PROUD PIONEERS

KWV HOLDINGS

GROUP INTERIM REPORT

(unaudited) for the six months

ended 30 September 2013

STATEMENT OF FINANCIAL POSITION

	Unaudited		Audited
	30 September 2013 R'000	31 December 2012 R'000	31 March 2013 R'000
ASSETS			
Non-current assets	**250 958**	244 204	245 258
Property, plant and equipment	**212 872**	201 222	204 988
Intangible assets	**18 525**	19 328	19 472
Investment in associates and joint ventures	**15 365**	15 297	15 141
Loans and receivables	**–**	2 001	–
Deferred taxation	**4 196**	6 356	5 657
Current assets	**1 179 892**	1 188 541	1 323 093
Inventories	**791 673**	719 628	814 613
Trade and other receivables	**352 396**	334 667	374 186
Current income tax assets	**1 220**	822	2 023
Derivative financial instruments	**589**	7 709	2 545
Loans and receivables	**2 422**	23 029	22 208
Bank and cash balances	**31 592**	102 686	107 518
Total assets	**1 430 850**	1 432 745	1 568 351
EQUITY			
Capital and reserves	**1 211 292**	1 226 438	1 223 547
Share capital	**1**	1	1
Share premium	**425 722**	425 722	425 722
Reserves	**785 569**	800 715	797 824
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	**28 547**	36 120	34 760
Current liabilities	**191 011**	170 187	310 044
Borrowings	**33 618**	–	–
Trade and other payables	**125 828**	155 143	285 628
Derivative financial instruments	**31 241**	14 494	24 092
Current income tax liabilities	**324**	550	324
Total equity and liabilities	**1 430 850**	1 432 745	1 568 351
Net asset value per share (cents)	**1 767,3**	1 789,4	1 785,2
	R'000	R'000	R'000
Capital commitments			
Contracted	**2 720**	2 990	4 434
Authorised, not contracted	**33 071**	32 620	14 270

STATEMENT OF COMPREHENSIVE INCOME

	Notes	Unaudited 6 months ended 30 September 2013 R'000	Unaudited 6 months ended 31 December 2012 R'000	Audited 9 months ended 31 March 2013 R'000
Revenue		**429 701**	442 618	623 893
Cost of sales		**(278 754)**	(295 372)	(399 372)
Gross profit		**150 947**	147 246	224 521
		35,1%	33,3%	36,0%
Other income		**4 617**	2 510	4 898
Other gains and losses – net		**(23 319)**	8 953	(1 857)
Promotion, marketing and distribution expenses		**(109 969)**	(114 059)	(170 407)
Operational and administrative expenses		**(42 111)**	(35 627)	(53 682)
Operating profit/(loss)	3	**(19 835)**	9 023	3 473
Finance income		**2 224**	2 197	3 626
Finance cost		**(662)**	(433)	(449)
Share of post-tax profits of associates		**423**	403	142
Profit/(loss) before income tax		**(17 850)**	11 190	6 792
Taxation charge		**5 114**	(754)	596
Profit/(loss) for the period		**(12 736)**	10 436	7 388
Other comprehensive income				
Change in foreign currency translation reserve		**481**	401	558
Total comprehensive income		**(12 255)**	10 837	7 946
(Attributable to equity holders of the company)				
		Cents	Cents	Cents
Earnings per share				
– Attributable earnings	2	**(18,6)**	15,2	10,8
– Headline earnings	2	**(18,9)**	14,6	10,8

