DISTELL
CRAFTING BRANDS SINCE 1925

UNAUDITED GROUP RESULTS

FOR THE SIX MONTHS ENDED
31 DECEMBER 2019
AND CASH DIVIDEND DECLARATION

CONTENTS

SALIENT FEATURES

GROUP REVENUE
on 6.6% lower volumes
+2,7%

- Domestic revenue growth in spirits and RTDs alongside decline in wine
- Double-digit revenue growth in Africa
- Refocused Venture Business delivering commendable premium spirits performance
- Network modernisation creating early operating cost savings

EXCISE DUTY
+6,4%

- Contribution to fiscus increased to R4,1 billion

EBITDA reported	NORMALISED EBITDA adjusted for forex[1, 2]	HEADLINE EARNINGS reported	NORMALISED HEADLINE EARNINGS adjusted for forex[2]	INTERIM DIVIDEND maintained
+3,8%	-3,3%	-4,7%	-9,0%	

[1] *Normalised earnings before interest, tax, depreciation and amortisation (EBITDA) refers to EBITDA adjusted for the: (a) profit or loss on disposal and impairment of property, plant and equipment (PPE) and intangible assets; (b) Group restructuring, retrenchment and other non-recurring costs; (c) expected credit loss on Zimbabwe financial assets; and (d) the implementation of IFRS 16: Leases, which resulted in lease operating expenses being replaced by depreciation and interest.*

[2] *Foreign currencies and abnormal transactions affect the Group's performance. Where relevant in this report, adjusted non-IFRS measures are presented. These adjusted measures represent pro forma financial information. A reconciliation of the pro forma financial information to the equivalent IFRS metrics is provided in note 3 to the summary financial statements.*

("Distell" or "the Group" or "the Company")

COMMENTARY

OPERATING PERFORMANCE

Group revenue grew by 2,7% to R14,8 billion on 6,6% lower volumes. Revenue excluding excise duty grew by 1,4%.

In the domestic market the period was characterised by a number of factors, including deep discounting by beer competitors and increased competition in the ready-to-drink (RTD) and wine segments. Alongside this, as guided previously, Distell anticipated a weakening in economic conditions and declining disposable income among consumers. As a result, domestic revenue increased by 1,7% with sales volumes down by 7,8%. Tactical revenue management decisions taken in the previous year moderated the gross margin contraction. In the cider and RTD portfolio, overall revenue growth was driven by excellent growth in Savanna and Extreme, with new innovations in Esprit and Savanna non-alcoholic variants growing with consumer trends and preferences.

The revenue growth in the spirits category was again led by exceptional double-digit gin growth and flavour extensions in vodka, and innovations with a unique on-consumption channel focus. The overall brown spirits category recorded a marginal revenue decline due to whisky, but recorded a return to growth in brandy led by Richelieu. The wine portfolio recorded volume and revenue declines reflecting the overall performance in South African wine. Cost pressures necessitated price increases, which were compounded by aggressive discounting by near-beer competitors which impacted the category overall. Alto, Durbanville Hills and Nederburg were able to record revenue growth in an extremely competitive category.

African markets, outside South Africa, delivered strong revenue growth of 10,5% on sales volumes, which were marginally lower as a result of a comparable decline in Namibian and Zimbabwean performances affected by challenging economies. Focus markets on the continent, outside the Southern African Customs Union (SACU), grew revenue by 12,0%. Nigeria, Kenya and Zambia all recorded strong growth as our investments in route-to-market (RTM) and in-country production deliver on our strategic intent to grow the business across the continent. The overall spirits category growth came from Kibao and Hunter's Choice in Kenya. Trading conditions in Angola remained challenging, but structural VAT and excise policy implementation is showing an improved performance by associate company Best Global Brands (BGB), resulting in a positive swing in earnings. Botswana, Lesotho, Namibia and Swaziland (BLNS) countries in SACU delivered single-digit overall revenue growth as a result of challenging drought conditions in Namibia. The Africa region contributed 64,7% to foreign revenue with its contribution to Group revenue rising to 16,8% in the period.

Volumes in international markets outside Africa declined by 6,5% and revenue remained flat. The start of the financial year saw the implementation of the Venture Business division to recalibrate and focus a cluster of units to grow premium brands in and outside of South Africa. These units focus on international spirits, wine exports and domestic spirits. Strong international premium spirits growth was led by single malts in all major markets. Wine exports were reflective of declining overall South African wine exports. Overall performance in premium wine was challenging given industry dynamics and consumer sentiment. However, revenue per litre improved by 6%. The Venture Business division will continue to evolve and focus on key brands and markets, strategically positioned for partnerships and to unlock value where appropriate.

Operating costs were well contained and rose by 3,6%. Cost of goods sold increased by 6,0% and other operating costs declined by 5,1% as optimisation benefits assisted in overall margin protection.

The initiatives announced during last year to further optimise and improve the efficiencies of our supply chain are progressing well and are expected to be largely completed by June this year. The Group has also completed the implementation of its new operating model and ways of working, and is continuing its substantial investment in its digital transformation process.

Foreign currency translation gains amounted to R5,3 million (2018: R65,2 million).

Net finance costs increased from R150,4 million to R187,8 million. Included in net finance cost for the current period is interest of R16,7 million accounted for in terms of IFRS 16: *Leases*, which was implemented with effect from 1 July 2019 (see note 12 to the summary financial statements).

Distell's share of equity-accounted earnings increased from R18,7 million to R66,8 million, driven by a turnaround in the BGB performance.

EBITDA grew by 3,8%. Normalised EBITDA, which excludes the impact of IFRS 16, the impairments, retrenchment and Group restructuring costs in the prior year, declined by 4,4%. Normalised EBITDA, excluding foreign currency translation movements, declined by 3,3%.

