

DELEGAT GROUP LIMITED

Results for announcement to the market

Reporting Period	12 months to 30 June 2018
Previous Reporting Period	12 months to 30 June 2017

	Amount (000s)	Percentage change
Revenue from ordinary activities	\$272,122	8%
Operating Profit from ordinary activities after tax (Operating NPAT) ¹	\$44,933	17%
Operating Profit from ordinary activities before interest, tax and depreciation (Operating EBITDA) ¹	\$89,565	10%
Reported Profit from ordinary activities after tax attributable to shareholders	\$46,836	15%
Net profit attributable to shareholders	\$46,836	15%

Audit	The financial statements attached to this report have been audited and are not subject to a qualification. A copy of the audit report applicable to the full financial statements is attached to this announcement.
-------	---

Comments	Refer to the Executive Chairman's Report appended.
----------	--

Dividends

The Directors have declared a final dividend of 15.0 cents per share. The dividend will be fully imputed and a supplementary dividend of 2.6471 cents will be paid to overseas shareholders in accordance with Listing Rule 7.12.7.

	Cents per share	Cents per share (imputed)
Final Dividend for the year ended 30 June 2018	15.0 cents	5.8333 cents

Record Date	28 September 2018
Dividend Payment Date	12 October 2018

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.

Net Tangible Assets per share

	Current Year	Previous corresponding year
Net Tangible Assets per share	\$3.39	\$3.04

WINNING
THE
HEARTS
AND MINDS
OF SUPER
PREMIUM
WINE
LOVERS
AROUND
THE WORLD.

CONTENTS

2	Executive Chairman's Report
7	Managing Director's Report
12	Statement of Financial Performance
13	Statement of Other Comprehensive Income
14	Statement of Changes in Equity
16	Statement of Financial Position
18	Statement of Cash Flows
21	Notes to the Financial Statements
61	Independent Auditor's Report

EXECUTIVE CHAIRMAN'S REPORT 2018

On behalf of the Board of Directors of Delegat Group Limited, I am pleased to present its operating and financial results for the year ended 30 June 2018. Delegat continues to achieve stand-out performance in the global wine market and is well positioned for substantial future sales growth.

Performance Highlights

- Record global case sales of 2,736,000, up 3%.
- Record operating NPAT of \$44.9 million, up 17%.
- Record operating revenue of \$272.1 million, up 8%.
- Strong cash flows from operations of \$57.8 million.
- Record number of Gold Medals awarded in major international wine competitions.

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

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

“Delegat continues to achieve stand-out performance in the global wine market and is well positioned for substantial future sales growth.”

JIM DELEGAT
EXECUTIVE CHAIRMAN

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 all fair value adjustments¹.

Operating Performance

A record operating NPAT of \$44.9 million was generated compared to \$38.5 million last year. Operating EBIT of \$74.5 million is \$7.2 million higher than last year. Operating expenses (before NZ IFRS adjustments) at \$72.1 million are \$5.4 million higher compared to last year.

Delegat achieved Operating Revenue of \$272.1 million on global case sales of 2,736,000 in the year. Revenue is up \$20.8 million on last year, due to a 3% increase in global case sales, underlying price, market and product changes, and the favourable impact of foreign exchange rate changes.

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

NZ IFRS Fair Value adjustments

In accordance with NZ IFRS the Group is required to account for certain 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 year-end 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

Operating Performance		TABLE 1		
NZ\$ millions	June 2018 Actual	June 2017 Actual	% change vs 2017	
Operating Revenue ¹	272.1	251.3	8%	
Operating Gross Profit²	146.6	134.0	9%	
Operating Gross Margin	54%	53%		
Operating Expenses ³	(72.1)	(66.7)	-8%	
Operating EBIT⁴	74.5	67.3	11%	
Operating EBIT % of Revenue	27%	27%		
Interest and Tax	(29.6)	(28.8)	-4%	
Operating NPAT⁴	44.9	38.5	17%	
Operating NPAT % of Revenue	17%	15%		
Operating EBITDA⁴	89.6	81.1	10%	
Operating EBITDA % of Revenue	33%	32%		

Notes:

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

¹Operating 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 Executive Chairman and Managing Director's Reports are read by the auditors as part of their responsibilities in respect of other information as disclosed in their audit report.

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. In 2018, the market value of the company grapes exceeded the costs incurred by \$21.7 million (2017: \$17.0 million). This write-up is higher than last year due to a combination of higher yields and higher grape prices for the 2018 vintage. This write-up, less the impact of prior years' vintages being sold has resulted in a net write-up of \$5.5 million for the year (2017: write-up of \$1.6 million);

- Derivative Instruments held to hedge the Group's foreign currency and interest rate exposure. The mark-to-market movement of these instruments at balance date resulted in a fair value write-down of \$2.9 million (2017: write-up of \$1.4 million).

These adjustments, net of taxation, amount to a write-up of \$1.9 million for the year (2017: write-up of \$2.2 million).

Reconciliation of Reporting to Operating Performance

Accounting for all fair value adjustments under NZ IFRS, the Group's reported audited financial performance for the year ended 30 June 2018 is reconciled to operating profit as detailed in table 4.

Cash Flow

The Group generated Cash Flows from Operations of \$57.8 million in the current year, which is a decrease of \$1.5 million on the previous year, primarily due to the increased investment in working capital (higher inventories and trade receivables) to support future case sales. A total of \$46.0 million was paid for additional property, plant and equipment during the year, including vineyard and winery developments. The Group distributed \$13.1 million to shareholders in dividends representing 13.0 cents per share. Additional borrowings of \$0.8 million were drawn

Case Sales and Foreign Currency

TABLE 2

	June 2018 Actual	June 2017 Actual	% change vs 2017
Case Sales (000s)			
UK, Ireland and Europe	687	736	-7%
North America (USA and Canada)	1,250	1,135	10%
Australia, NZ and Asia Pacific	799	785	2%
Total Cases	2,736	2,656	3%
Foreign Currency Rates			
GB£	0.5312	0.5262	-1%
AU\$	0.9179	0.9374	2%
US\$	0.7075	0.7056	0%
CA\$	0.9034	0.9359	3%

down to fund the increased capital investment during the year.

The Group having secured a \$350.0 million syndicated senior debt facility in 2014 is well positioned to fund both its current operations as well as future capital investment in both New Zealand and Australia. The Group's net debt at 30 June 2018 amounted to \$281.5 million, an increase of 1% compared to last year.

Dividends

The directors consider that the underlying operational performance and strong cash flows justify an increase in dividends this year. Accordingly, the Directors are pleased to advise they have approved a fully imputed dividend payout of 15.0 cents per share. The dividend will be paid on 12 October 2018 to Shareholders on record at 28 September 2018.

Investing for Growth

The record results achieved in 2018 are testament to the strength of the Group's business model as we continue to invest for growth.

Delegat is investing for growth to support its strategic goal to build a leading global Super Premium wine company. During the year under review \$47.2 million was invested in growth assets including development of the Group's wineries, land acquisition and vineyard development in New Zealand and the Barossa Valley.

Delegat will invest an additional \$33.0 million in 2019 to provide earnings growth in the years ahead. This capital investment supports the Group's plan to grow sales to 3,377,000 cases by 2021 and will provide for further growth beyond that period.

Impact of Fair Value Adjustments		TABLE 3	
NZ\$ millions	June 2018 Actual	June 2017 Actual	% change vs 2017
Operating NPAT	44.9	38.5	17%
Operating NPAT % of Revenue	17%	15%	
NZ IFRS Fair Value Items			
Biological Produce (Grapes) ¹	5.5	1.6	n/m ²
Derivative Instruments	(2.9)	1.4	n/m ²
Total Fair Value Items	2.6	3.0	-10%
Less: Tax	(0.7)	(0.8)	10%
Fair Value Items after Tax	1.9	2.2	-10%
Reported NPAT	46.8	40.7	15%

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

“Our powerful global Super Premium wine brands continue to drive record business performance.”

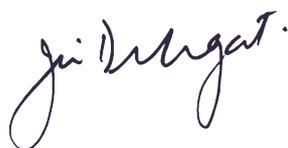
JIM DELEGAT
EXECUTIVE CHAIRMAN

Our Great Wine People

As announced last year, we can confirm John Freeman has been appointed Managing Director from 1 July 2018. John previously held general management roles with Delegat Group for 10 years between 2005 and 2015. John brings the ideal experience to lead the growth of Delegat Group on our journey to build a leading global Super Premium wine company.

I would also like to take this opportunity to thank Graeme Lord for his significant contribution to Delegat Group during his eighteen year tenure. We wish Graeme all the best for the future.

The Board would like to take this opportunity to acknowledge our Delegat Great Wine People around the world. Our global team have once again shown great resolve and set new performance records on our journey to build a leading global Super Premium wine company. It is inspiring to work with such a talented team who are committed to winning together.



JIM DELEGAT
EXECUTIVE CHAIRMAN

Reconciliation of Reporting to Operating Performance

TABLE 4

	2018 Actual			2017 Actual		
	Operating	Fair Value Adjustment	Reported	Operating	Fair Value Adjustment	Reported
NZ\$ millions						
Revenue	272.1	-	272.1	251.3	1.4	252.7
Cost of Sales	(125.5)	5.5	(120.0)	(117.3)	1.6	(115.7)
Gross Profit	146.6	5.5	152.1	134.0	3.0	137.0
Operating Expenses	(72.1)	(2.9)	(75.0)	(66.7)	-	(66.7)
EBIT¹	74.5	2.6	77.1	67.3	3.0	70.3
Interest and Tax	(29.6)	(0.7)	(30.3)	(28.8)	(0.8)	(29.6)
NPAT²	44.9	1.9	46.8	38.5	2.2	40.7
EBIT ¹	74.5	2.6	77.1	67.3	3.0	70.3
Depreciation	15.1	-	15.1	13.8	-	13.8
EBITDA³	89.6	2.6	92.2	81.1	3.0	84.1

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.

MANAGING DIRECTOR'S REPORT 2018

We have set new records and remain focused on investing for the future. As outlined in the Executive Chairman's report, the Group achieved record global case sales, record Operating Net Profit after Tax of \$44.9 million, and strong net cash flows from operations.

Global Sales Performance

The Group achieved record global case sales of 2,736,000 cases in the year, 3% higher than the previous year. Sales continue to be well diversified by market with 46% in North America, 29% in the Australia, New Zealand and Asia Pacific region, and 25% in Europe including the United Kingdom.

The Group has continued to invest in the development of its own in-market distribution channels to drive long-term growth. The Group's Sales and Marketing division has in-market sales teams in all major markets, internationally and within New Zealand.

Australia, New Zealand and Asia Pacific

Case sales in the Australia, New Zealand and Asia Pacific grew by 2% to 799,000 cases.

In the established New Zealand and Australia markets Oyster Bay continued to perform strongly as a category-leading Super Premium wine brand. In Australia, Oyster Bay Sauvignon Blanc continues to lead the category as the top-selling Sauvignon Blanc and bottled white wine by value.¹ The rapid growth of Oyster Bay Pinot Gris in the region

*“We have set
new records
and remain
focused on
investing for
the future.”*

JOHN FREEMAN
MANAGING DIRECTOR

was notable, as was the continued strong growth of the Barossa Valley Estate brand in the Australia market.

During the year the Group further developed sales volumes through the Tmall online flagship store in China. The store enables aspirational consumers throughout China to purchase the Group's brands directly from Delegat. Whilst it will take time to develop a significant customer base, this is a promising venture in an important long-term growth market.

North America

The Group again delivered strong growth in North America, increasing sales volumes by 10% to a record 1,250,000 cases.

In the United States, the Oyster Bay brand continued its strong growth as an increasing number of aspirational consumers embrace our elegant, cool climate wine styles. The Group's success is underpinned by its well-established in-market sales team working effectively with leading distributors, retailers and on-premise venues. Oyster Bay Sauvignon Blanc is a top 5 white wine over US\$10 by value². Significant distribution growth was achieved with the Barossa Valley Estate brand, supporting the Group's goal of increasing awareness and affinity in this large market for Super Premium wine brands. The exceptional growth of Oyster Bay Pinot Noir this year was achieved through the effective partnership with distributors and retailers, executing on our plan to leverage the 90-point rating given by Wine Spectator Magazine.

