

A photograph of three people (two women and one man) smiling and holding drinks at an outdoor evening event. The man in the center is wearing a blue sweater over a white collared shirt. The woman on the left is holding a cocktail with a straw. The woman on the right is holding a glass of white wine. String lights are visible in the background.

# SUSTAINABILITY REPORT 2016



**DISTELL**

# HIGHLIGHTS

Distell continues to build and strengthen its reputation as a responsible corporate citizen that is committed to financial as well as non-financial future prosperity.

Spent on corporate social investment (CSI)

**R17,28 million**

2015: R16,67 million

The development and implementation of

## Supply Chain Excellence

supported by our E<sup>2</sup> Empowering Excellence Framework. This will enable standardised and leading supply chain best practice



Spent on training initiatives

**R26,40 million**

2015: R24,50 million

Current employees

**5 476**

2015: 5 520

# HIGHLIGHTS

The launch of our

## integrated transformation strategy

has given rise to meaningful work and solid progress in achieving our own and government's transformation goals

CSI projects refocused to support our own and government's transformation goals

**21**

2015: 66



Consultations carried out by nursing staff to promote employee health and wellness

**28 447**

2015: 30 124

## Lost time injuries decreased

**133**

2015: 149

A new, dedicated

## returnable crate for the 660ml Hunter's range

was launched and will increase our ratio of return on this bottle

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## Navigational tools

The following icons are used throughout this report:

-  Cross-section to relevant sections within this report
-  Cross-section to our 2016 integrated report
-  Information available online

**The products mentioned in this report are not for sale to persons under the age of 18.  
We appeal to all our consumers to enjoy our products responsibly.**



# ABOUT THIS REPORT

## Scope and boundary of the report

This is the sixth annual sustainability report of Distell Group Limited, its subsidiaries, associates and joint ventures (hereafter referred to collectively as 'Distell', 'the group', 'we' or 'our'). The report identifies matters that are vital to our future prosperity, and discusses our responsible management processes – processes that are crucial in driving our health and safety, social, environmental, transformation and economic imperatives.

The report covers our corporate responsibility performance for the period 1 July 2015 to 30 June 2016, and all non-financial information relates to the Group's operations in South Africa only, unless indicated otherwise. As has been mentioned in previous reports, Distell has a 50% share in LUSAN Holdings Proprietary Limited and where non-financial data has been included from these wineries, this has been clearly stated.

Following the previous year's report, there have been no changes that would alter or affect the boundaries stated above.

## Our reports

For a comprehensive overview of Distell's operations, this report should be read in conjunction with our integrated report.



We continually seek to improve our reporting in line with best practice, and have taken guidance from the Global Reporting Initiative's (GRI) G4 Sustainability Reporting Guidelines (G4 Guidelines) in the preparation of the **Distell 2016 Sustainability Report**. This report contains indicators and Standard Disclosures from the G4 Guidelines to increase the relevance of our sustainability reporting for all interested stakeholders. Moving forward, we aim to be fully compliant with the GRI's G4 Guidelines.

**Distell's 2016 Integrated Report** takes into consideration both the International Integrated Reporting Council's (IIRC) <IR> framework, and the principles outlined in the King Report on Corporate Governance (King III). The report covers the group's strategy, our financial and operational performance, our material issues, our risks and opportunities, along with our governance and remuneration policies, and contains Distell's annual financial statements. Our integrated report is aimed principally at our shareholders and the local as well as offshore investment community.

All reports (present and previous) are available online at [www.distell.co.za](http://www.distell.co.za)

## Assurance

In adherence to the principle of combined assurance, we follow an audit trail for non-financial disclosures and performance data, and validate this information through an internal audit process. Additionally, Distell's audit and risk committee has reviewed this report. While third-party assurance has not been sought for all information contained in this report, certain information – such as that relating to Broad-Based Black Economic Empowerment (B-BBEE) and certain environmental criteria – has been independently assessed and verified.

## Approval

Distell's Social and Ethics Committee (SEC) is responsible for considering the group's performance in terms of product quality and consumer protection, environmental management, ethics and anti-corruption, human rights, social and community investment, promoting responsible drinking, B-BBEE and transformation, as well as employee relationships and assistance. In accordance with its mandate, the SEC met twice during the year under review – on the 19<sup>th</sup> of October 2015 and on the 16<sup>th</sup> of February 2016. The SEC considered detailed reports on the matters listed above and discussed herein. In general, the SEC was satisfied that Distell is fulfilling its social and ethical obligations as a good corporate citizen.

## FEEDBACK

We continually strive to improve our reporting process and our communication with our stakeholders. Your feedback, comments or queries are therefore appreciated and encouraged. To get in touch with us, please contact our corporate and regulatory affairs division via:

Email: [info@distell.co.za](mailto:info@distell.co.za)  
Tel: +27(0)21 809 7000



# OUR BUSINESS PHILOSOPHY

## Who we are

The Distell Group is South Africa's and Africa's leading producer and marketer of wines, spirits, ciders and other ready-to-drink (RTD) beverages, sold across the world.

### OUR MISSION

We craft distinctive alcoholic beverage brands, enhance memorable moments and inspire responsible enjoyment. The value we create enriches the lives of our people, shareholders and the communities within which we live and work.

### OUR VISION

We are a proud African alcoholic beverages company with heritage, global reach, world-class people and the ability to do extraordinary things!

### OUR PURPOSE

We exist to provide unique moments of social enjoyment through the responsible marketing of well-crafted wines, spirits and ciders.

### OUR VALUES

- **Customer and consumer focus**

We are passionate about our customers and consumers.

- **Courage**

We are enterprising and courageous in the way we tackle challenges and opportunities.

- **Responsibility**

We take ownership of our words, actions and commitments.

- **Respect**

We respect people's views, attitudes and opinions.

- **Integrity**

We act with integrity at all times.

- **Collaboration**

We are one Distell team!

## Our approach to corporate governance

The board of directors is ultimately responsible for governance and considers itself fully accountable to stakeholders. The board continuously maintains and applies the strictest corporate governance principles to ensure that our business is managed to the highest possible standards of professionalism, integrity, ethics, fairness, and social responsibility.

Distell's governing objective is to ensure the ongoing sustainability of the business and to maximise value for our shareholders and other key stakeholders, while also contributing to national prosperity. We remain cognisant of the impact of our business activities on society and the environment, and follow a formal process to identify and assess the major risks that could negatively impact the sustainability of our operations.

 Read more about our corporate strategic risks on page 10

The social and ethics committee in particular is responsible for monitoring Distell's social and economic development, corporate citizenship and labour relations. The committee provides an oversight role in respect of the following

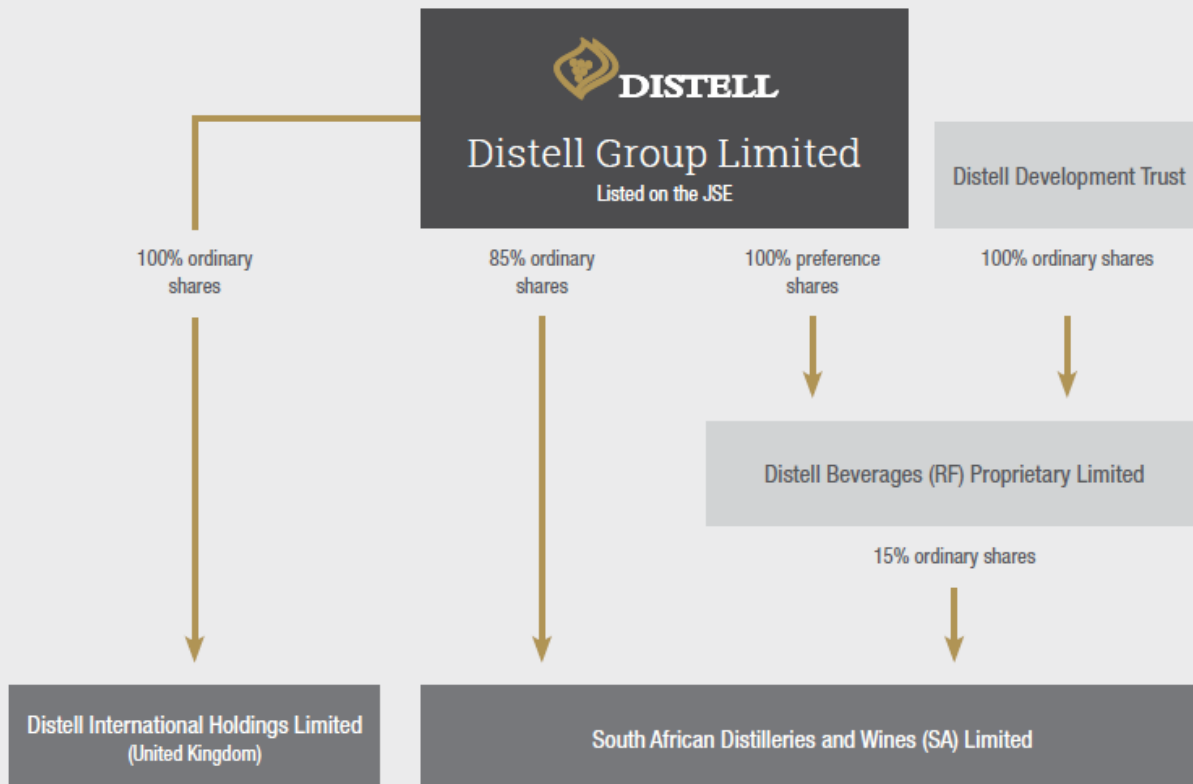
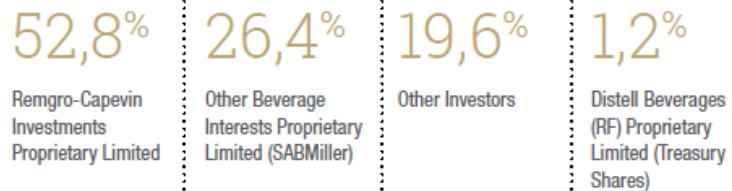
- Human rights
- Ethics and anti-corruption
- Environmental impact (in particular, water savings, energy efficiency, waste management and climate-change)
- Product quality
- Consumer protection
- Social investment
- Responsible drinking
- Transformation (with a focus on employment equity, B-BBEE and corporate culture)
- Human resources (specifically employee engagement, employment relations, fair employment practices and employee training)

 Read more about the roles and responsibilities of the social and ethics committee on page 154 of our 2016 integrated report

# OUR GROUP STRUCTURE

## GROUP STRUCTURE

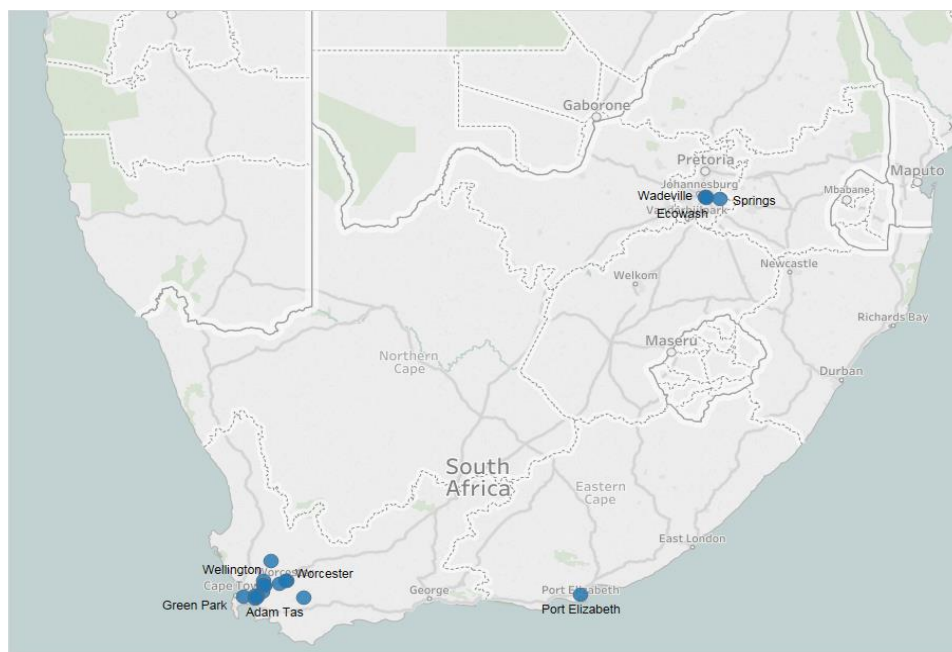
WHILE THE MAJORITY OF OUR OPERATIONS ARE LOCATED IN SOUTH AFRICA, WE ARE CONTINUOUSLY EXPANDING OUR GLOBAL FOOTPRINT.



