



GROUP INTERIM
REPORT
(UNAUDITED)

for the six months ended 31 December 2008

KWV LIMITED

CONDENSED INCOME STATEMENT

| | Unaudited | | % | Audited |
|---|------------------|-----------------|--------|------------|
| | Six months ended | | | Year ended |
| | 31 December | | | 30 June |
| | 2008 | 2007 | | 2008 |
| | R'000 | R'000 | Change | R'000 |
| | | <i>Restated</i> | | |
| CONTINUING OPERATIONS | | | | |
| Revenue | 441 585 | 447 079 | (1,2) | 888 871 |
| Cost of sales | (280 010) | (277 620) | | (575 046) |
| Gross profit | 161 575 | 169 459 | (4,7) | 313 825 |
| Other income/(expenses) | (2 546) | 9 733 | | 39 678 |
| Promotion, marketing and distribution | (74 779) | (83 111) | | (146 465) |
| Operational and administrative expenses | (57 503) | (55 536) | | (134 235) |
| Operating profit | 26 747 | 40 545 | (34,0) | 72 803 |
| Dividend income | 4 | 3 | | 11 |
| Net interest | (21 759) | (17 175) | 26,7 | (28 039) |
| Income from associates | 192 592 | 163 175 | 18,0 | 274 901 |
| Profit before taxation | 197 584 | 186 548 | 5,9 | 319 676 |
| Taxation | (821) | (7 729) | | (559) |
| Profit for the period: continuing operations | 196 763 | 178 819 | 10,0 | 319 117 |
| DISCONTINUED OPERATIONS | | | | |
| Losses from discontinued operations | – | (2 476) | | (4 913) |
| Profit on sale of discontinued operations | 13 722 | – | | 46 329 |
| Profit for the period | 210 485 | 176 343 | 19,4 | 360 533 |
| Attributable to: | | | | |
| Minority interest | 76 388 | 66 733 | | 117 813 |
| – Profit for the period from continuing operations | 76 388 | 66 705 | | 117 887 |
| – Profit/(loss) for the period from discontinued operations | – | 28 | | (74) |
| Equity holders of the company | 134 097 | 109 610 | 22,3 | 242 720 |
| – Profit for the period from continuing operations | 120 375 | 112 114 | 7,4 | 201 230 |
| – Profit/(loss) for the period from discontinued operations | 13 722 | (2 504) | | 41 490 |
| | Note | | | |
| Earnings per share | | Cents | Cents | Cents |
| – Attributable earnings | 1 | 32,4 | 26,4 | 22,7 |
| – Headline earnings | 1 | 28,9 | 25,6 | 12,9 |
| Dividend per share (declared after year-end) | | – | – | 12,5 |

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 |
|---|--------------------------|-----------------|--------------------|
| | 2008 | 2007 | 2008 |
| | R'000 | R'000 | R'000 |
| | | <i>Restated</i> | |
| ASSETS | | | |
| Non-current assets | 1 780 209 | 1 650 654 | 1 672 425 |
| Property, plant and equipment | 293 073 | 305 704 | 299 583 |
| Intangible assets | 4 678 | 29 210 | 5 187 |
| Investment in associates | 1 443 184 | 1 275 455 | 1 326 752 |
| Other investments | 16 522 | 2 685 | 16 003 |
| Deferred taxation | 22 752 | 37 600 | 24 900 |
| Current assets | 1 021 776 | 1 249 475 | 1 006 045 |
| Inventory | 671 291 | 760 558 | 691 958 |
| Trade and other receivables | 304 989 | 443 572 | 269 997 |
| Bank and cash balances | 45 496 | 45 345 | 44 090 |
| Assets held for sale | – | – | 5 477 |
| Total assets | 2 801 985 | 2 900 129 | 2 683 947 |
| EQUITY AND LIABILITIES | | | |
| Equity | 2 171 203 | 1 984 292 | 2 131 546 |
| Ordinary shareholders' interest | 1 614 964 | 1 449 067 | 1 574 993 |
| Minority interest | 556 239 | 535 225 | 556 553 |
| Non-current liabilities | 128 245 | 218 644 | 144 569 |
| Non-current borrowings | 27 456 | 98 579 | 43 196 |
| Provisions | – | 5 844 | – |
| Deferred taxation | 100 789 | 114 221 | 101 373 |
| Current liabilities | 502 537 | 697 193 | 404 911 |
| Current portion of non-current borrowings | 30 480 | 30 000 | 30 484 |
| Other current borrowings | 296 856 | 376 828 | 217 490 |
| Minority interest in limited partnership | – | 6 500 | – |
| Trade and other payables | 171 219 | 281 058 | 150 631 |
| Current income tax liabilities | 3 982 | 2 807 | 6 306 |
| Liabilities directly associated with assets held for sale | – | – | 2 921 |
| Total equity and liabilities | 2 801 985 | 2 900 129 | 2 683 947 |
| Net asset value per share (cents) | 389,9 | 349,0 | 380,8 |
| | R'000 | R'000 | R'000 |
| Capital commitments | | | |
| Contracted | 14 016 | 12 172 | 2 992 |
| Authorised, not contracted | 16 246 | 9 636 | 26 373 |