The effective tax rate was 27,6% (2018: 28,0%).

Headline earnings and headline earnings per share decreased by 4,7% to R1,2 billion and by 4,8% to 548,6 cents respectively. Excluding the currency conversion movements, IFRS 16 impact, impairments, retrenchment and the Group restructuring costs referred to above, headline earnings decreased by 9,0%.

INVESTMENT AND FUNDING

Total assets increased by 6,1% to R26,2 billion.

Investment in net working capital increased by 24,7% to R7,2 billion. Inventory increased by 7,3% to R7,9 billion. Of this, bulk spirits in maturation, planned in accordance with the Group's longer-term view of consumer demand for its brands in this category, increased by 3,9% to R2,9 billion. Investment in bottled stock and packaging material increased by 8,4%. Trade and other receivables increased by 23,2% due to seasonal trading patterns, the growth of African sales, which have longer credit terms, and advances to secure sufficient wine supplies. January 2020 reflected an inflow of more than R1,8 billion from trade receivable repayments. Trade and other payables increased by 4,1%.

Capital expenditure for the period amounted to R892,2 million (2018: R637,8 million). Of this, R375,8 million was spent on the replacement of assets. A further R516,4 million was directed to the expansion of capacity, mainly in relation to the Group's manufacturing facilities, and these major investments will largely be completed by June 2020.

Net cash generated from operating activities decreased to R1,1 billion (2018: R2,5 billion). This was mainly due to the initial benefits relating to trade and other payables realised from the Group's shared service centre and centralised procurement function, which was implemented in the corresponding period of the previous year, as well as the growth in trade and other receivables as indicated above. Total debt at the end of the reporting period includes an amount of R325,3 million for lease liabilities that relates to the implementation of IFRS 16: *Leases* on 1 July 2019. The Group remains in a strong financial position with low levels of gearing, which is demonstrated by a debt to debt-plus-equity ratio of 26,9% (2018: 16,2%) and a debt-to-equity ratio of 36,8% (2018: 19,4%) at the end of the reporting period, meeting debt covenant ratios comfortably.

PROSPECTS

Global GDP growth concerns intensified recently as uncertainty about the duration of the outbreak of the coronavirus weighs heavily on global markets, with emerging market currencies (including the rand) suffering big losses. Chinese real gross domestic product (GDP) growth forecasts for 2020 are also being revised down. The Bank of England downgraded the GDP forecast of the UK as it is of the view that Brexit will weigh on business investment and immigration. However, encouragingly, the latest International Monetary Fund (IMF) World Economic Outlook reports tentative signs of global manufacturing and trade bottoming out. The recently signed US-China phase one deal and the pending phase two negotiations are encouraging in this respect. Growth in sub-Saharan Africa is expected to exceed that of developed markets.

The South African economy's GDP per capita continues to decline and the unemployment rate remains high. Consumer confidence is at its lowest level since the fourth quarter of 2017, and the return of frequent load shedding for a potential prolonged period will negatively impact the country's growth outlook. Inflation growth forecasts, however, remain subdued.

We anticipate a continuation of deep discounting by beer players creating a rebasing effect across other categories as consumers seek value at every price point in tough economic conditions. We also anticipate increased liquor sales through the major retail grocer chains as they embark on store expansion into new nodes of select regions and locations.

While conditions are tough, Distell will:

- be responsible in balancing channel, volume and market share dynamics with its pursuit of returns;
- leverage four years of investment into a modernised domestic network and extract further efficiencies;
- invest further into its digital capabilities and consumer engagement;
- roll out a healthy innovation pipeline to differentiate in a competitive environment and changing consumer trends;
- continue measured investment in its African RTM expansion and local production footprint;
- use the Venture Business to grow its premium spirits platform; and
- maintain its commitment to sustainability and transformation.

We will continue to defend and grow our South African business across a diverse portfolio in both premium and mainstream brands as consumer behaviour shifts in a tough economy. We will leverage off improved and focused market execution alongside revitalised and improved marketing investment behind key brands while we continue to restructure our portfolio for optimal returns.

We are positioned for further growth in our ever-increasing sub-Saharan African platform as we invest behind and leverage off tailored opportunities in mainstream spirits, wine and RTDs with local and export brands.

The Venture Business division will continue to act on a refined international RTM and brand focus to grow our premium spirits portfolio while restructuring the wine portfolio to extract more value.

Distell's much loved brands, which trade across taste profiles, genders and repertoires, are the foundation of our diversified portfolio, through which we will both innovate and capture growth opportunities in our ambition to become an African drinks champion benefiting all stakeholders.

The board remains confident in the long term strength and resilience of the business in spite of the short term headwinds and challenges. It has therefore resolved to maintain the dividend for the interim period and will assess the final dividend at year-end.

CASH DIVIDEND DECLARATION

The directors have resolved to declare a gross cash dividend, number 4, of 174,0 cents (2018: 174,0 cents) per share for the interim period ended 31 December 2019.

The dividend has been declared from income reserves. The dividend withholding tax, levied at 20%, will amount to 34,8 cents per ordinary share. As a result, ordinary shareholders who are liable to pay dividends tax will receive a net dividend amount of 139,2 cents per share. Shareholders exempt from paying dividends tax will receive 174,0 cents per share. The issued ordinary share capital as at 26 February 2020 is 222 382 356 (2019: 222 382 356) ordinary shares. The Company's income tax reference number is 9759621163.

The dividend will be payable to shareholders who are recorded as such on the register on the record date on Friday, 20 March 2020, and will be paid on Monday, 23 March 2020. The last day to trade cum dividend will be on Tuesday, 17 March 2020, and shares commence trading ex dividend from Wednesday, 18 March 2020. Share certificates may not be dematerialised or rematerialised between Wednesday, 18 March 2020, and Friday, 20 March 2020, both days inclusive.