The Group continues to build momentum through its expanded distribution arrangements with Southern Glazer's Wine & Spirits, North America's largest wine and spirits distributor. Southern Glazer's is the Group's exclusive distributor partner in 32 markets which collectively account for approximately 70% of wine consumption in the United States. The Group's strong relationships with Southern Glazer's and our other distribution partners is a key factor driving the sustainable long-term growth of Oyster Bay and Barossa Valley Estate in the United States.

In Canada, Oyster Bay has again achieved strong growth, and has become one of the most powerful Super Premium wine brands in the market, across several varietals, including number one Pinot Gris in British Columbia above C\$13³ and significant sales growth for Oyster Bay Pinot Noir, and Barossa Valley Estate Shiraz.

United Kingdom, Ireland and Europe

The United Kingdom, Ireland and Europe region delivered a strong year with 687,000 cases sold. Sales volume declined slightly, in line with the Group's expectations following a price re-positioning in the United Kingdom market the previous year, notwithstanding Oyster Bay maintaining its Super Premium category leadership position. Oyster Bay Sauvignon Blanc, Chardonnay and Merlot are the top selling wines above £8⁴ in their respective categories irrespective of origin. Barossa Valley Estate has established quality distribution with leading National Account customers, ensuring the growth of brand awareness and affinity for this brand. Promotional activity saw the significant growth of both Oyster Bay Sparkling Cuvée Brut and Oyster Bay Sparkling Cuvée Rosé.

1. IRI National Wine MAT To 06/05/18.
2. AC Nielsen 52 Weeks Ending 19/5/18
3. Sort MAT to April 2018
4. AC Nielsen MAT 30/12/2017

In Ireland, Oyster Bay has maintained its Super Premium category leadership position, with Sauvignon Blanc, Chardonnay, Merlot and Pinot Noir the top selling New Zealand wines in their respective varietal categories above €10.⁵ Barossa Valley Estate Shiraz and Grenache Shiraz Mourvèdre (GSM) are the top-selling Australian wines in their respective varietal categories above €12.⁵

Brands and Communications

The Group's goal is to establish Oyster Bay and Barossa Valley Estate as leading brands in the Super Premium wine category globally.

Marketing programmes are designed to grow consumer awareness and to support distribution and rate of sale growth per point of distribution. Marketing activities are focused on the specific needs of each market and phases of brand development. The group works closely with its retail partners to achieve high impact in-store activation. In the consumer environment, the Group uses a mix of media channels both online and offline to attract and engage consumers and build brand awareness.

In recognition of its market performance and reputation, Oyster Bay was awarded 'Hot Brand' for the eighth consecutive year by New York's Impact Magazine, and named 'One of the World's Most Admired Wine Brands' for the sixth consecutive year by Drinks International Magazine UK.

This year saw the re-release of E&E Black Pepper Shiraz to the marketplace. E&E Black Pepper Shiraz is one of the defining luxury wines of the Australian wine industry, with a long history of accolades and acclaim. Whilst production of this iconic wine will be kept to a strictly limited volume, the Group is proud to continue offering E&E Black Pepper Shiraz to discerning luxury wine consumers. The pedigree of this wine has been reinforced through the 2014 vintage, the first release under Delegat stewardship, receiving an outstanding 94 point rating in Wine Spectator magazine.

Major Awards and Accolades

The Group received record acclaim from major international wine competitions, showcasing the world-class quality of its wines.

- E&E Black Pepper Shiraz 2014 was awarded 94 Points by Wine Spectator, USA.
- Oyster Bay Marlborough Sauvignon Blanc 2017 was awarded a Gold Medal at the Mundus Vini Grand International Wine Awards, Germany.
- Oyster Bay Marlborough Pinot Noir 2015 was awarded a Double Gold Medal and 95 Points at the San Francisco International Wine Competition.
- Oyster Bay Marlborough Chardonnay 2016 was awarded a Gold Medal and 95 Points at the San Francisco International Wine Competition.
- Oyster Bay Marlborough Botrytised Riesling 2011 was awarded a Gold Medal at the International Wine and Spirits Competition, UK.

5. AC Nielsen MAT 21/05/2017

- Barossa Valley Estate GSM 2016 was awarded 90 Points by Wine Spectator, USA.
- Barossa Valley Estate GSM 2015 was awarded a Gold Medal and 95 Points at the Sydney Royal Wine Show.
- Barossa Valley Estate Shiraz 2014 was awarded Top 100 and a Blue Gold Medal at the Sydney International Wine Competition.
- Barossa Valley Estate Cabernet Sauvignon 2015 was awarded a Gold Medal at the New Zealand International Wine Show.
- Barossa Valley Estate Shiraz 2015 was awarded a Gold Medal and 93 Points at the San Francisco International Wine Competition.

2018 Harvest

The Group achieved a record global harvest of 40,059 tonnes from the 2018 vintage, which is 7% higher than last year. The New Zealand harvest was 38,012 tonnes, up 10% on the 2017 vintage.

The Australia harvest for Barossa Valley Estate was 2,047 tonnes and is of a very high standard due to exceptional weather conditions throughout the growing season. The New Zealand harvest is also of a very high standard for both yield and quality.

The Group has inventory levels to achieve the future sales growth goals outlined in this report.

Sustainability

Recognition and respect for the environment are reflected in the strong leadership role the Group plays in the practice and promotion of sustainable wine growing and wine production. As a leader in the New Zealand wine industry and as a founding member of Sustainable Winegrowing New Zealand (SWNZ) since 2002, the Group takes its responsibilities to respect and protect the environment very seriously. The Group's New Zealand vineyards and wineries are 100% accredited by the independently audited SWNZ Sustainability Programme. The Group

Group Outlook Case Sales

TABLE 5

	2018 Actual	2019 Forecast	2020 Projection	2021 Projection
Case Sales (000s)				
Total Cases	2,736	2,945	3,168	3,377

“Oyster Bay is now one of the leading white wine brands in the USA, the world’s largest wine market.”

JOHN FREEMAN
MANAGING DIRECTOR

applies similar principles in the Barossa Valley, again as a leader of sustainable wine growing practices within the Australian wine industry.

Group Outlook

The Group’s strategic goal is to build a leading global Super Premium wine company. The Group will build leading global brands from world leading regions, focusing on the wine styles for which those regions are internationally renowned. Delegat plans to grow sales by 23% to 3,377,000 cases over the next three years.

The primary drivers of planned growth are Oyster Bay varietals in North America, and Oyster Bay Pinot Gris and Barossa Valley Estate varietals globally. The Group observes that wine consumers, particularly in North America, increasingly purchase Super Premium wine as an everyday affordable luxury that complements their lifestyle. Accordingly, the Group continues to see opportunities globally to further expand distribution and grow rate of sale per point of distribution.

The Group is well positioned to grow sales and achieve sustainable earnings growth in the years ahead. With respect to the 2019 year, Delegat plans to grow sales by 8% to 2,945,000 cases.

Based on prevailing exchange rates, the Group forecasts 2019 operating profit to grow in line with case sales growth.

Our People

Our people help us to chart our future, bring our plans to life, and truly make a difference within the organisation and the industry. I wish to personally thank each of our Great Wine People for their efforts to aim high, pursue mastery and win together. Our teams have achieved another year of record performance in 2018 and have positioned Delegat to deliver enduring success.



JOHN FREEMAN
MANAGING DIRECTOR

STATEMENT OF FINANCIAL PERFORMANCE

	Notes	2018 \$000	2017 \$000
Revenue	3	272,122	252,713
Profit before finance costs	4	77,119	70,258
Finance costs	3	11,957	13,114
Profit before income tax		65,162	57,144
Income tax expense	15	18,326	16,488
Profit for the Year attributable to Shareholders of the Parent Company		46,836	40,656
Earnings Per Share			
– Basic and fully diluted earnings per share (cents per share)	5	46.31	40.20

The accompanying notes form part of these financial statements

STATEMENT OF OTHER COMPREHENSIVE INCOME

	Notes	2018 \$000	2017 \$000
Profit after income tax		46,836	40,656
<i>Other comprehensive income that may subsequently be classified to the profit and loss:</i>			
– Translation of foreign subsidiaries	6b	3,238	(1,271)
– Net loss on hedge of a net investment		(1,112)	(232)
– Income tax relating to components of other comprehensive income	15	311	65
Total comprehensive income for the year, net of tax		49,273	39,218
Comprehensive income attributable to Shareholders of the Parent Company		49,273	39,218

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2018

	Note	Share Capital	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
		\$000	\$000	\$000	\$000
Balance at 30 June 2017		49,815	(5,135)	262,389	307,069
Changes in equity for the year ended 30 June 2018					
<i>Other comprehensive income</i>					
– Translation of foreign subsidiaries		–	3,238	–	3,238
– Net loss on hedge of a net investment		–	(1,112)	–	(1,112)
– Income tax relating to components of other comprehensive income	15	–	311	–	311
Total other comprehensive income		–	2,437	–	2,437
– Net profit for the year		–	–	46,836	46,836
Total comprehensive income for the year		–	2,437	46,836	49,273
<i>Equity Transactions</i>					
– Dividends paid to shareholders		–	–	(13,153)	(13,153)
Balance at 30 June 2018		49,815	(2,698)	296,072	343,189

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY **CONTINUED**

FOR THE YEAR ENDED 30 JUNE 2017

	Note	Share Capital	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
		\$000	\$000	\$000	\$000
Balance at 30 June 2016		49,815	(3,697)	233,871	279,989
Changes in equity for the year ended 30 June 2017					
<i>Other comprehensive income</i>					
– Translation of foreign subsidiaries		–	(1,271)	–	(1,271)
– Net loss on hedge of a net investment		–	(232)	–	(232)
– Income tax relating to components of other comprehensive income	15	–	65	–	65
Total other comprehensive income		–	(1,438)	–	(1,438)
– Net profit for the year		–	–	40,656	40,656
Total comprehensive income for the year		–	(1,438)	40,656	39,218
<i>Equity Transactions</i>					
– Dividends paid to shareholders		–	–	(12,138)	(12,138)
Balance at 30 June 2017		49,815	(5,135)	262,389	307,069

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION

	Notes	2018 \$'000	2017 \$'000
Equity			
Share capital	6	49,815	49,815
Foreign currency translation reserve	6b	(2,698)	(5,135)
Retained earnings		296,072	262,389
Total Equity		343,189	307,069
Liabilities			
Current Liabilities			
Trade payables and accruals	8	32,941	29,324
Derivative financial instruments	9	3,020	1,987
Income tax payable		6,485	3,016
		42,446	34,327
Non-Current Liabilities			
Deferred tax liability	15	33,754	31,124
Derivative financial instruments	9	3,711	3,756
Interest-bearing loans and borrowings	10	285,754	282,513
		323,219	317,393
Total Liabilities		365,665	351,720
Total Equity and Liabilities		708,854	658,789

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION CONTINUED

	Notes	2018 \$'000	2017 \$'000
Assets			
Current Assets			
Cash and cash equivalents		4,264	4,479
Trade and other receivables	11	42,635	35,952
Derivative financial instruments	9	–	1,822
Inventories	12	147,431	133,680
		194,330	175,933
Non-Current Assets			
Property, plant and equipment	13	509,861	478,675
Intangible assets	14	4,663	4,068
Derivative financial instruments	9	–	113
		514,524	482,856
Total Assets		708,854	658,789

For, and on behalf of, the Board who authorised the issue of the financial statements on 24 August 2018.



