 21.9%

SGARA

- SGARA loss of $24.0m ($14.0m higher than pcp) driven by the 2017 Californian and 2018 Australian vintages, partially offset by the unwind of prior vintage losses, notably the 2016 Californian vintage

Net finance costs

- Net finance costs higher than pcp, principally driven by increased average borrowings

Tax expense

- Lower tax expense reflects a one-off benefit of $20.9m arising due to the restatement of TWE's net deferred tax liability in respect to its US operations, following the recent enactment of the US Tax Cuts and Jobs Act
- Excluding the one-off benefit, TWE's effective tax rate was 31.5%[18] in 1H18

Material items

- Post-tax material items expense of $0.9m reflects integration costs associated with the acquisition of Diageo Wine

Net profit after tax (NPAT)

- NPAT before material items up to $188.1m (+32%) driven by higher EBITS and lower tax expense, partially offset by higher SGARA loss and net finance costs

Earnings Per Share (EPS)

- EPS (before SGARA and material items) increased 38% to 27.8cps. Reported basic EPS also up 38% to 25.6cps

[16] Prior year comparatives have been restated to reflect the transition of the LATAM business from Europe to Americas
[17] Divested Non-Priority Commercial (NPC) brands include: Little Penguin, Stone Cellars, Cellar No 8, Colores Del Sol, Black Opal, Century Cellars, Great American Wine Company, Chateau La Paws, Once Upon A Vine, Rosenblum, Snapdragon and Orogeny
[18] On a pre material items basis

Balance Sheet (condensed)[19]

A$m	1H18	F17	1H17
Cash & cash equivalents	202.5	240.8	339.9
Receivables	662.1	607.9	622.3
Current inventories	1,051.5	947.9	927.3
Non-current inventories	662.2	763.9	645.2
Property, plant & equipment	1,319.1	1,328.5	1,354.2
Agricultural assets	37.0	37.7	37.2
Intangibles	1,090.6	1,095.8	1,120.3
Tax assets	138.7	208.0	245.8
Assets held for sale	15.5	36.0	37.7
Other assets	13.8	12.8	15.5
Total assets	**5,193.0**	**5,279.3**	**5,345.4**
Payables	764.7	719.9	704.2
Borrowings	699.1	600.5	640.2
Tax liabilities	197.8	285.0	273.0
Provisions	50.8	64.8	78.3
Other liabilities	3.3	0.6	1.3
Total liabilities	**1,715.7**	**1,670.8**	**1,697.0**
Net assets	**3,477.3**	**3,608.5**	**3,648.4**

Balance sheet movements as at 31 December 2017

Net assets down $171.1m to $3,477.3m, principally driven by an increase in net debt, partially offset by increased inventory, including the addition of Maison De Grand Esprit and Mouton Cadet inventory, and the impact of reduced US shipments ahead of route-to-market changes. Adjusting for movements in foreign currency, net assets decreased by $68.6m

Cash and cash equivalents

Lower cash balance principally driven by share buyback, increased dividends paid and higher working capital (principally driven by higher inventory), partially offset by continued profit growth across all regions

Working Capital

Higher working capital relative to 30 June 2017, driven by;

- Higher receivables as a result of strong trading in 2Q18 ahead of key consumption occasions
- Inventory broadly constant, reflecting the intake from the high quality, lower yielding 2017 vintage in California, the addition of Maison De Grand Esprit and Mouton Cadet inventory, and the impact of reduced US shipments; offset by the depletion of Australian and New Zealand vintages
- Higher payables as TWE continues to drive availability of its brand portfolio through distribution focused brand building investment

Inventory

Total inventory increased $141.2m to $1,713.7m vs. 1H17, reflecting:

- High yielding, high quality 2017 vintage in Australia and high quality, lower yielding 2017 California vintage
- Uplift in current inventory, driven by strong demand for TWE's Luxury and Masstige wine portfolios over the next 12 months
- The addition of Maison De Grand Esprit and Mouton Cadet inventory, and impact of reduced US shipments ahead of route-to-market changes
- Continued focus on optimising TWE's inventory mix; Commercial inventory reduction higher vs. 1H17, but reduced since June 2017, driven by exit of c.1m 9Le cases of lower margin Commercial volume

Property, Plant & Equipment

Property, Plant & Equipment decreased $35.1m to $1,319.1m reflecting asset depreciation, partly offset by investments in Australia, the US and New Zealand