Signed on behalf of the board:

JJ Durand
Chairman

RM Rushton
Group chief executive officer

Stellenbosch
26 February 2020

Directors: JJ Durand (chairman), GP Dingaan, DP du Plessis, T Kruythoff, PR Louw (alternate), MJ Madungandaba, EG Matenge-Sebesho, CA Otto, AC Parker, RM Rushton (Group chief executive officer), CE Sevillano-Barredo, LC Verwey (Group chief financial officer)
Company secretary: L Malan
Registered office: Aan-de-Wagenweg, Stellenbosch 7600
Transfer secretaries: Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank 2196
Sponsor: RAND MERCHANT BANK (A division of FirstRand Bank Limited), 1 Merchant Place, c/o Rivonia Road and Fredman Drive, Sandton 2196
Registration number: 2016/394974/06
JSE share code: DGH
ISIN number: ZAE000248811

ACCESS TO INFORMATION

The full financial results:

- can be viewed on SENS;
- can be viewed online at www.distell.co.za (Investor Centre): https://www.distell.co.za/investor-centre/financial-results/DGH1H.pdf
- can be viewed online at JSE: https://senspdf.jse.co.za/documents/2020/JSE/ISSE/DGHE/DGH1H.pdf
- are available for inspection at the company's registered offices and the offices of the sponsor at no charge, during normal business hours from 27 February 2020; or
- may be requested in printed format from the company secretary, tel: +27 21 809 7000.

SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	UNAUDITED 31 DECEMBER		AUDITED 30 JUNE
	2019 R'000	2018 R'000 *Restated*	2019 R'000 *Restated*
ASSETS			
Non-current assets			
Property, plant and equipment	**8 090 948**	6 775 799	7 196 088
Financial assets at amortised cost	**116 373**	292 940	92 326
Financial assets at fair value through other comprehensive income (FVOCI)	**57 527**	59 176	57 800
Investments in associates	**457 158**	889 395	432 710
Investments in joint ventures	**108 103**	88 750	105 384
Intangible assets	**2 005 215**	2 018 263	1 951 987
Retirement benefit assets	**566 238**	383 526	526 812
Deferred income tax assets	**106 113**	103 025	108 218
Total non-current assets	**11 507 675**	10 610 874	10 471 325
Current assets			
Inventories	**7 867 473**	7 334 911	8 224 001
Trade and other receivables	**5 636 305**	4 575 446	3 722 548
Current income tax assets	**79 980**	37 466	36 510
Cash and cash equivalents	**1 071 077**	2 104 244	1 153 104
Total current assets	**14 654 835**	14 052 067	13 136 163
Total assets	**26 162 510**	24 662 941	23 607 488
EQUITY AND LIABILITIES			
Capital and reserves			
Capital and reserves	**12 256 312**	12 259 795	11 572 540
Non-controlling interest	**400 600**	330 382	357 464
Total equity	**12 656 912**	12 590 177	11 930 004
Non-current liabilities			
Interest-bearing borrowings	**4 911 492**	3 335 462	4 523 673
Retirement benefit obligations	**28 980**	29 623	27 547
Deferred income tax liabilities	**1 261 509**	1 185 453	1 149 363
Total non-current liabilities	**6 201 981**	4 550 538	5 700 583
Current liabilities			
Trade and other payables	**6 297 122**	6 050 623	5 199 781
Interest-bearing borrowings	**816 504**	1 205 096	522 288
Provisions	**40 402**	115 153	212 536
Current income tax liabilities	**149 589**	151 354	42 296
Total current liabilities	**7 303 617**	7 522 226	5 976 901
Total equity and liabilities	**26 162 510**	24 662 941	23 607 488

SUMMARY CONSOLIDATED INCOME STATEMENT

	UNAUDITED SIX MONTHS ENDED 31 DECEMBER			AUDITED YEAR ENDED 30 JUNE
	2019 R'000	2018 R'000 *Restated*	Change %	2019 R'000 *Restated*
Revenue	**14 815 170**	14 423 824	2,7	26 179 580
Operating costs	**(12 956 006)**	(12 511 358)	3,6	(23 882 808)
Costs of goods sold	**(10 322 941)**	(9 736 796)		(18 090 006)
Sales and marketing costs	**(1 485 577)**	(1 507 391)		(2 960 669)
Distribution costs	**(643 899)**	(606 343)		(1 239 871)
Administration and other costs	**(498 221)**	(597 271)		(1 289 811)
Net impairment losses on financial assets	**(5 368)**	(63 557)		(302 451)
Other gains and losses	**5 150**	(11 151)		(570 498)
Operating profit	**1 864 314**	1 901 315	(1,9)	1 726 274
Dividend income	**775**	3 795		4 211
Finance income	**21 203**	21 020		69 792
Finance costs	**(209 010)**	(171 381)		(340 720)
Share of equity-accounted earnings	**66 841**	18 663		61 529
Profit before taxation	**1 744 123**	1 773 412	(1,7)	1 521 086
Taxation	**(482 171)**	(496 388)		(637 457)
Profit for the period	**1 261 952**	1 277 024	(1,2)	883 629
Attributable to:				
Equity holders of the company	**1 209 660**	1 257 355	(3,8)	870 428
Non-controlling interest	**52 292**	19 669		13 201
	1 261 952	1 277 024	(1,2)	883 629
Per share performance:				
Issued number of ordinary shares ('000)	**222 382**	222 382		222 382
Weighted number of ordinary shares ('000)	**219 817**	219 530		219 543
Earnings per ordinary share (cents)				
– Basic earnings basis	**550,3**	572,7	(3,9)	396,5
– Diluted earnings basis	**549,9**	570,9	(3,7)	396,2
– Headline basis	**548,6**	576,4	(4,8)	652,9
– Diluted headline basis	**548,2**	576,2	(4,9)	652,4
Dividends per ordinary share (cents)				
– Interim	**174,0**	174,0	0,0	174,0
– Final	**–**	–	–	249,0
	174,0	174,0	0,0	423,0
Reconciliation of headline earnings:				
Net profit attributable to equity holders of the company	**1 209 660**	1 257 355	(3,8)	870 428
Adjusted for (net of taxation):				
Impairment of equity-accounted investment	**–**	–		524 000
Impairment of intangible assets	**–**	–		7 510
Impairment of PPE	**–**	–		8 467
Gain on previously held equity interest and on sale of investments and subsidiaries	**–**	–		87
Profit on sale of PPE	**(3 708)**	8 029		22 897
Headline earnings	**1 205 952**	1 265 384	(4,7)	1 433 389

SUMMARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	UNAUDITED SIX MONTHS ENDED 31 DECEMBER		AUDITED YEAR ENDED 30 JUNE
	2019 R'000	2018 R'000 *Restated*	2019 R'000 *Restated*
Profit for the period	**1 261 952**	1 277 024	883 629
Other comprehensive income (net of taxation)	**(1 043)**	(133 441)	(79 413)
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences	**(19 811)**	(8 588)	(43 136)
Fair value adjustments of cash flow hedges	**(2 457)**	–	(18 251)
Items that will not be reclassified to profit or loss:			
Remeasurements of post-employment benefits	**20 732**	(125 597)	(13 412)
Fair value adjustments			
– Financial assets through other comprehensive income	**493**	744	(3 167)
Share of other comprehensive income of associates	**–**	–	(1 447)
Total comprehensive income for the period	**1 260 909**	1 143 583	804 216
Attributable to:			
Equity holders of the company	**1 208 963**	1 123 975	791 191
Non-controlling interest	**51 946**	19 608	13 025
	1 260 909	1 143 583	804 216

SUMMARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	UNAUDITED SIX MONTHS ENDED 31 DECEMBER		AUDITED YEAR ENDED 30 JUNE
	2019 R'000	2018 R'000 *Restated*	2019 R'000 *Restated*
Attributable to equity holders			
Opening balance	**11 572 540**	11 624 297	11 624 297
Change in accounting policy (note 12)	**–**	(15 326)	(15 326)
Restated opening balance at the beginning of the financial year	**11 572 540**	11 608 971	11 608 971
Comprehensive income			
Profit for the year as previously disclosed	**1 209 660**	1 254 093	896 645
Change in accounting policy (note 12)	**–**	3 262	(26 217)
Other comprehensive income (net of taxation)			
Fair value adjustments:			
– Financial assets through other comprehensive income	**493**	744	(3 167)
Cash flow hedge of interest rate swaps	**(2 457)**	–	(18 251)
Currency translation differences	**(19 465)**	(8 527)	(42 960)
Remeasurements of post-employment benefits	**20 732**	(125 597)	(13 412)
Share of other comprehensive income of associates	**–**	–	(1 447)
Total other comprehensive losses	**(697)**	(133 380)	(79 237)
Total comprehensive income for the period	**1 208 963**	1 123 975	791 191
Transactions with owners			
Employee share scheme:			
– Shares paid and delivered	**1**	1	1
– Value of employee services	**21 937**	36 770	64 631
Share issue costs	**–**	(2 098)	(2 099)
Dividends paid	**(547 129)**	(505 380)	(887 711)
Transactions with non-controlling interests	**–**	(2 444)	(2 444)
Total transactions with owners	**(525 191)**	(473 151)	(827 622)
Attributable to equity holders	**12 256 312**	12 259 795	11 572 540
Non-controlling interest			
Opening balance	**357 464**	314 944	314 944
Profit for the year	**52 292**	19 669	13 201
Dividends paid	**(8 810)**	–	(3 994)
Currency translation differences	**(346)**	(61)	(176)
Contribution by non-controlling interests	**–**	4	37 664
Transactions with non-controlling interests	**–**	(4 174)	(4 175)
Total non-controlling interest	**400 600**	330 382	357 464
Total equity at the end of the period	**12 656 912**	12 590 177	11 930 004

SUMMARY CONSOLIDATED STATEMENT OF CASH FLOWS

	UNAUDITED SIX MONTHS ENDED 31 DECEMBER		AUDITED YEAR ENDED 30 JUNE
	2019 **R'000**	2018 R'000 *Restated*	2019 R'000 *Restated*
Cash flows from operating activities			
Operating profit	**1 864 314**	1 901 315	1 726 274
Non-cash flow items	**319 706**	603 878	1 861 854
Working capital changes	**(533 307)**	498 791	(458 262)
Inventories	**465 945**	181 317	(758 478)
Trade and other receivables	**(1 910 566)**	(1 216 944)	(383 933)
Trade payables and provisions	**911 314**	1 534 418	684 149
Cash generated from operations	**1 650 713**	3 003 984	3 129 866
Net financing costs	**(184 164)**	(144 836)	(278 338)
Taxation paid	**(318 261)**	(361 102)	(633 935)
Net cash generated from operating activities	**1 148 288**	2 498 046	2 217 593
Net cash outflow from investment activities (note 5)	**(936 800)**	(957 643)	(1 807 464)
Net cash inflow from financing activities (note 6)	**67 182**	83 646	132 293
Dividends paid	**(555 939)**	(505 380)	(891 705)
Decrease in net cash, cash equivalents and bank overdrafts	**(277 269)**	1 118 669	(349 283)
Net cash, cash equivalents and bank overdrafts at the beginning of the period	**630 816**	970 427	970 427
Exchange gains on cash, cash equivalents and bank overdrafts	**2 530**	10 052	9 672
Net cash, cash equivalents and bank overdrafts at the end of the period	**356 077**	2 099 148	630 816