JN Delegat, Executive Chairman



JA Freeman, Managing Director

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS

	2018 \$000	2017 \$000
Operating Activities		
Cash was provided from		
Receipts from customers	266,719	256,192
Net GST received	74	449
	266,793	256,641
Cash was applied to		
Payments to suppliers and employees	184,653	170,603
Net interest paid	12,457	12,349
Net income tax paid	11,914	14,470
	209,024	197,422
Net Cash Inflows from Operating Activities	57,769	59,219
Investing Activities		
Cash was provided from		
Proceeds from sale of property, plant and equipment	2,058	1,162
Dividends received	1	2
	2,059	1,164
Cash was applied to		
Purchase of property, plant and equipment	45,896	40,545
Purchase of intangible assets	451	585
Capitalised interest paid	1,692	1,459
	48,039	42,589
Net Cash Outflows from Investing Activities	(45,980)	(41,425)

STATEMENT OF CASH FLOWS CONTINUED

	2018 \$000	2017 \$000
Financing Activities		
Cash was provided from		
Proceeds from borrowings	28,514	33,939
	28,514	33,939
Cash was applied to		
Dividends paid to shareholders	13,147	12,132
Repayment of borrowings	27,687	39,467
	40,834	51,599
Net Cash Outflows from Financing Activities	(12,320)	(17,660)
Net (Decrease) / Increase in Cash Held	(531)	134
Cash and cash equivalents at beginning of the year	4,479	4,425
Effect of exchange rate changes on foreign currency balances	316	(80)
Cash and Cash Equivalents at End of the Year	4,264	4,479

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS CONTINUED

	2018 \$000	2017 \$000
Reconciliation of Profit for the Year with Cash Flows from Operating Activities:		
Reported profit after tax	46,836	40,656
Add/(deduct) items not involving cash flows		
Depreciation expense	15,089	13,791
Other non-cash items	2,733	(565)
Gain on disposal of assets	(11)	(120)
Movement in derivative financial instruments	2,923	(1,365)
Movement in deferred tax liability	2,630	2,277
	23,364	14,018
Movement in working capital balances are as follows:		
Trade payables and accruals	3,617	(1,866)
Trade and other receivables	(6,683)	7,794
Inventories	(13,751)	(3,070)
Income tax	3,469	(322)
Add items classified as investing and financing activities		
Capital purchases included within trade payables and inventories	917	2,009
	(12,431)	4,545
Net Cash Inflows from Operating Activities	57,769	59,219
Reconciliation of movement in Net Debt:		
Opening balance at 1 July	278,034	282,723
Per statement of cash flows:		
- Proceeds/(repayment) of borrowings	827	(5,528)
- Net decrease / (increase) in cash held	531	(134)
Foreign exchange movement	1,940	817
Other non-cash movements	158	156
Closing balance at 30 June	281,490	278,034

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 comprise the statement of financial performance, statement of other comprehensive income, statement of changes in equity, statement of financial position and statement of cash flows, as well as the notes to the financial statements. The financial statements for the Group for the year ended 30 June 2018 were authorised for issue in accordance with a resolution of the Directors on 24 August 2018.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and the requirements of the Financial Markets Conduct Act 2013. For the purposes of complying with NZ GAAP the entity is a for-profit entity. These 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 financial statements 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.

STATEMENT OF COMPLIANCE

The 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 financial statements comply with International Financial Reporting Standards (IFRS).

BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Group as at 30 June 2018 and 30 June 2017.

Subsidiaries are those entities over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its investment in the entity, and has the ability to affect those returns through its power over the entity. Specifically, the Group controls an entity if and only if the Group has:

- Power over the entity (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the entity, and;
- The ability to use its power over the investee to affect its returns.

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

1. GENERAL INFORMATION (CONTINUED)

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent, using consistent accounting policies. The effects of intercompany transactions are eliminated in preparing the consolidated financial statements.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group. The acquisition of subsidiaries is accounted for using the acquisition method of accounting as noted below.

BUSINESS COMBINATIONS

The acquisition method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange. Where equity instruments are issued in a business combination, the fair value of the instruments is their published market price at the date of the exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly within equity.

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values as at acquisition date, irrespective of the extent of any non-controlling interests. The excess of the cost of the business combination over the net fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of the acquisition is less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the statement of financial performance, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of the consideration is deferred, the amounts payable in the future are discounted to the present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which similar borrowings could be obtained from an independent financier under comparable terms and conditions.

GOODS AND SERVICES TAX (GST)

The statement of financial performance, statement of other comprehensive income, statement of changes in equity and statement of cash flows have been prepared so that all components are stated net of GST. All items in the statement of financial position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

FOREIGN CURRENCIES

i) Functional and Presentation Currency

The presentation currency of the Group is the New Zealand Dollar. Each subsidiary company in the Group determines its own functional currency and uses that functional currency for its individual financial statements. Subsidiary companies with a different functional currency than that of the Group are translated through converting all reported assets and liabilities at the closing rate at the date of the balance sheet, while income and expenses are translated at exchange rates at the dates of the transactions. Any resulting exchange differences are recognised as a separate component of equity.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. GENERAL INFORMATION (CONTINUED)

ii) Transactions and Balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the statement of financial position comprise cash at bank, and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities in the statement of financial position.

NET DEBT

Net debt is the sum of the Group's interest-bearing loans and borrowings less cash and cash equivalents.

OTHER ACCOUNTING POLICIES

Other accounting policies that are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In applying the Group's accounting policies, management continually evaluates the judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact upon the Group. All judgements, estimates and assumptions made are believed to be reasonable based upon the most current set of circumstances available to management. The actual results may differ from the judgements, estimates and assumptions used. The significant judgements, estimates and assumptions made by management in the preparation of these financial statements, are disclosed within the specific financial statement notes as shown below:

Area of Judgement or Estimate	Note
Selling, marketing and promotional accruals	Note 3 Segmental Reporting
Selling, marketing and promotional accruals	Note 4 Expenses
Fair value of derivative financial instruments	Note 9 Derivative Financial Instruments
Fair value of grapes at point of harvest	Note 12 Inventories
Impairment of property, plant and equipment	Note 13 Property, Plant and Equipment
Estimation of useful lives of assets	Note 13 Property, Plant and Equipment
Impairment of intangible assets	Note 14 Intangible Assets
Classification of vineyard leases	Note 17 Commitments

To allow the Accounting Policies and Significant Accounting Judgements, Estimates and Assumptions to be easily identified within the notes, Accounting Policies have been identified with an **A** symbol, and Significant Accounting Judgements, Estimates and Assumptions with an **E** symbol.

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the current year.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. GENERAL INFORMATION (CONTINUED)

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Standards and Interpretations that have recently been issued or amended, but are not yet effective, have not been adopted by the Group for the annual reporting period ending 30 June 2018. These are outlined in the following table:

REFERENCE	TITLE	GROUP APPLICATION DATE *	SUMMARY	IMPACT ON GROUP
NZ IFRS 15	NZ IFRS 15: Revenue from Contracts with Customers	1 July 2018	<p>NZ IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. NZ IFRS 15 supersedes NZ IAS 18 Revenue.</p> <p>The core principle of NZ IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services.</p> <p>An entity will recognise revenue in accordance with that core principle by applying the following steps:</p> <ul style="list-style-type: none"> a) Step 1: Identify the contract(s) with a customer; b) Step 2: Identify the performance obligations in the contract; c) Step 3: Determine the transaction price; d) Step 4: Allocate the transaction price to the performance obligations within the contract; e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation. 	<p>The Group has assessed the impact of the changes in NZ IFRS 15 on its accounting policy for the recognition of revenue. Management have reviewed the new standard and related guidance and considered the core principle and steps required to recognise revenue. Management do not consider the changes in NZ IFRS 15 have an impact on the measurement or timing of revenue recognition for the Group. There are some selling, marketing and promotion expenses that will be required to be reclassified to revenue as part of the determination of the transaction price.</p> <p>The Group will adopt the fully retrospective transition provisions when adopting NZ IFRS 15 for the year ended 30 June 2019. This will require the Group to restate the statement of financial performance for the year ended 30 June 2018. Management have assessed the impact of the reclassification required for the year ended 30 June 2018 to be a reduction in revenue of \$16.4 million, and a corresponding reduction in selling, marketing and promotion expenses. The effect of this reclassification is expected to have a similar effect in future years adjusting for the growth in the business.</p> <p>There will also be some additional disclosure requirements arising from the new standard.</p>

* For fiscal periods beginning on or after

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. GENERAL INFORMATION (CONTINUED)

REFERENCE	TITLE	GROUP APPLICATION DATE *	SUMMARY	IMPACT ON GROUP
NZ IFRS 9 (2014)	NZ IFRS 9: Financial Instruments	1 July 2018	<p>The International Accounting Standards Board (IASB) issued the completed version of NZ IFRS 9: Financial Instruments (to replace NZ IAS 39: Financial Instruments: Recognition and Measurement), bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace NZ IAS 39: Financial Instruments: Recognition and Measurement and all previous versions of NZ IFRS 9.</p> <p>The completed version of NZ IFRS 9 includes the following revisions:</p> <p>a) NZ IFRS 9 (2009): The revised standard requires that financial assets be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial assets are initially recognised at fair value – or if the business model accounting supports it – cost, adjusted for transaction costs and subsequently measured at amortised cost. Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows;</p> <p>b) NZ IFRS 9 (2010): In these amendments the existing requirements for the classification of financial liabilities and the ability to use the fair value option from NZ IAS 39 have been retained. However, where the fair value option is used for financial liabilities the change in fair value is required to be accounted for as follows:</p> <ul style="list-style-type: none"> – the change attributable to the entity's own credit risk is to be presented in Other Comprehensive Income; – the remaining change is presented in the Statement of Financial Performance; and – if this approach creates or enlarges an accounting mismatch in the Statement of Financial Performance, the effects of changes in the entity's credit risk are also presented in the Statement of Financial Performance; and <p>c) NZ IFRS 9 (2013):</p> <ul style="list-style-type: none"> – New hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures; – Entities may elect to apply only the accounting for gains and losses from own credit risk without applying the other requirements of NZ IFRS 9 at the same time. 	<p>Financial assets of the Group are measured at amortised cost with the exception of foreign currency forward exchange contracts and options or interest rate swaps which are held at fair value. The classification and measurement of these will remain the same under NZ IFRS 9.</p> <p>For the financial liabilities of the Group held at fair value (foreign currency forward exchange contracts and options, and interest rate swaps), the Group will be required to separate the fair value movement that relates to changes in the Group's credit risk and record this through Other Comprehensive Income rather than through the Statement of Financial Performance where the remaining change in value will be recorded. For the year ended 30 June 2018 no portion of the fair value movement on the Group's foreign currency forward exchange contracts and options, and interest rate swaps, relates to changes in the Group's credit risk, and therefore no amount would be required to be included within Other Comprehensive Income.</p> <p>The Group applies hedge accounting under NZ IAS 39 to a borrowing of A\$29,350,000 which has been designated as a hedge of the net investment in Barossa Valley Estate Pty Limited (BVE). The hedge meets the effectiveness requirements of NZ IAS 39 and is also expected to meet the requirements of NZ IFRS 9. There may be some additional disclosures required for this hedge under NZ IFRS 9.</p>

* For fiscal periods beginning on or after

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. GENERAL INFORMATION (CONTINUED)

REFERENCE	TITLE	GROUP APPLICATION DATE *	SUMMARY	IMPACT ON GROUP
NZ IFRS 16	NZ IFRS 16: Leases	1 July 2019	<p>NZ IFRS 16 is the new standard on the recognition, measurement, presentation and disclosure of leases. The standard will replace NZ IAS 17: Leases.</p> <p>The scope of the new standard includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.</p> <p>NZ IFRS 16 requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions) in a similar way to finance leases under NZ IAS 17: Leases. Lessees will be required to recognise a liability to pay rentals with a corresponding asset, and recognise interest expense and depreciation separately. Reassessment of certain key considerations (e.g. lease term, variable rents based on an index or rate, discount rate) by the lessee is required upon certain events. Lessor accounting is substantially the same as lessor accounting under NZ IAS 17's dual classification approach.</p>	<p>The Group has significant operating lease commitments including long-term land leases, which allow the Group to access prime viticultural land in Marlborough and the Hawke's Bay, which will fall under NZ IFRS 16. The Group is currently assessing the impacts of the changes in NZ IFRS 16 on its accounting policy for the recognition of leases. The Group will be required to recognise a 'Right-of-use Asset' and a corresponding 'Lease Liability' in the statement of financial position for all of these leases (subject to certain exemptions). The change will also affect the profile of expenses (interest and depreciation) and the timing of these expenses relative to the lease payments which are currently recognised.</p>

* For fiscal periods beginning on or after

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise bank loans and overdrafts, trade payables and accruals. The main purpose of these financial liabilities is to raise funding for the Group's ongoing operations. The Group also has financial assets such as trade and other receivables and cash which arise directly from its operations.