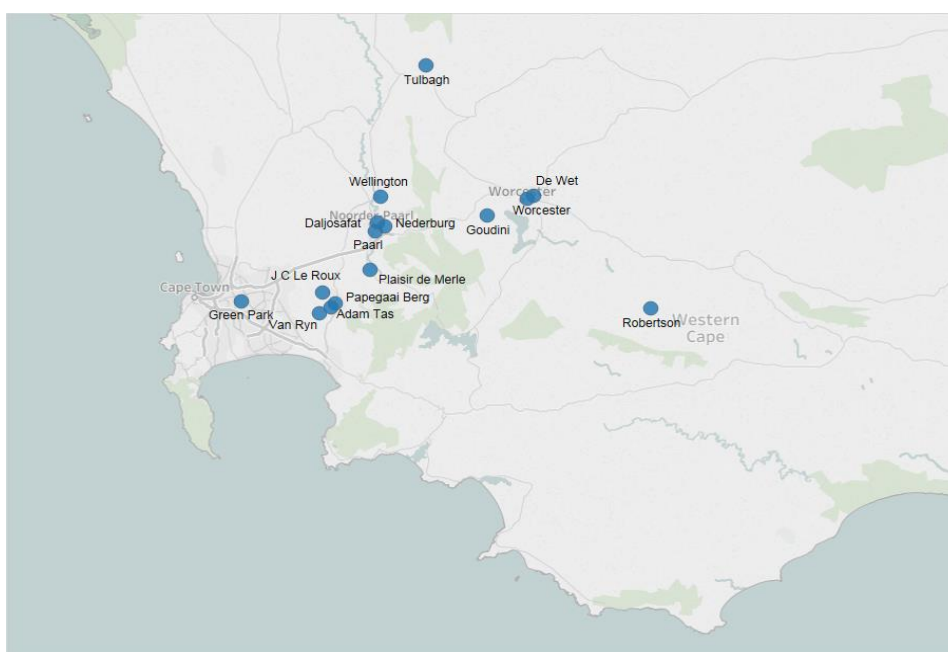
# WHERE WE OPERATE

Our head office is situated in Stellenbosch, South Africa. Across Africa, we have offices in Angola, Ghana, Kenya, Nigeria and Mozambique, with additional staff in Zimbabwe and Zambia. Outside of Africa, we have offices in the United Kingdom, France, USA, Brazil, Taiwan and Singapore – these provide support and give direction to a network of agents in more than 80 countries. We further own production facilities in France, Scotland and Ghana. We operate 37 trading depots in South Africa, with a further five in the BLNS countries. There is one independent distribution agent in South Africa, and elsewhere in Africa we make use of various distributors. Most of the Group's revenue (71,6%) is generated in South Africa.

## Our manufacturing sites across South Africa



## Our manufacturing sites across the Western Cape





# OUR BRANDS

With a diverse portfolio of brands with rich provenance and authenticity, our products are priced across the pricing continuum to cater to a broad spectrum of consumers.



## Top 15 Brands

Generate 71% of total revenue

Top 13 growing at 10%

### Ciders and RTDs

Hunter's

Savanna

### Wines

4th Street

Nederburg

Drostdy-Hof

Autumn Harvest Crackling

Original Paarl Perlé

J.C. Le Roux

Sedgwick's Old Brown

Two Oceans

### Spirits

Amarula

Scottish Leader

Klipdrift

Richelieu

Viceroy

## Power Brands

The *Power* brands team is focused on driving the volume and revenue of our large-scale brands.

Our *Power* brands delivered 4% growth achieved across all three segments: ciders and RTDs, wines and spirits, with revenue rising by 8%.

## Luxury Brands

The *Luxury* team, which now includes the formerly stand-alone Distell Vineyards and Estates division with its Cape Legends portfolio, is focused on marketing our premium and super-premium wines and spirits.

Our *Luxury* brands achieved growth in both wines and spirits, with value up by 21%.

## Our top brand awards and accolades



Klipdrift Premium claimed the title of **World's Best Brandy** at the World Brandy Awards in 2016.



Three Ships 10-Year-Old Single Malt became the first South African whisky to be awarded the **Worldwide**

**Whisky Trophy** as well as a gold outstanding distinction at the annual International Wine & Spirits Competition (IWSC) held in London in 2015.



Two of Durbanville Hills' Chardonnay wines are among 2016's **Top 15 South African wines**, as judged at the 23rd annual Chardonnay du Monde held in Burgundy.



Pongrácz's Desiderius 2008 was the only South African contender ranked **Top 10 in the world** at the 2015 Effervescents du Monde competition in France.

Distell was judged the International Wine & Spirits Competition's **Distiller of the Year** for 2015 – the second time that this Stellenbosch-based company has triumphed over renowned whisky and cognac producers across Europe, North America and Asia after its initial win in 2007.



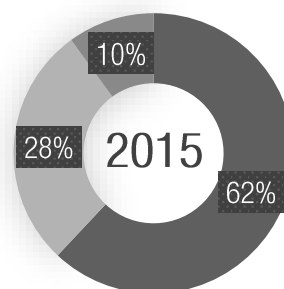
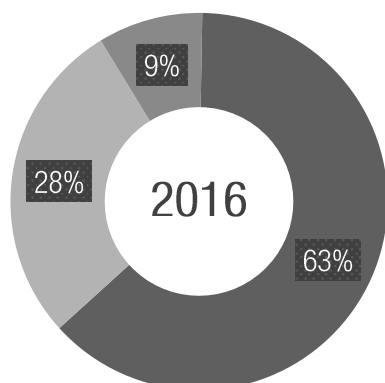
# CREATING AND SHARING VALUE

Our ultimate governing objective is to create value for all stakeholders, our shareholders in particular.

## Cash value added statement

For the year ended 30 June

|                                                                     | 2016<br>R'000 | GROUP<br>2015<br>R'000 |
|---------------------------------------------------------------------|---------------|------------------------|
| <b>Cash generated</b>                                               |               |                        |
| Cash derived from sales                                             | 21 033 380    | 19 205 769             |
| Net financing costs paid                                            | (243 966)     | (197 078)              |
| Income from investments                                             | 7 501         | 6 698                  |
| <b>Cash value generated</b>                                         | 20 796 915    | 19 015 389             |
| Cash payments to suppliers of materials and services                | (11 305 261)  | (10 828 055)           |
| <b>Cash value added/wealth created</b>                              | 9 491 654     | 8 187 334              |
| <b>Cash utilised to:</b>                                            |               |                        |
| Pay excise duty to the State                                        | 4 785 528     | 4 135 115              |
| Pay tax on income to the State                                      | 617 204       | 504 671                |
| Remunerate employees for their services                             | 2 462 152     | 2 130 661              |
| Provide shareholders with a return on the use of their risk capital | 773 507       | 745 680                |
| <b>Cash disbursed among stakeholders</b>                            | 8 638 391     | 7 516 127              |
| <b>Net cash retained from operating activities</b>                  | 853 263       | 671 207                |
| <b>Reconciliation with cash generated</b>                           |               |                        |
| Cash value added (above)                                            | 9 491 654     | 8 187 334              |
| Less: Remuneration to employees for their services                  | (2 462 152)   | (2 130 661)            |
| Net financing costs paid                                            | 243 966       | 197 078                |
| Payment of excise duty to the State                                 | (4 785 528)   | (4 135 115)            |
| <b>Cash generated from operating activities</b>                     | 2 487 940     | 2 118 636              |
| <b>State taxes</b>                                                  |               |                        |
| Excise duty                                                         | 4 785 528     | 4 135 115              |
| Tax on income                                                       | 617 204       | 504 671                |
| Value added tax and alcohol levy                                    | 1 007 026     | 832 549                |
| Employees' tax deducted from remuneration                           | 395 364       | 297 117                |
| Property taxes                                                      | 50 812        | 47 499                 |
| <b>Channelled through the Group</b>                                 | 6 855 934     | 5 816 951              |



■ State ■ Employees ■ Other

# OUR CORPORATE STRATEGIC RISKS

Within the context of Distell's strategy, business plans and business philosophy, we have identified material issues and risks that we believe could impact our ability to sustain future value and growth. The key sustainability issues that are material to our strategy were identified by management and are addressed below. The sustainability issues identified but not discussed below are still considered important in shaping our role as a responsible corporate citizen. These, however, are not necessarily material in the implementation of our corporate strategy.

 Read a full list of our corporate strategic risks in our 2016 integrated report

## Regulatory interventions and responsiveness

The debate over the impact of alcohol consumption has intensified with the alcohol industry under increasing scrutiny as regulators and the World Health Organisation (WHO) focus on reducing the health burden on non-communicable diseases including alcohol consumption as a key risk factor.

Further regulatory policy interventions are under consideration, such as:

- banning or restrictions on alcohol advertising
- raising the legal drinking age
- restrictions on availability including outlet locations and trading hours
- zero tolerance approach to drinking and driving

 Read more from page 15

### Risk

- Growing anti-alcohol lobby that erodes the industry reputation to promote responsible alcohol consumption
- Exclusion of alcoholic beverage industry participants from alcohol policy formulation and development
- Unreasonably onerous legislative interventions including steep increases in taxation and excise duty, making products unaffordable and stimulating illicit trade

### Mitigation

- Compliance to alcohol legislation in key markets where we operate.
- Close cooperation with industry bodies and constructive engagement with government and other external stakeholders on alcohol abuse and alcohol-related issues
- Establishing internal capabilities to efficiently manage licence-to-trade issues efficiently
- Pursuing a corporate-social-responsibility strategy, which includes initiatives that are proven to be effective and are aimed at reducing the harmful impact of alcohol abuse

## Sustainable supply of raw materials

Efficient procurement and supply chain management are important business imperatives to ensure continuous product availability of suitable quality at competitive prices. The nature of many of our products and activities necessitates a long-term view of the market and consumer demand, requiring close collaboration and planning with our suppliers.