NOTES TO THE SUMMARY CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

1. BASIS OF PREPARATION, ACCOUNTING POLICY AND COMPARATIVE FIGURES

The summary consolidated interim financial statements have been prepared in accordance with the Listings Requirements of the JSE Limited (JSE) for summary financial statements and the requirements of the Companies Act, No. 71 of 2008, as amended, applicable to summary financial statements. The JSE requires summary financial statements to be prepared in accordance with the framework concepts, the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and also to, as a minimum, contain the information required by IAS 34: *Interim Financial Reporting*. The directors are responsible for the preparation of the summary consolidated interim financial statements, prepared under supervision of the Group chief financial officer, LC Verwey CA(SA).

The accounting policies applied in the preparation of the consolidated interim financial statements are in terms of IFRS and are consistent with the accounting policies applied in the preparation of the previous consolidated annual financial statements, except for a change in accounting policy for the recognition and measurement of returnable containers as disclosed in note 12.

The Group has adopted all new as well as amended accounting pronouncements issued by the International Accounting Standards Board (IASB) that are effective for financial years commencing 1 July 2019. The impact of the new or amended accounting pronouncements that are effective for the financial year commencing 1 July 2019 is disclosed in note 12. None of the other new or amended accounting pronouncements that are effective for the financial year commencing 1 July 2019 which is not disclosed in note 12 have a material impact on the consolidated results of the Group.

		UNAUDITED 31 DECEMBER		
		2019 R'000	2018 R'000 *Restated*	Change %
2.	**SALES VOLUMES (LITRES '000)**	**375 679**	402 250	(6,6)

3. PRO FORMA INFORMATION

The results of the Group are significantly impacted by abnormal or non-recurring transactions and the change in foreign exchange rates.

The Group therefore also discloses adjusted measures in order to indicate the Group's businesses' performance excluding the effect of abnormal transactions and foreign currency fluctuations. These adjusted measures constitute pro forma financial information.

The adjustments below represent abnormal or non-recurring items which significantly impacted the financial results of the Group:

	2019 R'000	2018 R'000 Restated	Change %
Headline earnings	**1 205 952**	1 265 384	(4,7)
Adjusted for (net of taxation):			
Expected credit loss on Zimbabwe savings bonds	**–**	30 102	
Retrenchment, restructuring and other one-off costs	**13 008**	56 724	
Normalised headline earnings	**1 218 960**	1 352 210	(9,9)

The results of the Group are also significantly impacted by the change in foreign exchange rates, mainly relating to the UK pound, euro, US dollar (USD) and Angolan kwanza (AOA) for both reporting periods, as a result of:

a) the translation of foreign operations to the reporting currency; and

b) the translation of South African monetary assets and liabilities denominated in foreign currency to the reporting currency at period-end.

In the prior year comparative period, the income of foreign subsidiaries was converted at an average aggregated daily ZAR/USD exchange rate of R14,18 compared to R14,70 in the current year, and the Angolan kwanza devaluated from an average aggregated daily AOA/USD exchange rate of 287,3 to 403,4 in the current year.

The adjustments below thus represent a restatement of the 2018 foreign income using the current year aggregated daily average exchange rates.

	2019 R'000	2018 R'000 Restated	Change %
Normalised headline earnings	**1 218 960**	1 352 210	(9,9)
Adjusted for (net of taxation):			
Prior year restatement to current year aggregated daily average exchange rates	**–**	(2 306)	
Exclusion of effect of conversion of foreign currency monetary assets and liabilities to the reporting currency			
– Other major currencies	**(6 083)**	(47 676)	
– Kwanza (in associate)	**5 266**	36 078	
Normalised headline earnings adjusted for foreign exchange movements	**1 218 143**	1 338 306	(9,0)

	UNAUDITED 31 DECEMBER		
	2019 R'000	2018 R'000 *Restated*	Change %
3. PRO FORMA INFORMATION *continued*			
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	**2 331 309**	2 246 503	3,8
Adjusted for:			
Impairment and profit on disposal of PPE, intangible assets, investments and gain on previously held interest and subsidiaries disposed	**(5 150)**	11 151	
Implementation of IFRS 16: *Leases*	**(66 022)**	–	
Expected credit losses on financial assets	**–**	42 100	
Retrenchment, restructuring and other one-off costs	**3 647**	68 060	
Normalised EBITDA	**2 263 784**	2 367 814	(4,4)
The adjustments below represent a restatement of the 2018 foreign income using the current year aggregated daily average exchange rates as explained on the previous page.			
Normalised EBITDA	**2 263 784**	2 367 814	(4,4)
Adjusted for:			
Prior year restatement to current year aggregated daily average exchange rates	**–**	314	
Exclusion of effect of conversion of foreign currency monetary assets and liabilities to the reporting currency			
– Other major currencies	**(7 590)**	(66 262)	
– Kwanza (in associate)	**5 266**	36 078	
Normalised EBITDA adjusted for currency movements	**2 261 460**	2 337 944	(3,3)

The pro forma financial information is the responsibility of the board of directors of the company and is presented for illustrative purposes only. Because of its nature, the pro forma financial information may not fairly present the Group's financial position, changes in equity, results of operations or cash flows.

The pro forma financial information has not been reviewed and reported on by the Group's auditors.