The Group is counterparty to derivative financial instruments principally being foreign currency forward exchange contracts and options and interest rate swaps. The purpose of entering into foreign currency forward exchange contracts and options is to manage currency risk primarily arising from foreign denominated trade receivables. Interest rate swaps are entered into with the aim of mitigating interest rate risk to movements on floating rate debt facilities.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk and liquidity risk. Each of the main operational risks are reviewed by the Treasury Management Committee (TMC) and their recommendations are provided to the Board of Directors. The composition of the TMC includes the Managing Director (or Alternate), Chief Financial Officer, Corporate Financial Planning Manager and Independent Treasury Advisors. The Board reviews and agrees policies for managing each of these risks as summarised below. Board approval is required for any movement outside policy.

FOREIGN CURRENCY RISK

The net assets employed through subsidiary companies based overseas exposes the Group to foreign currency risk as a result of changes in the GBP/NZD, AUD/NZD, USD/NZD, EUR/NZD, CAD/NZD, SGD/NZD, JPY/NZD and CNY/NZD exchange rates. The Group also has foreign currency risk resulting from sales of product in a currency which is other than that of the New Zealand Dollar. Profits from each export region are repatriated and reported in New Zealand Dollars and the Group is exposed to changes in foreign exchange rates.

To minimise foreign currency risk the Group enters into forward exchange contracts and options for foreign denominated sales at levels which are considered to be highly probable. The Group attempts to maintain foreign currency cover of between 75% to 100% of highly probable sales in one to three months, 50% to 75% for highly probable sales in four to six months, 25% to 50% for highly probable sales in seven to 12 months, 0% to 50% for sales between 13 to 18 months and 0% to 25% for sales thereafter. The Group has the option of increasing foreign exchange cover to 100% for any time period upon approval by the Board of Directors.

When the Group is exposed to foreign currency risk as a result of being contractually committed to purchase capital items from an overseas supplier and such expenditure is expected to exceed \$200,000, the Group's policy is to ensure the foreign currency exposure is covered in full. Any capital expenditure between \$100,000 and \$200,000 is to be covered at the discretion of the TMC, based on such factors as timing for payment and expected volatility of currency markets. It is the Group's policy that in no instance is trading for speculative purposes permitted.

At 30 June 2018, had the New Zealand Dollar moved as illustrated in the following table with all other variables held constant, post-tax profit and equity would have been affected as follows:

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Group	IMPACT ON 2018 REPORTED		IMPACT ON 2017 REPORTED	
	Post-Tax Profits	Equity	Post-Tax Profits	Equity
	\$000 (increase/ (decrease))	\$000 (increase/ (decrease))	\$000 (increase/ (decrease))	\$000 (increase/ (decrease))
NZD/USD +5%	1,500	1,500	607	607
NZD/USD -5%	(1,855)	(1,855)	(653)	(653)
NZD/GBP +5%	1,414	1,414	898	898
NZD/GBP -5%	(1,574)	(1,574)	(852)	(852)
NZD/AUD +5%	744	(778)	662	(808)
NZD/AUD -5%	(904)	778	(719)	904
NZD/CAD +5%	135	135	46	46
NZD/CAD -5%	(122)	(122)	(21)	(21)
NZD/EUR +5%	(39)	(39)	(44)	(44)
NZD/EUR -5%	43	43	49	49

The above table calculates the impact of a change in foreign exchange rates on closing equity and post-tax profits of the Group, as a result of the Group being counterparty to transactions which are foreign currency denominated. Foreign currency denominated balances include trade and other receivables, trade payables and accruals, loans and borrowings, cash on hand and unsettled foreign exchange contracts that exist at balance sheet date. The net foreign currency exposure is determined in aggregate and the impact on post-tax profits determined as a result of a +/- 5% movement in foreign exchange rates. A +5% movement reflects the strengthening of the NZD relative to the other currency, whereas a -5% movement reflects the weakening of the NZD relative to the other currency.

The impact upon the Group's equity balance is derived through determining the impact on post-tax profits as noted above.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

HEDGE OF NET INVESTMENT IN FOREIGN OPERATION

A For hedges of a net investment in a foreign operation, the effective portion of the gain or loss on the hedging instrument is recognised in the statement of other comprehensive income and accumulated in the foreign currency translation reserve, while any ineffective portion is recognised immediately in the statement of financial performance. On disposal of the foreign operation, the cumulative amount of any such gains or losses accumulated within equity is transferred to the statement of financial performance.

The net assets employed in Barossa Valley Estate Pty Limited (BVE) exposes the Group to foreign currency risk as a result of changes in the AUD/NZD exchange rate.

The foreign currency movement on translation of the net assets of BVE is included in the statement of other comprehensive income. Since the acquisition of BVE the Group has maintained a portion of their external borrowings in AUD to mitigate this risk. The foreign exchange movement on these external borrowings in the absence of hedge accounting, is included in the statement of financial performance.

External borrowings of A\$29,350,000 have been designated as a hedge of the net investment in BVE. Gains or losses on the retranslation of this borrowing are transferred to the statement of other comprehensive income to offset any gains or losses on translation of the net assets of BVE. There is no hedge ineffectiveness in the year ended 30 June 2018.

INTEREST RATE RISK

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term and short-term debt obligations with interest payable based on floating rates of interest. Interest rate risk is monitored by the TMC on an ongoing basis. The recommendation by the TMC to enter into fixed or variable rate debt facilities and decisions to retire existing debt instruments is made after consideration of the economic indicators impacting upon the overnight cash rate, which influences the rates of interest charged by financial institutions. All funding facilities recommended by the TMC must be approved by the Board of Directors.

The Group manages interest rate risk through maintaining a mix of debt instruments having variable and fixed interest rates. The Group's policy is to maintain a level of fixed debt facilities between 40% to 100% of core debt for a period of one year, between 30% to 80% of projected core debt for periods of one to three years, and 15% to 60% of projected core debt facilities for three to five years. Board approval is required for any fixed rate cover that extends beyond five years.

The Group also manages interest rate risk through being counterparty to a series of interest rate swaps. The Group agrees to settle or has the option to exchange, at specified dates, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. These are discussed in Note 9: Derivative Financial Instruments.

The table below demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the Group's post-tax profits and equity:

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Group	IMPACT ON 2018 REPORTED		IMPACT ON 2017 REPORTED	
	Post-Tax Profits \$000	Equity \$000	Post-Tax Profits \$000	Equity \$000
2.00% Increase – 200 basis points (2017: 2.00% Increase – 200 basis points)	5,225	5,225	6,182	6,182
0.25% Decrease – 25 basis points (2017: 0.25% Decrease – 25 basis points)	(653)	(653)	(773)	(773)

The key assumptions which impact upon the values presented in the above table are the following:

- Cash and cash equivalents include deposits on call which are at floating interest rates. The estimated impact upon interest revenues from these sources is based upon amounts held on deposit remaining at consistent levels as reported at the balance sheet date. For foreign denominated deposits the impact on foreign exchange is based on the conversion rate existing at balance sheet date.
- Account balances that are trade receivables or trade payables are generally on 30 to 90 day terms and are non-interest bearing and are not subject to interest rate risk.
- The impact upon the fair value of the interest rate swaps is based upon the differential in rates between the Group paying a fixed rate of interest and receiving the floating New Zealand Bank Bill Rate (BKBM) multiplied by the nominal amount under the swap agreement up until maturity.
- Interest payable on bank debt is based upon the BKBM plus a margin. The margin is dependent upon the Group achieving certain financial covenants and the margin ranges from 0.84% to 1.23%. The analysis assumes that the margin and principal is held constant at the same rate as at the balance sheet date with the sensitivity calculating the effect on interest expense of movements in the BKBM rate. The analysis excludes any future interest that would be capitalised as part of long-term assets.
- Included in the above table is the change in fair value of interest rate swaps which results from changes in the floating interest rate.

CREDIT RISK

The Group trades with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Receivable balances are monitored on an ongoing basis. The maximum exposure to the carrying amount of receivable balances is disclosed in Note 11. The Group does not have any significant concentrations of credit risk.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

LIQUIDITY RISK

Liquidity risk is the risk that an unforeseen event or miscalculation in the required liquidity level may lead to the Group being unable to meet its day to day funding obligations. To minimise liquidity risk the Group's policy is to maintain committed funding facilities at a minimum of 105% of the projected peak debt level over the next 12 months (excluding the cash requirements for any business combinations).

The table below presents all contractual payments which the Group is legally obliged to make and includes all future interest payments on interest-bearing facilities. The interest cost has been estimated by maintaining the current principal balance and interest rates that exist at balance sheet date. The table also includes the New Zealand Dollar equivalent for the foreign currency amounts, which are to be delivered to fulfil obligations under foreign currency contracts. The table below excludes amounts required to fund operating lease commitments as these are disclosed in Note 17.

<i>Facility Type</i> 30 June 2018	Facility Limit	Drawn At Balance Sheet Date	< 1 year	1 to 2 years	> 2 years
	\$000	\$000	\$000	\$000	\$000
Working Capital facility	65,000	19,177	579	19,474	–
Term facility (Multi-Currency)	146,000	131,961	3,985	134,003	–
Forward Start Facility	100,000	100,000	3,015	101,545	–
Term facility (AUD)	38,114	34,847	1,058	35,389	–
Derivative financial instruments	N/A	N/A	86,873	1,613	2,097
Trade payables and accruals	N/A	32,166	32,166	–	–
Financial guarantee contracts	N/A	N/A	1,357	–	–
As at 30 June 2018	349,114	318,151	129,033	292,024	2,097

Included in the table above are financial guarantees which are valued at their highest possible amount that can be called at balance date. For each individual guarantee if the obligation at balance date is lower than the maximum amount callable under the guarantee then the lower value has been included. The guarantees can be called in favour of the beneficiary if certain acts of non-performance occur. The Directors consider the likelihood of each financial guarantee being called remote.

A General Security Agreement exists in favour of Westpac New Zealand Limited, Westpac Banking Corporation, Bank of New Zealand, and ASB Bank Limited to secure amounts loaned to the Group. The General Security Agreement covers the existing and future assets of Delegat Group Limited, Delegat Limited, Delegat Australia Pty Limited, and Barossa Valley Estate Pty Limited. The amount of the guarantee in respect of the banking facilities is not included in the above table and is the lower value of the net assets of the Group and the aggregate of the loans advanced at balance date. Loan facilities are disclosed in Note 10.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Facility Type 30 June 2017	Facility Limit \$000	Drawn At Balance Sheet Date \$000	< 1 year \$000	1 to 2 years \$000	> 2 years \$000
Working Capital facility	65,000	40,521	1,286	1,286	41,169
Term facility (Multi-Currency)	146,000	110,849	3,344	3,344	112,535
Forward Start Facility	100,000	100,000	3,070	3,070	101,548
Term facility (AUD)	36,788	31,532	908	908	31,990
Derivative financial instruments	N/A	N/A	52,129	2,962	2,159
Trade payables and accruals	N/A	28,857	28,857	–	–
Financial guarantee contracts	N/A	N/A	1,023	–	–
As at 30 June 2017	347,788	311,759	90,617	11,570	289,401

All of the above facilities have a floating rate of interest which is tied to the New Zealand BKBM plus margin. At balance sheet date the Group has interest rate swaps that cover \$131,680,000 (2017: \$133,379,000) of the principal balance drawn at balance sheet date. Refer to Note 9.