 Read more from page 40

### Risk

- Unavailability of grapes and wine to meet demand for our wine brands across the quality and cultivar spectrum
- Unavailability of bulk wine for the distillation of brandy
- Unavailability of apple juice for the production of ciders
- Unavailability of malt supplies for whisky production
- Scarcity of water supply
- Erratic electricity supply
- Key supplier dependency places the Group at risk if the local supply base is eroded or unable to meet demand

### Mitigation

- Global best practice procurement policies and procedures (supplier solvency monitoring, long-term contracts, supplier base diversification)
- Close collaboration with our suppliers to ensure the sustainability of the supply chain at cost-competitive levels
- Viticulturists assisting farmers to farm more effectively and efficiently to increase yield per hectare without any adverse impact on quality
- Establishing a global supply network that gives us access to better product, service and pricing options and that also helps to counter local supplier capacity constraints



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## Illicit trade

Globally illicit trade in alcoholic beverages including trade in counterfeit products and cross-border smuggling, remains a key business challenge.

This trend is exacerbated by rising excise duties in select geographies.

 [Read more from page 19](#)

## Risk

- Expanded illicit trading, with cheaper products including counterfeit merchandise takes share from legal products
- Failure to effectively protect intellectual property rights

## Mitigation

- Collaboration with local government authorities and industry bodies to quantify illicit trade for monitoring purposes and to assist in the effective enforcement of local legislation. to thwart ongoing illicit trade
- Continuous innovation in tamper-proof packaging to eliminate counterfeiting

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## Talent management and succession planning

The successful implementation of Distell's corporate strategy is dependent on having a deep pool of talent to draw from, as well as management capacity for execution. It is therefore essential that we drive a best practice talent and performance management process.

 [Read more from page 26](#)

## Risk

- Failure to recruit, identify, develop and retain the necessary talent, skills and leadership to pursue current and future strategies
- Failure to establish talent pools that reflect the demographic diversity of the communities where we operate
- Failure to embed good performance management practices in Distell

## Mitigation

- Drive best practice performance and talent-management processes to deliver deep talent pools and a high performance culture
- Acquire and develop specialist leaders and talent to sustain strategy execution, through our formal Talent-Management Programme.
- Invest in critical skills for both existing and emerging businesses
- Prioritise transformation to ensure that Distell has a diverse workforce reflecting the demographics of the countries and communities in which we operate and that Distell makes a substantial contribution to bringing black people into the economic mainstream

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## Non-compliance with laws and regulation

Non-compliance with laws and regulations, including internal policies

## Risk

- Non-compliance can do severe harm to our corporate reputation.
- Inability to comply due to rapid changes in regulation, Distell employees transgressing laws wilfully or due to lack of knowledge of legislative requirements

## Mitigation

- Ensuring internal policies and procedures governing compliance to applicable laws and regulations, including Code of Conduct, anti-fraud and anti-corruption policy, anti-bribery policy, etc.
  - Training and awareness programmes
  - Monitoring and reporting on compliance
  - Leadership leading by example
-

# OUR SEVEN KEY SUSTAINABILITY ISSUES

By understanding our legal environment, managing our risks and engaging with our various stakeholders, we have identified seven key issues that shape the corporate responsibility pillar of our value-based management approach.



## Promoting responsible drinking

The associated risk of alcohol abuse, and its impact on the health and well-being of individuals, families and communities, necessitates that we do our utmost to encourage a culture of responsible drinking

Read more from page 15

### Our key stakeholders

Government; Industry associations, including the South African Liquor Brand owners Association (SALBA) and the Association for Responsible Alcohol Use (ARA); Non-governmental organisations (NGOs); Our communities

## Our response and performance

- Distell's internal alcohol consumption policy
- Active membership and participation with industry associations (ARA and SALBA) to collaborate on industry best practice, and engage with government on regulations and legislation that could impact the industry
- Investment in NGOs focused on raising awareness of and providing treatment to those affected by alcohol abuse
- Stronger enforcement of the ARA's Code of Commercial Communication and Conduct, this includes ensuring that Distell advertising and marketing material is tested and approved in line with the provisions of the ARA code
- **Zero** complaints registered with ARA in 2016 relating to Distell and our brands

## High excise duty and illicit trade

High excise duties have a direct impact on Distell's pricing of alcoholic beverages, as well as on consumer affordability. Rising excise duties further exacerbate the trend of illicit trade in alcoholic beverages

Read more from page 19

### Our key stakeholders

Government (National Treasury); NGOs

## Our response and performance

- We lead SALBA's excise committee and make formal submissions to the National Treasury to inform annual excise tax adjustments
- We collaborate with government and industry bodies to monitor and quantify the impact of illicit trade, and to assist in the effective enforcement of local legislation
- Ongoing litigation with the South African Revenue Service (SARS) regarding the re-classification of Amarula Cream from a wine-based to spirit-based aperitif was resolved in favour of SARS. This necessitated the group's payment of outstanding excise duties to SARS. Distell has since complied with this ruling
- Collaboration with industry associations and government on excise duty resulted in tax concessions on brandy and sparkling wine. This yielded a limited tax benefit for the industry

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## Sustaining our communities

We strive to further socio-economic development through our corporate social investment initiatives and by supporting government in addressing South Africa's social and economic challenges

 Read more from page 21

### Our key stakeholders

Communities; NGOs and non-profit organisations (NPOs), including education, arts and culture, and research institutions; Government; Our employees; industry bodies (including ARA)

## Our response and performance

- We redirected our investment strategy to address government's concerns around alcohol abuse and alcohol-related harm, as well as to support the implementation of our integrated transformation strategy
- This involved refocusing our key social initiatives **from 66 in 2015, to approximately 21 as from July 2016**, all with a stronger focus on alcohol harm reduction and youth and entrepreneurship development, integrated with arts and culture, to ensure our initiatives align with our B-BBEE requirements for socio-economic development and transformation
- **R17,28 million** spent on CSI in 2016 (2015: R16,67 million)
- We have completed Social Return on Investment (SROI) assessments on two of our initiatives to better understand their benefit and impact.
- We have also started training five of our flagship projects through a SROI Capacity Building Course. The training is software-based and is led by a specialist using Theory of Change Methodology

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## Our people

Our ability to attract, develop, deploy and retain talent will be a major competitive advantage going forward. We remain focused on building a diverse and sustainable talent pipeline that is reflective of global, regional and local business realities

 Read more from page 25

### Our key stakeholders

Employees; Training and development service providers; Wellness service providers; Recruitment agencies; Employee and union representatives

## Our response and performance

- Our first comprehensive employee engagement survey was launched, the results of which will position us to respond to employees' needs and concerns, and foster employee engagement – this is imperative to business success
- We implemented our Accelerated Development Programme to help us identify and fast-track high-performance employees
- We launched SuccessFactors – our talent management system
- **R26,4 million** spent on training initiatives (2015: R24,5 million)
- **28 447** consultations carried out by nursing staff to promote employee health and wellness (2015: 30 932)
- **1 492 lost days**, down from 1 701 in 2015
- **481 on-site incidents**, down from 524 in 2015
- **5 476 employees**, down from 5 520 in 2015, with approximately 83% located in South Africa
- Staff turnover increased to **12,73%** (2015: 11,14%)
- 50 cases were referred to the Commission for Conciliation, Mediation and Arbitration (CCMA). Of these 50 cases, 38 were resolved in favour of Distell, nine remained unresolved, two cases are awaiting jurisdictional ruling, and one case was resolved in favour of the employee

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## Transformation

Transformation informs how we do business and aligns us with our own as well as government's transformation goals. Commitment to diversity enables us to maintain our reputation as a responsible corporate citizen

 Read more from page 35

### Our key stakeholders

Suppliers; Government; The Distell Development Trust

## Our response and performance

- Ongoing implementation and strengthening of our integrated transformation strategy
- The establishment of our Transformation Council to drive our transformation imperatives throughout the business
- By means of the above, we are well positioned to achieve our target of obtaining Level 4 B-BBEE status by 2016
- Our integrated transformation strategy is supported by a number of flagship initiatives that include:
  - Community empowerment through the Distell Foundation
  - Enterprise and supplier development (for example, the Solar Power Project)
  - An increased focus on preferential procurement
  - Empowerment of women and people with disabilities in the workplace
- We continue to run leadership transformation and diversity workshops across various business units and have reached approximately half of the total employees to date



## Supply chain management

We are focused on developing an integrated, efficient and agile supply chain that will meet customers' expectations and enable us to become a trusted and valued business partner

 Read more from page 39

### Our key stakeholders

Suppliers; Employees; Government (Department of Labour; Department of Trade and Industry); Customers

## Our response and performance

- The development and implementation of Supply Chain Excellence, supported by our E<sup>2</sup><sub>Empowering Excellence</sub> framework
- This will enable us to provide assurance to our stakeholders that we source, produce and deliver quality products sustainably, consistently, reliably, competitively and in accordance with standardised and leading supply chain best practice
- The launch of our E+Scalator programme to support local supplier development
- **97,65%** of grapes, wine and wine-related products sourced locally (2015: 94%)
- **R3,0bn** spent on raw materials (2015: R2,3bn)
- **R3,2bn** spent on packaging materials (2015: R3bn)
- We continue to support responsible agricultural practices and ensure the highest ethical and human rights standards across our farms
- All grape and wine suppliers comply with the Integrated Production of Wine (IPW) scheme's certification system
- **86%** of our wine producers are accredited by the Wine and Agricultural Ethical Trade Association (WIETA) – with a target of 100% by 2017

## Preserving our environment

Distell is wholly dependent on the long-term health of the environment, from farm to consumer

 Read more from page 46

### Our key stakeholders

Municipalities; Suppliers; Government; Consumers; Local Communities; NGOs

## Our response and performance

- We constantly work to reduce our reliance on fossil fuel-based energy and electricity, substituting these with renewable energy sources where possible
- While the expansion of our production facility at Springs impacted our resource usage and contributed significantly to us not being able to reach our 2016 resource usage targets, we are confident of the benefits moving forward
- Our direct emissions increased by **0,5%** and our emission intensity per litre of product increased by **2,4%**
- **94%** of our sites are actively implementing ISO 14001, and **59%** have already been externally certified
- This year, we used a total of **288 746 tonnes of glass bottles** (2015: 310 900), of which **71,6%** (2015: 73%) comprised new glass, and the remaining **81 872 tonnes** (2015: 84 891 tonnes) comprised reused bottles
- A new, dedicated returnable crate for the 660ml Hunter's range was launched, which will increase our ratio of return on this bottle
- Waste water and effluent increased by **7,8% to 1 849 949m<sup>3</sup>** (2015: 1 716 069m<sup>3</sup>)
- Waste water intensity increased to **2,80 litres** of effluent per litre of packaged product
- We acted collaboratively to effectively manage complaints at a waste water disposal area in Worcester

# PROMOTING RESPONSIBLE DRINKING

## Why this matters

As a major producer of alcoholic beverages, and as a key player in the country's alcoholic beverages industry, Distell stimulates the South African economy through job creation and tax contributions. However, the associated risk of alcohol abuse and its impact on the health and well-being of individuals, families and communities necessitates that we do our utmost to encourage a culture of responsible drinking.