STATEMENT OF CASH FLOWS

	Unaudited 6 months ended 30 September 2013 R'000	Unaudited 6 months ended 31 December 2012 R'000	Audited 9 months ended 31 March 2013 R'000
CASH FLOW FROM OPERATING ACTIVITIES			
Cash flows from operations before changes to working capital	**23 183**	19 763	52 138
Changes in working capital	**(136 419)**	11 505	(9 463)
Cash inflow/(outflow) from operations	**(113 236)**	31 268	42 675
Interest received	**2 158**	2 060	3 626
Finance costs	**(662)**	(433)	(379)
Taxation refunded/(paid)	**1 165**	(1 887)	(2 625)
Net cash flow from operating activities	**(110 575)**	31 008	43 297
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	**(20 200)**	(7 955)	(17 497)
Proceeds on disposal of property, plant and equipment	**615**	960	1 267
Acquisition of software	**(17)**	–	(877)
Loan repayments received	**20 433**	23 170	25 931
Dividends received	**200**	200	200
Investment in joint venture and associate	**–**	–	(106)
Net cash flow from investing activities	**1 031**	16 375	8 918
CASH FLOW FROM FINANCING ACTIVITIES			
Shares issued/(repurchased)	**–**	–	–
Dividends paid	**–**	–	–
Net cash flow from financing activities	**–**	–	–
Net increase/(decrease) in cash and cash equivalents	**(109 544)**	47 383	52 215
Cash and cash equivalents at the beginning of the period	**107 518**	55 303	55 303
Cash resources at the end of the period *	**(2 026)**	102 686	107 518
** Cash resources at the end of the period*			
Cash and cash equivalents	***31 592***	*102 686*	*107 518*
Other short-term borrowings	***(33 618)***	*–*	*–*
	(2 026)	*102 686*	*107 518*

STATEMENT OF CHANGES IN EQUITY

	Unaudited 6 months ended 30 September 2013 R'000	Unaudited 6 months ended 31 December 2012 R'000	Audited 9 months ended 31 March 2013 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	**(3 588)**	12 159	9 371
Balance at the beginning of the period	**9 371**	1 925	1 925
Net (loss)/profit attributable to ordinary shareholders	**(12 736)**	10 436	7 388
Equity accounted earnings transferred to equity reserve	**(223)**	(202)	58
Treasury shares			
Balance at the beginning and the end of the period	**(2 923)**	(2 923)	(2 923)
Equity reserve	**2 789**	2 826	2 566
Balance at the beginning of the period	**2 566**	2 624	2 624
Transfer of equity accounted earnings from retained earnings	**223**	202	(58)
Currency translation reserve	**2 061**	1 423	1 580
Balance at the beginning of the period	**1 580**	1 022	1 022
Movement for the period	**481**	401	558
Total reserves at the end of the period	**785 569**	800 715	797 824
Total equity	**1 211 292**	1 226 438	1 223 547

NOTES TO THE INTERIM REPORT

for the six months ended 30 September 2013

1. BASIS OF PREPARATION

The interim consolidated financial statements for the six months ended 30 September 2013 have been prepared in terms of IAS 34: Interim Financial Reporting and should be read in conjunction with the annual financial statements for the nine months ended 31 March 2013, 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 with the following statements, amendments and interpretations to IFRS that became effective during the current reporting period:

- Amendments to IFRS 1: First-time Adoption of International Financial Reporting Standards (IFRSs)
- Amendment to IFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities
- IFRS 10: Consolidated Financial Statements
- IFRS 11: Joint Arrangements
- IFRS 12: Disclosure of Interest in Other Entities
- IFRS 13: Fair Value Measurement
- Amendment to IAS 1: Presentation of Items of Other Comprehensive Income
- Amendment to IAS 19: Employee Benefits
- Revised IAS 27: Separate Financial Statements
- Revised IAS 28: Investments in Associates and Joint Ventures
- Improvements to IFRS 2011
- IFRIC 20: Stripping Costs in Production Phase of a Surface Mine

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
- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities
- Amendment to IAS 32: Offsetting Financial Assets and Financial Liabilities
- Amendment to IAS 36: Recoverable Amount Disclosures for Non-financial Assets
- Amendment to IAS 39: Novation of Derivatives and Continuation of Hedge Accounting
- IFRIC 21: Levies

