PROUD PIONEERS

KWV HOLDINGS

GROUP INTERIM REPORT

(unaudited) for the six months

ended 30 September 2015

STATEMENT OF FINANCIAL POSITION

	Unaudited		Audited
	30 September 2015	30 September 2014 Restated	31 March 2015
	R'000	R'000	R'000
ASSETS			
Non-current assets	**263 151**	252 881	261 000
Property, plant and equipment	**229 496**	217 983	227 427
Intangible assets	**15 915**	17 046	16 610
Investment in associates and joint ventures	**17 740**	17 037	16 798
Deferred taxation	**–**	815	165
Current assets	**1 340 500**	1 253 804	1 320 089
Inventories	**1 035 328**	990 727	1 035 493
Trade and other receivables	**236 528**	242 330	210 139
Current income tax assets	**–**	661	35
Derivative financial instruments	**2 717**	2 953	3 715
Loans and receivables	**–**	325	–
Bank and cash balances	**65 927**	16 808	70 707
Total assets	**1 603 651**	1 506 685	1 581 089
EQUITY			
Capital and reserves	**1 260 891**	1 237 573	1 267 112
Share capital	**1**	1	1
Share premium	**425 722**	425 722	425 722
Reserves	**835 168**	811 850	841 389
LIABILITIES			
Non-current liabilities			
Deferred taxation	**42 174**	35 039	45 090
Current liabilities	**300 586**	234 073	268 887
Borrowings	**83 021**	85 638	–
Trade and other payables	**176 452**	147 785	267 302
Derivative financial instruments	**40 970**	608	1 585
Current income tax liabilities	**143**	42	–
Total equity and liabilities	**1 603 651**	1 506 685	1 581 089
Net asset value per share (cents)	**1 854,2**	1 819,9	1 863,4

STATEMENT OF COMPREHENSIVE INCOME

	Notes	Unaudited 6 months ended 30 September 2015 R'000	Unaudited 6 months ended 30 September 2014 Restated R'000	Audited 12 months ended 31 March 2015 Restated R'000
Revenue	5	**548 669**	517 973	1 147 911
Cost of sales	5	**(389 642)**	(355 784)	(807 916)
Gross profit		**159 027**	162 189	339 995
Gross profit percentage		***29,0%***	*31,3%*	*29,6%*
Other income		**11 024**	3 417	7 671
Other gains and losses – net		**(26 392)**	7 501	29 519
Promotion, marketing and distribution expenses	5	**(112 938)**	(108 681)	(237 476)
Operational and administrative expenses	5	**(38 211)**	(42 218)	(77 399)
Operating profit/(loss)	4	**(7 490)**	22 208	62 310
Interest received		**250**	966	1 923
Finance cost		**(983)**	(1 295)	(2 097)
Share of profit of associates and joint ventures		**126**	992	1 579
Profit/(loss) before income tax		**(8 097)**	22 871	63 715
Income tax		**2 057**	(6 165)	(17 494)
Profit/(loss) for the period		**(6 040)**	16 706	46 221
Other comprehensive income – items that may be subsequently reclassified to profit or loss				
Change in foreign currency translation reserve		**(181)**	28	52
Total comprehensive income		**(6 221)**	16 734	46 273
(Attributable to equity holders of the company)				
		Cents	Cents	Cents
Earnings per share	2			
– Attributable earnings		**(8,9)**	24,4	67,8
– Headline earnings		**(5,5)**	24,2	70,1

STATEMENT OF CASH FLOWS

	Unaudited 6 months ended 30 September 2015 R'000	Unaudited 6 months ended 30 September 2014 R'000	Audited 12 months ended 31 March 2015 R'000
CASH FLOW FROM OPERATING ACTIVITIES			
Cash flows from operations before changes to working capital	**61 178**	29 968	93 079
Changes in working capital	**(129 087)**	(213 085)	(112 964)
Increase in inventory	**(11 360)**	(2 282)	(54 686)
(Increase)/decrease in receivables	**(26 696)**	(29 771)	3 216
Decrease in payables	**(91 031)**	(181 032)	(61 494)
Cash outflow from operations	**(67 909)**	(183 117)	(19 885)
Interest received	**247**	1 102	1 923
Finance costs	**(983)**	(1 295)	(2 097)
Taxation paid	**(516)**	(452)	(496)
Net cash flow from operating activities	**(69 161)**	(183 762)	(20 555)
CASH FLOW FROM INVESTING ACTIVITIES			
Replacement of property, plant and equipment	**(16 594)**	(12 414)	(33 152)
Additions to property, plant and equipment	**(1 286)**	(836)	(5 187)
Proceeds on disposal of property, plant and equipment	**386**	103	1 345
Acquisition of software	**(201)**	(12)	(451)
Loan repayments received	**–**	2 000	3 254
Dividends received	**255**	236	236
Investments in joint ventures and associates	**(1 200)**	(1 010)	(1 648)
Net cash flow from investing activities	**(18 640)**	(11 933)	(35 603)
CASH FLOW FROM FINANCING ACTIVITIES			
Repurchase of shares	**–**	(4 315)	(4 315)
Net decrease in cash and cash equivalents	**(87 801)**	(200 010)	(60 473)
Cash and cash equivalents at the beginning of the period	**70 707**	131 180	131 180
Cash resources at the end of the period*	**(17 094)**	(68 830)	70 707
* *Cash resources at the end of the period*			
Bank and cash equivalents	***65 927***	*16 808*	*70 707*
Borrowings	***(83 021)***	*(85 638)*	*–*
	(17 094)	*(68 830)*	*70 707*