### Key focus areas

- Reducing underage drinking
- Preventing fetal alcohol spectrum disorder
- Controlling the sale and marketing of alcoholic beverages
- Reducing drinking and driving

### Key stakeholders

- Government
- Industry associations and NPOs
- Our communities

### 2016 highlights

- We continue to engage with government on issues of transformation and legislation
- We continue to support projects and initiatives that aim to address alcohol abuse and promote safety, health and wellness

## Our internal policy and approach to promoting responsible drinking

Leading practice starts at Distell, where many of our employees are exposed to alcohol within the workplace during the production of wine, spirits and ready-to-drink (RTD) beverages. To minimise the impact of this, we have a strict company-wide alcohol policy, enforced by management, and we supplement employee education and training programmes with practical interventions to ensure responsible employee behaviour.

In addition to our alcohol policy, Distell promotes responsible drinking through our marketing and advertising activities that subscribe to the ARA's stringent codes of conduct. We also actively participate in industry bodies focused on preventing alcohol abuse and promoting responsible drinking.

## Engagement with government

Alcohol abuse and underage drinking among South Africa's youth is a significant problem. At Distell, we agree that alcohol-related harm must be reduced and prevented, and we endeavour to address issues of irresponsible drinking, thereby supporting the communities we serve. Distell therefore ensures ongoing engagement with government to uphold national alignment on key priority measures and regulations aimed at reducing the impact of alcohol abuse. These government regulations include:

## Health warning labels

In September 2014, the Department of Health (DOH) published draft regulations under the Foodstuffs, Disinfectants and Cosmetics Act No. 54 of 1972 that proposed a significant increase in the size of Health Warning labelling for alcoholic beverages, from one eighth (1/8) of the back label, to one eighth (1/8) of the overall container.

It was contended by the industry that this increase would be disproportionately large when compared with current branding labels. As such, Distell, through SALBA, made an official counter-proposal to the DOH in December 2014 that recommended adjusted Health Warning labels and a 20%-45% increase in size.

Distell believes that a 20% adjustment will have a positive impact on promoting responsible drinking by drawing increased attention to health warning labels.

## The National Liquor Policy



To curb the economic and social impact of alcohol abuse, government has proposed various measures to limit the availability of and access to alcohol in terms of the draft [National Liquor Policy](#). This policy document proposes a number of changes to the regulation of alcohol in South Africa, including:

- Restricting alcohol advertising
- Forbidding issuing of trading licences for outlets within a 500 metre radius of schools, churches and other public institutions
- Extending liability to suppliers for branded products found in illegal outlets
- Extending liability to an outlets for alcohol related damages caused by patrons
- Enforcing B-BBEE requirements for manufacturing, distribution and trading licences
- Raising the legal drinking age from 18 to 21 years
- Introducing more restrictive trading hours and days, as well as distribution hours

Through SALBA, Distell has made submissions on each of the above policy proposals. The Department of Trade and Industry (dti) is currently revising the policy document, and further industry engagement to inform any possible changes to the current Liquor Act No. 59 of 2003 (the Liquor Act) is expected over the next year.



In addition to addressing health and safety issues associated with alcohol abuse, the draft National Liquor Policy also aims to offer sound guidance on managing economic opportunities in – and the transformation of – the liquor industry. The key aspects of this policy which must be addressed by Distell are outlined below:

| Key aspects                                                     | Our response                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-----------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Transformation of South Africa's alcoholic beverages industry   | <p>We have developed a comprehensive, integrated transformation strategy to help us achieve our own transformation aspirations, as well as those of government.</p> <p> <a href="#">Read more about our approach to transformation from page 35</a></p>                                                                                                                                |
| Alcohol abuse and alcohol-related harm                          | <p>We actively participate in programmes, projects and initiatives focused on raising awareness in communities and which provide treatment and counselling to those affected by alcohol abuse. This is supported by our involvement with recognised NPOs, and industry bodies such as the ARA.</p> <p> <a href="#">Read more about how we sustain our communities from page 21</a></p> |
| Promoting responsible drinking                                  | <p>We have identified four key issues under the sustainable management of responsible drinking – these are discussed later in this chapter.</p>                                                                                                                                                                                                                                                                                                                           |
| Trading regulations (trading days and hours in regulated zones) | <p>We continue to actively engage with government on proposed legislation which gives strong consideration to issues of accessibility, availability, marketing and price. Through this ongoing collaboration, we believe that it is possible to find appropriate solutions to address alcohol abuse and its related challenges, without prejudicing the alcoholic beverages industry.</p>                                                                                 |



## Industry Association for Responsible Alcohol Use (ARA)

ARA was established in 1989 and is a registered non-profit organisation focused on preventing the negative consequences of alcohol abuse. ARA has over 200 members, including the majority of South Africa's alcohol beverage manufacturers and brand owners, as well as a number of distributors and retailers.

The organisation creates awareness through a variety of projects and campaigns that target high-risk and vulnerable youth and adults. Distell works actively with ARA – with many of our social investment projects linked to ARA initiatives. Our chief executive officer of Distell Southern Africa also serves as chairman of ARA's board, thereby ensuring ongoing engagement with the organisation.

As a member of ARA, Distell further subscribes to the ARA Code of Commercial Communication and Conduct, which champions the responsible marketing of alcoholic products.

This code is available [online](#). Any suspected failure to comply with this code can be reported to the ARA toll-free complaints line on 0860 272 237.

## Reducing underage drinking

At Distell, we recognise that underage drinking is a serious challenge. We also believe that it can be addressed through collaboration between retailers, government, law enforcement agencies, parents, educators and community leaders.

We work closely with ARA to address alcohol abuse among the youth – with a special focus on the importance of parents and guardians as role models to teenagers. To support this, ARA has produced educational books on youth and alcohol, and has also contracted *Life Talk*, a NGO, to educate parents, schools and community groups about the harmful effects of underage drinking.

We also encourage stronger enforcement of the ARA's Code of Commercial Communication and Conduct, which has been strengthened over the past year to further minimise the unintended effects of advertising, including exposure to those under the age of eighteen. As an ARA member, we comply fully with and promote this code along our distribution channels, and Distell advertising and marketing material is tested and approved in line with the provisions of the ARA code.

In addition, we support a variety of life skills and youth development programmes through the Distell Foundation. These projects aim to address underage drinking by redirecting the youth's energy, building their resilience and empowering them to make healthy lifestyle choices.

 Read more about these projects from page 22

We will continue to work with government, ARA and NGOs to develop, promote and disseminate educational materials and programmes designed to prevent underage alcohol purchases and reduce underage consumption.

## Preventing fetal alcohol spectrum disorder

Fetal alcohol spectrum disorder (FASD) is the most common preventable form of mental disability in the world, which causes intellectual, emotional and physiological disabilities in children whose mothers use – without necessarily abusing – alcohol during pregnancy. The most severe manifestation of FASD is fetal alcohol syndrome (FAS), which is estimated to affect at least three million people in South Africa, one of the highest prevalence rates in the world. Given that children born with FAS are afflicted with permanent and life-long mental and physical challenges, the high prevalence of this condition in South Africa undoubtedly contributes to many of the social ills faced by communities, including unemployment, crime and violence.

As a member of ARA, we acknowledge our responsibility towards reducing these numbers. In response, Distell invests in a number of programmes dedicated to raising awareness among and supporting pregnant women throughout the duration of their pregnancies. We also urge our sales and distribution network not to sell alcohol to visibly pregnant women.

 Read more about our programmes aimed at preventing FASD from page 22

## Controlling the sale and marketing of alcoholic beverages

Our current marketing strategy is aligned with ARA's Code of Commercial Communication and Conduct, and we only support licensed outlets operating within the confines of national and provincial legislation. In addition to this, our marketing channels and materials are tailored towards specific target markets, which exclude the youth and communities at high risk. In the year under review, no complaints related to Distell or our brands were registered with ARA.

## Reducing drinking and driving

According to the World Health Organisation's 2015 Global Status report on Road Safety (covering 180 countries across the globe), South Africa has the highest rate of alcohol-related road deaths, with as many as 58% of deaths being attributed to alcohol consumption. As such, government has proposed a reduction in the blood alcohol concentration (BAC) limit for drivers from 0,05 to 0,02 grams of alcohol per 100 millilitres – with novice drivers being reduced to zero. This proposal has not yet been tabled before Parliament, and we await further developments on this matter.

At Distell, we firmly maintain that individuals should not drive while under the influence of alcohol. We support effective enforcement of existing laws to improve road safety, and encourage mandatory participation in drinking and driving awareness programmes in order to obtain a national driving licence.

As a member of ARA, Distell continues to implement drinking and driving awareness campaigns. We also communicate the dangers associated with both alcohol abuse and drinking and driving through the health warnings incorporated into our product labels, and in our advertising and marketing material. Staff members in our distribution chain are also trained to discourage patrons from excessive consumption and driving while intoxicated.

### Future focus

We will continue to actively engage with government on proposed legislation which gives strong consideration to issues of accessibility, availability, marketing and price. Through this ongoing collaboration, we believe that it is possible to find appropriate solutions to address alcohol abuse and its related challenges, without prejudicing the alcoholic beverages industry. To further promote responsible drinking and reduce alcohol-related harm, we will continue to support projects and initiatives that address alcohol abuse and promote safety, health and wellness.

# HIGH EXCISE DUTY AND ILLICIT TRADE

## Why this matters

Excise duties are imposed on products such as alcoholic beverages to compensate for possible externalities attributable to such products. While appropriate excise taxes are intended to reduce the social, economic and health concerns of alcohol abuse, upward adjustments have a direct impact on Distell's pricing of alcoholic beverages, as well as on consumer affordability. Rising excise duties further exacerbate the trend of illicit trade in alcoholic beverages, including counterfeit products, which remains a key business challenge.

| Key focus areas                                                                               | Key stakeholders                                                                                                             | 2016 highlights                                                                                                                                                                                                                                                                                                                                            |
|-----------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>• High excise duty</li> <li>• Illicit trade</li> </ul> | <ul style="list-style-type: none"> <li>• Government (National Treasury)</li> <li>• NGOs and industry associations</li> </ul> | <ul style="list-style-type: none"> <li>• Resolution of ongoing litigation with the South African Revenue Service (SARS)</li> <li>• Collaboration with industry associations and ongoing engagement with government on excise duty resulted in tax concessions on brandy and sparkling wine. This yielded a limited tax benefit for the industry</li> </ul> |

## High excise duty

Distell actively works to provide constructive input on the issue of excise duty. We lead SALBA's excise committee, which collates volume and aggregated retail price data and makes formal submissions to the National Treasury to inform annual excise tax adjustments. The committee is currently working on a proposal to adjust the base measurement for excise duty from a percentage of the retail selling price (RSP) to a percentage of the wholesale price per litre. The intention is to bring greater transparency in the determination of the average RSP to inform annual excise tax increases per alcohol category – as outlined in the table below. The committee further makes recommendations and submissions to government (as agreed to on an industry level) on broad alcohol tax policy matters.

| Alcohol excise duties (cents/litre)  | 2016<br>(cents) | 2015<br>(cents) | % change |
|--------------------------------------|-----------------|-----------------|----------|
| Spirits                              | 16147,00        | 14923,00        | 8,2%     |
| Unfortified wine                     | 331,00          | 307,00          | 8,0%     |
| Fortified wine                       | 582,00          | 546,00          | 6,7%     |
| Sparkling wine                       | 1053,00         | 975,00          | 8,0%     |
| Ciders and alcoholic fruit beverages | 7926,00         | 7305,00         | 8,5%     |
| Beer                                 | 7926,00         | 7305,00         | 8,5%     |

In March 2016, an outcome was reached in the group's ongoing litigation with SARS regarding the re-classification of Amarula Cream from a wine-based to spirit-based aperitif. This re-classification was finalised in favour of SARS, thereby re-positioning Amarula Cream as a spirit-based aperitif, and necessitating the group's payment of outstanding excise duties to SARS. Distell has since complied with this ruling.