The Group maintains credit facilities at a level sufficient to fund the Group's working capital during the period between cash expenditure and cash inflow.

SUMMARY OF FINANCIAL INSTRUMENTS HELD

At the balance sheet date the Group reports the following categories of financial instruments:

	2018 \$000	2017 \$000
Financial Assets		
Loans and receivables at amortised cost	45,501	39,268
Financial assets at fair value through profit and loss	–	1,935
	45,501	41,203
Financial Liabilities		
Financial liabilities at amortised cost	312,700	307,004
Financial liabilities at fair value through profit or loss	6,731	5,743
	319,431	312,747

The Group does not have any financial assets or liabilities that are classified as held for trading, available for sale or classified as held to maturity.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments is presented in the previous table. For financial instruments measured at fair value further disclosure is required that allocates the fair values into a measurement hierarchy. The following principles have been applied in classifying these instruments:

Level 1 – the fair value is calculated using quoted prices in active markets;

Level 2 – the fair value is estimated 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);

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the table below:

<i>30 June 2018</i>	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Financial Liabilities				
Foreign currency forward exchange option contracts	–	829	–	829
Foreign currency forward exchange contracts	–	185	–	185
Interest rate swap contracts	–	5,717	–	5,717
	–	6,731	–	6,731

The fair value of financial instruments held at balance date that are not traded on an active market include foreign currency forward exchange contracts and options and net settled interest rate swap contracts. 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. If all significant inputs come from observable market data the instrument is included in Level 2 of the hierarchy.

<i>30 June 2017</i>	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Financial Assets				
Foreign currency forward exchange option contracts	–	1,398	–	1,398
Foreign currency forward exchange contracts	–	537	–	537
	–	1,935	–	1,935
Financial Liabilities				
Interest rate swap contracts	–	5,743	–	5,743
	–	5,743	–	5,743

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

FINANCIAL RISK ASSOCIATED TO BEARER PLANTS

The Group is exposed to financial risks in respect of agricultural activities. The agricultural activities of the Group consist of the management of vineyards to produce grapes for use in the production of wine. The primary risk borne by the Group is caused by the length of time between when cash is expended on the purchase or planting and maintenance of grape vines and on harvesting grapes and the ultimate realisation of proceeds from the sale of finished product (wine). The Group takes reasonable measures to ensure that the current year's harvest is not affected by disease, drought, frost, or other factors that may have a negative effect upon yield and quality. These measures include consultation with experts in viticulture, frost protection measures, and ensuring that each vineyard is managed according to a specifically developed Vineyard Management Calendar.

CAPITAL MANAGEMENT

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders of the business. The ultimate aim is to maintain a capital structure which provides flexibility to enable future growth of the Group whilst ensuring the lowest cost of capital is available to the Group.

Management review the capital structure of the Group as a result of changes in market conditions which impact upon interest and foreign exchange rates and may adjust the capital structure to take advantage of these changes. Management have no current plans to issue further shares on the market but is intent on growing the business which will require future funding.

The Group is subject to a series of bank covenants over its Senior Debt facilities. These are discussed in Note 10.

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

3. SEGMENTAL REPORTING

A An operating segment is a reportable segment if the segment engages in business activities in which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's Chief Operating Decision Maker and for which discrete financial information is available.

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 variations 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.

A REVENUE

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria have been applied to each individual classification of revenue:

(i) Sale of Goods

The primary source of revenue earned by the Group is through providing wine to third party retailers and distributors. Revenue is recognised when the significant risks and rewards of ownership have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of goods to the customer.

(ii) Interest Revenue

Revenue is recognised as interest accrues using the effective interest rate method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. SEGMENTAL REPORTING (CONTINUED)

E REVENUE

Sales are often made with volume discounts and other rebates. Group revenue is recorded based on the prices specified on customer invoices, net of estimated volume discounts and other rebates provided to these customers. For volume discounts and other rebates not invoiced at the reporting date these are estimated based on agreements with customers and estimated depletions during the period. At 30 June 2018 the Group has recognised accruals for these volume discounts and other rebates of \$18.6 million (2017: \$15.3 million). The majority of these amounts will be settled within the six months following balance date.

<i>Year ended 30 June 2018</i>	Delegat Limited	Delegat Australia Pty Ltd	Delegat Europe Limited	Delegat USA, Inc.	Other Segments ⁹	Eliminations and Adjustments ¹⁰	Year Ended 30 June 2018
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Operating income							
External sales ⁷	65,659	78,405	66,525	104,928	6,720	(50,780)	271,457
Internal sales	214,487	–	–	–	12,984	(227,471)	–
Unrealised foreign exchange gains/(loss)	846	–	(4)	–	26	(281)	587
Dividend revenue	7,873	–	–	–	5	(7,869)	9
Interest revenue	2	4	–	–	3,591	(3,528)	69
Total segment revenues¹	288,867	78,409	66,521	104,928	23,326	(289,929)	272,122
Operating expenses							
Interest expense ²	14,366	–	–	–	1,119	(3,528)	11,957
Depreciation ³	13,270	134	22	61	1,602	–	15,089
Income tax expense ⁴	15,436	715	555	735	1,264	(379)	18,326
Segment profit/(loss)	46,941	1,642	2,471	1,355	3,271	(8,844)	46,836
Assets							
Segment assets ⁵	650,666	18,528	14,111	29,446	119,451	(123,348)	708,854
Capital expenditure ⁶	44,466	6	–	–	2,733	–	47,205
Segment liabilities	369,939	5,358	9,848	18,815	41,086	(79,381)	365,665

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. SEGMENTAL REPORTING (CONTINUED)

<i>Year ended 30 June 2017</i>	Delegat Limited	Delegat Australia Pty Ltd	Delegat Europe Limited	Delegat USA, Inc.	Other Segments ⁹	Eliminations and Adjustments ¹⁰	Year Ended 30 June 2017
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Operating income							
External sales ⁸	61,440	75,119	64,323	95,283	3,758	(49,893)	250,030
Internal sales	199,182	–	–	–	9,841	(209,023)	–
Unrealised foreign exchange gains	645	–	115	–	561	(60)	1,261
Fair value gain on derivative financial instruments	1,364	–	–	–	–	–	1,364
Dividend revenue	27	–	–	–	6	–	33
Interest revenue	7	5	10	1	4,387	(4,385)	25
Total segment revenues¹	262,665	75,124	64,448	95,284	18,553	(263,361)	252,713
Operating expenses							
Interest expense ²	16,282	–	–	–	1,217	(4,385)	13,114
Depreciation ³	12,216	133	20	66	1,356	–	13,791
Income tax expense ⁴	13,797	572	325	952	966	(124)	16,488
Segment profit/(loss)	34,328	1,311	1,284	1,430	2,623	(320)	40,656
Assets							
Segment assets ⁵	602,111	15,280	13,687	23,714	129,981	(125,984)	658,789
Capital expenditure ⁶	34,748	12	106	31	5,574	–	40,471
Segment liabilities	367,525	4,149	4,956	15,215	42,866	(82,991)	351,720

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

² Interest expense is net of any interest capitalised to long-term assets. During the year \$1,692,000 was capitalised to long-term assets (2017: \$1,459,000).

³ Depreciation expense presented above is gross of \$13,683,000 (2017: \$12,610,000), which has been included within inventory.

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

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

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

⁷ During the 2018 financial year Delegat USA, Inc had a single customer which comprised 10% or more of group sales amounting to \$49,775,000 and Delegat Australia Pty Limited had a single customer which comprised 10% or more of Group sales amounting to \$35,372,000.

⁸ During the 2017 financial year Delegat Australia Pty Limited had a single customer which comprised 10% or more of Group sales amounting to \$33,607,000 and Delegat USA, Inc. had a single customer which comprised 10% or more of group sales amounting to \$32,019,000.

⁹ Other segments' assets include non-current assets of Barossa Valley Estate Pty Limited of \$49,943,000 (2017: \$47,162,000) which are located in Australia.

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4. EXPENSES

E Selling, marketing and promotion expenses include various payments to customers for promotional support. These payments can be for listing fees, mailer fees, and other incentives. For the expenses that have not been invoiced at the reporting date these are estimated based on agreements with customers and estimated achievement of various targets by the customer. At 30 June 2018 the Group has recognised accruals for these expenses of \$4.5 million (2017: \$4.0 million). The majority of these amounts will be settled within the six months following balance date.

Expenses by function have been categorised as follows:

	Note	2018 \$'000	2017 \$'000
Cost of sales		119,960	115,764
Selling, marketing and promotion expenses		59,033	55,485
Corporate governance expenses		934	911
Administration expenses		12,153	10,295
Fair value loss on financial derivative instruments		2,923	–
Specific components of the above expenses include:			
Directors' fees – Delegat Group Limited		280	303
Directors' fees – Overseas subsidiaries		59	53
Depreciation ¹	13	15,089	13,791
Wages and salaries ²		39,872	36,941
Defined contribution pension plans ²		1,435	1,297
Termination benefits paid ²		109	174
Vineyard related lease payments ³		7,078	6,529
Other lease payments		8,168	7,047
Auditor Remuneration^{4,5}			
Assurance services			
Audit of the financial statements		200	190
Non-assurance services			
Tax compliance		38	33
Total remuneration		238	223

¹ The depreciation figure presented above represents the gross depreciation charge for the year. Depreciation is recorded in the business function to which the asset relates. Depreciation incurred on assets directly associated with winemaking and viticulture of \$13,683,000 (2017: \$12,610,000) is included within the cost of inventories and expensed as a cost of sales when product is sold.

Depreciation on vineyard development commences when the vineyard is considered to be in commercial production, which is generally when the vineyard has produced approximately 60% of the expected yield at full production.

² The employee benefit figures above represent the gross employee benefits expense for the year. Included within inventory is remuneration paid to employees directly associated with winemaking, bottling and packaging. During the year \$7,914,000 (2017: \$7,585,000) of employee benefits were included within inventory. These costs are included within inventory until the stock to which the expenditure relates is sold.

³ The lease expense figures above represent the total lease payments and other occupancy expenses for the year. During the year no lease costs (2017: \$Nil) have been capitalised to property, plant and equipment in respect of vineyards that are in development and are not considered to be in commercial production, which is generally when the vineyard has produced approximately 60% of the expected yield at full production.

⁴ The auditor of Delegat Group Limited is Ernst & Young. Amounts received, or due and receivable, by Ernst & Young are as disclosed above.

⁵ During the year the Group also paid \$4,000 (2017: \$3,000) to SBA Stone Forest CPA Co. Limited for the audit of the local financial statements of Delegat (Shanghai) Trading Co. Limited.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5. EARNINGS PER SHARE

A Basic earnings per share is calculated as Group profit after income tax attributable to ordinary shareholders of the Parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares on issue.

Diluted earnings per share is calculated as Group profit after income tax attributable to ordinary shareholders of the Parent adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses;
- other non-discretionary changes in revenues and expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares.

The following reflects the earnings used in the calculation of the basic and fully diluted earnings per share.

	2018	2017
a) Earnings Used in Calculating Earnings per Share		
Profit for the year – basic and fully diluted (\$'000)	46,836	40,656
b) Weighted Average Number of Shares		
Weighted average number of shares – basic and fully diluted (000's)	101,130	101,130
c) Reported Earnings Per Share on statement of financial performance (expressed as cents per share)		
– Basic and fully diluted earnings per share	46.31	40.20

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6. SHARE CAPITAL

A Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

	2018 \$000	2017 \$000
Balance at the beginning of the year	49,815	49,815
Balance at the end of the year	49,815	49,815

a) Movement in the Number of Ordinary Shares on Issue	Shares Held	
	000s	000s
Balance at the beginning of the year	101,130	101,130
Balance at the end of the year	101,130	101,130

All ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

b) Nature and Purpose of Reserves

Foreign Currency Translation Reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. During the year equity increased by \$3,238,000 upon the translation of foreign subsidiaries (2017: \$1,271,000 decrease).

