



# INTERIM REPORT

for the six months ended 31 December 2006

**KWV LIMITED**

## CONDENSED INCOME STATEMENT

	Unaudited Six months ended 31 December		% Change	Audited Year ended 30 June 2006
	2006 R'000	2005 R'000 <i>Restated</i>		R'000
<b>Income</b>	<b>700 725</b>	635 747	10,2	1 185 631
Cost of sales	(438 708)	(398 523)		(771 679)
<b>Gross profit</b>	<b>262 017</b>	237 224	10,5	413 952
<b>Operating profit</b>	<b>26 157</b>	59 553	(56,1)	97 080
Net interest	(14 556)	(16 511)		(24 713)
Income from associates	143 607	85 430	68,1	158 821
<b>Profit before taxation</b>	<b>155 208</b>	128 472		231 188
Taxation	(5 780)	(15 824)		(29 720)
<b>Profit for the period</b>	<b>149 428</b>	112 648	32,7	201 468
<b>Attributable to:</b>				
Ordinary shareholders	86 978	74 975	16,0	132 800
Minority shareholders	62 450	37 673		68 668
<b>HEADLINE EARNINGS RECONCILIATION</b>				
Net profit attributable to ordinary shareholders	86 978	74 975		132 800
– profit on sale of non-current assets	(135)	(608)		(4 613)
– profit on acquisition of subsidiary	–	(3 453)		(3 139)
– interest in items of associate	(4 386)	(137)		260
<b>Headline earnings</b>	<b>82 457</b>	70 777	16,5	125 308
Adjustments for exceptional and non-recurring items				
– South African Wine Industry Trust:				
Finance cost	–	4 944		4 547
– Interest in BEE expense of associate	–	11 055		11 055
<b>Adjusted headline earnings</b>	<b>82 457</b>	86 776	(5,0)	140 910
<b>Number of shares ('000)</b>				
– issued	445 328	444 288		444 418
– used in calculation of earnings per share	444 949	444 431		446 012
	<b>Cents</b>	<b>Cents</b>		<b>Cents</b>
<b>Earnings per share</b>				
– Attributable earnings	19,5	16,9	15,9	29,8
– Headline earnings	18,5	15,9	16,4	28,1
– Adjusted headline earnings	18,5	19,5	(5,1)	31,6
<b>Dividend per share</b> (declared after year-end)	–	–		5,75

**Note:** The impact of dilution on the earnings per share due to share options is negligible.

## CONDENSED BALANCE SHEET

	Unaudited 31 December		Audited 30 June
	2006	2005	2006
	R'000	R'000	R'000
	<i>Restated</i>		
<b>ASSETS</b>			
<b>Non-current assets</b>	<b>1 456 824</b>	<b>1 326 264</b>	<b>1 336 902</b>
Property, plant and equipment	304 351	331 897	304 924
Intangible assets	14 836	6 897	7 246
Investment in associates	1 068 630	936 422	974 019
Goodwill	15 081	–	–
Other investments	22 891	18 180	22 521
Deferred taxation	31 035	32 868	28 192
<b>Current assets</b>	<b>1 134 496</b>	<b>1 102 727</b>	<b>1 195 114</b>
Inventory	749 144	764 922	841 335
Accounts receivable	364 203	318 332	338 147
Cash and cash equivalents	21 149	19 473	15 632
<b>Total assets</b>	<b>2 591 320</b>	<b>2 428 991</b>	<b>2 532 016</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	<b>1 846 889</b>	<b>1 669 783</b>	<b>1 750 254</b>
Ordinary shareholders' interest	1 378 052	1 257 380	1 322 770
Minority interest	468 837	412 403	427 484
<b>Non-current liabilities</b>	<b>232 656</b>	<b>290 650</b>	<b>220 463</b>
Long-term liabilities	127 168	107 177	111 139
South African Wine Industry Trust	–	79 556	–
Deferred taxation	105 488	103 917	109 324
<b>Current liabilities</b>	<b>511 775</b>	<b>468 558</b>	<b>561 299</b>
Short-term portion of long-term borrowings	30 000	30 000	34 120
Short-term borrowings	231 485	164 410	300 000
Minority interest in partnership with limited liability	5 971	9 675	11 852
Accounts payable	235 864	248 824	208 570
Taxation payable	8 455	15 649	6 757
<b>Total equity and liabilities</b>	<b>2 591 320</b>	<b>2 428 991</b>	<b>2 532 016</b>
Net asset value per share (cents)	309,4	283,0	297,6
	R'000	R'000	R'000
<b>Capital commitments</b>			
Contracted	9 468	10 602	820
Authorised, not contracted	26 561	13 923	28 202