Agricultural assets

Agricultural assets at 31 December reflect the market value of unharvested grapes prior to the 2018 Australian and New Zealand vintages

Intangibles

Adjusting for foreign currency movements, intangible assets increased by $12.1m, principally reflecting TWE's investment in its IT system

Provisions

Lower provisions relative to pcp, driven by utilisation of restructuring-related provisions in respect of the integration of Diageo Wine (now complete) and TWE's Supply Chain Optimisation initiative

Tax and other assets

Increase in net deferred tax liabilities principally relates to the unwind of DTAs recognised on the Diageo Wine acquisition, partially offset by the revaluation of net US deferred tax liabilities following the enactment of the US Tax Cuts and Jobs Act

Assets held for sale

Lower assets held for sale balance relative to pcp, principally reflecting the disposal of barrels under sale and lease back arrangements, and the sale of surplus supply assets in Australia

Borrowings[20]

Borrowings increased $58.9m to $699.1m, reflecting funding associated with the share buyback and increased inventory; partially offset by foreign currency movements on translation of USD denominated Private Placement (USPP) notes

Balance sheet leverage

Net debt / EBITDAS of 1.6x (adjusted for operating leases) and interest cover of 18.5x

Funding structure

At 31 December 2017, TWE had committed debt facilities totalling approximately $1.2bn, comprising;

- Drawn bank facilities of $114.2m and US Private Placement notes of $512.8m
- Undrawn committed, syndicated debt facilities totalling $538.5m. 4.8 year weighted average term to maturity of committed facilities

[19] Unless otherwise stated, balance sheet percentage or dollar movements from the previous period are on a reported currency basis and in respect of pcp. Movement in working capital is in respect of the 6 months from 30 June 2017 to 31 December 2017 to align with the reconciliation of net debt disclosure on page 7

Cash flow – reconciliation of net debt

A$m (unless otherwise stated)	1H18	1H17
EBITDAS	**330.8**	**283.9**
Change in working capital	(44.6)	15.8
Other items	(10.8)	(5.8)
Net operating cash flows before financing costs, tax & material items	**275.4**	**293.9**
Cash conversion	**83.2%**	**103.5%**
Capital expenditure	(83.9)	(60.7)
Net investment expenditure/other	35.8	14.7
Cash flows after net capital expenditure, before financing costs, tax & material items	**227.3**	**247.9**
Net interest paid	(13.2)	(11.5)
Tax paid	(70.2)	(22.8)
Cash flows before dividends & material items	**143.9**	**213.6**
Dividends/distributions paid	(96.0)	(88.6)
Cash flows after dividends before material items	**47.9**	**125.0**
Material item cash flows	(7.8)	3.1
On-market share purchases	(187.1)	(18.3)
Total cash flows from activities	**(147.0)**	**109.8**
Opening net debt	**(354.8)**	**(365.2)**
Total cash flows from activities (above)	(147.0)	109.8
Proceeds from settlement of derivatives	(0.2)	1.1
Net debt acquired	-	-
Debt revaluation and foreign exchange movements	6.5	(41.6)
Increase in net debt	**(140.7)**	**69.3**
Closing net debt	**(495.5)**	**(295.9)**

Movement in net debt

Net debt increased $199.6m to $495.5m. Drivers of the movement in net debt included:

EBITDAS

EBITDAS increased $46.9m on a reported currency basis driven by earnings growth across all regions

Movement in working capital[21]

Net working capital outflow driven by:

- Higher receivables as a result of strong trading in 2Q18 ahead of key consumption occasions
- Increased inventory, reflecting the intake from the high yielding, high quality 2017 Australian vintage, high quality, lower yielding 2017 vintage in California, the addition of Maison De Grand Esprit and Mouton Cadet inventory, and the impact of reduced US shipments;
- Higher operating payables as TWE continues to drive availability of its brand portfolio through distribution focused brand building investment

Other items

- Other items reflects profit on the disposal of assets and the movement in provisions

Capital expenditure

Capital expenditure (capex) of $83.9m comprising:

- Maintenance & Replacement capex of $60.6m; and
- Growth capex of $23.3m for Diageo Wine integration

Due to timing of payments, capex includes $21.3m of additions from F17

F18 capex expected to be in line with previous guidance

Net investment expenditure / Other

Net investment expenditure reflects proceeds received on sale of surplus supply assets, notably Quelltaler winery and vineyard assets, Lindeman's Cellar Door and Baileys of Glenrowan