7. DIVIDENDS PAID AND PROPOSED

a) Recognised Amounts

Dividends that were declared and paid on ordinary shares during the year amounted to \$13,153,000 (2017: \$12,138,000) equating to 13.0 cents per share (2017: 12.0 cents per share).

b) Unrecognised Amounts

After the balance sheet date, dividends of 15.0 cents per share were approved by the Board of Directors. These amounts are not recognised in these financial statements as the declaration date was subsequent to year-end.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8. TRADE PAYABLES AND ACCRUALS

A Trade payables are initially recognised at fair value and then carried at amortised cost, and due to their short-term nature, they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of economic resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured as the present value of management's best estimate of the expenditure required to settle the present value of the obligation at the balance sheet date. If the effect of the time value of money is material, provisions are discounted using a pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulated sick leave expected to be settled within 12 months of the reporting date are recognised in respect of the employee's services up to the reporting date. They are measured as the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and is measured at the rates paid or payable.

The Group makes regular contributions to various defined contribution pension plans. Included within the statement of financial performance are amounts paid and payable by the Group into these pension plans, net of any related tax rebates. The Group does not make available or make contributions to any defined benefit superannuation plans.

	2018 \$000	2017 \$000
Trade payables	17,841	16,355
Employee entitlements and leave benefits	5,220	4,366
Goods and services tax	775	467
Accrued expenses	9,105	8,136
	32,941	29,324

Trade payables are unsecured, non-interest bearing and are generally settled on 30 to 60 day terms. The carrying amount disclosed above is a reasonable approximation of fair value.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

9. DERIVATIVE FINANCIAL INSTRUMENTS

A The Group uses derivative financial instruments such as forward currency contracts and options to economically hedge its risks associated with foreign currency fluctuations and interest rate swaps to manage interest rate risk. Such derivative 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. Any gains or losses arising from changes in the fair value of derivatives are taken directly to the statement of financial performance. The fair value of forward exchange contracts and options is determined by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swaps is determined by reference to market values for similar instruments.

E The Group's derivative financial instruments are classified as level 2 in the fair value hierarchy, as they have inputs other than observable quoted prices. In calculating the mark-to-market values, management has considered the forward rates.

The Group has the following derivative financial instruments outstanding at the balance sheet date.

a) Foreign Currency Forward Exchange Contracts and Options

i) Forward Exchange Contracts

	AVERAGE CONTRACTED RATE		NOTIONAL VALUE	
	2018	2017	2018 \$000	2017 \$000
<i>Selling Currency/Buying NZD</i>				
Sell AUD, maturity 0–3 months	0.9177	0.9317	9,970	12,665
Sell USD, maturity 0–1 months	0.6894	–	9,213	–
Sell GBP, maturity 1–10 months	0.5147	0.5504	17,604	10,768
Sell CAD, maturity 1–5 months	0.8985	0.9241	5,845	2,164
Sell SGD, maturity 1–2 months	0.9294	0.9686	215	480
Sell JPY, maturity 3 months	74.0000	–	67	–
Sell HKD, maturity 0–2 months	5.3724	5.3320	372	82
<i>Buying Currency/Selling NZD</i>				
Buy EUR, maturity 0–6 months	0.5924	0.6299	481	1,334

The fair value of forward exchange contracts is determined by comparing the market rates for contracts with the same nominal amount, exercise price and length of time to maturity.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

9. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

ii) Forward Currency Options

	AVERAGE CONTRACTED RATE		NOTIONAL VALUE	
	2018	2017	2018	2017
<i>Selling Currency / Buying NZD</i>			\$000	\$000
Sell USD, maturity 0–12 months	0.7014	0.6885	18,542	14,527
Sell GBP, maturity 6–12 months	0.5165	0.5410	12,587	9,252
Sell AUD, maturity 3–12 months	0.9170	0.9275	5,453	2,156
Sell CAD, maturity 3–12 months	0.9018	0.9265	4,715	2,698

A NZ IAS 39: Financial Instruments: Recognition and Measurement requires that derivative financial instruments are classified as held for trading for measurement purposes unless they are accounted for as hedges. Under NZ IAS 1: Presentation of Financial Statements, assets and liabilities under the held for trading classification would generally be classified as current in the statement of financial position. However if the intent is not to actually trade the derivative financial instruments with maturities greater than 1 year but to hold them until maturity, then the derivative financial instruments are more appropriately classified as non-current. The amounts that are classified as non-current reflect the amounts that will not be settled in the next 12 months.

The classification of forward exchange contracts and forward currency options between current and non-current is based on whether the contracts will be settled in the next 12 months. The fair value of open contracts existing at balance sheet date are classified as follows:

	2018		2017	
	Assets \$000	Liabilities \$000	Assets \$000	Liabilities \$000
<i>Current:</i>				
Forward Exchange Contracts	–	185	537	–
Foreign Currency Options	–	829	1,285	–
	–	1,014	1,822	–
<i>Non-current:</i>				
Foreign Currency Options	–	–	113	–
	–	–	113	–

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

9. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

b) Interest Rate Swaps

In order to protect against risks relating to increases in interest rates, the Group has entered into interest rate swap contracts under which the Group receives interest at variable rates and has agreed to pay interest at fixed rates for varying terms of principal and time durations.

At balance sheet date interest rate contracts are in place that cover a total \$105,000,000 (2017: \$105,000,000) of current New Zealand dollar denominated Group debt through 13 separate cap rate agreements, which range in maturity from zero to six years, with a weighted average interest rate cap of 3.82% plus bank margin (2017: 3.82% plus bank margin). In addition, interest rate contracts are in place that cover a total A\$24,500,000 (2017: A\$27,000,000) of current Australian dollar denominated Group debt through eight separate cap rate agreements, which range in maturity from zero to four years, with a weighted average interest rate cap of 3.74% plus bank margin (2017: 3.66% plus bank margin).

At balance sheet date the Group has a further eight separate cap rate agreements that cover a total of \$70,000,000 (2017: \$50,000,000) which apply from various future dates to cover future Group indebtedness. These range in maturity from four to six years, with interest rate caps ranging between 3.05% and 4.90% plus bank margin (2017: 3.60% to 4.90% plus bank margin). A further three cap rate agreements are in place that cover a total of A\$15,000,000 (2017: A\$15,000,000) which apply from various future dates, ranging in maturity from five to six years, with interest rate caps ranging between 1.95% and 2.37% plus bank margin (2017: 1.95% and 2.37% plus bank margin). The application date of these New Zealand dollar and Australian dollar denominated future cap rate agreements range between September 2018 and July 2020.

The total fair value of these contracts at balance sheet date is a liability of \$5,717,000 (2017: \$5,743,000 liability).



The Group has elected not to apply hedge accounting to its derivative financial instruments and accordingly the instruments have been classified as fair value through profit and loss.

The classification between current and non-current is based on whether the contracts or portion of contracts will be settled within the next 12 months. The total fair value of these contracts at balance sheet date are classified as follows:

	2018		2017	
	Assets \$000	Liabilities \$000	Assets \$000	Liabilities \$000
<i>Current:</i>				
Interest Rate Swaps	–	2,006	–	1,987
	–	2,006	–	1,987
<i>Non-current:</i>				
Interest Rate Swaps	–	3,711	–	3,756
	–	3,711	–	3,756

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

10. INTEREST-BEARING LOANS AND BORROWINGS

a) Debt Facilities Existing at Balance Sheet Date

A Loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after balance sheet date.

Borrowing costs are expensed as incurred except when they are directly attributable to the acquisition or construction of a qualifying asset. When this is the case, they are capitalised as part of that asset. Once the asset is put into productive use, capitalisation of the borrowing costs ceases.

At the balance sheet date the following debt facilities have been drawn upon by the Group.

	Maturity	Effective Interest Rate		2018	2017
		2018	2017	\$000	\$000
Non-Current Debt Obligations					
Term facility (Multi-Currency)	3 January 2020	3.88%	4.02%	131,853	110,666
Forward Start facility	3 January 2020	4.27%	4.44%	99,940	99,898
Term facility (AUD)	3 January 2020	3.04%	2.88%	34,823	31,494
Working Capital	3 January 2020	3.02%	3.17%	19,138	40,455
				285,754	282,513

The carrying amount of the Group's non-current borrowings are the fair values at balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

10. INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

b) Terms and Conditions of Debt Facilities

i) Senior Debt Facilities

The Group has a syndicated Senior Debt facilities agreement with Westpac New Zealand Limited, Westpac Banking Corporation, Bank of New Zealand and ASB Bank Limited. With the syndicated facility a General Security Agreement has been put in place in favour of the banks over the existing and future assets of Delegat Group Limited, Delegat Limited, Delegat Australia Pty Limited and Barossa Valley Estate Pty Limited.

At balance sheet date the Working Capital, Term facility (Multi-Currency), Term facility (AUD), and Forward Start facility collectively make up the syndicated Senior Debt Facilities of Delegat, which provide funding for the assets of the Group. The maximum limit of the Working Capital facility is NZ\$65,000,000 (2017: NZ\$65,000,000), the Term facility (Multi-Currency) is NZ\$146,000,000 (2017: NZ\$146,000,000), Term facility (AUD) is A\$35,000,000 (2017: A\$35,000,000), and Forward Start facility is NZ\$100,000,000 (2017: NZ\$100,000,000). At balance sheet date \$63,129,000 (2017: \$64,885,000) is available for further drawdown on these facilities.

The Term facility (AUD) and a portion of the Term facility (Multi-Currency) are denominated in Australian dollars (A\$). The amount drawn down in foreign currency at the balance sheet date was A\$61,350,000 (2017: A\$59,350,000).

Interest on these facilities is based on the BKBM plus margin. The facility agreement requires that certain banking covenants be met and requires the Group to maintain or better specified EBITDA and fixed charges coverage ratios, and maintain or better a minimum adjusted equity balance. The Group must also maintain or better a specified total tangible asset backing. At year-end, and at measurement dates during the year, the covenants of the Senior Debt Facilities have been met.

ii) Other Facilities

Delegat also has available an overdraft limit of \$1,000,000 (2017: \$1,000,000). Interest charged on this facility is at the commercial lending rate (2017: commercial lending rate). At 30 June 2018 the commercial lending rate is 5.85% (2017: commercial lending rate 5.60%). No amount is drawn against this facility at balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11. TRADE AND OTHER RECEIVABLES

A Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for any uncollectable amounts.

Collectability of trade receivables is reviewed on an ongoing basis. Where trade receivable balances are outstanding beyond their normal trading terms, the likelihood of the recovery of these trade receivables is assessed by management. The Group reviews the standing of each trade receivable balance to determine if the recording of an impairment loss is required. Debts that are known to be uncollectable are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that the Group will not be able to collect the debt.

	2018 \$000	2017 \$000
Trade receivables	38,122	31,875
Prepayments and sundry receivables	3,115	2,580
Non-trade receivables	–	334
Goods and services tax	1,398	1,163
	42,635	35,952

As at 30 June 2018 the ageing of trade receivables, net of provisions (as detailed below), is as follows:

	Total \$000	Current \$000	< 30 days \$000	31 to 60 days \$000	61 to 90 days \$000	> 90 days \$000
30 June 2018	38,122	37,093	992	27	10	–
30 June 2017	31,875	31,109	453	279	34	–

All amounts recognised as trade receivables are unsecured and the maximum credit risk is equivalent to the carrying values noted directly above. Trade receivables are non-interest bearing and generally settled on 30 to 90 day terms. Due to their short-term nature trade receivables are not discounted and the above values approximate their fair value. There are amounts which are past due (PDNI) however the Group does not consider these to be impaired as the ultimate collection is reasonably assured.

The Group has not recognised any provision for doubtful debts at 30 June 2018 (2017: \$Nil).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12. INVENTORIES

A Inventories are valued at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Costs of finished goods sold are assigned on a weighted average cost basis.