## CONDENSED STATEMENT OF CHANGES IN EQUITY

	Unaudited Six months ended 31 December		Audited Year ended 30 June
	2006 R'000	2005 R'000	2006 R'000
	<i>Restated</i>		
<b>Ordinary shareholders' interest at beginning of the period</b>	1 322 770	1 196 203	1 196 203
<b>Shares issued/(repurchased)</b>	538	(3 042)	(2 965)
<b>Changes in distributable reserves</b>			
<i>Retained earnings</i>	1 427	29 276	68 298
Net profit attributable to ordinary shareholders	86 978	74 975	132 800
Equity accounted earnings transferred to equity reserve	(51 177)	(23 187)	(39 250)
Dilution of interest in associate	(1 007)	(2 524)	(5 269)
Unclaimed dividends written back	-	-	5
Equity interest on acquisition of additional interest in subsidiary	(7 761)	-	-
Dividend paid	(25 606)	(19 988)	(19 988)
<i>Equity reserve</i>	52 671	36 693	57 785
Transfer of equity accounted earnings from retained earnings	51 177	23 187	39 250
Changes in reserves of associate	1 494	13 506	18 535
<b>Changes in non-distributable reserves</b>			
Deferred taxation on loan to foreign entity	(138)	636	(1 273)
Changes in currency translation reserve	710	(2 552)	3 819
Revaluation of available-for-sale financial assets	-	-	451
Change in share-based payment reserve	74	166	452
<b>Ordinary shareholders' interest at end of the period</b>	1 378 052	1 257 380	1 322 770
<b>Minority interest</b>	468 837	412 403	427 484
<b>Total equity</b>	1 846 889	1 669 783	1 750 254

## CONDENSED CASH FLOW STATEMENT

		Unaudited Six months ended 31 December 2006 R'000	2005 R'000	Audited Year ended 30 June 2006 R'000
	Note		<i>Restated</i>	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
Cash from operations		54 372	83 048	123 583
Changes in working capital		47 985	42 985	(7 097)
<b>Cash generated from operations</b>		<b>102 357</b>	126 033	116 486
Net interest		(16 025)	(11 859)	(24 010)
Taxation paid		(13 227)	(12 593)	(25 155)
Payments to the South African Wine Industry Trust: Finance component		-	(4 944)	(799)
<b>Net cash flow from operating activities</b>		<b>73 105</b>	96 637	66 522
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>				
Dividends received		49 876	39 366	79 217
Proceeds on disposal of property, plant and equipment		45 047	1 079	1 821
Property, plant and equipment acquired		(16 660)	(7 823)	(28 843)
Acquisition of subsidiary	5.1	(15 250)	(14 462)	(14 462)
Acquisition of additional interest in subsidiary	5.2	(13 220)	-	-
Sale of subsidiary	5.3	238	-	-
Other		1 159	907	907
<b>Net cash flow from investing activities</b>		<b>51 190</b>	19 067	38 640
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>				
Shares issued/(repurchased)		538	(3 042)	(2 965)
Dividends paid		(47 542)	(37 226)	(55 679)
Settlement of obligation to the South African Wine Industry Trust		-	(24 824)	(134 351)
Long-term borrowings repaid		(2 570)	(15 000)	(6 740)
<b>Net cash flow from financing activities</b>		<b>(49 574)</b>	(80 092)	(199 735)
<b>Net increase/(decrease) in cash resources</b>		<b>74 721</b>	35 612	(94 573)
Cash resources at beginning of the period		(284 368)	(183 877)	(183 877)
Translation of foreign currency opening balances		(689)	3 328	(5 918)
<b>Cash resources at end of the period*</b>		<b>(210 336)</b>	(144 937)	(284 368)
<b>*Cash resources at end of the period</b>				
Cash and cash equivalents		21 149	19 473	15 632
Short-term borrowings		(231 485)	(164 410)	(300 000)
		<b>(210 336)</b>	(144 937)	(284 368)



## VISION

Together we create winning brands

## MISSION

To build aspirational beverage  
brands that will enhance  
a responsible lifestyle

## VALUES

Integrity, innovation,  
passion & pride

## NOTES

### 1. BASIS OF PREPARATION

The interim report has been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards (IFRS), IAS 34: Interim Financial Reporting and the requirements of the South African Companies Act, Act 61 of 1973, as amended.

The accounting policies and the methods of computation are consistent with those applied in the previous financial periods, with the exception of a number of new statements, amendments and interpretations of IFRS that became effective during the current reporting period. The adoption of these new policies had no impact on the results of either the current or prior periods.

