

# DIAGEO IN SOUTH AFRICA FACTSHEET

## THE SOUTH AFRICAN CONTEXT

Johnnie Walker first arrived in SA in the 1890s. Since that time the total beverage alcohol market has grown significantly and more recently within that, spirits' share of it. Diageo's commitment to the country has grown as further brands have been introduced and the brandhouse JV was established.



The JV enabled Diageo to invest in commercial infrastructure and penetrate the market to gain significant share. The success of the JV has given the spirits and beer businesses a scale which now enables Diageo to operate on a standalone basis.

## TRANSACTION

Diageo and its partners have today announced the early termination of the JV structure. Diageo will sell its:

- shareholding in DHN Drinks to Heineken and NBL;
- shareholding in the Sedibeng Brewery to NBL; and
- shareholding in NBL to Heineken

Diageo will then acquire:

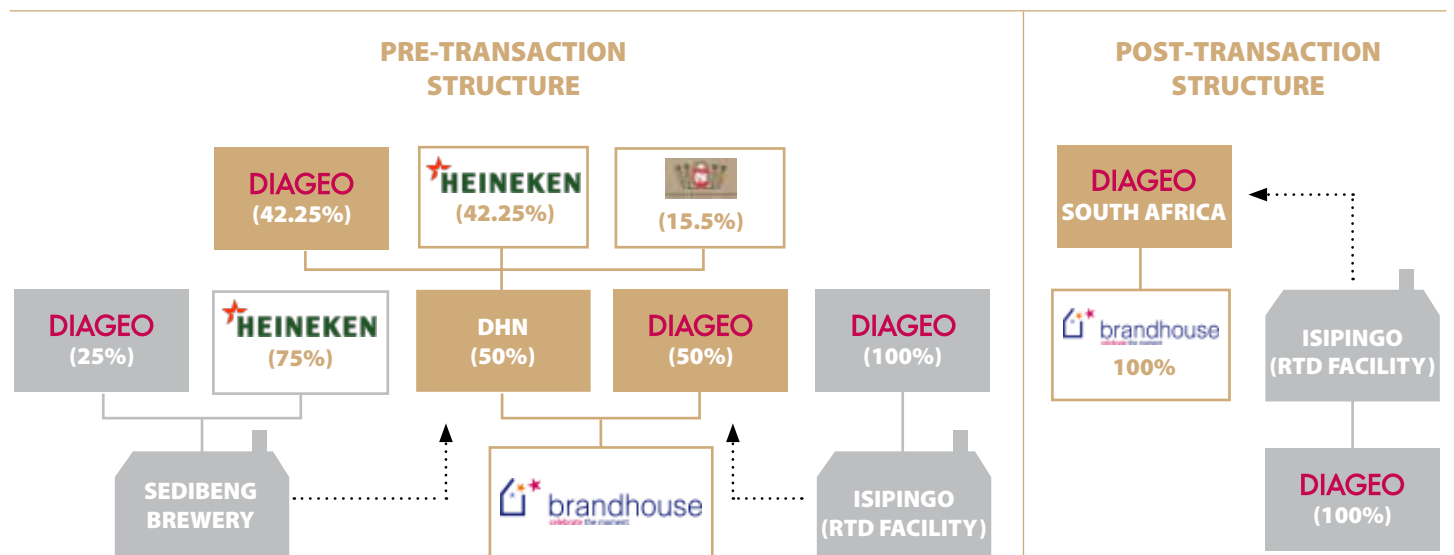
- the remaining shares which it does not already own in brandhouse

Diageo will also receive a net cash payment of ZAR 2,507m, subject to customary adjustments. Diageo will now forge its own path in South Africa as a standalone company pursuing our own commercial agenda with greater control and flexibility to build on our market leading position in spirits.

## BRANDHOUSE JV

brandhouse was first established in 2004 between Diageo, Heineken International and Namibia Breweries (NBL) to sell Diageo's spirits, RTDs, ciders and Guinness as well as Heineken and NBL's beers.

In 2008 the JV was reconfigured for a new ten year term, following commercial investments including the introduction of new brands and the construction of new production facilities for beer and RTDs. The JV moved from a cost sharing structure to a cost and profit sharing agreement.



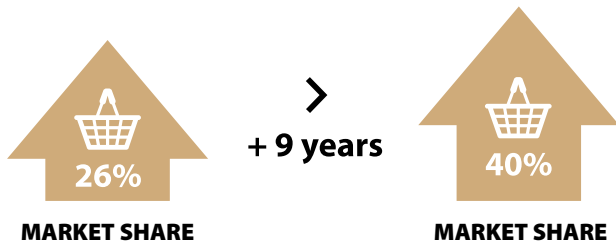
**DIAGEO IN SA**

South Africa is Diageo's 5th largest spirits market by volume. In SA:

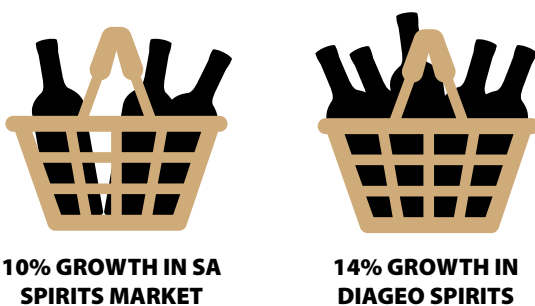
- Diageo is the market leader in the premium spirits business
- Diageo has the market leading whisky (Johnnie Walker), vodka (Smirnoff 1818) and rum (Captain Morgan) brands and four out of the top ten RTD brands (Smirnoff Ice Double Black with Guarana, Smirnoff Storm, Smirnoff Spin and Smirnoff Premix)



- Market share in spirits has grown from 26% to 40%, in 9 years, resulting in Diageo becoming market leader



- SA spirits market has grown just under 10% (2010-14) with Diageo's growth exceeding this at around 14% for the same period (IWSR data)



- Our reserve business grew 47% last year after investment in a dedicated sales force and trade activations
- SA plays host to World Class, our global bartender competition in Cape Town in 2015

**DIAGEO IS AN INNOVATOR IN SA**

- Market leading innovations like Smirnoff Double Black & Guarana
- Award winning anti-drink drive campaign (Drive Dry), global responsible drinking portal DRINKIQ and the Responsible Drinking Media Awards
- Led the process to establish the ARA (Association for Responsible Alcohol Use)



**THE OPPORTUNITY**

SA is by far the most developed spirits market in Africa:

- In spite of the significant growth over the past ten years, the potential to further penetrate the main market with our accessible premium core and mainstream brands remains very attractive
- There is a significant opportunity for our brands given how they have outperformed beer brands despite being under-weight in terms of numerical distribution in main market
- A number of factors will positively impact the TBA market in SA in the coming years:
  - The growth in the Legal Purchase Age population – c.1m per annum
  - A growing middle class with more disposable income
  - The rise of the 'at home' occasion
  - A trend for authentic brands as consumers demand more knowledge of what they buy
- Consumer trends show that vodka, whisky and flavoured spirits will be the value drivers in the TBA market while RTDs and beer will be the volume drivers
- We have the chance to build on our award winning responsible drinking programmes in SA by using the Global Producers' Commitments in the South African market to greater success