KWV HOLDINGS

GROUP INTERIM REPORT

(unaudited) for the six months

ended 30 September 2014

STATEMENT OF FINANCIAL POSITION

	Notes	Unaudited 30 September 2014 R'000	Unaudited 30 September 2013 Restated R'000	Audited 31 March 2014 R'000
ASSETS				
Non-current assets		**252 881**	250 958	253 320
Property, plant and equipment		**217 983**	212 872	217 469
Intangible assets		**17 046**	18 525	17 964
Investment in associates and joint ventures		**17 037**	15 365	15 272
Deferred taxation		**815**	4 196	2 615
Current assets		**1 253 804**	1 179 892	1 355 787
Inventories	4	**990 727**	909 455	1 002 707
Trade and other receivables	4	**242 330**	234 614	212 738
Current income tax assets		**661**	1 220	687
Derivative financial instruments		**2 953**	589	5 952
Loans and receivables		**325**	2 422	2 523
Bank and cash balances		**16 808**	31 592	131 180
Total assets		**1 506 685**	1 430 850	1 609 107
EQUITY				
Capital and reserves		**1 237 573**	1 211 292	1 225 154
Share capital		**1**	1	1
Share premium		**425 722**	425 722	425 722
Reserves		**811 850**	785 569	799 431
LIABILITIES				
Non-current liabilities				
Deferred income tax liabilities		**35 039**	28 547	31 194
Current liabilities		**234 073**	191 011	352 759
Borrowings		**85 638**	33 618	–
Trade and other payables		**147 785**	125 828	328 848
Derivative financial instruments		**608**	31 241	23 911
Current income tax liabilities		**42**	324	–
Total equity and liabilities		**1 506 685**	1 430 850	1 609 107
Net asset value per share (cents)		**1 819,9**	1 767,3	1 787,6

	R'000	R'000	R'000
Capital commitments			
Contracted	**6 450**	2 720	5 763
Authorised, not contracted	**21 623**	33 071	38 914

STATEMENT OF COMPREHENSIVE INCOME

	Notes	Unaudited 6 months ended **30 September 2014** **R'000**	Unaudited 6 months ended 30 September 2013 Restated R'000	Audited 12 months ended 31 March 2014 R'000
Revenue		**520 560**	523 219	1 110 212
Cost of sales		**(353 891)**	(358 910)	(760 482)
Gross profit		**166 669**	164 309	349 730
Gross profit percentage		***32,0%***	*31,4%*	*31,5%*
Other income		**3 417**	4 617	9 437
Other gains and losses – net		**7 501**	(36 681)	(47 388)
Promotion, marketing and distribution expenses		**(112 187)**	(109 969)	(229 004)
Operational and administrative expenses		**(43 192)**	(42 111)	(84 971)
Operating profit/(loss)	3	**22 208**	(19 835)	(2 196)
Finance income		**966**	2 224	3 871
Finance cost		**(1 295)**	(662)	(635)
Share of post-tax profits of associates		**992**	423	331
Profit/(loss) before income tax		**22 871**	(17 850)	1 371
Taxation charge		**(6 165)**	5 114	(431)
Profit/(loss) for the period		**16 706**	(12 736)	940
Other comprehensive income*				
Change in foreign currency translation reserve		**28**	481	667
Total comprehensive income		**16 734**	(12 255)	1 607
(Attributable to equity holders of the company)				

** Items that may be subsequently reclassified to profit or loss.*

		Cents	Cents	Cents
Earnings per share	2			
– Attributable earnings		**24,4**	(18,6)	1,4
– Headline earnings		**24,3**	(18,9)	2,6