Net interest paid

Increased net interest paid driven by higher average drawn debt

Dividends paid

Increase in dividends paid commensurate with F17 final dividend of 13 cents per share, representing an increase of 8% vs. pcp

Tax paid

Increase in tax paid reflects earnings growth, the timing of tax payments and the profile of tax loss utilisation

Material items

Material items outflow driven by restructuring and redundancy costs associated with the acquisition and integration of Diageo Wine

On-market share purchases

Increased on-market share purchases reflects:

- The purchase and cancellation of $162.7m of shares during 1H18 as part of TWE's announced share buyback program of up to $300m; and
- The upfront acquisition of shares in connection with vesting of TWE's Long Term Incentive Plans, and underlying appreciation in TWE's share price

Exchange rate impact

Higher period-end exchange rates used to revalue foreign currency borrowings and cash flows as at 31 December 2017 decreased net debt by $6.5m

Cash conversion

Cash conversion was 83.2%; in line with target

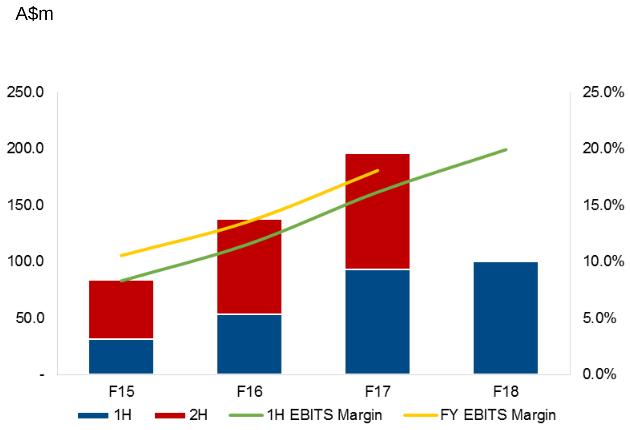
[20] Borrowings have been adjusted by $0.4m (1H17: $3.6m, F17: $4.1m) to reflect a fair value hedge of a portion of US Private Placement notes
[21] Change in working capital reflects operating cash flow movements

Regional Summaries
Americas

Financial performance[22]

A$m	1H18	1H17	%	1H17	%
		Reported currency		Constant currency	
Volume (m 9Le)	7.3	8.1	(9.8)%	8.1	(9.8)%
NSR (A$m)	503.8	576.6	(12.6)%	562.5	(10.4)%
NSR per case (A$)	69.15	71.39	(3.1)%	69.64	(0.7)%
EBITS (A$m)	100.4	93.3	7.6%	88.6	13.3%
EBITS margin (%)	19.9%	16.2%	3.7ppts	15.8%	4.1ppts

Historical EBITS and EBITS margin*



** Chart presented on a reported currency basis*

Business performance

- Volume decline of 10% to 7,286k 9Le cases, driven by:
  - The exit from lower margin Commercial volume, facilitated by completion of the Diageo Wine integration, Supply Chain Optimisation and increased access to Luxury and Masstige wine;
  - A shipment reduction associated with the US route-to-market changes; and
  - Cycling of NPC portfolio volume in 1H17 (prior to divestment)
- Mid-single digit US depletions decline reflects strong growth in Luxury and Masstige depletions (13%, combined) offset by exit from lower margin Commercial volume. Excluding impact of exiting Commercial volume, depletions growth was positive
- NSR down 10%, driven by lower shipments. Small NSR per case reduction primarily due to continued reallocation of brand building investment to D&R to drive on-shelf availability, as well as adverse mix impact from shipment reduction due to route-to-market transition
- Favourable COGS per case, principally reflecting continued realisation of Supply Chain savings and Diageo Wine synergies
- Favourable CODB margin; lower A&P, reduced Canada Overheads (following move to distributor model), and cost optimisation ahead of US route-to-market changes more than offset impact of lower NSR
- Strong EBITS growth and margin accretion in Canada; partnership with Mark Anthony Wine & Spirits delivering significant improvement in in-market execution
- LATAM EBITS of $5.6m now included in Americas financial performance; 124% growth vs. pcp driven by expansion in markets such as Mexico, and increased focus on travel retail
- EBITS up 13% to $100.4m, reflecting underlying premiumisation and tight cost management, partially offset by a one-off profit impact of $10m, due to reduced shipments ahead of route-to-market transition
- Strong EBITS margin accretion delivered, up 4.1ppts to 19.9%