STATEMENT OF CHANGES IN EQUITY

	Unaudited 6 months ended 30 September 2015 R'000	Unaudited 6 months ended 30 September 2014 R'000	Audited 12 months ended 31 March 2015 R'000
Share capital	**1**	1	1
Share premium	**425 722**	425 722	425 722
Reserves			
Common control reserve	**787 230**	787 230	787 230
Retained earnings	**50 804**	26 130	57 270
Balance at the beginning of the period	**57 270**	10 180	10 180
Net profit/(loss) attributable to ordinary shareholders	**(6 040)**	16 706	46 221
Transferred from currency translation reserve	**–**	–	2 212
Equity accounted earnings transferred to equity reserve	**(426)**	(756)	(1 343)
Treasury shares	**(7 238)**	(7 238)	(7 238)
Balance at the beginning of the period	**(7 238)**	(2 923)	(2 923)
Treasury shares acquired by the group	**–**	(4 315)	(4 315)
Equity reserve	**4 466**	3 453	4 040
Balance at the beginning of the period	**4 040**	2 697	2 697
Transfer of equity accounted earnings from retained earnings	**426**	756	1 343
Currency translation reserve	**(94)**	2 275	87
Balance at the beginning of the period	**87**	2 247	2 247
Transferred to retained earnings	**–**	–	(2 212)
Movement for the period	**(181)**	28	52
Total reserves at the end of the period	**835 168**	811 850	841 389
Total equity	**1 260 891**	1 237 573	1 267 112

NOTES TO THE INTERIM REPORT

for the six months ended 30 September 2015

1. BASIS OF PREPARATION

The interim consolidated financial statements for the half-year ended 30 September 2015 have been prepared in terms of IAS 34: Interim Financial Reporting and should be read in conjunction with the annual financial statements for the year ended 31 March 2015, which have been prepared in accordance with IFRS and in accordance with the Companies Act of South Africa. The interim financial statements have not been audited or independently reviewed and were prepared under the supervision of the financial director, DP Smit CA(SA).

The accounting policies used in the preparation of the interim financial statements are consistent with those applied in previous financial periods as well as the following statements, amendments and interpretations to IFRS that became effective during the current reporting period:

- Amendment to IAS 19: Employee benefits
- Improvements to IFRSs 2010–2012 cycle
- Improvements to IFRSs 2011–2013 cycle

The various changes in accounting standards had no material effect on the reported results for the period.

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective yet and have not been early adopted:

- IFRS 9: Financial instruments
- IFRS 14: Regulatory deferral accounts
- Improvements to IFRSs 2012–2014 cycle
- Amendments to IFRS 11: Acquisition of interest in joint operations
- Amendments to IAS 16 and IAS 38: Methods of depreciation and amortisation
- IFRS 15: Revenue from contracts with customers
- Amendments to IAS 16 and IAS 41: Agriculture: Bearer plants
- Amendments to IAS 27: Separate financial statements
- Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture
- Amendments to IAS 1: Disclosure initiative
- Amendments to IFRS 10 and IAS 28: Applying the consolidation exception

	Unaudited 6 months ended 30 September 2015 Number '000	Unaudited 6 months ended 30 September 2014 Number '000	Audited 12 months ended 31 March 2015 Number '000
2. EARNINGS PER SHARE			
Number of shares			
Shares issued	**68 980**	68 980	68 980
Treasury shares	**(979)**	(979)	(979)
	68 001	68 001	68 001
Used in the calculation of earnings per share	**68 001**	68 374	68 188
	R'000	R'000	R'000
Reconciliation of headline earnings			
Net profit/(loss) attributable to ordinary shareholders	**(6 040)**	16 706	46 221
Adjusted for:			
– impairment of investments in joint ventures	**165**	–	734
– loss/(profit) on sale of property, plant and equipment	**2 132**	(79)	817
Headline earnings	**(3 743)**	16 627	47 772
	Cents	Cents	Cents
Earnings per share			
– Attributable earnings	**(8,9)**	24,4	67,8
– Headline earnings	**(5,5)**	24,2	70,1
	'000	'000	'000
3. CAPITAL COMMITMENTS			
Contracted	**6 788**	6 450	3 292
Authorised, not contracted	**18 240**	21 623	36 327