	UNAUDITED 31 DECEMBER		AUDITED 30 JUNE
	2019 R'000	2018 R'000 *Restated*	**2019 R'000** *Restated*
4. NET INTEREST-BEARING BORROWINGS			
Interest-bearing borrowings			
Non-current	**4 911 492**	3 335 462	**4 523 673**
Current	**816 504**	1 205 096	**522 288**
	5 727 996	4 540 558	**5 045 961**
Cash and cash equivalents	**(1 071 077)**	(2 104 244)	**(1 153 104)**
	4 656 919	2 436 314	**3 892 857**

		UNAUDITED 31 DECEMBER		AUDITED 30 JUNE
		2019 R'000	2018 R'000 *Restated*	**2019 R'000** *Restated*
5.	**CASH OUTFLOW FROM INVESTMENT ACTIVITIES**			
	Purchases of PPE to maintain operations	**(375 792)**	(349 328)	**(744 777)**
	Purchases of PPE to expand operations	**(516 406)**	(288 510)	**(722 359)**
	Proceeds from sale of PPE	**30 281**	6 440	**19 957**
	Purchases of financial assets, associates and joint ventures	**(22 632)**	(313 080)	**(330 752)**
	Proceeds from financial assets	**3 455**	3 441	**6 612**
	Purchases of intangible assets	**(55 707)**	(16 606)	**(36 148)**
	Proceeds from intangible assets	**1**	–	**3**
		(936 800)	(957 643)	**(1 807 464)**
6.	**CASH INFLOW FROM FINANCING ACTIVITIES**			
	Proceeds from ordinary shares issued and share issue costs	**1**	(2 097)	**(2 098)**
	Shares issued for cash to minorities	**–**	–	**37 664**
	Lease payments	**(66 022)**	–	**–**
	Proceeds from interest-bearing borrowings	**133 203**	86 344	**109 788**
	Repayment of interest-bearing borrowings	**–**	(601)	**(13 061)**
		67 182	83 646	**132 293**
7.	**CAPITAL COMMITMENTS**			
	Contracted	**754 266**	735 040	**675 550**
	Authorised, but not contracted	**684 137**	1 272 320	**1 752 952**
		1 438 403	2 007 360	**2 428 502**
8.	**DEPRECIATION OF PPE**	**351 962**	282 028	**579 876**
9.	**NET ASSET VALUE PER SHARE (CENTS)**	**5 692**	5 661	**5 365**

10. SEGMENTAL AND REVENUE ANALYSIS

Operating segments were identified based on financial information reviewed regularly by management for the purpose of assessing performance and allocating resources to these segments. Revenue includes excise duty. The segment information for the prior year has been restated to align with the current year segmentation basis as is currently reported to the chief operating decision-maker. Consequently, in order to ensure comparability between the current and prior year segment information, revenue and costs have been reallocated in the comparative period.

UNAUDITED SIX MONTHS ENDED 31 DECEMBER 2019

	South Africa R'000	BLNS R'000	Rest of Africa R'000	Europe R'000	Rest of inter-national R'000	Corporate R'000	Total R'000	Change %
Revenue	11 012 471	1 128 953	1 354 197	710 855	641 546	(32 852)	14 815 170	2,7
Costs of goods sold	(7 698 062)	(770 766)	(953 011)	(496 210)	(340 029)	(64 863)	(10 322 941)	6,0
Material costs and overheads	(7 698 062)	(770 766)	(953 011)	(496 210)	(340 029)	(70 149)	(10 328 227)	5,4
Currency conversion gains and losses	–	–	–	–	–	5 286	5 286	
Gross profit	3 314 409	358 187	401 186	214 645	301 517	(97 715)	4 492 229	(4,2)
Operating costs	(1 235 291)	(128 974)	(186 027)	(167 204)	(254 524)	(661 045)	(2 633 065)	(5,1)
Operating profit before allocations	2 079 118	229 213	215 159	47 441	46 993	(758 760)	1 859 164	(2,8)
Equity-accounted earnings and dividend income	–	–	56 283	–	10 364	969	67 616	
EBIT before allocations	2 079 118	229 213	271 442	47 441	57 357	(757 791)	1 926 780	(0,4)
Allocations	(237 019)	(15 694)	(10 744)	(7 377)	(7 150)	277 984	–	
EBIT after allocations	1 842 099	213 519	260 698	40 064	50 207	(479 807)	1 926 780	(0,4)
Other gains and losses	–	–	–	–	–	5 150	5 150	
Equity-accounted earnings and dividend income	–	–	(56 283)	–	(10 364)	(969)	(67 616)	201,1
Operating profit	1 842 099	213 519	204 415	40 064	39 843	(475 626)	1 864 314	(1,9)
EBIT before allocations attributable to:								
Equity holders of the company	2 079 942	228 389	220 768	47 441	57 357	(759 409)	1 874 488	
Non-controlling interest	(824)	824	50 674	–	–	1 618	52 292	
	2 079 118	229 213	271 442	47 441	57 357	(757 791)	1 926 780	
Non-current assets	7 546 001	112 570	1 388 171	2 456 172	4 761	–	11 507 675	