Americas regional perspectives

- US wine market volume (excl. bag in box) continues to be flat, masking further premiumisation; Masstige and Luxury segments are in growth, with Commercial (excl. bag in box) declining[23]
- Strengthened relationships with key national retailers in 1H18 through up-weighted National Accounts team; further progress in building these partnerships a top priority for 2H18
- Significant route-to-market changes initiated; transition to be completed in 2H18, and operating model fully embedded by 2H19
- Integration of Diageo Wine now complete, following the consolidation of packaging to Sonoma Bottling Center
- F18 Americas EBITS expected to be broadly in line with F17 reported Americas EBITS of $189m, taking into account further distributor destocking (expected to result in a further one-off 2H18 EBITS impact of c.$10m), as well as upfront investment and execution risk associated with implementing route-to-market changes in 2H18

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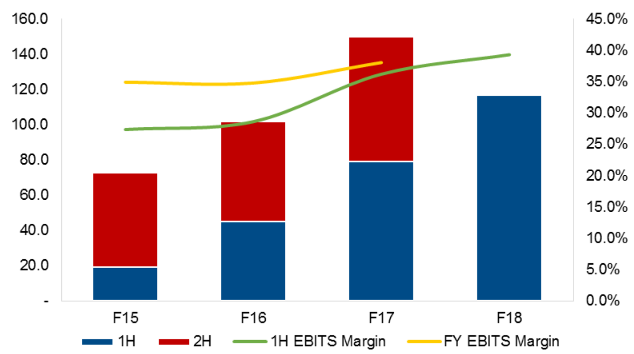
[22] Prior year comparatives have been restated to reflect the transition of the LATAM business from Europe to Americas; 1H17 EBITS restated from $90.7m to $93.3m
[23] IRI Market Advantage, Table $4+ excluding bag in box, 26 weeks ending 31 December 2017, Total US Multi Outlet + Liquor

Regional Summaries
Asia

Financial performance

A$m	1H18	1H17	%	1H17	%
		Reported currency		Constant currency	
Volume (m 9Le)	2.4	1.7	43.6%	1.7	43.6%
NSR (A$m)	297.5	218.1	36.4%	217.8	36.6%
NSR per case (A$)	125.16	131.77	(5.0)%	131.59	(4.9)%
EBITS (A$m)	117.0	79.0	48.1%	79.4	47.4%
EBITS margin (%)	39.3%	36.2%	3.1ppts	36.5%	2.8ppts

Historical EBITS and EBITS margin*



** Chart presented on a reported currency basis*

Business performance

- Volume growth of 44% to 2,377k 9Le cases; North Asia up 60% vs. pcp, and South East Asia, Middle East & Africa (SEAMEA) up 15%
- Volume growth led by Australian brand portfolio (up 48% including Penfolds), with the US portfolio also increasing by 25% (60% in Luxury), and the French portfolio up 105%[24]
- Forward days of inventory cover has remained broadly constant vs. 1H17
- Lower NSR per case reflecting mix impact from broadened brand portfolios; improved price realisation contributed to NSR growth
- Favourable movement in COGS per case primarily a result of portfolio mix impact, supported by Supply Chain savings
- Continued investment in sales and marketing capabilities, particularly in China, underpinned increased Overheads in 1H18
- Despite growth in Overheads driving increased CODB, positive operating leverage from stronger NSR growth delivered lower CODB margin in 1H18
- EBITS up 47% to $117.0m, and EBITS margin accretion of 2.8ppts deliver to 39.3%

Asian regional perspectives

- Fundamentals of Asian wine market continue to be attractive; growing imported wine category taking share from declining local wine category[25]
- Shanghai warehouse facility operational from October as planned; existing customers now transitioning to new route-to-market
- Successful in-market launch of Maison De Grand Esprit in November; encouraging initial shipments, particularly for higher end brand tiers
- China distribution agreement with Baron Philippe de Rothschild commenced in January
- Routes-to-market enhanced in Singapore, the Middle East and Africa through strategic partnerships with customers; expected to drive sustainable top line growth
- TWE continues to focus on driving growth across all portfolios in Asia; including Penfolds, other Australian, US and French wines
- Earnings momentum expected to continue in 2H18. However, F18 EBITS expected to have higher 1H-weighting vs. F17, due to the re-phasing of some luxury shipments from 2H18 to 1H18 to support increased demand ahead of key gift giving and consumption occasions (e.g. Christmas and Chinese New Year)
- Increased confidence in delivering an ongoing EBITS margin in the range of 32% to 37%