### 2. RESTATEMENT OF PRIOR INTERIM PERIOD RESULTS

The group has accepted the policy to account for the dilutive and antidilutive effects of associates' equity transactions, that the group is not party to, directly in equity. In the previous interim period a dilutive expense of R4 537 000 was recognised. The comparative results have been restated to account for this amount directly in equity.

The effect of the changes are that the net profit for the six months ended 31 December 2005 has increased by R2 524 000 and earnings per share increased by 0,6 cents from 16,3 to 16,9 cents. It had no effect on headline earnings or headline earnings per share.

Furthermore, the final audited valuations of certain assets as at 1 July 2004, differed from the values as estimated in the previous interim period. As a result, the investment in associates was adjusted upwards by R1 562 000 and the value of property, plant and equipment by R527 000. The total adjustment of R2 091 000 to the results of the comparative interim period had no impact on profits or cash flows and resulted in a slight increase of 0,5 cents in the net asset value per share, to 283,0 cents.

### 3. RELATED-PARTY TRANSACTIONS

The group, in the ordinary course of business, enters into various sale transactions on an arm's length basis at market-related prices with related parties.

### 4. INCOME TAX QUERY

There have been no further developments regarding the tax queries, as disclosed in the 2006 annual report, that the group had received from the South African Revenue Service.

### 5. BUSINESS COMBINATIONS

#### 5.1 Acquisition of NMK Premium Global Brands (Pty) Ltd (NMK)

KWV acquired a 100% interest in NMK, a distributor of a wide range of alcoholic

beverages in South Africa, effective 1 July 2006. Consideration for 51% was paid in cash and the remaining 49% will be acquired between 2009 and 2012, at a price based on the profitability of NMK.

	<u>R'000</u>
Purchase consideration:	
Cash consideration	12 500
Deferred consideration ( <b>estimate</b> )	10 000
Direct costs relating to the acquisition	723
Total purchase consideration	<u>23 223</u>
Fair value of assets acquired	<u>8 142</u>
Goodwill	<u>15 081</u>

The goodwill is attributable to the growth prospects of the acquired business and significant synergies expected to arise from distribution of KWV's brands in South Africa.

*The assets and liabilities arising from the acquisition are as follows:*

	Fair value R'000	Acquiree's carrying amount R'000
Property, plant and equipment	1 126	1 126
Inventory	16 886	16 886
Receivables	10 629	10 629
Taxation payable	79	79
Trade and other payables	(18 449)	(18 449)
Cash and current borrowings	(2 027)	(2 027)
Long-term borrowings	(5 760)	(5 760)
Intangible assets: Distribution rights	7 969	-
Deferred taxation on distribution rights	(2 311)	-
<b>Fair value of assets acquired</b>	<u>8 142</u>	<u>2 484</u>
Portion of purchase consideration settled in cash	(12 500)	
Direct costs relating to the acquisition	(723)	
Cash and current borrowings in subsidiary acquired	<u>(2 027)</u>	
Cash outflow on acquisition	<u>(15 250)</u>	

## 5.2 Acquisition of additional interest in Eggers & Franke GmbH & Co.Kg

KWV has increased its interest in its German subsidiary Eggers & Franke by 12,6% from 74,9% to 87,5%, for a consideration of EUR1 500 000 (R13 220 250) on 1 July 2006.

### 5.3 Disposal of Edward Cavendish & Sons Ltd (ECS)

KWV sold its 100% interest in its United Kingdom (UK) subsidiary, ECS, to Thierry's Wine Services at its net asset value at 30 September 2006.

	<u>R'000</u>
Cash inflow on disposal	238
ECS pension fund asset retained in the KWV group	(4 566)
Fair value of assets sold	<u>4 328</u>
Profit on sale of subsidiary	<u>–</u>
<b>Effect of the disposal on assets and liabilities of the group:</b>	
Property, plant and equipment	(135)
Inventory	(3 934)
Trade receivables	(18 094)
Other receivables	(9 699)
Trade and other payables	<u>36 190</u>
<b>Net identifiable assets and liabilities</b>	<u>4 328</u>
Purchase consideration received in cash	–
Bank overdraft of subsidiary disposed of	<u>238</u>
Cash inflow on disposal	238
ECS pension fund asset retained in the KWV group	<u>(4 566)</u>
<b>Total consideration on disposal of subsidiary</b>	<u>(4 328)</u>

**Note:** As a part of restructuring of the group's business in the UK, KWV has acquired a 25% minority interest in Thierry's Wine Services for a consideration of GBP1 225 000 (R17 284 000) on 1 February 2007.

## 6. OPERATING RESULTS

The group turnover for the six months under review amounts to R700,7 million, an increase of 10,2% over the comparable six months of the prior year.

Total volume sales of branded products declined by 8,1%, with most major export markets showing some decline while the domestic market experienced moderate growth. Within this disappointing overall growth picture Roodeberg was the exception, achieving volume growth of 28% on a global basis.