	Note	Unaudited 6 months ended **30 September 2015** **R'000**	Unaudited 6 months ended 30 September 2014 Restated R'000	Audited 12 months ended 31 March 2015 R'000
4. SEGMENTAL ANALYSIS				
Functional analysis of sales	5	**548 669**	517 973	1 147 911
Wine		**256 183**	234 277	486 810
Spirits		**194 446**	245 505	562 411
Contract bottling		**77 244**	24 194	62 274
Other		**20 796**	13 997	36 416
Regional analysis of sales	5	**548 669**	517 973	1 147 911
South Africa		**331 343**	271 514	656 706
Europe and the United Kingdom		**134 394**	167 033	327 573
Africa (excl. South Africa)		**41 145**	42 668	89 985
Rest of the world		**41 787**	36 758	73 647
Operating profit/(loss) per region		**(7 490)**	22 208	62 310
Trading profit/(loss):				
South Africa		**7 615**	(1 059)	6 525
Europe and the United Kingdom		**21 664**	42 238	70 920
Africa (excl. South Africa)		**7 819**	9 554	17 871
Rest of the world		**8 991**	2 775	8 928
Items not allocated to segments:				
Other income and other gains and losses		**(15 368)**	10 918	37 190
Operational and administrative expenses		**(38 211)**	(42 218)	(79 124)

5. RESTATEMENT OF FINANCIAL INFORMATION FOR COMPARATIVE PERIODS

KWV reviewed the classification of income statement items in the 2016 financial year. During this process certain amounts were identified which were not classified correctly in prior periods. The most material of these relate to settlement discounts reallocated from promotion, marketing and distribution expenses to revenue, as well as income and cost of sales relating to the Laborie Estate reclassified from expenses to revenue and cost of sales.

5. RESTATEMENT OF FINANCIAL INFORMATION FOR COMPARATIVE PERIODS (continued)

The changes in classification had the following effect on the interim financial statements:

	Previously stated R'000	Change in classification R'000	Restated R'000
Statement of comprehensive income			
Relating to 30 September 2014			
Revenue	520 560	(2 587)	517 973
Cost of sales	(353 891)	(1 893)	(355 784)
Promotion, marketing and distribution expenses	(112 187)	3 506	(108 681)
Operational and administrative expenses	(43 192)	974	(42 218)
Net effect		–	
Relating to 31 March 2015			
Revenue	1 155 385	(7 474)	1 147 911
Cost of sales	(803 636)	(4 280)	(807 916)
Promotion, marketing and distribution expenses	(247 505)	10 029	(237 476)
Operational and administrative expenses	(79 124)	1 725	(77 399)
Net effect		–	

The restatement had no impact on the statement of financial position.

6. EVENTS AFTER THE REPORTING DATE

No material events which may have a significant influence on the financial position of the group occurred between the date of the financial period and the date of approval of the financial statements.

7. OPERATING RESULTS

Total revenue increased by 5.9% for the six months to September 2015. KWV's export portfolio benefited from a 0.8% weakening in the rand and branded packed volumes for the six months are up 3%.

The 9.4% increase in revenue from the wine category is largely the result of increased sales of our core wine brands: Roodeberg, KWV and Laborie. Laborie's performance is not consistent with the strength and potential of the brand yet, but growing strong. The focus in the core wine category are on continually building the quality of the Roodeberg brand and to further capitalise on the fact that KWV is one of the world's most admired wine brands.

Spirits sales consist mainly of packed brandies in South Africa and Africa. Spirit exports were significantly lower than in the prior period. Revenue from packed spirits were slightly lower as the South African brandy market continued to decline. KWV reduced discounting on entry-level brands and improved margins through better pricing and portfolio management. Sales revenue of KWV 10 brandy grew by 39% in the current period, evidence that our aim to premiumise our spirits brands is already bearing some fruit.

7. OPERATING RESULTS (continued)

Volumes and revenues for contract bottling increased significantly due to a change in the product mix from the prior period, but this business does not contribute significantly to the profitability of the group as its main function is to utilise surplus production capacity. Other sales mainly relate to KWV's ready-to-drink (RTD) business. The RTD business contributes a small portion of total revenue but showed improvement mainly due to the addition of the newly acquired Hooch brand.

The South African revenues mainly consist of the sale of branded spirits, wines, RTDs and contract bottling. The bulk of the increase in local revenue stems from contract bottling, whereas spirit sales declined slightly and wine and RTD sales increased from the prior period.