The South African brandy industry has been severely impacted by annual increases in excise duties on spirits, with sales volumes continuing to decline. The Department of Agricultural Economics at the University of Stellenbosch estimate that the decline of brandy in South Africa over the past eight years ending 2014 has resulted in a loss of R1,56 billion in economic value add to the South African economy and a loss of over 7 500 job opportunities. This has a significant impact on the local wine industry, as it takes an average of five litres of wine to produce a single litre of brandy.

To address the economic impact of this decline and due to brandy's higher input and production costs relative to other spirits, Distell works through the South African Brandy Foundation to lobby for a favourable tax regime. In February 2016, specific tax concessions on brandy and sparkling wine were announced during the National Budget Speech, yielding a limited tax benefit for the industry.

## Illicit trade

Globally, illicit trade in alcoholic beverages, including trade in counterfeit products, remains a key business challenge. Illicit trade in alcoholic beverages results in foregone revenue (for Distell and for government), as well as reduced market share for legal products. In addition, illicit trade poses serious health risks as producers seldom adhere to manufacturing regulations intended to ensure products are safe for human consumption.

To manage and mitigate the strategic risks associated with illicit trade, we collaborate with local government authorities and industry bodies to quantify illicit trade for monitoring purposes and to assist in the effective enforcement of local legislation. We also continue to drive the application of tamper-proof packaging to restrict counterfeiting.

### Future focus

We will continue to advocate for government and law enforcement agencies to prioritise illicit trade as a criminal activity that poses a risk to human health and the economy. We are pleased that government has flagged this as an area of concern, and we will monitor and support further research that seeks to quantify the size of the illicit market in SA with the aim of advocating for appropriate policy intervention.



# SUSTAINING OUR COMMUNITIES

## Why this matters

Strong and healthy communities offer a measure of protection from and prevention of abusive practices, including alcohol abuse. We therefore strive to further socio-economic development and make meaningful contributions to the communities in which we operate by supporting community welfare through our corporate social investment initiatives. Education, life- and technical skills, job creation, entrepreneurship and environmental awareness are the outcomes we pursue in implementing our holistic development strategy.

| Key focus areas                                                                                                                                                                                           | Key stakeholders                                                                                                                                                                                                                                         | 2016 highlights                                                                                                                                                                                                                                                                                                                                                                       |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>• Our investment strategy</li> <li>• Alcohol-abuse-related harm reduction</li> <li>• Youth and entrepreneurship development</li> <li>• Arts and Culture</li> </ul> | <ul style="list-style-type: none"> <li>• Our communities</li> <li>• NGOs and NPOs, including education, arts and culture, and research institutions</li> <li>• Government</li> <li>• Our employees</li> <li>• Industry bodies (including ARA)</li> </ul> | <ul style="list-style-type: none"> <li>• The Distell Foundation has re-directed its socio-economic investment strategy to be better aligned with the 2014 National Liquor Policy and Distell's transformation goals</li> <li>• The Distell Development Trust has begun operating. Its initial focus is on enterprise development and innovation in community interventions</li> </ul> |

This year we spent R17,28 million (2015: R16,67 million) on our CSI initiatives



## Our investment strategy

In 2015, we redirected our investment strategy to be better aligned with the 2014 National Liquor Policy. This policy highlights government's concerns around alcohol abuse and its related harm, as well as the unsatisfactory progress made in transforming South Africa's alcoholic beverages industry.

[Read more about the National Liquor Policy from page 15](#)

The Distell Foundation's investment strategy therefore outlined certain strategic objectives that would enable us to better support the ambitions of government and the National Liquor Policy. Our progress made towards achieving these objectives is outlined below:



- 1 We must broaden the scope of projects linked to the prevention of FASD.  
**Achieved** We are currently collaborating with the Eastern Cape Liquor Board and Rhodes University to duplicate the FASfacts project in the Mdantsane area in East London.  
📖 Read more from page 22
- 2 Initiatives must align with our B-BBEE requirements for socio-economic development and transformation.  
**Achieved** In support of the National Liquor Policy and of our integrated transformation strategy, we have scaled down and chosen initiatives that support this requirement.
- 3 Focus areas and initiatives must align with the proposed National Liquor Policy and address government's concerns around transformation, alcohol abuse, responsible drinking and trading.  
**Achieved** We have refocused our projects from 66 in 2015, to approximately 21 as from July 2016. In this chapter, we have highlighted our key social initiatives that support the implementation of this strategic objective.
- 4 Assess the impact of our flagship initiatives in terms of SROI  
**In progress** We have completed SROI assessments on two of our initiatives. We have also started training five of our flagship projects through a SROI Capacity Building Course. The training is software-based and is led by a specialist using Theory of Change Methodology.
- 5 We must build youth resilience through life skills, enabling healthy choices, job creation and entrepreneurship.  
**In progress** We have a number of flagship initiatives dedicated to achieving this ongoing strategic objective.  
📖 Read more from page 23
- 6 Arts and culture to be integrated into our three main focus areas, namely alcohol harm reduction, youth and entrepreneurship development.  
**Achieved** Creative arts therapy and our work with Magnet Theatre, the Zabalaza Festival and Artscape Outreach supports this strategic objective.  
📖 Read more from page 24

## Alcohol-abuse-related harm reduction

### Fetal alcohol spectrum disorder (FASD)

In response to the significant challenge of FASD (and FAS, in particular), and to help raise awareness around the consequences of drinking while pregnant, Distell partnered with FASfacts in 2008, and with the Foundation for Alcohol Related Research (FARR) in 2012.

#### FASfacts

FASfacts is a NPO that focuses particularly on high-risk, rural communities, and provides support and counselling to mothers through initiatives such as the Pregnant Women Mentoring Programme (PWMP).

PWMP is managed by a social worker, who worked with 39 mentors to reach 131 pregnant women in the year under review. These mentors recruit pregnant women through consultations with communities and family members. Those who agree to participate in the programme sign a contract and pledge not to drink during pregnancy. They are then equipped with information and supported through close monitoring and family counselling. Expectant fathers are also included in the PWMP programme, thereby encouraging both parents to take responsibility for their unborn child. Of the 131 women who participated, 87 used alcohol as a primary substance. Of these 87 women, 57 (65,2%) stopped drinking as a result of the observation and mentorship provided through the PWMP programme.

Owing to the success of this FASfacts project, and to support our goal of broadening the scope of projects related to FASD, we are currently collaborating with the Eastern Cape Liquor Board and Rhodes University to duplicate PWMP in the Mdantsane area in East London.

### The Foundation for Alcohol Related Research (FARR)

FARR is one the leading organisations driving research on FASD and implements nationally acclaimed research, prevention, support and management projects across South Africa.

#### Intervention and prevention

FARR's 'Healthy Mother, Healthy Baby' intervention programme (HMHBB) is one of the key wellness initiatives driven by this organisation. It targets all pregnant women (regardless of whether or not they use alcohol), and teaches them how to take care of their own health while protecting that of their unborn child.

In 2002, FARR completed a FASD prevalence study in Uptington and found that 6,9% of children were suffering from FASD. In certain residential areas, this rate was as high as 12,2% among grade one learners. At the time of the study, however, FARR lacked the funding to implement awareness, prevention and training programmes. In the year under review, the Distell Foundation co-funded a three-year HMHB programme with the aim of reaching 100 pregnant women.

In an agreement between FARR and the Department of Social Development, the intervention was focused on Pabellelo (9 HMBH clients admitted), Rosedale (12 HMHB clients admitted) and Louisvale Road (16 HMHB clients admitted) in Uptington.

## Continuous training

The FARR Training Academy, which was established in 2008, aims to educate all South Africans on the dangers of substance abuse, with a specific focus on alcohol abuse, by targeting health professionals, social workers, community leaders and educators, and providing them with the knowledge and tools to spread awareness around prevention. With the support of the Distell Foundation, FARR will be able to train 21 professionals in the first year of the Uptington project.

## Youth and entrepreneurship development

The Distell Foundation invests in youth and entrepreneurship development and supports life-skills training for high-risk youth through its partnership with The Chrysalis Academy and The Goedgedacht Trust.

### The Chrysalis Academy

The Chrysalis Academy is based in Tokai in the Western Cape. The Academy teaches life skills to marginalised young men and women who have been exposed to substance abuse and family, gang or community violence, with the aim of placing graduates of the Academy in jobs. Those students who have not completed their schooling are also encouraged to do so.

Away from the influence of family or friends, students live on campus and are enrolled in a three-month developmental programme. Over the course of the programme, the students receive psycho-social support to equip them to make better and more informed decisions when they return to their regular lives. Distell contributes to this programme, and our funding is specifically directed towards life skills training.

While the Distell Foundation is a major contributor, the Academy is also funded by the Western Cape Provincial Department of Community Safety with various other Western Cape provincial departments and the private sector providing donations and support.

### The Goedgedacht Trust

The Goedgedacht Trust's 'Path out of Poverty' programme (POP) equips rural children and youth to break the long-entrenched cycle of generational poverty by supporting early intervention through life-skills training and improved decision-making. The programme emphasises the importance of education, health care, personal development and environmental awareness. Projects are run during the school term, on weekends and during the school holidays, and as far as possible, POP centres are staffed by young people from their local communities. This approach develops young men and women with integrity who are passionate about making a contribution in their own environment.

We have been involved with POP and The Goedgedacht Trust for five years with positive results.

In 1998, virtually all farm children from the Riebeek River Valley dropped out of school before the fifth academic year. Now all POP members go to high school, with many completing matric or at least reaching grade ten. Many have gone on to get jobs. A decline in teenage pregnancy has also been detected. We believe these results demonstrate that our involvement with and support of The Goedgedacht Trust and POP is encouraging social cohesion and promoting stability within the communities in which we invest.

### University of Stellenbosch Business School: Small Business Academy

The Distell Foundation is one of two principal funders of the University of Stellenbosch Business School's (USB) Small Business Academy (SBA). Established in 2012, the SBA contributes to the strength of local economies by building local business skills and supporting a culture of entrepreneurship with the goal of stimulating job creation and economic growth. This is achieved through the SBA's Development Programme – a nine-month course available to eligible business owners<sup>1</sup> from Khayelitsha, Mitchells Plain, Strandfontein, Langa, Phillippi, Gugulethu and Du Noon.

Participants are required to complete assignments as well as attend 28 class days at USB Business School. During the nine-month period they receive one-on-one mentorship from graduates of the USB and are trained in business essentials including computer literacy, administration, financial management, marketing and networking. Participants are also invited to attend regular workshops that provide them with access to resources and facilities. At the end of the course, students submit and present a business plan to a panel of USB representatives. Graduates are awarded a NQF level five certificate from the SBA.

To date, 51 graduates have completed the programme. Going forward, we aim to replicate the SBA Development Programme throughout South Africa and ultimately across Africa.