Sales of grape juice concentrate increased by 10,2%.

Gross profit has increased by 10,5%. The increase in turnover and gross profit is attributable mainly to growth from acquisitions, but curtailed by the decrease in sales volume across most major markets.

Total operating expenses increased by a disproportionate 32,8%, resulting in a decline of 56,1% in operating profit. The exceptional increase in operating expenses is largely attributable to non-recurring items and relates mainly to the rationalisation and restructuring of the group's activities in both Germany and the United Kingdom. Furthermore, certain of the group's operations, particularly in the local market, are in a developmental growth phase requiring substantial investment in brands and human capital from which the benefits are expected to be derived in the future.

Total income from associates increased by 68,1% from R85,4 million to R143,6 million, due to a strong improvement in operational performance by the Distell Group Limited as well as the non-recurring BEE expense in the comparative interim period.

The headline earnings for the period under review amounted to R82,5 million, compared to R70,8 million for the comparative six months, an increase of 16,5%. Adjusted headline earnings amounted to R82,5 million, a decrease of 5,0% over the prior interim period.

## 7. ASSETS AND FUNDING

Total assets increased by 6,7% to R2,6 billion.

Capital expenditure for the period amounted to R16,7 million, compared to R7,8 million during the prior period, while the sale of property, plant and equipment, mainly fixed property in Germany, realised R45,0 million. Additional investment in subsidiary companies amounted to R28,5 million compared to R14,4 million during the comparative six months.

Net cash flow from operating activities amounted to R73,1 million, marginally higher than during the prior interim period. This was achieved, in part, due to a reduction in working capital amounting to R48,0 million. There was a net positive cash flow of R74,7 million during the review period compared to R35,6 million during the comparable six months.

Net interest-bearing debt declined marginally from R361,7 million to R357,5 million, resulting in a debt-equity ratio of 19,4%.

## 8. OVER-THE-COUNTER TRADING OF KWV LIMITED SHARES

The trading service was performed by PSG Konsult Limited ("PSG") on behalf of KWV until 30 November 2006, when it was prohibited by the Financial Services Board. Since 1 December 2006 the trading of shares is done by KWV itself. PSG has been contracted to manage the administrative aspects regarding trading, and prospective buyers and sellers should in the first instance contact PSG.

## 9. PROSPECTS

International trading conditions in the wine industry remain tough and competitive. Despite moderately favourable economic environments in most global markets, consumer spending in general is fairly flat, with the wine segment showing only marginal growth. This growth is reflected largely in volumes only, with value mostly stagnant or on the decrease as a result of price promotions and discounting still being the order of the day. This situation is aggravated and will continue for another couple of years due to the oversupply of wine globally. From a South African export perspective the recent weakening of the rand has alleviated some of the pressure on margins.

On the domestic front, economic conditions are positive and growth in consumer expenditure is expected to continue, albeit at a slower pace. However, trading conditions remain very competitive in a stagnant wine market while the brandy market, which is growing, is characterised by particularly strong competitive activity, especially imported brown spirits. While these conditions persist the group's income will remain under pressure.

In keeping with the latest market trends, KWV will, in the remaining quarter, carry out a re-evaluation of its wine marketing strategy. This could result in write-offs which may have a negative impact on the operating results for the full year.

KWV has recently acquired the Bols brandy manufacturing and distribution rights and has also recently been awarded the exclusive rights to distribute and market the renowned Rémy-Cointreau product range in Southern Africa.

## 10. DIRECTORATE

Messrs MJ Loubser and JF Mouton have been appointed as directors with effect from 1 February 2007. Mr Loubser has been appointed as chief executive officer following the retirement of Dr Willem Barnard. Mr Lumkile Mondi, who was previously a nominated director on behalf of the Industrial Development Corporation, pursuant to KWV's BEE transaction, has been appointed as an independent non-executive director.

## 11. DIVIDENDS

In accordance with company practice, the board does not consider the declaration of dividends at the interim stage.

Signed on behalf of the board of directors.

**D de Wet**  
*Chairman*

**MJ Loubser**  
*Chief Executive Officer*

Paarl  
28 March 2007

[www.kwv.co.za](http://www.kwv.co.za)

**Directors**

D de Wet, MJ Loubser, JB Bestbier, W Bestbier, AE vZ Botha, VA Christian,  
AS du Plessis, Ms FA du Plessis, CJ du Toit, PBB Hugo, BS Jack-Pama, LP Mondt,  
JF Mouton, PB Retief, CH Wiese

**Company secretary**

AW Eksteen

**Registered office**

La Concorde, 57 Main Street, Suider-Paarl, 7646