During the period, the gross profit percentage showed a 2.3% decrease. Contributing factors were the significant decrease in sales of higher margin export spirits, pressure on European margins due to sub-inflationary price increases and growth of the low margin contract bottling business. The decline in profit margins was countered by a reduction in inventory write-offs, increased profitability in the South African market and improved production efficiencies.

Other income includes a R6,7 million grant received from the Department of Trade and Industry.

Other gains and losses include losses on sale of assets and exchange rate losses. Exchange rate gains and losses dominate this category, due to KWV's significant forward hedge book both in the prior and current period. The current period includes an exchange rate loss of R24,0 million compared to a R7,4 million profit in the prior period. KWV will continue following a policy of hedging budgeted sales to ensure that planned margins are achieved. In the long term, KWV will remain a net beneficiary should the currency weaken.

The group's promotional, marketing and distribution expenses increased slightly. Advertising and promotional expenses forms a significant part of this expense and increased by 7% from the comparative period due to the investment in our televised marketing campaign. This aligns with our strategic goal to premiumise our brand and ensure appropriate positioning of our products, especially for brandy.

Administrative and operational expenses decreased by 9.5% as we continue managing our fixed and indirect costs better each year. The group's overhead expenses are contained below inflationary increases.

The headline earnings for the period under review amounted to a loss of R3,7 million compared to a profit of R16,6 million in the prior period. The significant decrease is mainly due to the exchange rate fluctuation noted above.

Our view remains that the KWV brand is the most respected in the category, and that brandy's image is being tarnished through excessive discounting by the volume leaders in the category who preach premiumisation but act differently.

8. ASSETS AND FUNDING

The group's non-current assets remained stable but current assets increased. Inventory levels have increased with less than inflation over the past 12 months, despite the addition of new products in the contract bottling category and inventory of the Hooch brand. Reducing inventory levels remains a focus area for the business. Trade and other receivables decreased slightly from the prior period.

8. ASSETS AND FUNDING (continued)

KWV's normal business cycle results in negative cash flow from operations in the six months of the financial year to September. This is due to the fact that there is a sharp increase in trade payables and inventory during harvest season, as reflected in the March 2015 figures. Creditors are then settled within a few months of the financial year, whereas inventory levels are gradually reduced throughout the year.

Working capital absorbed R129 million of cash, R84 million less than in the prior period. The main reason for better cash generation is the decreased payments for excise duties.

The cash outflow from investing activities was R18,6 million, R6,7 million more than the prior period. Investment in property, plant and equipment and intangible assets increased to R4,8 million. The investment in associates reflects our investment in Brannas Draught Proprietary Limited, a company that specialises in producing and distributing RTD alcoholic beverages in kegs and on tap in the on-consumption market.

9. BUSINESS ENVIRONMENT

Internationally, wine companies are under pressure. Diageo has recently divested its wine business, while Treasury Wine Estates are consolidating and closing down facilities.

KWV managed to grow its export sales to Europe during the period, despite the persistent challenges of low growth and zero inflation plaguing the European economy. During the first four months of the period there was no relief from a weaker rand, which combined with local inflation in cost of goods, resulted in a reduction in profit margins. It remains to be seen how the recent rand weakness will play out into the future.

KWV will continue investing in our own offices in Russia and the USA and building our brand in China through distributors. Africa remains a tough environment to operate in due to a decline in tourism, political instability and liquidity challenges resulting from a the sharp decline in commodity prices and slower economic growth.

Similarly, the challenges within the South African market are well known and common to many businesses. In the spirits business the long-term decline in the brandy market continued during the period under review, as did increased excise duties that impact affordability of these products. KWV has reduced the extent of discounting on our lower-end brandies and lost volumes in return for improved profitability. In addition, we have continued growing our wine and RTD business to reduce our reliance on brandy.

We believe that we can improve our inventory management even more and that we are still not realising satisfactory profit margins on our contract bottling business. Our RTD portfolio is far behind its planned targets and the spirits portfolio is still dominated by brandy, while the Wild Africa Cream brand is not growing fast enough.

Our strategy of improving our product offering and premiumising our brands was boosted when KWV was awarded as the best wine and spirit producer for the fifth consecutive year at the prestigious Veritas awards in October 2015. We are extremely proud of this winning streak and our production team's commitment to excellence. We still believe that our consistent quality and numerous awards build our brand strength and assist in growing our sales volumes.

Signed on behalf of the board of directors

Marcel Golding
Chairman

André van der Veen
CEO

Paarl
5 November 2015

KWV

PROUD PIONEERS

DIRECTORS / MJA Golding (Chairman), A van der Veen (CEO), JA Copelyn, F-A du Plessis, NL Ellis, MN Joubert, KI Mampeule, M Mhlarhi, DP Smit, LA van Dyk

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