* Interest-bearing borrowings

CONDENSED STATEMENT OF RECOGNISED
INCOME AND EXPENSE

| | Unaudited | | Audited |
|---|------------------|-----------------|------------|
| | Six months ended | | Year ended |
| | 31 December | | 30 June |
| | 2008 | 2007 | 2008 |
| | R'000 | R'000 | R'000 |
| | | <i>Restated</i> | |
| Profit for the period | 210 485 | 176 343 | 360 533 |
| Dilution of investment in associate | (438) | (555) | (5 716) |
| Re-valuation of available-for-sale investments | – | – | 28 |
| Currency translation differences | 678 | 1 574 | 8 227 |
| Deferred taxation on change in unrealised profit in closing inventory of group companies | – | – | (460) |
| Interest in net income recognised directly in equity of associate | (16 755) | (127) | (11 497) |
| Total recognised income for the period | 193 970 | 177 235 | 351 115 |
| Attributable to: | | | |
| Minority interest | 69 597 | 66 745 | 110 996 |
| Equity holders of the company | 124 373 | 110 490 | 240 119 |

CONDENSED CASH FLOW STATEMENT

| | Unaudited | | Audited |
|---|------------------|------------------|------------------|
| | Six months ended | | Year ended |
| | 31 December | | 30 June |
| | 2008 | 2007 | 2008 |
| | R'000 | R'000 | R'000 |
| | <i>Restated</i> | | |
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Cash from operations | 43 619 | 65 918 | 115 063 |
| Changes in working capital | 7 228 | 9 113 | 16 932 |
| Cash generated from operations | 50 847 | 75 031 | 131 995 |
| Net interest | (22 001) | (20 761) | (37 336) |
| Taxation paid | (2 546) | (6 921) | (25 183) |
| Net cash flow from operating activities | 26 300 | 47 349 | 69 476 |
| CASH FLOW FROM INVESTING ACTIVITIES | | | |
| Dividends received | 77 450 | 63 955 | 124 987 |
| Proceeds on disposal of property, plant and equipment | 3 526 | 2 332 | 4 441 |
| Property, plant and equipment acquired | (13 147) | (14 435) | (39 265) |
| Proceeds on disposal of investments | 15 000 | – | 157 891 |
| Acquisition of additional interest in subsidiary | (90 240) | – | – |
| Additional investment in joint venture | – | (1 914) | (1 914) |
| Loans repaid by associates | – | 8 522 | 3 897 |
| Net cash flow from investing activities | (7 411) | 58 460 | 250 037 |
| CASH FLOW FROM FINANCING ACTIVITIES | | | |
| Shares issued/(repurchased) | 547 | (3 143) | (10 425) |
| Dividends paid | (81 894) | (56 853) | (82 863) |
| Non-current borrowings repaid | (15 502) | (17 098) | (32 871) |
| Net cash flow from financing activities | (96 849) | (77 094) | (126 159) |
| Net (decrease)/increase in cash resources | (77 960) | 28 715 | 193 354 |
| Cash resources at beginning of the period | (173 400) | (357 416) | (357 416) |
| Translation of foreign currency opening balances | – | (2 782) | (9 338) |
| Cash resources at end of the period* | (251 360) | (331 483) | (173 400) |
| *Cash resources at end of the period | | | |
| Cash and cash equivalents | 45 496 | 45 345 | 44 090 |
| Other short-term borrowings | (296 856) | (376 828) | (217 490) |
| | (251 360) | (331 483) | (173 400) |