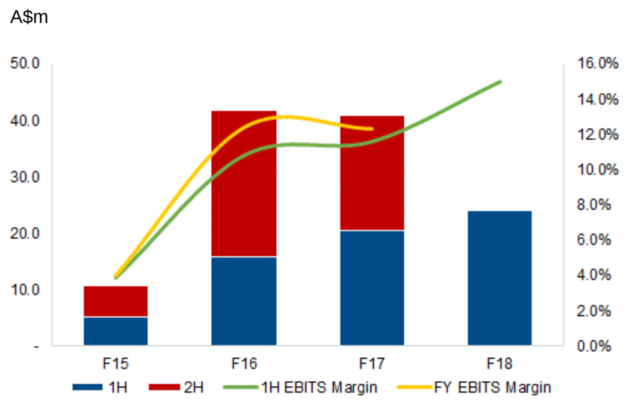
[24] Includes French brand Piat D'Or that was acquired as part of the Diageo Wine acquisition, as well as the recently launched Maison De Grand Esprit brand
[25] As per IWSR Global Database 2016

Regional Summaries
Europe

Financial performance[26]

A$m	1H18	1H17	%	1H17	%
		Reported currency		Constant currency	
Volume (m 9Le)	4.5	4.8	(7.6)%	4.8	(7.6)%
NSR (A$m)	160.2	177.2	(9.6)%	178.2	(10.1)%
NSR per case (A$)	35.90	36.69	(2.2)%	36.89	(2.7)%
EBITS (A$m)	24.0	20.5	17.1%	23.7	1.3%
EBITS margin (%)	15.0%	11.6%	3.4ppts	13.3%	1.7ppts

Historical EBITS and EBITS margin*



** Chart presented on a reported currency basis*

Business performance

- Volume decline of 8% to 4,462k 9Le cases, reflecting exit from lower margin and underbond market Commercial volume, facilitated by the completion of Diageo Wine integration
- Excluding impact of exiting this Commercial volume, Europe delivered underlying volume growth of 1% vs. pcp
- Lower NSR per case, principally driven by reduced Luxury allocations vs. 1H17, and product mix change within brands, including Blossom Hill, Lindeman's and Wolf Blass
- Favourable COGS per case reflects integration of Diageo Wine and Supply Chain savings
- Reduced Overheads vs. pcp, reflecting implementation of organisational structure changes made in 2H17
- Favourable CODB margin, with A&P and Overhead reduction more than offsetting impact of lower NSR
- EBITS up 1.3% to $24.0m, and EBITS margin accretion delivered, up 1.7ppts to 15.0%

Europe regional perspectives

- UK wine market conditions remain challenging, with a declining wine category and continued uncertainty from Brexit
- Premiumisation is becoming more pronounced in the UK; Masstige and Luxury wine volume is growing at over 20%, and Commercial declining by c.10%[27]
- Continued prioritisation of key markets (UK, Sweden and Netherlands) and priority brands (Wolf Blass, Lindeman's, Blossom Hill and 19 Crimes)
- Fit for purpose organisational structure now implemented and driving cost efficiencies
- Strengthened partnerships with key European retailers driving improved distribution of priority brands; focus continues to be on joint business planning and increasing share of shelf space
- Focus in 2H18 will continue to be on strengthening partnerships with strategic customers, maintaining an efficient organisational structure and delivering against the double-digit EBITS margin objective

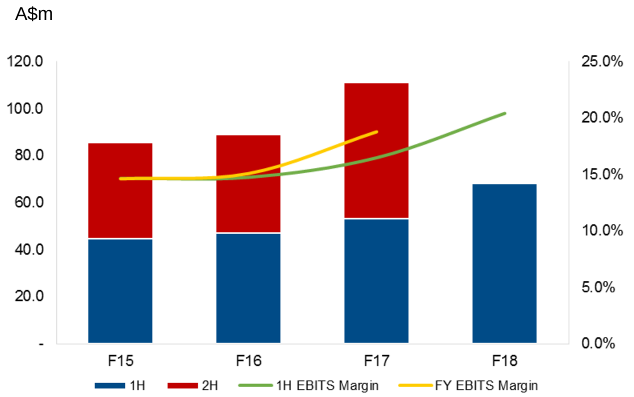
[26] Prior year comparatives have been restated to reflect the transition of the LATAM business from Europe to Americas; 1H17 EBITS restated from $23.1m to $20.5m
[27] Nielsen, Total Coverage, Total Still Light Wine, 26 weeks ending 30 December 2017 (750ml bottle still wine only)