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<sup>1</sup> The programme is open to small and micro business owners who have been in operation for at least two years, employ a maximum of 15 people, have a minimum of Grade 12 certification, and who are 25 years or older.

## Arts and culture

At Distell we believe that arts and cultural development plays an important role in mindful and responsible living, often acting as a catalyst for individual, social and environmental transformation. Our arts and culture initiatives aim to create awareness around our main focus areas – FASD, and youth and entrepreneurship development.

### Creative arts therapy

Our creative-arts-therapy programmes target communities in which children and youth face circumstances of alcohol abuse, violence and poverty. As children and young adults often struggle to express themselves fully, therapy interventions provide a safe and focused environment where professional art therapists guide participants to explore and express issues constructively.

During the year under review, the Distell Foundation facilitated drama therapy and applied theatre sessions with vulnerable groups at, among others, Lynedoch Primary School and The Goedgedacht Trust's POP.

### Zabalaza

Zabalaza is a Baxter Theatre Centre Development Programme that develops theatre practitioners in townships and impoverished communities in and around the Western Cape and across the country. In 2011, Zabalaza aligned its passion for theatre with the need to create opportunities for creativity, learning, education, employment and skills development in the performing arts industry. Having reached more than 150 000 young people, Zabalaza is one of the most successful community theatre programmes in South Africa and continues to draw growing interest from across the country as well as the continent.

The Distell Foundation provides financial assistance to Zabalaza, aiding the programme in its support of young people. We further believe this assistance enables the programme to continue providing young people with opportunities to realise their creativity in an economically viable way.



### Magnet Theatre

The Distell Foundation has been a partner to Magnet Theatre since 2006, and supports the Theatre because of its commitment to youth development, job creation and entrepreneurship.

Magnet Theatre provides a full-time, theatre training and job creation programme geared specifically toward township youth, and forms a bridge between townships, tertiary education institutions and the professional theatre industry. The programme offers English literacy skills and academic development, as well as access to the theatre industry through mainstream and community performance.

To date, Magnet Theatre has facilitated first-time university access for 23 of its attendees. Of the graduates and participants in the programme (from 2008 until the end of 2015), 71% are regularly employed in the creative and theatre industry.

Magnet Theatre's Community Arts Development projects also provide opportunity for capacity building and skills transfer. Currently, the Culture Gangs project works with almost 200 young people from Philippi, Langa, Khayelitsha, Manenberg, Vrygrond and Retreat. The Community Arts Development Cederberg Municipality works with over 1 000 youth from rural communities in the area.

### Future focus

Going forward, we intend to scale up existing projects in our main focus areas, directed at alcohol-abuse-related harm reduction and, more specifically, the prevention or reduction of FASD.

# OUR PEOPLE

## Why this matters

Talent is a critical driver of business performance, and our ability to attract, develop, deploy and retain talent will be a major competitive advantage far into the future. This means fostering a positive and safe working environment with opportunities for career development, as well as building a diverse and sustainable talent pipeline, which is reflective of global, regional and local business realities.

### Key focus areas

- Employee engagement
- Learning and development
- Talent management and succession planning
- Employee relations and fair employment practices
- Employee safety, health and wellness

### Key stakeholders

- Employees
- Learning and development service providers
- Wellness service providers
- Recruitment agencies
- Employee and union representatives

### 2016 highlights

- Our first comprehensive employee engagement survey
- The implementation of the Accelerated Development Programme
- The launch of our talent management system, SuccessFactors

### Breakdown of employees

|                                       | Male         |              |           |            | Female     |            |           |            | Total        |
|---------------------------------------|--------------|--------------|-----------|------------|------------|------------|-----------|------------|--------------|
|                                       | African      | Coloured     | Indian    | White      | African    | Coloured   | Indian    | White      |              |
| Top management                        | 1            | 5            |           | 38         |            |            |           | 13         | 57           |
| Senior management                     | 4            | 9            | 4         | 61         |            | 2          |           | 20         | 100          |
| Professionally qualified <sup>1</sup> | 35           | 42           | 8         | 175        | 12         | 22         | 3         | 125        | 422          |
| Technically skilled <sup>2</sup>      | 247          | 241          | 21        | 319        | 98         | 158        | 19        | 263        | 1 366        |
| Semi-skilled <sup>3</sup>             | 686          | 607          | 13        | 41         | 146        | 185        | 10        | 90         | 1 778        |
| Unskilled <sup>4</sup>                | 341          | 253          | 5         | 9          | 88         | 158        |           |            | 854          |
| <b>Total permanent</b>                | <b>1 314</b> | <b>1 157</b> | <b>51</b> | <b>643</b> | <b>344</b> | <b>525</b> | <b>32</b> | <b>511</b> | <b>4 577</b> |
| <b>Temporary employees</b>            | <b>72</b>    | <b>22</b>    | <b>2</b>  | <b>22</b>  | <b>79</b>  | <b>27</b>  | <b>2</b>  | <b>43</b>  | <b>270</b>   |
| <b>Offshore</b>                       |              |              |           |            |            |            |           |            | <b>629</b>   |
| <b>Grand total</b>                    | <b>1 386</b> | <b>1 179</b> | <b>53</b> | <b>665</b> | <b>423</b> | <b>552</b> | <b>34</b> | <b>554</b> | <b>5 476</b> |

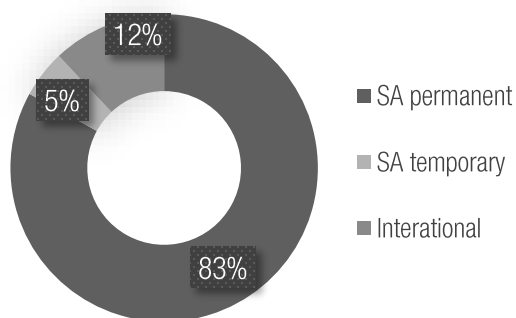
<sup>1</sup> Professionally qualified and experienced specialists and mid-management

<sup>2</sup> Skilled technical and academically qualified workers, junior management, supervisors, foreman and superintendents

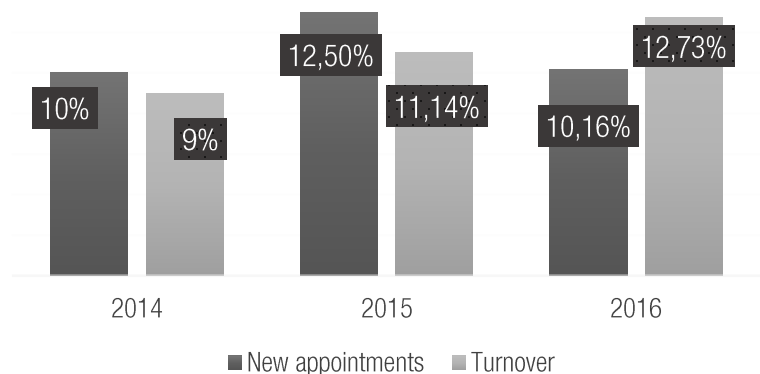
<sup>3</sup> Semi-skilled and discretionary decision-making

<sup>4</sup> Unskilled and defined decision-making

### Distell employees



### New appointments and turnovers



## Employee engagement

Employee engagement is the extent to which employees feel passionate about their jobs, are committed to Distell, and put discretionary effort into their work. With our revised corporate strategy and refreshed values, the aim of achieving our future aspirations requires the participation and commitment of all Distell employees. Fostering a culture of employee engagement therefore remains a key strategic imperative for the Group.

 Read more about our revised values from page 5

 Read more about our revised corporate strategy in our 2016 integrated report

To help us achieve these aspirations, we engaged with regional and global employees on the new Distell values and our refreshed corporate strategy. This included conducting Distell's first comprehensive employee-engagement survey in November 2015. Through this and other engagement initiatives, we have identified key engagement themes and created an engagement framework with clear objectives that shape our employee-engagement strategy, and which will transform Distell into a high-performance organisation. This is a continuous journey and, with the cooperation of all employees, the executive leadership team is committed to building an organisation that is flexible and responsive to change.

## Shaping the future of Distell

We conducted our first comprehensive employee engagement survey in November 2015 and received valuable feedback from our employees.

**92%** of employees said they worked with friendly and supportive colleagues – this is an important part of Distell's commitment to collaboration

**89%** of employees commented that they feel they work in an exciting industry – this is crucial in developing a committed and engaged workforce

**66%** of employees said that the business should provide opportunities to fast-track high performers

**53%** of employees felt that more attention could be paid to recognising and rewarding excellent employee performance

**88%** of employees are aware of and support Distell's new values – this is critical in guiding and informing the way we work and succeed

**88%** of employees said they are confident in Distell's growth prospects

**71%** asked that Distell provide them with more career guidance

We are committed to addressing this feedback proactively through a range of talent management, skills training and development programmes dedicated to identifying, developing and fast-tracking talent across our organisation.

 Read more about talent management from page 29

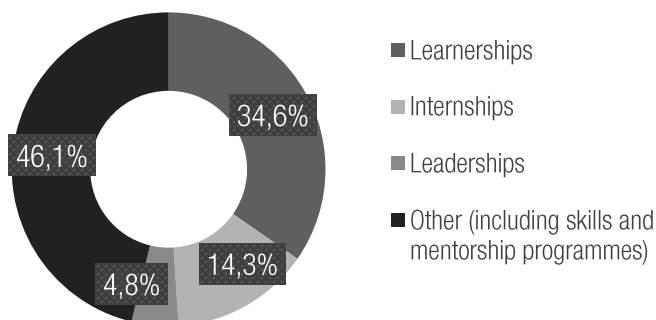
To prove our commitment to shaping the future of Distell, we successfully launched a follow-up, employee engagement 'pulse-check' in June 2016 to gauge the progress made since launching the first survey in November 2015. This ongoing monitoring of employee feedback will enable us to stay abreast of any new challenges and opportunities and ensure that they are proactively managed. Moving forward, we aim to revitalise our communication approach through the re-introduction of our 'change agent' network and focus groups, both of which are key enablers of engagement and crucial in measuring success.



## Learning and development

We are committed to growing Distell's future leaders and we invest in training programmes, including internships, learnerships, skills programmes, apprenticeships and adult basic education.

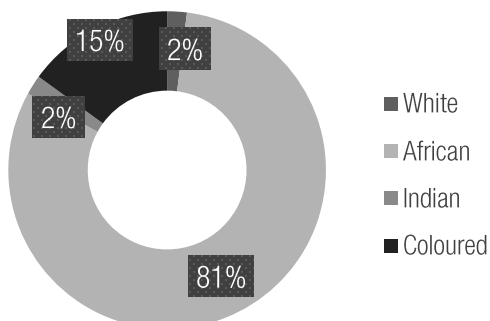
**This year we spent R26,4 million  
(2015: R24,5 million) on training  
initiatives**



### Internships

We recruit recent graduates or students in their final year of study to participate in 12-month, workplace experience programmes in marketing, logistics, human resources, cellars, IT, finance, distribution, production and quality control. In line with our integrated transformation strategy, 100% of our interns are PDIs.