GRAPES

Included within the cost of inventory is the fair value of the grapes (agricultural produce) at the time the grapes are harvested. At the point of harvest, the harvest of grapes qualify as agricultural produce under NZ IAS 41: Agriculture and are recorded at fair value at that date. The fair value becomes the basis of cost when accounting for inventories.

Growing Costs

i) Growing Costs where the Group maintains a Beneficial Ownership in Vine Stock

Harvesting of the grape crop is ordinarily performed in late March or early April. Costs incurred in growing the grapes, including any applicable harvest costs, are initially allocated into the cost of inventory as part of the total costs to acquire and grow the agricultural produce. At the point of harvest, a fair value adjustment is made so that the cost per tonne is adjusted to fair value in accordance with NZ IAS 41: Agriculture and NZ IFRS 13: Fair Value Measurement. Any difference between cost and fair value is included within the statement of financial performance as cost of sales.

ii) Growing Costs where the Group is not the Beneficial Owner of Vine Stock

The Group is party to long-term vineyard operating lease contracts where the Group is able to access, harvest and grow agricultural produce, however does not maintain the beneficial ownership in the underlying bearer plant. Vineyard costs that are incurred subsequent to harvest up to balance sheet date do not qualify as agricultural produce under NZ IAS 41: Agriculture and are accounted under NZ IAS 2: Inventories, as inventories. Where growing costs are incurred and the Group is not the beneficial owner of the bearer plants, growing costs are reported at the lower of cost and net realisable value in accordance with NZ IAS 2: Inventories.

At the point of harvest, management labour and vineyard lease costs have been separately identified from the pool of growing costs and do not form part of the difference between cost and fair value. These costs are expensed to the statement of financial performance as cost of sales.

E The fair value of grapes at the point of harvest is determined by reference to the market prices for each variety of grape grown in the local area and the market price paid to independent grape growers. Any difference between cost and fair value is included within the statement of financial performance as cost of sales.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12. INVENTORIES (CONTINUED)

	2018 \$000	2017 \$000
Current vintage	85,050	77,425
Aged wine	52,418	47,439
Growing costs relating to next harvest	4,614	4,241
Winery ingredients, packaging materials and other	5,349	4,575
	147,431	133,680

During the year the Group harvested a total of 38,012 tonnes of grapes (2017: 34,595 tonnes) in New Zealand. Of this amount a total of 10,927 tonnes (2017: 10,728 tonnes) were purchased from independent third party growers. The Group harvested 2,047 tonnes of grapes in Australia (2017: 2,760 tonnes). Of this amount a total of 1,362 tonnes (2017: 2,231 tonnes) were purchased from independent third party growers. The fair value of agricultural produce from the Group's owned and leased vineyards at the point of harvest was \$51,264,000 (2017: \$42,662,000). A fair value gain of \$21,745,000 (2017: \$16,959,000) was recorded during the year and included within cost of sales. Included within cost of sales is a total of \$141,705,000 (2017: \$132,723,000) which represents costs expended in grape growing (inclusive of lease costs), procurement, delivery and materials.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13. PROPERTY, PLANT AND EQUIPMENT

A Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such costs include the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs, which have been incurred in bringing the assets to the location and condition necessary for their intended service.

The cost of self-constructed assets includes the cost of all materials used in the construction, direct labour on the project, operating lease and financing costs that are directly attributable to the project and an appropriate proportion of variable and fixed overheads. Costs cease to be capitalised when the asset is ready for productive use. In respect of vineyard improvements, capitalisation of costs continue until the vineyards are ready for productive use, which is when the vineyard has produced approximately 60% of expected yield at full production, ordinarily a period of three years after the planting of vines.

Land and Land Improvement assets are measured at cost and are not subject to depreciation.

IMPAIRMENT

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If an impairment trigger exists the recoverable amount of the asset is determined, being the higher of an asset's fair value, less costs to sell, and value in use. An impairment charge is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are valued at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

E DEPRECIATION

Depreciation of property, plant and equipment, other than land which has an indefinite economic life and hence not depreciated, is charged on a straight-line basis so as to write off the assets to their expected residual value over their estimated useful lives. The estimated useful lives are as follows:

Buildings	10–50 years
Plant and Equipment	3–50 years
Vineyard Improvements	3–50 years
Bearer Plants	50 years

The estimation of the useful lives of assets has been based on historical experience as well as lease terms. The condition of the assets are assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

Depreciation on vineyard improvements commences when the vineyard is considered to be in commercial production, which is when the vineyard has produced approximately 60% of the expected yield at full production, ordinarily a period of three years after the planting of vines. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate at the end of each financial year.

Capitalised assets on leased vineyards or office premises are depreciated over the shorter of the estimated useful life of the asset and the remaining lease term.

IMPAIRMENT

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists the recoverable amount of the asset is determined. Management consider there are no indicators of impairment in the current year and the recoverable amount of the Group's assets was not required to be determined.

a) Reconciliation of Carrying Amounts at the Beginning and End of the Year

<i>Year ended 30 June 2018</i>	Freehold Land and Land Improvements	Vineyard Improvements	Bearer Plants	Buildings	Plant and Equipment	Capital Work in Progress	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Net book value at 1 July 2017	116,501	64,615	45,833	100,172	118,181	33,373	478,675
Additions / Transfers	11,535	8,876	726	11,444	15,678	(1,548)	46,711
Disposals	(1,375)	(74)	–	(173)	(425)	–	(2,047)
Foreign currency translation	250	470	97	313	356	125	1,611
Depreciation charge	–	(2,803)	(1,198)	(2,470)	(8,618)	–	(15,089)
Net book value at 30 June 2018	126,911	71,084	45,458	109,286	125,172	31,950	509,861
At cost	126,918	107,361	57,195	123,945	210,478	31,950	657,847
Accumulated depreciation and impairment	(7)	(36,277)	(11,737)	(14,659)	(85,306)	–	(147,986)
Net book value at 30 June 2018	126,911	71,084	45,458	109,286	125,172	31,950	509,861

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

a) Reconciliation of Carrying Amounts at the Beginning and End of the Year (continued)

<i>Year ended 30 June 2017</i>	Freehold Land and Land Improvements	Vineyard Improvements	Bearer Plants	Buildings	Plant and Equipment	Capital Work in Progress	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Net book value at 1 July 2016	113,090	58,300	46,881	98,435	113,311	23,195	453,212
Additions / Transfers	3,563	9,007	249	4,165	13,067	9,944	39,995
Disposals	(171)	(367)	(172)	(99)	(10)	-	(819)
Foreign currency translation	19	(203)	1	8	19	234	78
Depreciation charge	-	(2,122)	(1,126)	(2,337)	(8,206)	-	(13,791)
Net book value at 30 June 2017	116,501	64,615	45,833	100,172	118,181	33,373	478,675
At cost	116,508	98,085	56,368	112,343	195,994	33,373	612,671
Accumulated depreciation and impairment	(7)	(33,470)	(10,535)	(12,171)	(77,813)	-	(133,996)
Net book value at 30 June 2017	116,501	64,615	45,833	100,172	118,181	33,373	478,675

b) Other Items

During the year no assets were transferred and classified as assets available for sale. The weighted average interest rate on interest capitalised during the year was 4.66%.

Bearer Plants consist of grape vines on our vineyards located in New Zealand and the Barossa Valley, Australia. At 30 June 2018 the Group has grape vines planted on 1,440 productive hectares of land (2017: 1,384 productive hectares) in New Zealand and 173 productive hectares (2017: 145 productive hectares) in Australia.

The net book value of vines on leased land where the Group does not have the beneficial ownership in the vine asset, is not reported above, as the risks and rewards incidental to owning the vines do not transfer to the Group. The Group is however party to leases of land on which vine stock is owned by the Group. The net book value of these assets are reported, as the risk and rewards incidental to ownership are retained by the Group.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14. INTANGIBLE ASSETS

A Intangible assets acquired separately are measured on initial recognition at cost. The cost of the intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over their useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit (CGU) level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

E Intangible assets currently owned by the Group have been assessed as having indefinite useful lives and are therefore tested annually for impairment at the cash-generating unit level. The recoverable amount of the CGU's assets are higher than the assets' carrying value and therefore no impairment is required to be recognised.

Intangible assets currently owned by the Group consist of water rights in both New Zealand and Australia.

Barossa Valley Estate Pty Limited (BVE) owns water rights consisting of shares in Barossa Infrastructure Limited and associated infrastructure levies. These water rights grant BVE the right to a fixed number of units of water per share and were purchased by BVE to support their vineyard activities. BVE continues to have the right to use the water over an indefinite period and therefore the water rights are considered to have an indefinite useful life.

Delegat Limited (Delegat) owns water rights consisting of shares in Lower Waihopai Dam Limited. These water rights grant Delegat the right to a fixed number of units of water per share and were purchased by Delegat to support their vineyard activities. Delegat continues to have the right to use the water over an indefinite period and therefore the water rights are considered to have an indefinite useful life.

The movement in the value of intangible assets is summarised as follows:

	2018 \$000	2017 \$000
Carrying value at the beginning of the year	4,068	3,692
Purchases of intangible assets	494	476
Disposal of intangible assets	(26)	(109)
Foreign currency translation	127	9
Carrying value at the end of the year	4,663	4,068

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15. INCOME TAX EXPENSE

A Current tax assets and liabilities for the current and prior periods are measured as the amount expected to be recovered from, or paid to, the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided for all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all, or part of, the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on the tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of financial performance.

Deferred tax assets and liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15. INCOME TAX EXPENSE (CONTINUED)

	2018 \$000	2017 \$000
a) Numerical Reconciliation between aggregate tax expense in the statement of financial performance and tax expense calculated per the statutory income tax rate		
Accounting profit before tax	65,162	57,144
At the Group's statutory income tax rate of 28% (2017: 28%)	18,245	16,000
Tax impact of following items:		
Adjustments in respect of income tax of prior years	(293)	(65)
Entertainment	168	155
Legal fees and acquisition costs	23	43
Non-assessable income	(37)	(94)
Non-deductible depreciation on buildings acquired post May 2010	350	344
Non-deductible items	2	1
Tax on foreign income due to different tax rates	(132)	104
Income tax expense for the year	18,326	16,488
b) The major components of income tax expense are:		
Income tax reported in the statement of financial performance		
Estimated current period tax assessment	15,834	14,286
Adjustments in respect of income tax of prior years	(174)	(53)
Movements in the deferred income tax liability	2,666	2,255
Income tax expense for the year	18,326	16,488
Income tax reported in the statement of other comprehensive income		
Net loss on hedge of net investment	311	65
Income tax charged to other comprehensive income	311	65

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15. INCOME TAX EXPENSE (CONTINUED)

	2018 \$000	2017 \$000
c) Deferred income tax at balance sheet date relates to the following:		
Capitalised interest	4,497	4,143
Capitalised leases	469	529
Accelerated depreciation of long-term assets	14,572	13,007
Fair value adjustments on biological produce	9,454	7,651
Excess of fair value on acquisition of bearer plants over tax values	8,682	8,682
Provisions	(799)	(765)
Stock profit and intercompany eliminations	(973)	(594)
Tax losses carried forward	(263)	(463)
Financial derivative instruments	(1,885)	(1,066)
Net deferred tax liability	33,754	31,124
Balance at the beginning of the year	31,124	28,847
On surplus for year	2,666	2,255
Foreign currency translation	(36)	22
Balance at the end of the year	33,754	31,124

There are no elements of deferred taxes which are reported within equity.

16. IMPUTATION CREDIT ACCOUNT

	2018 \$000	2017 \$000
Balance at the beginning of the year	54,823	47,066
Tax payments	13,006	12,258
Fully imputed dividend paid	(4,864)	(4,501)
Balance at the end of the year	62,965	54,823

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17. COMMITMENTS

a) Operating Leases

A The determination of whether an arrangement is or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent upon the use of the specific asset or assets and the arrangement conveys a right to use the asset.