10. SEGMENTAL AND REVENUE ANALYSIS *continued*

	UNAUDITED SIX MONTHS ENDED 31 DECEMBER 2018						
	South Africa R'000	BLNS R'000	Rest of Africa R'000	Europe R'000	Rest of inter-national R'000	Corporate R'000	Total R'000
Revenue	10 829 472	1 039 062	1 208 957	686 728	682 107	(22 502)	14 423 824
Costs of goods sold	(7 560 825)	(708 074)	(824 637)	(428 326)	(344 236)	129 302	(9 736 796)
Material costs and overheads	(7 560 825)	(708 074)	(824 637)	(428 326)	(344 236)	64 087	(9 802 011)
Currency conversion gains and losses	–	–	–	–	–	65 215	65 215
Gross profit	3 268 647	330 988	384 320	258 402	337 871	106 800	4 687 028
Operating costs	(1 150 830)	(114 372)	(184 672)	(204 971)	(245 223)	(874 494)	(2 774 562)
Operating profit before allocations	2 117 817	216 616	199 648	53 431	92 648	(767 694)	1 912 466
Equity-accounted earnings and dividend income	–	–	19 833	–	(1 339)	3 964	22 458
EBIT before allocations	2 117 817	216 616	219 481	53 431	91 309	(763 730)	1 934 924
Allocations	(175 705)	(14 683)	(9 739)	(15 462)	1 908	213 681	–
EBIT after allocations	1 942 112	201 933	209 742	37 969	93 217	(550 049)	1 934 924
Other gains and losses	–	–	–	–	–	(11 151)	(11 151)
Equity-accounted earnings and dividend income	–	–	(19 833)	–	1 339	(3 964)	(22 458)
Operating profit	1 942 112	201 933	189 909	37 969	94 556	(565 164)	1 901 315
EBIT before allocations attributable to:							
Equity holders of the company	2 118 609	215 824	200 953	53 431	91 309	(764 871)	1 915 255
Non-controlling interest	(792)	792	18 528	–	–	1 141	19 669
	2 117 817	216 616	219 481	53 431	91 309	(763 730)	1 934 924
Non-current assets	6 701 109	103 688	1 589 553	2 208 994	7 530	–	10 610 874

Note: BLNS = Botswana, Lesotho, Namibia and Eswatini (Swaziland)
EBIT = Earnings before interest and tax

The Group also reports on a measure of revenue per category, which is detailed below:

	UNAUDITED SIX MONTHS ENDED 31 DECEMBER		
Category	**2019 R'000**	2018 R'000	Change %
Spirits	**5 482 335**	5 048 766	8,6
Wine	**3 692 768**	3 963 603	(6,8)
Cider and RTDs	**5 628 611**	5 397 853	4,3
Other	**11 456**	13 602	(15,8)
Total revenue	**14 815 170**	14 423 824	2,7

10. SEGMENTAL AND REVENUE ANALYSIS *continued*

	UNAUDITED SIX MONTHS ENDED 31 DECEMBER	
	2019 R'000	2018 R'000
Corporate operating profit		
Corporate operating profit comprises the following major categories:		
Corporate head office	**(104 618)**	(132 506)
Corporate and shared services	**(184 889)**	(146 637)
Group expenses	**(109 275)**	(115 600)
Group provisions, accruals and credit loss provision on financial assets	**(17 277)**	(77 588)
Supply chain	**(347 987)**	(360 578)
Net foreign exchange gains	**5 286**	65 215
Allocations to geographical regions	**277 984**	213 681
Other gains and losses	**5 150**	(11 151)
Operating profit	**(475 626)**	(565 164)
Adjusted for:		
Impairment of PPE, intangible assets, investments and profit/loss on sale of investments and subsidiaries	**(5 150)**	11 151
Expected credit loss on Zimbabwe savings bonds	**–**	42 100
Retrenchment, Group restructuring and other one-off costs	**3 647**	68 060
Normalised operating profit	**(477 129)**	(443 853)

Notes:

The corporate categories listed above include the following functions:

1. *Corporate head office: Group HR, global marketing, corporate governance, growth and innovation, corporate and regulatory affairs and development.*
2. *Corporate and shared services: Group ICT, shared service centre, internal audit, HR training and business improvement.*
3. *Group expenses: Employee share scheme and long-service bonus costs, post-retirement medical costs, legal fees, audit fees, directors' fees, administration offices' service and site costs.*
4. *Group provisions, accruals and credit loss provision: Restructuring and retrenchment costs and the credit loss provision for Zimbabwe bonds.*
5. *Supply chain: Centralised procurement and supply chain management. It also includes production variances from standard, inventory losses and provisions. Certain production variances from standard are allocated from "Corporate" to the regions and is included in "Allocations".*

11. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

There have been no material changes in the Group's credit, liquidity and market risk or key inputs in measuring fair value since 30 June 2019. The summary consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements as at 30 June 2019.

Fair value estimation

Items carried at fair value are classified according to the fair value hierarchy, by valuation method. The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

Financial assets at fair value through other comprehensive income are classified as level 1, 2 or 3 and derivative financial assets and liabilities are classified as level 2.

There have been no transfers between level 1, 2 or 3 during the period, nor were there any significant changes to the valuation techniques and inputs used to determine fair values.

The fair values of all other financial assets and liabilities approximate their carrying amounts.

12. CHANGES IN ACCOUNTING POLICIES

The Group adopted the new accounting standard IFRS 16: *Leases* with effect from its mandatory implementation date of 1 July 2019. The Group also changed its accounting policy for the recognition of returnable glass bottles from being part of inventory to property, plant and equipment. This change was applied retrospectively in terms of the provisions of IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors*. The impact of the adoption of these changes on the Group's financial statements is as follows:

12(a) IFRS 16: *Leases* – Impact of adoption

The new standard for leases, IFRS 16, requires a lessee to recognise a right-of-use (ROU) asset and corresponding lease liability on the statement of financial position for almost all lease contracts. Previously operating lease expenses were charged to the income statement on a straight-line basis over the term of the lease. The Group leases various farming land, warehouses, machinery, equipment and vehicles under operating lease agreements.

The Group recognised ROU assets of R374,8 million and lease liabilities of R374,8 million (after adjustments for prepayments and accrued lease payments recognised as at 30 June 2019) during the current reporting period. Depreciation on the ROU assets amounted to R63,8 million and interest paid on the lease liabilities was R16,7 million for the six months ended 31 December 2019. Repayment of the lease liabilities amounted to R66,0 million.