	Unaudited 6 months ended		Audited 9 months ended
	30 September 2013 Number '000	31 December 2012 Number '000	31 March 2013 Number '000
2. EARNINGS PER SHARE			
Number of shares			
– issued	**68 538**	68 538	68 538
– used in the calculation of earnings per share	**68 537**	68 537	68 537
	R'000	R'000	R'000
Reconciliation of headline earnings			
Net profit/(loss) attributable to ordinary shareholders	**(12 736)**	10 436	7 388
Adjusted for:			
– profit on sale of property, plant and equipment	**(215)**	(437)	(289)
Headline earnings	**(12 951)**	9 999	7 099
	Cents	Cents	Cents
Earnings per share			
– Attributable earnings	**(18,6)**	15,2	10,8
– Headline earnings	**(18,9)**	14,6	10,4

	Unaudited 6 months ended 30 September 2013 R'000	Unaudited 6 months ended 31 December 2012 R'000	Audited 9 months ended 31 March 2013 R'000
3. SEGMENTAL ANALYSIS			
Functional analysis of sales	**429 701**	442 618	623 893
Wine	**220 351**	191 299	286 546
Spirits	**170 423**	184 844	254 030
Other	**38 927**	66 475	83 317
Regional analysis of sales	**429 701**	442 618	623 893
South Africa	**157 107**	231 746	325 950
Europe and the United Kingdom	**191 083**	135 761	189 327
Africa (excl. South Africa)	**41 931**	38 115	54 600
Rest of the world	**39 580**	36 996	54 016
Operating profit/(loss) of wine and spirits	**(19 835)**	9 023	3 473
Trading profit: South Africa	**(13 407)**	(2 960)	7 210
Trading profit: Europe and the United Kingdom	**45 637**	25 168	31 316
Trading profit: Africa (excl. South Africa)	**7 246**	7 337	12 153
Trading profit: Rest of the world	**1 502**	3 642	3 435
Items not allocated to segments:			
Other income and other gains and losses	**(18 702)**	11 463	3 041
Operational and administrative expenses	**(42 111)**	(35 627)	(53 682)

4. COMPARATIVE FIGURES

The results for the current period are not readily comparable to those of previous periods due to the change in the group's financial year-end from 30 June to 31 March. KWV's business is seasonal in nature and is significantly impacted by the harvest season (primarily February and March) when inventories and creditors are at elevated levels. Similarly, sales into Europe, our primary export market, tend to peak before the European summer, and sales in the South African market peak in the months before Christmas.

5. OPERATING RESULTS

Total revenue for the six months to September 2013 decreased by 3% from that of the six months to December 2012. A like-for-like comparison to the sales for the six months ended September 2012 shows a volume increase of 5% and revenue increase of 25%.

KWV's wine sales remain reliant on exports to Europe, and a combination of increased volumes and the weaker rand added to the increase in revenue. In addition, the volume growth in the South African market was also pleasing.

Spirits sales consist mainly of packed brandies in South Africa and bulk spirit exports to Europe. The brandy market in South Africa remains under pressure and expectations are that it will remain so. Bulk spirits exports to Europe continue to grow.

Other sales mainly relate to contract bottling and KWV's RTD ("Ready to drink") business. The volumes and revenues for contract bottling decreased due to the non-renewal of a contract. The RTD business continues to improve, but still from a relatively low base.

Sales in South Africa show a 33% decline if compared to the six months to December 2012. The comparative period includes peak Christmas sales and the current period shows a decline in contract bottling volumes. Sales to Europe showed an improvement and Africa also continues to perform well for the group. Sales into Asia also continue to perform satisfactorily, but volumes into the Americas did not meet our expectations. The significant weakening of the rand benefited all of the export sales.

The gross profit percentage for the six months is in line with that of the comparative periods. It benefited from an improved sales mix and the weakening of the rand. However, the fact that we fell short of our long-range sales plan resulted in significant inventory impairments and capacity variances in the current period which negated some of these margin gains.

Other income comprises of various items of which the most noticeable are increased rental income and a once-off refund on property taxes.