STATEMENT OF CASH FLOWS

	Unaudited 6 months ended 30 September 2014 R'000	Unaudited 6 months ended 30 September 2013 R'000	Audited 12 months ended 31 March 2014 R'000
CASH FLOW FROM OPERATING ACTIVITIES			
Cash flows from operations before changes to working capital	**29 968**	23 183	53 005
Changes in working capital	**(213 085)**	(136 419)	(14 845)
(Increase)/decrease in inventory	**(2 282)**	50 391	(56 425)
Increase in receivables	**(29 771)**	(25 098)	(2 598)
(Decrease)/increase in payables	**(181 032)**	(161 712)	44 178
Cash (outflow)/inflow from operations	**(183 117)**	(113 236)	38 160
Interest received	**1 102**	2 158	3 871
Finance costs	**(1 295)**	(662)	(771)
Taxation (paid)/refunded	**(452)**	1 165	57
Net cash flow (used in)/from operating activities	**(183 762)**	(110 575)	41 317
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	**(13 250)**	(20 200)	(38 659)
Proceeds on disposal of property, plant and equipment	**103**	615	990
Acquisition of software	**(12)**	(17)	(441)
Loan repayments received	**2 000**	20 433	20 752
Dividends received	**236**	200	200
Investments in associates and joint ventures	**(1 010)**	–	(497)
Net cash flow (used in)/from investing activities	**(11 933)**	1 031	(17 655)
CASH FLOW FROM FINANCING ACTIVITIES			
Shares repurchased	**(4 315)**	–	–
Net (decrease)/increase in cash and cash equivalents	**(200 010)**	(109 544)	23 662
Cash and cash equivalents at the beginning of the period	**131 180**	107 518	107 518
Cash resources at the end of the period*	**(68 830)**	(2 026)	131 180

** Cash resources at the end of the period*			
Bank and cash equivalents	***16 808***	*31 592*	*131 180*
Borrowings	***(85 638)***	*(33 618)*	*–*
	(68 830)	*(2 026)*	*131 180*

STATEMENT OF CHANGES IN EQUITY

	Unaudited 6 months ended 30 September 2014 R'000	Unaudited 6 months ended 30 September 2013 R'000	Audited 12 months ended 31 March 2014 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	**26 130**	(3 588)	10 180
Balance at the beginning of the period	**10 180**	9 371	9 371
Net profit/(loss) attributable to ordinary shareholders	**16 706**	(12 736)	940
Equity accounted earnings transferred to equity reserve	**(756)**	(223)	(131)
Treasury shares	**(7 238)**	(2 923)	(2 923)
Balance at the beginning of the period	**(2 923)**	(2 923)	(2 923)
Treasury shares acquired	**(4 315)**	–	–
Equity reserve	**3 453**	2 789	2 697
Balance at the beginning of the period	**2 697**	2 566	2 566
Transfer of equity accounted earnings from retained earnings	**756**	223	131
Currency translation reserve	**2 275**	2 061	2 247
Balance at the beginning of the period	**2 247**	1 580	1 580
Movement for the period	**28**	481	667
Total reserves at the end of the period	**811 850**	785 569	799 431
Total equity	**1 237 573**	1 211 292	1 225 154

NOTES TO THE INTERIM REPORT

for the six months ended 30 September 2014

1. BASIS OF PREPARATION

The interim consolidated financial statements for the six months ended 30 September 2014 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 2014, 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:

- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities
- Amendments to IAS 32: Offsetting financial assets and financial liabilities
- IFRIC 21: Levies
- Amendments to IAS 36: Recoverable amount disclosures for non-financial assets
- Amendments to IAS 39: Novation of derivatives and continuation of hedge accounting

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
- Amendment to IAS 19: Employee benefits
- Improvements to IFRSs 2010-2012 cycle
- Improvements to IFRSs 2011-2013 cycle
- Improvements to IFRSs 2012-2014 cycle
- Amendments to IFRS 11: Joint arrangements
- 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

	Unaudited 6 months ended 30 September 2014 Number '000	Unaudited 6 months ended 30 September 2013 Number '000	Audited 12 months ended 31 March 2014 Number '000
2. EARNINGS PER SHARE			
Number of shares			
Shares issued	**68 980**	68 980	68 980
Treasury shares	**(979)**	(442)	(442)
	68 001	68 538	68 538
Used in the calculation of earnings per share	**68 374**	68 537	68 537
	R'000	R'000	R'000
Reconciliation of headline earnings			
Net profit/(loss) attributable to ordinary shareholders	**16 706**	(12 736)	940
Adjusted for:			
– profit on sale of property, plant and equipment	**(79)**	(215)	(35)
– impairment of property, plant and equipment	**–**	–	849
Headline earnings	**16 627**	(12 951)	1 754
	Cents	Cents	Cents
Earnings per share			
– Attributable earnings	**24,4**	(18,6)	1,4
– Headline earnings	**24,3**	(18,9)	2,6