Regional Summaries
Australia & New Zealand (ANZ)

Financial performance

A$m	1H18	1H17	%	1H17	%
		Reported currency		Constant currency	
Volume (m 9Le)	4.3	4.2	3.2%	4.2	3.2%
NSR (A$m)	333.9	322.8	3.4%	321.6	3.8%
NSR per case (A$)	77.45	77.25	0.3%	76.97	0.6%
EBITS (A$m)	68.2	53.1	28.4%	54.0	26.3%
EBITS margin (%)	20.4%	16.4%	4.0ppts	16.8%	3.6ppts

Historical EBITS and EBITS margin*



** Chart presented on a reported currency basis*

Business performance

- Volume growth of 3% to 4,311k 9Le cases; outperforming the category[28]
- NSR per case slightly higher than pcp, driven by premiumisation and price increases across certain Luxury brands, partially offset by lower NSR per case in New Zealand following transition to new distributor model
- COGS per case supported by realisation of Supply Chain savings
- Increased Overheads as a result of investment in people capability, partially offset by benefits from ongoing route-to-market optimisation, including the lower cost distributor model in New Zealand
- CODB margin broadly unchanged, with a one-off benefit of $4m relating to profit on asset sales offsetting the impact of increased Overheads and A&P
- New route-to-market in New Zealand supported EBITS growth
- EBITS up 26% to $68.2m with margin accretion of 3.6ppts to 20.4%

ANZ regional perspectives

- Australian wine market volume is growing at c.0 - 1%[28], with premiumisation driving higher value growth
- TWE continues to target aspirational 25% volume and value market share in Australia, driven by investment in portfolio growth and innovation within the Masstige segment
- Relationships with strategic customers remain strong and collaborative; joint business planning processes are maturing
- Successful transition to distributor route-to-market model in New Zealand, in partnership with Independent Liquor New Zealand (ILNZ)
- F18 EBITS expected to be 1H-weighted due to some demand-driven re-phasing of luxury product allocations from 2H18 to 1H18, and one-off income relating to profit on asset sales recognised in 1H18

[28] Due to incompleteness of available market data, this is a Management estimate

Vintage update

California

The 2017 growing season benefitted from good conditions and healthy winter rains. The harvest itself was impacted initially by high summer temperatures which brought forward the picking of some varietals. The North Coast of California was then affected by a severe weather event that caused wildfires, most notably in Sonoma and Napa. At the time of the fires, TWE had already harvested more than 90% of the vintage, and was fortunate to experience only minimal vineyard damage. The potential impact of the weather event, ensuing fires and smoke taint is currently expected to be limited. Despite a challenging harvest, the 2017 intake was broadly in line with vintage 2016, once adjusting for the planned reduction in Commercial volume. Quality is strong across TWE's Luxury portfolio, with luxury red wines in particular showing intense flavour and colour, reflecting TWE's significant investments in both vineyard redevelopments to access incremental high quality fruit of in-demand varieties, and leading technology in wineries to maximise wine quality and style.

Australia

Vintage 2018 started with a drier than average winter with cool spells that extended into spring, generating some frost events and a later than average budburst. Spring temperatures then picked up during November to advance flowering and drive the development of good canopy growth. Warmer than average temperatures are currently forecast for the remainder of the vintage; and combined with healthy canopies this should result in rapid ripening conditions and a condensed harvest. Overall intake is expected to be broadly in line with vintage 2016 and vintage 2017; above long term averages. Early indications are for high quality Cabernet Sauvignon and Shiraz, and there has been encouraging quality in Chardonnay picked at the beginning of harvest.

New Zealand

The 2018 New Zealand vintage has experienced warm and dry conditions with low winds and an absence of frost. This has driven strong and healthy vine and canopy growth across regions, with the warm weather suggesting an early harvest. The growing conditions to date are supportive of a high quality vintage, with yields anticipated to be in line with long term averages. The growing season has most notably favoured Central Otago Pinot Noir and Marlborough Sauvignon Blanc.