NOTES TO THE INTERIM REPORT

for the six months ended 31 December 2008

| | Unaudited Six months ended 31 December 2008 | 2007 <i>Restated</i> | Audited Year ended 30 June 2008 |
|--|--|-------------------------|--|
| | Number '000 | Number '000 | Number '000 |
| 1. EARNINGS PER SHARE | | | |
| Number of shares | | | |
| – issued | 414 187 | 415 253 | 413 578 |
| – used in calculation of earnings per share | 413 899 | 415 385 | 415 072 |
| | R'000 | R'000 | R'000 |
| Reconciliation of headline earnings | | | |
| Net profit attributable to ordinary shareholders | 134 097 | 109 610 | 242 720 |
| – profit on sale of discontinued operations | (13 722) | – | (46 329) |
| – profit on sale of non-current assets | (506) | (1 985) | (1 832) |
| – impairment of interest in associate | – | – | 3 361 |
| – interest in items of associate | (131) | (1 388) | (1 760) |
| Headline earnings | 119 738 | 106 237 | 196 160 |
| | Cents | Cents | Cents |
| Earnings per share | | | |
| – Attributable earnings | 32,4 | 26,4 | 58,5 |
| – Headline earnings | 28,9 | 25,6 | 47,3 |
| | R'000 | R'000 | R'000 |
| CONTINUING OPERATIONS | | | |
| Reconciliation of headline earnings | | | |
| Net profit attributable to ordinary shareholders | 120 375 | 112 114 | 201 230 |
| – profit on sale of non-current assets | (506) | (1 985) | (1 838) |
| – impairment of interest in associate | – | – | 3 361 |
| – interest in items of associate | (131) | (1 388) | (1 760) |
| Headline earnings | 119 738 | 108 741 | 200 993 |
| | Cents | Cents | Cents |
| Earnings per share: continuing operations | | | |
| – Attributable earnings | 29,1 | 27,0 | 48,5 |
| – Headline earnings | 28,9 | 26,2 | 48,4 |

2. 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 to 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, except as disclosed in note 3.

3. RESTATEMENT OF PRIOR INTERIM PERIOD RESULTS

As disclosed in the annual report for 30 June 2008, the group changed its accounting policy for the accounting treatment of jointly controlled ventures from proportionate consolidation to the equity method. The comparative results for the prior interim period have been restated to reflect this change.

The changes were immaterial and the change in accounting policy had no effect on K WV's net asset value, earnings or headline earnings for the comparative interim period.

4. 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 rates with related parties.

5. DISCONTINUED OPERATIONS

During the last six months of the prior financial year two subsidiaries were disposed of and 50% of the group's plant improvement business unit was sold on 1 July 2008. In the annual financial statements up to 30 June 2008 all these entities were classified as discontinued operations and disclosed separately. In order to enhance comparability the results for these business units, for the prior interim period to 31 December 2007, are also disclosed separately.

Readers should be cognisant of the fact that the balance sheet for the period to 31 December 2007 includes balances relating to discontinued operations and is therefore not readily comparable to the balance sheet as at 31 December 2008.

For the purposes of this interim report the focus is on the group's continuing operations.

NOTES TO THE INTERIM REPORT

for the six months ended 31 December 2008 (continued)

| | Total 2007 R'000 <i>Restated</i> | Discontinued operations 2007 R'000 | Continuing operations 2007 R'000 |
|---|---|---|---|
| 5.1 Condensed income statement for the six months ended 31 December 2007 | | | |
| Revenue | 738 435 | 291 356 | 447 079 |
| Cost of sales | (471 476) | (193 856) | (277 620) |
| Gross profit | <u>266 959</u> | <u>97 500</u> | <u>169 459</u> |
| Operating profit | 40 168 | (377) | 40 545 |
| Dividend income | 3 | – | 3 |
| Net interest | (20 520) | (3 345) | (17 175) |
| Income from associates | 163 175 | – | 163 175 |
| Profit before taxation | <u>182 826</u> | <u>(3 722)</u> | <u>186 548</u> |
| Taxation | (6 483) | 1 246 | (7 729) |
| Profit/(loss) for the period | <u>176 343</u> | <u>(2 476)</u> | <u>178 819</u> |
| Attributable to: | | | |
| Minority interest | 66 733 | 28 | 66 705 |
| Equity holders of the company | 109 610 | (2 504) | 112 114 |

5.2 Cash flows from operations

| | | | |
|---|---------------|----------------|---------------|
| Net cash flow from operating activities | 47 349 | (5 900) | 53 249 |
| Net cash flow from investing activities | 58 460 | (2 673) | 61 133 |
| Net cash flow from financing activities | (77 094) | 7 462 | (84 556) |
| Net (decrease)/increase in cash resources | <u>28 715</u> | <u>(1 111)</u> | <u>29 826</u> |

6. EVENTS FOLLOWING INTERIM PERIOD

Sale of 25% interest in Thierry's Wine Services ("Thierry's")

On 27 January 2009 the group disposed of its 25% interest in Thierry's, its associated company in the UK. A portion of the proceeds has already been received and the remainder will be paid over a five-year term. Thierry's will continue to market and distribute the group's brands in the UK.