5. OPERATING RESULTS (continued)

Other gains and losses include profits on sale of assets, exchange rate losses and excise benefits.

The R23,3 million loss includes exchange rate losses of R37,6 million, of which R9,3 million relates to increased mark-to-market losses attributable to future periods for which the income has not been received. The net realised loss of R27,3 million represents additional income that the group could have earned had it not elected to hedge its export sales book. The benefit of the weaker exchange rate is reflected in turnover.

A substantial portion of KWV's budgeted sales is hedged when pricing with customers is concluded to ensure that planned margins are achieved. This policy is appropriate given the low aggregate profitability that impedes our ability to absorb foreign exchange risk and it will result in mark-to-market losses if the currency continues to depreciate. The average hedge rate continues to follow the ZAR depreciation against key exchange rates, with the average hedge rate now considerably higher than at year-end. In the long term KWV will remain a net beneficiary if the currency continues to weaken.

The slight decline in the group's promotional, marketing and distribution expenses reflects the seasonal change referred to above, as well as the tighter management of expenses.

Administrative and operational expenses increased by 18%. The main contributors to the increase are retrenchment costs and legal expenses. Excluding these items, the group's overhead expenses are being contained to inflationary increases.

The headline earnings for the period under review amounted to a loss of R13,0 million (18,9 cents per share).

6. ASSETS AND FUNDING

The group's total assets remained stable. Within "Trade and other receivables", the excise debtor reduced due to lower levels of blended brandies and packed spirits, while trade receivables are significantly higher, mainly due to improved export sales in the past three months. The negative cash position (net borrowings of R2,0 million) is mainly due to the normal business cycle (increased trade receivables and lower trade creditors).

The negative cash flow in the six months under review is significant if compared to December 2012; but, if compared to September 2012, this is in line with the normal business cycle and strategic plan. During harvest season there is a sharp increase in trade payables and inventory, as reflected in the March 2013 figures, but creditors are usually paid within two months and the significant inventory levels are maintained for a number of months, which results in cash being depleted. In addition, there is an increase in debtors due to strong sales in the past quarter.

The cash inflow from investing activities was R1,0 million. The primary contributor was the loan repayment of R19 million that was received at the end of June 2013.

7. BUSINESS ENVIRONMENT

Europe remains KWV's primary export market. Volumes have started to recover from depressed levels, but the market is still very competitive and most governments are increasing excise taxes, which often results in margin reduction. There is still very limited opportunity for price increases despite inflationary cost pressure. Fortunately the weaker rand is currently counteracting some of these cost pressures.

The South African market remains challenging and, as reported previously, there is continued pressure from rising inflation and unemployment, slow economic growth and a slowdown in the availability of consumer credit. Combined with above-inflation increases in excise duties (particularly spirits), this depresses consumption of higher-priced spirits and results in increased competition. On the other hand we are gaining success in the growth of our core brands, and are achieving volume growth in wines and RTDs. Our market share in the brandy category is increasing, despite a general decline in the category's consumption. The KWV brand remains very strong and our task is to ensure that we attain our natural market share through better sales and distribution execution.

The quality of our product portfolio remains outstanding as attested to by numerous recent awards for our wines and brandies. We are particularly proud of being the best wine producer at Veritas for the third year in a row and are striving to leverage our numerous awards into strong sales growth. We also won a trophy in the class of Major Red Varieties at the Six Nations Wine Challenge which proves that our strategy to design wines that have an international appeal is starting to bear fruit. Our 15-year old brandy was awarded the best brandy in the world.

KWV remains committed to its strategy of volume growth, margin growth and product diversification. Our focus remains on volume growth rather than cost reduction in order to balance the revenue/cost equation. We also continue to work at improving our distribution footprint and improving our routes to market. The effect of the potential advertising ban remains concerning to our South African sales.

Signed on behalf of the board of directors.

Marcel Golding
Chairman

André van der Veen
CEO

Paarl
1 November 2013

KWV
PROUD PIONEERS

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

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