#### Interns by race

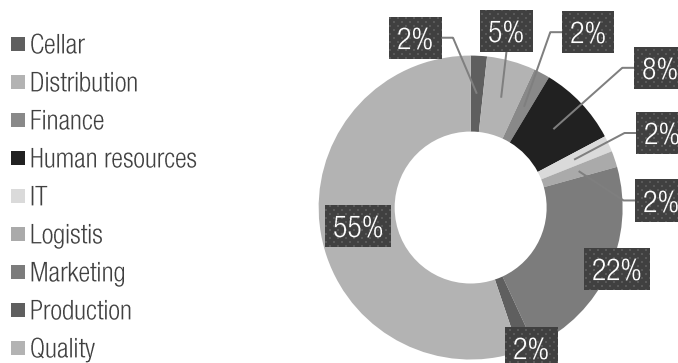


### Learnerships

Learnerships are structured learning processes that give learners the opportunity to obtain National Qualifications Framework certification (NQF). Learners gain theoretical knowledge by attending classes at a college or training centre, and gain practical experience through on-the-job training at our facilities.

This year, a total of 249 (2015: 84) people participated in learnerships, of which 60% (2015: 64%) were unemployed learners. In line with our integrated transformation strategy, 97% of our learners are previously disadvantaged individuals (PDI).

#### Interns by functional area



### Leaderships

Our leadership-development programmes are fundamental to growing our talent pipeline, and are designed to provide theoretical and practical training to high-potential employees. Previously, Distell offered middle management and senior leadership development programmes. However, in May 2016, these programmes were replaced with our custom-designed, flagship Accelerated Development Programme.

### Accelerated Development Programme

This two-year flagship programme supports our ambition to fast-track and accelerate the development of high-potential employees. Candidates are identified across all functional areas of our business and then equipped with general management skills and commercial acumen for deployment in general management roles. As part of the 24-month programme, candidates are provided with coaching and mentoring, as well as networking opportunities. They also receive tailored, individual plans to support their leadership development – boosted by continuous tracking and monitoring after they graduate. Since implementation of the programme in May 2016, nine candidates have been selected for participation in our Accelerated Development Programme.

## Other training initiatives

This year we spent R12,19 million (2015: R13,6 million) on a wide range of other training initiatives at regional and operational levels – this is over and above our investment in learnerships, internships and leadership development programmes.

### Skills programmes

In addition to our learnership programmes, we offer six NQF-accredited technical-skills programmes to our employees. These programmes form the foundation for a full learnership qualification and, on completion, employees obtain a formal qualification with Distell benefiting from improved skills efficiency and knowledge of equipment care.

In 2016, significant focus was placed on our technical staff within the manufacturing environment. In 2017, we will continue to focus on our technical staff, but within the supply chain division.

| Skills programmes 2016            | NQF level | Total number of employees |           |
|-----------------------------------|-----------|---------------------------|-----------|
|                                   |           | 2016                      | 2015      |
| Basic machine operations          | 3         | 12                        | 11        |
| Beverage filling and closing      | 3         | 35                        | 24        |
| Labelling and coding              | 3         | 31                        | 20        |
| Operating a fill-and-seal machine | 3         | 10                        | 10        |
| Packing and unpacking             | 3         | 30                        | 19        |
| Managing others                   | 5         | 45                        | 14        |
| <b>Total</b>                      |           | <b>163</b>                | <b>98</b> |

### Mentorship programme

A formal mentorship programme was implemented in June 2014 to support Distell's commitment to career development. Fifteen protégés, mentors and line managers were successfully trained during phase one of this programme, with 67% of protégés being PDIs. Following completion of the mentorship programme, participants were encouraged to provide feedback and share their experiences with the management team to ensure year-on-year improvement of the programme moving forward.

Of the 15 participants, two were promoted and three moved laterally to better-suited positions in the business.

Phase two will be implemented from August 2016 and the participants will be drawn from high-potential, PDIs in line with our integrated transformation strategy. The participants will include delegates from our Accelerated Development Programme, as well as several high potential employees who have been identified and nominated through our talent management processes.

 Read more about Distell's talent management processes from page 29

### Distell's Functional Development Centre of Excellence

A Functional Development Centre of Excellence was established to provide Distell with enhanced focus and 'know-how' in the following areas of skills training and development:

- Mapping the strategic direction necessary to achieve functional development across the business
- Bolstering the visibility of budgets with the aim of monitoring learning and development spend across Distell to achieve alignment
- Ensuring compliance with local regulatory guidelines
- Ensuring that all training and learning initiatives are in line with our skills development plan
- Ensuring that Distell and our employees receive maximum benefit from skills development and training, particularly when completed in line with our B-BBEE transformation goals

## Talent management and succession planning

We identify, assess and develop talent for mission-critical roles through our established talent management processes to ensure continuity and effective organisational performance.

Failure to recruit, identify, develop and retain the necessary talent, skills and leadership will inhibit our ability to pursue current and future strategies. In addition, failure to establish talent pools that reflect the demographic diversity of the communities in which we operate will damage our reputation as a responsible corporate citizen that is dedicated to transformation.

As such, annual talent management review forums are held to review and assess our talent management strategy to ensure that it aligns with our business strategy. The talent reviews cover aspects such as human resource requirements for meeting future growth projections, leadership pipelines, career and succession planning, skills development and employment equity.

In addition, we continue to focus on:

- Strengthening our employment policies and practices, as well as reward systems, to ensure the right talent is identified, recruited, developed and retained.
- Acquiring and developing specialist leaders and talent to sustain strategy execution through our formal Talent Management program.
- Investing in critical skills for both existing and emerging businesses.
- Prioritising transformation to ensure that Distell has a diverse workforce reflecting the demographics of the countries in which we operate.

To help us drive the above focus areas, in September 2015 we embarked on a company-wide implementation of SuccessFactors – a fully integrated talent suite. SuccessFactors is a cloud-based, human capital management (HCM) solution designed to support Distell employees in their learning, and provide visible, trackable, aligned succession and talent processes.

### SuccessFactors – Distell's talent management system

In an ever-changing business environment, we discovered that it is critical to have a robust talent management strategy that is supported by easy-to-use technology. Distell is therefore embracing web-based, innovative solutions to manage our workforce in the most effective and efficient way possible.

#### About SuccessFactors

The fundamental drivers and benefits of this initiative include:

- Ensuring cost reduction in administrative and transactional functions
- Reducing paper usage and time-consuming manual processes through the integration of employee self-service (ESS) and manager self-service (MSS) functionality – this will automate key process such as electronic leave, pay slips and IRP5 documentation, and will further ensure compliance with our leave policy
- Entrenching performance management and pay-for-performance rigour by aligning corporate, team and individual goals. The implementation of SuccessFactors also ensures compliance with our employee performance management system (EPMS)
- Improving our recruitment function for internal and external applicants – our portals now have a refreshed 'look-and-feel', offering an easy-to-use process for applicants and an effective applicant tracking system for our recruiters
- Enhancing employees' interactions with human resources – for example, increasing the ease with which employees can complete performance assessments, or apply for new vacancies within the organisation
- Supporting and enhancing Distell's position as an employer of choice for top talent

#### Next steps

SuccessFactors will be deployed across the entire global footprint. The following modules will be deployed through SuccessFactors over the course of the next financial year to further support our employees:

- Succession and Career Development: this will automate Distell's business process in terms of succession planning and provide employees with guidance on how to map their career paths
- Learning Management System: this will enable e-learning across the organisation and provide a comprehensive, centralised learning and development platform across Distell

# Employee relations and fair employment practices

Distell is committed to sound employee relations and fair employment practices in line with relevant labour legislation, our Code of Conduct, conditions of employment, collective bargaining agreements and our corrective action code.

## Dispute resolution

Our corrective action code provides the framework for our workforce to operate in a principled and ethical environment. The code is available on our intranet and updates are communicated via our internal communication channels. This ensures that employees clearly understand the process for dealing with disputes, while simultaneously ensuring that these are managed in a manner that is procedurally fair.

Our line management and human resources practitioners are well trained in the application of the corrective action code. This year, 50 cases were referred to the Commission for Conciliation, Mediation and Arbitration (CCMA). Of these 50 cases, 38 were resolved in favour of Distell, nine remained unresolved, two cases are awaiting jurisdictional ruling, and one case was resolved in favour of the employee.

## Employee relations

We aim to manage employee relations constantly and consistently through our internal processes to achieve resolutions at the earliest stage possible, with minimal conflict. Line management is responsible for engaging directly with employees across the business to ensure satisfactory working conditions and mutually beneficial employer-employee relationships.

We also fully support our employees' right to freedom of association, and accordingly recognise the right of individuals to belong to the union of their choice or to refrain from union membership. To support open communication, managers meet regularly with union representatives at plant level.

In South Africa, 34,26% of Distell's permanent employee base is unionised, with several unions represented. We have formalised relationships with the Food and Allied Workers Union (FAWU), the National Union of Food, Beverages, Wine, Spirits and Allied Workers (NUFBWSAW), and the Agricultural Broadbase and Allied National Trade Union (ABANTU).


| Union*   | 2016   | 2015   |
|----------|--------|--------|
| FAWU     | 12,92% | 13,20% |
| NUFBWSAW | 12,45% | 11,70% |
| ABANTU   | 2,13%  | 2,21%  |
| Other    | 6,76%  | 5,97%  |
| Total    | 34,26% | 33,08% |

\* Only our South African-based operations, excluding LUSAN

## Fair employment practices

Employees who enjoy a positive working environment are more productive and more likely to pursue their careers with Distell. We therefore work hard to create an atmosphere conducive to innovative thinking and retaining valued skills.

Our Employee Value Proposition (EVP) is all-encompassing and comes into play from the way we attract new employees and continuously develop engage, reward and retain existing staff, to the maintenance of appealing working conditions. Improving and keeping our EVP relevant is an ongoing process, and we pay close attention to the needs of current and prospective employees through, for example, the launch of our first comprehensive employee engagement survey.

 Read more about our employee engagement survey from page 26

## Employee safety, health and wellness

The physical and psychological health of our employees has a direct impact on their productivity. It is therefore Distell's responsibility to provide a working environment that is safe and without risk to our employees' health.

A continued focus on safety, health and wellness in the work environment helps to establish preventative and educational leadership on health and safety related matters among our employees. Without a focused and well-maintained employee safety, health and wellness programme, Distell could face a loss of productivity and a rise in medical, social and disability claims, which would impact profitability and place undue strain and work-related pressures on our employees.

### Occupational health and safety

Established health and safety committees and first-aid workers are located throughout the business in accordance with Occupational Health and Safety Act (OHASA) provisions. To improve the occupational health and safety (OHS) of our employees at our production sites, we have also developed a comprehensive OHS strategy. This strategy places particular emphasis on documenting and monitoring health and safety risks through ongoing, bi-annual safety assessments.

Following these assessments, detailed recommendations and action plans based on the results of these assessments are discussed with management and our health and safety committees, and preventative measures aimed at improving safety awareness across our production sites are put in place thereafter. These preventative measures include providing OHS training to all employees, as well as promoting OHS through various education initiatives and offering health interventions to reduce the incidence of illness.