NOTES TO THE INTERIM REPORT (continued)

for the six months ended 30 September 2014

	Notes	Unaudited 6 months ended 30 September 2014 R'000	Unaudited 6 months ended 30 September 2013 Restated R'000	Audited 12 months ended 31 March 2014 R'000
3. SEGMENTAL ANALYSIS				
Functional analysis of sales	4	**520 560**	523 219	1 110 212
Wine		**236 451**	224 221	471 607
Spirits		**248 150**	256 768	556 944
Other		**35 959**	42 230	81 661
Regional analysis of sales	4	**520 560**	523 219	1 110 212
South Africa		**272 842**	253 809	601 081
Europe and the United Kingdom		**167 104**	183 270	340 721
Africa (excl. South Africa)		**43 856**	46 560	87 243
Rest of the world		**36 758**	39 580	81 167
Operating profit/(loss) per region		**22 208**	(19 835)	(2 196)
Trading profit/(loss):				
South Africa		**(85)**	(706)	15 434
Europe and the United Kingdom		**42 238**	45 637	85 734
Africa (excl. South Africa)		**9 554**	7 907	14 966
Rest of the world		**2 775**	1 502	4 592
Items not allocated to segments:				
Other income and other gains and losses		**10 918**	(32 064)	(37 951)
Operational and administrative expenses		**(43 192)**	(42 111)	(84 971)

4. CHANGE IN ACCOUNTING POLICY

Excise duty became more and more relevant to KWV in recent years as our business shifted away from packed wine exports and bulk spirit sales in the local market, towards packed product sales (in particular, spirits) in the South African market. As a result, the policy regarding the accounting for excise duties was reviewed during the 2014 financial year and changed to include excise duties in the valuation of inventory, and in revenue and cost of sales.

4. CHANGE IN ACCOUNTING POLICY (continued)

The change in the accounting policy had the following effect on the comparative period's financial statements:

	Previously stated R'000	Change in policy R'000	Restated 30 September 2013 R'000
Inventories	791 673	117 782	909 455
Trade and other receivables	352 396	(117 782)	234 614
Revenue	429 701	93 518	523 219
Cost of sales	(278 754)	(80 156)	(358 910)
Other gains and losses – net	(23 319)	(13 362)	(36 681)

5. OPERATING RESULTS

Total revenue for the six months to September 2014 decreased by 0,5% from that of September 2013. KWV's export portfolio benefited from a 10% weakening in the rand compared to the prior period. If one adjusts for this impact, revenue is about 4,5% lower than in the previous six months. The main contributor to the decline in revenue is a 6% decrease in sales volumes.

KWV's wine sales remain reliant on exports to Europe. The 5,5% increase in revenue from wine mostly stems from the weaker rand as volumes underperformed.

The brandy market in South Africa remains under pressure and continued losing market share to whisky and white spirits, resulting in a volume decline despite increased market share for the KWV portfolio. KWV's market share over a 12-month period increased from 10% to 12%. This market share growth was achieved in a tough trading environment, often at the expense of gross profit margins.

Other sales mainly relate to contract bottling and KWV's RTD ('Ready to drink') business. The volumes and revenues for contract bottling decreased but the profitability of the category is significantly better than in the prior period due to an improved sales mix. The RTD business forms a small part of revenue and did not show improvement from the prior period despite significant discounting.

The South African revenues mainly consist of the sale of branded packed products and contract bottling. Branded packed sales are up significantly against the prior period stemming from growth in market share of our KWV brand although smaller contract bottling revenues tempered overall growth. Sales volumes into all major export markets were under pressure and were lower than in the prior period.

The gross profit percentage showed a slight improvement in the current reporting period. Contributing factors were the weaker exchange rate, a volume decrease in lower margin contract bottling business, and fewer stock write-offs and production variances. These improvements were largely negated by challenging market conditions in all regions, which resulted in sub-inflationary price increases and margin pressure on KWV's branded portfolio.