Operating lease payments are recognised as an expense in the statement of financial performance on a straight-line basis over the lease term. Operating lease costs that are directly attributable to bringing new vineyards to working condition for their intended use are capitalised up until the time the vineyards become commercially productive. The accumulated amount is then amortised over the remaining lease term. All other operating lease payments are recognised as an expense in the periods the amounts are payable.

E The Group has entered into long-term vineyard leases which allow the Group to control the growing and harvesting of the grapes used in the production of finished product. After taking into consideration the terms and conditions within the lease, it is believed that the lessor retains the significant risks and rewards of ownership and the leases are accordingly classified as operating leases.

	2018 \$000	2017 \$000
Lease commitments under non-cancellable operating leases:		
Within one year	14,858	13,689
One to two years	13,421	12,362
Two to five years	26,829	27,792
Beyond five years	27,749	33,176
	82,857	87,019

Operating lease commitments include long-term land leases, which allow the Group to access prime viticultural land in the Marlborough and Hawke's Bay areas. The leases provide the Group the right of first refusal in the event that the land is put up for sale. Vineyard leases generally comprise an initial term of ten years with following rights of renewal which vary depending on the vineyard. Leases are reviewed every five years and if required the market rate of rent is adjusted in relation to the market value of the underlying land plus a guaranteed rate of return as determined by the five year government bond rate. Other operating lease commitments include short-term car, barrel and equipment leases.

b) Capital Commitments

The estimated capital expenditure contracted for at 30 June 2018 but not provided for is \$24,813,000 (2017: \$12,920,000).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

18. RELATED PARTIES

a) Investment in Subsidiaries

Investments in controlled entities are as follows:

Name of Entity	Principal Activity	Country of Incorporation	Ownership Interest %	
			2018	2017
Delegat Limited	Winemaking, Sales and Distribution	New Zealand	100.00	100.00
Delegat Canada Limited	Brand Marketing	Canada	100.00	100.00
Delegat Australia Pty Limited	Sales and Distribution	Australia	100.00	100.00
Oyster Bay Wines (USA) Limited	Brand Marketing	New Zealand	100.00	100.00
Delegat USA, Inc.	Sales and Distribution	United States of America	100.00	100.00
Delegat Europe Limited	Sales and Distribution	United Kingdom	100.00	100.00
Delegat (Singapore) Pte. Limited	Sales and Distribution	Singapore	100.00	100.00
Barossa Valley Estate Pty Limited	Winemaking	Australia	100.00	100.00
Delegat Japan G.K.	Brand Marketing	Japan	100.00	100.00
Delegat (Shanghai) Trading Co. Limited	Sales and Distribution	China	100.00	100.00

The parent company of all subsidiaries is Delegat Group Limited, except for Delegat Europe Limited and Barossa Valley Estate Pty Limited whose immediate parent company is Delegat Limited, and Delegat (Shanghai) Trading Co. Limited whose immediate parent company is Delegat (Singapore) Pte. Limited.

All subsidiaries have a 30 June balance date except for Delegat (Shanghai) Trading Co. Limited which has a 31 December balance date as required by law in China.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

18. RELATED PARTIES (CONTINUED)

b) Key Management Personnel

Details relating to key management personnel, including remuneration paid, are included within Note 19.

c) Related Parties by Virtue of Share Ownership

The following Directors hold the following number of Shares in the Parent	2018	2017
Delegat Share Protection Trust (Jakov Delegat and Rosamari Delegat and Robert Wilton – Trustees)	66,857,142	66,857,142
Robert Wilton	1,000,000	1,000,000
Graeme Lord	–	51,050
John Freeman	11,000	N/A

The individuals above are considered related parties as a result of their shareholding or by virtue of being considered a member of key management. During the year a total of \$65,000 (2017: \$65,000) was paid to Robert Wilton in his capacity as a non-executive Director. Rosamari Delegat received \$65,000 (2017: \$65,000) in her capacity as a non-executive Director during the year.

During the year a total of \$100,000 (2017: \$100,000) was paid to Robert Wilton in his capacity as an independent consultant, under normal commercial terms and conditions.

Please also refer to the Disclosure of Directors' Interests in the Annual Report.

d) Transactions with Related Parties who have Significant Influence over Subsidiary Companies

During the period Delegat Australia Pty Limited paid a total of \$27,000 (2017: \$26,000) to Yaroona Pty Limited. The payments made to Yaroona Pty Limited were made in Peter Taylor's capacity as Company Director and were under normal commercial terms and conditions. Peter Taylor was considered to be a related party by virtue of his ability to significantly influence the financial and operating policies of a subsidiary company.

During the period Barossa Valley Estate Pty Limited paid a total of \$45,000 (2017: \$42,000) to Range Road Estate Pty Limited, including directors fees of \$22,000 (2017: \$21,000). The remaining payments made to Range Road Estate Pty Limited were made in Alan Hoey's capacity as an independent consultant and under normal terms and conditions. Alan Hoey was considered to be a related party by virtue of his ability to significantly influence the financial and operating policies of a subsidiary company.

During the period Delegat Limited paid a total of \$8,000 (2017: \$Nil) to Range Road Estate Pty Limited. The payments made to Range Road Estate Pty Limited were made in Alan Hoey's capacity as an independent consultant and under normal terms and conditions. Alan Hoey was considered to be a related party by virtue of his ability to significantly influence the financial and operating policies of a subsidiary company.

During the period Delegat (Singapore) Pte. Limited paid a total of \$10,000 (2017: \$6,000) to Camelot Trust Pte. Limited, a company in which a Director of Delegat (Singapore) Pte. Limited has an interest. The payments made to Camelot Trust Pte. Limited are made in Anita Chew Peck Hwa's capacity as Company Director and under normal commercial terms and conditions.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

19. KEY MANAGEMENT PERSONNEL

Compensation of Key Management Personnel

Included in the definition of related parties are Key Management Personnel having authority and responsibility for planning, directing and controlling the activities of the entity either directly or indirectly, including any Director. Management have assessed the composition of the Key Management and their compensation for the year ended 30 June is presented below:

	2018 \$000	2017 \$000
Short-term employee benefits	7,909	7,379
Post-employment benefits (including defined contribution pension plan)	226	218
	8,135	7,597

20. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

On 24 August 2018, the Directors of the Parent declared a fully imputed dividend of \$15,170,000 (15.0 cents per Share) to be paid on 12 October 2018.

INDEPENDENT AUDITOR'S REPORT



Chartered Accountants

Independent auditor's report to the Shareholders of Delegat Group Limited Report on the audit of the financial statements

Opinion

We have audited the financial statements of Delegat Group Limited ("the company") and its subsidiaries (together "the Group") on pages 12 to 60, which comprise the statement of financial position of the group as at 30 June 2018, and the statement of financial performance, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended of the group, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements on pages 12 to 60 present fairly, in all material respects, the financial position of the group as at 30 June 2018 and its financial performance and cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

This report is made solely to the company's shareholders, as a body. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders, as a body, for our audit work, for this report, or for the opinions we have formed.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the group in accordance with Professional and Ethical Standard 1 (revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Ernst & Young provides indirect tax advisory services and tax compliance related services to the group. Partners and employees of our firm may deal with the group on normal terms within the ordinary course of trading activities of the business of the group. We have no other relationship with, or interest in, the group or any of its subsidiaries.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

INDEPENDENT AUDITOR'S REPORT



Chartered Accountants

Why Significant?	How our audit addressed the key audit matter
Revenue Recognition - Cut Off	
<p>As disclosed in Note 3 to the financial statements, revenue is recognised when the significant risks and rewards of ownership have passed to the buyer and costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenue by type and segment is disclosed in Note 3.</p> <p>The Group recognises revenue from sale of goods in several different markets and jurisdictions globally. Risk and rewards of ownership are considered passed to the buyer at the time of delivery of goods to the customer as per the relevant terms of trade.</p> <p>Revenue recognition is considered a key audit matter as, collectively, material revenue transactions can occur close to year end and there is a risk that revenue is recognised in the incorrect period.</p>	<p>Our approach focused on the following procedures:</p> <ul style="list-style-type: none"> • We evaluated the Group's policies and procedures against the requirements of NZ IAS 18 Revenue. • We assessed and tested the design and operating effectiveness of relevant controls over the timing of revenue recognition. • We performed analytical procedures on sales for the last month of FY2018 through to the first two weeks of FY2019, and considered patterns of reported revenues to assess whether there were any unusual fluctuations in revenue close to year end. We then used this analysis to select our sample for revenue cut off testing. • We tested the recognition of a sample of revenue transactions in the month pre-year end and two weeks subsequent to year end to establish whether they were recorded in the correct period. This included agreement to shipping documentation, including the terms and conditions of trade, or other documentation indicating when the risks and rewards of ownership passed to the buyer. • We performed substantive analytical procedures over revenue for the financial year. When variances to our expectations of revenues were identified, we obtained explanations and supporting evidence where necessary. • We analysed credit notes issued within one month subsequent to year end for evidence of incorrect post-year-end reversal of revenue recognised during the year. • We assessed the adequacy of the disclosures in Note 3 to the financial statements in accordance with New Zealand equivalent to International Financial Reporting Standards and other applicable Financial Reporting Standards, as appropriate.
Accounting for Rebates and Promotional Allowances	
<p>As disclosed in Note 3 to the financial statements, revenue is recognised net of volume based rebates and promotional allowances owed to customers based on their individual arrangements. As disclosed in note 3 the accrual for these rebates as at 30 June 2018 is \$18.6m.</p> <p>As disclosed in Note 4 to the financial statements, selling, marketing and promotion expenses include various payments to customers for promotional support that are not related to sales volume. Rather, they are subject to agreements with customers and based on estimated achievement of various targets by the customers. Consequently, there is considerable judgement involved in the estimation of such payments. As disclosed in note 4 the accrual for these rebates as at 30 June 2018 is \$4.5m.</p> <p>The value of the rebate and promotional allowances accrual at balance date, together with the level of judgment involved, make the accounting treatment a significant matter for our audit.</p>	<p>Our approach focused on the following procedures:</p> <ul style="list-style-type: none"> • We evaluated the Group's accounting policy with the requirements of NZ IAS 18 Revenue, as it relates to accounting for rebates and promotional allowances. • We obtained an understanding and walked through the Group's processes and controls over the calculation of rebates and promotional allowances. • We selected a sample of volume related and non-volume related sales promotional expenses from throughout the year and agreed to sales invoices raised by the Group or supplier invoices received from their customers for the entitlement, together with remittance advice, to assess whether the rebates and promotional allowances were recognised appropriately. • We performed analysis of the relationship between volume related rebates and promotional allowances, and revenue to ascertain if the relationship of rebates and promotional allowances to revenue was in line with our understanding of the Group's operations. • We considered the assumptions and judgements used by the Group in calculating the accrual for rebates and promotional allowances by reviewing management's calculations supporting the year end accruals. For a sample of rebate and promotional allowances accruals, we reviewed the calculation prepared by management and validated the calculation inputs to supporting evidence, such as remittance advices and invoices. • We performed analytical procedures on the rebates and promotional allowances accruals for the largest distributors in each location in comparison to the prior year to challenge the nature and quantum of the accruals at year end. • We assessed the adequacy of the disclosures in Note 3 and Note 4 to the financial statements in accordance with New Zealand equivalent to International Financial Reporting Standards and other applicable Financial Reporting Standards, as appropriate.

A member firm of Ernst & Young Global Limited

INDEPENDENT AUDITOR'S REPORT



Chartered Accountants

Information other than the financial statements and auditor's report

The directors of the company are responsible for the Annual Report, which includes information other than the financial statements and auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

If, based upon the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the financial statements

The directors are responsible, on behalf of the entity, for the preparation and fair presentation of the financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing on behalf of the entity the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located at the External Reporting Board's website: <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/>. This description forms part of our auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Brent Penrose.

Ernst & Young

Auckland

24 August 2018