7. OPERATING RESULTS

The group turnover for the six months under review amounts to R441,6 million, a decline of 1,2% over the comparable six months of the previous year.

Profitability remains under pressure, mainly due to a decrease in sales of bulk spirits. This resulted in a deterioration in sales mix and hampered performance. The gross profit margin has declined from 37,9% to 36,6%. As a result gross profit declined by 4,7%.

Other income and expenses have changed from a positive R9,7 million to a net expense of R2,5 million, mainly due to foreign exchange losses in respect of hedging instruments during the current period, as opposed to foreign exchange gains during the prior interim period. The benefit from more favourable exchange rates in respect of exports (R16,0 million as measured against budgeted exchange rates) is, however, included in revenue.

Total operating expenses have been reduced by approximately 5%, but this could only partially compensate for the above-mentioned profit squeeze which resulted in a 34% decline in operating profit to R26,7 million.

Interest costs for continuing operations increased by 26,7%, mainly due to the increase in interest rates.

Total income from associates increased by 18,0% to R192,6 million, mainly due to continued improvement in performance by the Distell group.

The headline earnings from continuing operations for the period under review amounted to R119,7 million compared to R108,7 million for the comparative six months, an increase of 10,1% and a 10,3% improvement in headline earnings from continuing operations per share.

8. ASSETS AND FUNDING

Total assets declined by 3,4% to R2,8 billion. This is largely due to assets of subsidiaries sold during the 2008 financial year that were still included in the group balance sheet on 31 December 2007.

Capital expenditure for the period amounted to R13,1 million compared to R14,4 million during the prior period.

Net cash flow from operating activities amounted to R26,3 million, which is R21,0 million lower than that of the prior interim period, mainly due to weaker profitability. There was a net decline in cash reserves of R78,0 million during the review period due to the additional interest acquired in KWV Investments (and thereby in the associated company, Distell) at a cost of R90,2 million.

Net interest-bearing debt decreased from R460,1 million to R309,3 million, mainly due to the sale of subsidiary companies and the inflow of funds, together with the fact that the borrowings of those subsidiaries are no longer consolidated. The interest-bearing debt to equity ratio is 14,2% compared to 23,2% in the prior interim period.

9. PROSPECTS

The economic environment in the majority of the group's export markets has deteriorated in recent months with a shrinking global economy and declining consumer spending. South African consumers are similarly in a worsening position due to rising inflation, a weakening of the rand, increased interest rates and a decline in the country's economic growth.

This resulted in pressure on selling prices and sales volumes and in consumers cutting back on expenditure on premium goods. At the same time the industry is experiencing significant inflationary pressures on production and other costs. The pressure on margins is partially alleviated by the weakening in the rand which supports KWV's export business, but the group has been unable to maintain profit margins.

The group expects international and local trading conditions to deteriorate further, and losses in revenue on spirits and grape juice concentrate cannot easily be recovered in the remainder of the year. However, anticipated reductions in inflation and interest rates as well as a more stable exchange rate at current favourable levels should provide some support for profit margins.

The foregoing, together with further cost reductions and improved efficiencies might enable the group to improve its performance for the second six months of the financial year. Should sustained improvement in investment income from Distell be achieved, the board expects that the group will achieve a modest increase in net profit for the year.

10. CAUTIONARY ANNOUNCEMENT

Shareholders are advised that the board of KWV has taken a decision to unbundle KWV's own operations from the company ("the proposed restructuring"). The proposed restructuring will allow management to focus its attention on adding value to its own operations, whilst providing an opportunity for the market to fully recognise the value of these operations.

The most efficient mechanisms for implementing the proposed restructuring are currently being investigated. Subject to all the necessary approvals, the proposed restructuring is expected to be finalised by the end of the current financial year.

Shareholders are therefore advised to exercise caution when dealing in KWV shares until a further announcement is made.

11. DIVIDENDS

No interim dividend is declared.

Signed on behalf of the board of directors.

D de Wet
Chairman

MJ Loubser
Chief executive officer

Paarl
11 March 2009

www.kwv.co.za

Directors

D de Wet (Chairman), MJ Loubser (Chief executive officer),
EE Böhme (Financial director), AE vZ Botha, VA Christian,
AS du Plessis, Ms FA du Plessis, PBB Hugo, Ms MM Isaacs,
AE Jacobs, KI Mampeule, JF Mouton, PB Retief, IB Skosana,
CC Stewart (Commercial director), CH Wiese

Company secretary

AW Eksteen

Registered office

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