The most noticeable item in other income is rental income, which continued to show improvement, but several sundry income items from the prior period were not repeated thereby resulting in a slight decrease.

5. OPERATING RESULTS (continued)

Other gains and losses include profits on sale of assets and exchange rate profits. Exchange rate fluctuations dominate this category due to KWV's significant forward hedge book both in the prior and current period. The current period includes exchange rate profits of R7,4 million compared to a R37,6 million loss in the prior period, resulting in a R45 million swing between the two periods.

KWV will continue to follow a policy of hedging budgeted export sales to ensure that planned margins are achieved. In the long term, KWV will remain a net beneficiary should the rand weaken.

The group's promotional, marketing and distribution expenses increased slightly from the prior period. The distribution cost increased in line with the increase in South African sales and diligent management of these expenses remains a focus area. Advertising and promotional expenses form a significant part of this expense and increased by 4% from the comparative period.

Administrative and operational expenses increased by 2%. The group's overhead expenses are being contained below inflationary increases.

The headline earnings for the period under review amounted to a profit of R16,6 million (24,3 cents per share) compared to a loss of R13,0 million (18,9 cents per share) of the prior period. The significant improvement is due to the exchange rate fluctuation noted above.

6. ASSETS AND FUNDING

The group's non-current assets remained stable but current assets increased. Inventory was restated as detailed in note 4. The main causes for higher inventory levels are increased investment in spirits inventories, increased packed product in anticipation of peak season in South Africa and higher excise taxes capitalised into inventory. Trade and other receivables increased from the prior period due to the upswing in sales in the last two months.

The negative cash flow in the six months under review can be attributed to KWV's normal business cycle whereby trade payables and inventories are usually at their highest levels towards the end of the harvest season, as reflected in the March 2014 figures. These creditors are settled within the first few months of the financial year, yet the higher inventory levels are gradually reduced throughout the year.

Working capital absorbed R213 million of cash, which is R77 million more than in the prior period. The main reasons for poorer cash generation are the increased inventory levels noted above and increased payments for excise duties.

The cash outflow from investing activities was R11,9 million. The prior period showed an inflow of R1 million which included a loan repayment of R19 million.

During August 2014, R4,3 million was spent on acquiring 536 716 treasury shares.

7. BUSINESS ENVIRONMENT

KWV's primary export market remains Europe. The European economy struggles with persistent low growth and is flirting with deflation. In addition, South Africa is being perceived as a lower-priced wine country and this is, in turn, tainting KWV's product. The result is intense price competition as well as volume and margin reduction. Fortunately the weaker rand continued to counteract market and inflationary pressures to an extent.

Exports into Africa and Asia remain a focus but volume growth for the period under review was disappointing. We believe most of the setbacks were temporary in nature and KWV will continue to invest in opening up these markets.

Issues within the South African market are well known and largely unchanged from the past: continued pressure from rising inflation and unemployment, slow economic growth and a slowdown in the availability of consumer credit. We also still contend with above-inflation increases in excise duties and a declining brandy segment. This resulted in lower margins but KWV's brand strength and investment in our sales force and infrastructure resulted in a growth of our core wine and spirit brands, and a continued increase in our market share in the brandy category.

It is a source of pride that KWV once again received the prestigious Best Wine Producer Award at Veritas. We achieved this accolade for an unprecedented fourth year in a row and it is a testament to the quality of our product portfolio. Our brandies also received numerous awards and we are starting to see the benefits filtering through into our South African sales volumes.

With the exception of solid performance in the local South African market, KWV did not achieve its strategic objective of branded volume growth in the six months under review. We are addressing 'route-to-market' constraints on a wide front. The focus going forward is to continue investing in our core brands and to refine pricing and product offerings in order to strike a better balance between revenue growth and margin improvement.

Signed on behalf of the board of directors

Marcel Golding
Chairman

André van der Veen
CEO

Paarl
5 November 2014

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

COMPANY SECRETARY / AW Eksteen

REGISTERED OFFICE / La Concorde, 57 Main Street, Suider-Paarl, 7646

WEBSITE / www.kwv.co.za

TRANSFER SECRETARIES / Link Market Services (Pty) Ltd

GREYMATTER & FINCH # 8131