12. CHANGES IN ACCOUNTING POLICIES *continued*

12(b) Returnable containers – Impact of change in accounting policy

The Group has changed its accounting policy for the recognition and measurement of returnable glass containers to better reflect the underlying economic substance and to be in line with the general industry practice for such items. The Group sells a limited number, but high in volume, of its products in glass containers which customers can return to the Group for a refund of the original deposit charged for these items.

Previously the glass containers were included in inventory and expensed as part of costs of goods sold. In recent years the Group has improved the return ratios of the returnable glass containers from customers and the bottles are used over several financial years. With the change in accounting policy, the returnable glass containers in circulation are now treated in terms of the measurement and recognition requirements of IAS 16: *Property, Plant and Equipment* (PPE). On initial purchase, the returnable glass is capitalised to PPE and depreciated over its expected useful life, generally being five years, and adjusted for impairment losses, taking into account expected operational losses and the number of cycles each bottle type is used per year.

A deposit refund liability is recognised under trade and other payables in respect of the obligation to repay the customers' deposits on returnable containers previously allocated to cost of goods sold. The deposit refund liability is adjusted for expected trade losses and non-returned containers.

During the period under review the depreciation on returnable containers amounted to R36,8 million (2018: R50,7 million) and impairment losses were R20,7 million (2018: R52,4 million). The adjustments to the deposit liability amounted to a reduction of the liability by R26,9 million (2018: R39,5 million).

Non-returnable containers continue to be recorded as inventory.

The total financial impact on the Group's retained earnings and other line items on previous reporting periods is disclosed in note 12(c) below.

12(c) Impact on the financial statements

IFRS 16 was adopted without restating comparative information as the Group applied the simplified transition approach in IFRS 16. ROU assets are measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses). The Group has also elected to apply the practical expedient to not reassess the lease definition.

In accordance with the provisions in IAS 8, the Group has retrospectively applied the change in the accounting of returnable glass bottles, and comparative financial information was restated for the financial periods presented.

The following tables show the adjustments recognised for each individual line item in the statement of financial position and income statement. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

Statement of financial position (extract)	30 June 2019 As originally presented R'000	Returnable containers R'000	30 June 2019 Restated R'000
Non-current assets			
Property, plant and equipment	7 040 250	155 838	7 196 088
Current assets			
Inventory	8 315 109	(91 108)	8 224 001
Capital and reserves			
Retained earnings	9 280 085	(41 543)	9 238 542
Opening balance	9 287 547	(15 326)	9 272 221
Net movement for the period	(7 462)	(26 217)	(33 679)
Non-current liabilities			
Deferred income tax liabilities	1 130 088	19 275	1 149 363
Current liabilities			
Trade and other payables	5 112 783	86 998	5 199 781

12. CHANGES IN ACCOUNTING POLICIES *continued*

12(c) Impact on the financial statements *continued*

Statement of financial position (extract)	31 December 2018 As originally presented R'000	Returnable containers R'000	31 December 2018 Restated R'000
Non-current assets			
Property, plant and equipment	6 620 987	154 812	6 775 799
Current assets			
Inventory	7 405 528	(70 617)	7 334 911
Capital and reserves			
Retained earnings	10 019 864	(12 064)	10 007 800
Opening balance	9 287 547	(15 326)	9 272 221
Net movement for the period	732 317	3 262	735 579
Non-current liabilities			
Deferred income tax liabilities	1 162 682	22 771	1 185 453
Current liabilities			
Trade and other payables	5 977 135	73 488	6 050 623

Income statement (extract)	30 June 2019 As originally presented R'000	Returnable containers R'000	30 June 2019 Restated R'000
Revenue	26 179 580	–	26 179 580
Operating costs	(23 875 292)	(7 516)	(23 882 808)
Costs of goods sold	(18 082 490)	(7 516)	(18 090 006)
Sales and marketing costs	(2 960 669)	–	(2 960 669)
Distribution costs	(1 239 871)	–	(1 239 871)
Administration and other costs	(1 289 811)	–	(1 289 811)
Net impairment losses on financial assets	(302 451)	–	(302 451)
Other gains and losses	(544 806)	(25 692)	(570 498)
Operating profit	1 759 482	(33 208)	1 726 274
Profit before taxation	1 554 294	(33 208)	1 521 086
Taxation	(644 448)	6 991	(637 457)
Profit for the period	909 846	(26 217)	883 629

12. CHANGES IN ACCOUNTING POLICIES *continued*

12(c) Impact on the financial statements *continued*

Income statement (extract)	31 December 2018 As originally presented R'000	Returnable containers R'000	31 December 2018 Restated R'000
Revenue	14 423 824	–	14 423 824
Operating costs	(12 523 971)	12 613	(12 511 358)
Costs of goods sold	(9 749 409)	12 613	(9 736 796)
Sales and marketing costs	(1 507 391)	–	(1 507 391)
Distribution costs	(606 343)	–	(606 343)
Administration and other costs	(597 271)	–	(597 271)
Net impairment losses on financial assets	(63 557)	–	(63 557)
Other gains and losses	1 695	(12 846)	(11 151)
Operating profit	1 901 548	(233)	1 901 315
Profit before taxation	1 773 645	(233)	1 773 412
Taxation	(499 883)	3 495	(496 388)
Profit for the period	1 273 762	3 262	1 277 024

13. RELATED PARTY TRANSACTIONS

The Group's most significant related party transaction for the period was with FirstRand Bank Limited for interest paid on interest-bearing borrowings which amounted to R80,2 million (2018: R79,8 million). The Group also paid dividends on ordinary shares of R173,9 million (2018: R160,7 million) to subsidiaries of Remgro Limited.

14. EVENTS SUBSEQUENT TO STATEMENT OF FINANCIAL POSITION DATE

The directors are not aware of any matter or circumstance arising since the end of the financial year that would significantly affect the operations of the Group or the results of its operations.

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