#### Number of injuries resulting in lost time

↓ **133** 2015: 149

Injuries resulting in lost-time decreased as a result of ongoing health and safety awareness training and on-site management

#### Number of lost days

↓ **1 492** 2015: 1 701

The decrease in lost days is the result of fewer severe accidents and shorter rehabilitation and recovery periods

#### Number of reported occupational diseases

↓ **4** 2015: 5

Occupational diseases relate to upper limb disorders due to repetitive actions on production lines

#### Number of work-related fatalities

**0** 2015: 0

As in previous years, no fatalities were reported

#### Number of on-site incidents

↓ **481** 2015: 524

The number of on-site incidents decreased as a result of enhanced risk management





## Wellness

We have established on-site clinics at our bottling cellars and manufacturing sites as well as at our larger distribution sites to provide occupational health (OH) services to our operational staff. These services range from regular occupational fitness assessments (as required by legislation), to helping staff manage their chronic illnesses.

In 2016, nursing staff carried out 28 447 consultations (2015: 30 124) with OHS as the main focus, but also addressed a variety of health-related issues. Supported by Distell's Peer Educators, voluntary counselling and testing for HIV/Aids was made available during the year. Annual physical examinations, as well as vision, hypertension and diabetes testing was done. In addition, tuberculosis (TB) testing is conducted for any employee displaying TB-related symptoms.

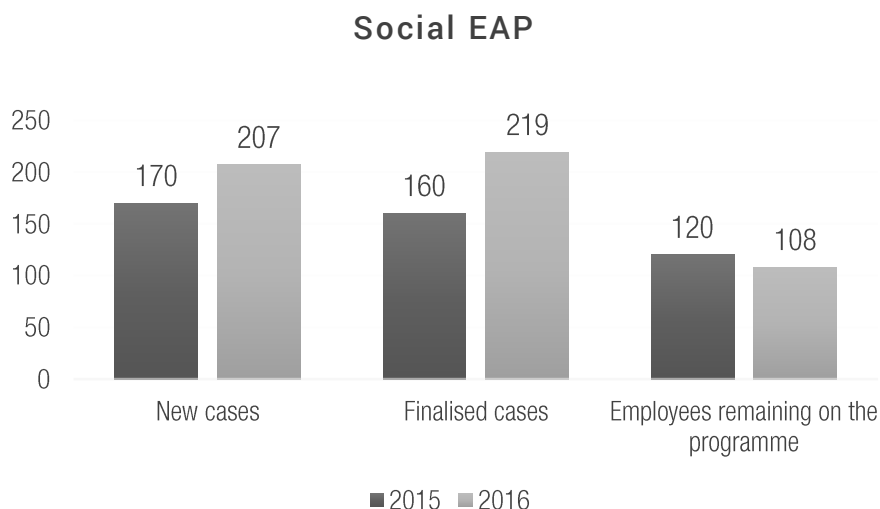
### Annual education and wellness sessions

As in previous years, we conducted our annual educational sessions that cover different wellness topics. In the year under review, our employees indicated that many of them had experienced some form of trauma. Accordingly, trauma was selected as the wellness topic for 2016. Fifty-eight sessions were held over the course of the year, during which social workers explained the various types of trauma and the effects it has on people, the workplace and society as a whole. Employees were also equipped with coping mechanisms that can be called upon if or when they are faced with a traumatic incident. 1 176 employees voluntarily attended this year's session.

### Distell's employee assistance programme (EAP)

We recognise that employees' personal issues can have a negative effect on their productivity at work. As a result, our EAP offers employees the opportunity to address these issues through OHS service providers such as facilitators, social workers and health sisters.

The EAP comprises a social programme, as well as a disease and disability management programme, Medical WAKE. The Social EAP is a counselling service available to any employee experiencing personal or work-related problems. A social worker or counsellor conducts on-site visits to meet employees in need. Medical WAKE is a unique telephonic EAP that aims to help affected employees return to work as quickly as possible.

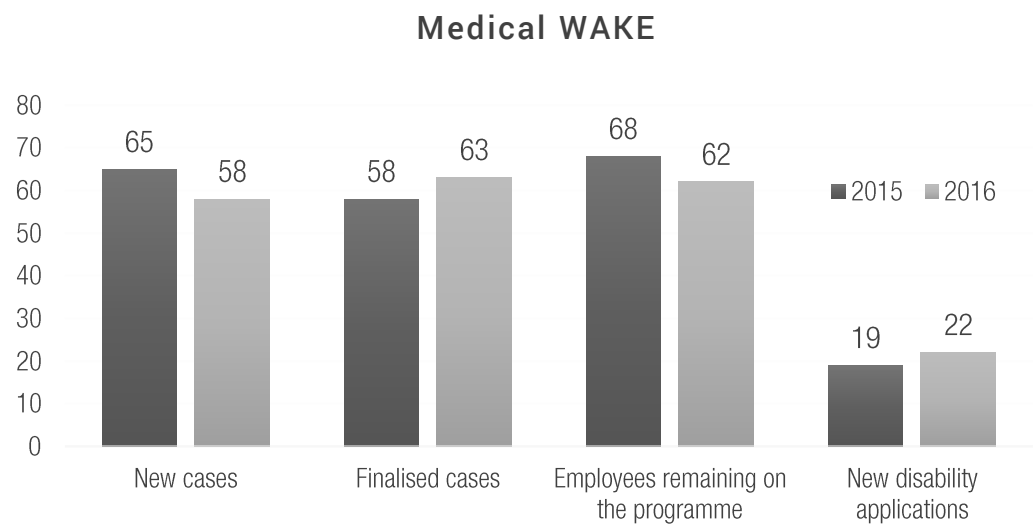


The increase in the number of new cases reflects the ongoing diagnosis of relationship problems and trauma incidents among employees.

By offering our employees more effective and efficient services, cases were finalised and closed sooner. Terms of substance abuse agreements also came to an end, which allowed cases to be closed during the year under review.

Distell experienced a slight decrease in the number of employees participating in the Social EAP programme in 2016. However, the total number of cases managed over the course of the year increased to 1 658 (2015: 1 277). The increase reflects higher awareness levels of our EAP among employees.

In 2016, there were fewer new cases than in the previous year. Disability applications, however, did increase. This is a good indication of the severity of the various cases registered with our Medical WAKE programme.



**Future focus**

We will continue to strongly encourage the career development of our employees in order to broaden their repertoire of skills, and support this process by providing bursaries for further tertiary education. In addition, we will continue to provide access to mentorship and coaching programmes that can be leveraged as career-enhancing strategies.



# ETHICS

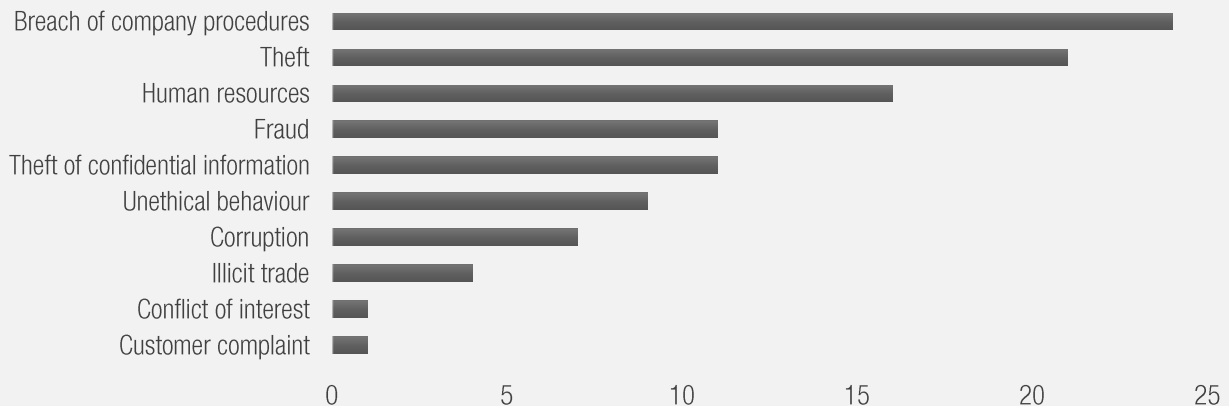
Distell encourages employees to uphold the company values, to conduct business ethically, and to act with integrity in accordance with applicable legislation. A number of policies exist to ensure that our values drive and inform our approach to dealing with fraud, corruption and unethical behaviour. This ensures that our values are put into practice and that the risks associated with non-compliance (internally, locally as well as nationally) are managed effectively. These include our Code of Conduct, our Anti-Fraud and Anti-Corruption Policy, our Gifts and Entertainment Policy and our Whistle Blowing Policy.

We encourage our employees, business partners, suppliers and customers to report suspected fraudulent, corrupt and unethical behaviour. The Distell Ethics Line is a confidential service managed independently by Tip-Offs Anonymous, a division of Deloitte. This service allows for reporting 24-hours per day, seven days per week, and reports can be made telephonically or via email. Our Whistle Blowing Policy reassures staff that they will be protected from reprisals or victimisation for raising a concern relating to an irregularity in good faith.

All reported incidents are investigated and, where allegations are confirmed, appropriate action is taken. In 2016, investigations into reported matters resulted in the dismissal of 20 full-time employees and five contracted employees, as well as other disciplinary action being taken against 35 employees.

A breakdown of the calls received during this financial year is shown below.

## Breakdown of reported matters 2016



## Breakdown of ethics line calls 2016



## Our 2017 focus

During 2017, Distell will continue to raise awareness of the Ethics Line and the importance of reporting fraudulent, corrupt and unethical behaviour through the introduction of online ethics as well as anti-bribery and anti-corruption training.

Distell has furthermore applied for authorisation from the French Data Protection Authority (CNIL) for the implementation of the Ethics Line at the Distell International office in France.

# TRANSFORMATION

## Why this matters

Our transformation journey is a key strategic imperative in being a responsible corporate citizen. It informs how we do business and aligns us with South Africa's national transformation goals. Our commitment to embracing diversity while striving to create a representative business is crucial in maintaining our reputation as a responsible corporate citizen that is dedicated to socio-economic growth within the key markets in which we operate.

### Key focus areas

- Our integrated transformation strategy
- Our B-BBEE performance

### Key stakeholders

- Suppliers
- Government
- The Distell Development Trust
- Strategic business partners

### 2016 highlights

- The focused business processes developed and channeled through Distell as part of our new strategy have given rise to meaningful work and solid progress in achieving our transformation goals

We see transformation as a continuous journey that is integrated into all aspects of our business. It shapes our corporate culture to become more inviting and welcoming, and become capable of attracting and retaining diverse talent. Diversity put into action means that Distell strives to be representative of all South Africans and everyone who represents our business operations outside the borders of South Africa. This requires that we continuously nurture a workplace that respects and accepts difference. In practice, this means building a corporate culture that recognises the value of diversity.

In 2012, we started partnering with The Human Capital Engine, an organisation that specialises in organisational transformation, and have since conducted leadership transformation and diversity workshops across various business units. These workshops have reached approximately half of the total employees to date and we are committed to continue the leadership transformation and diversity conversation in various formats across Distell.

## Our integrated transformation strategy

In October 2014, the Broad-Based Black Economic Empowerment Amendment Act came into operation, and by May 2015 businesses that were being verified had to do so according to the Revised B-BBEE Codes of Good Practice. This was followed by proposed amendments to the Liquor Act in the second half of the year which called for the transformation of the liquor industry to improve inclusivity and remove barriers to entry. While the revised codes are more stringent and present new challenges, we understand their importance to our country's future. In preparation for the change, Distell started developing a new integrated transformation strategy. This new strategy ensured alignment with and support of the government's national transformation goals.

Distell has made a conscious decision to demonstrate leadership in transformation as it is important for social and economic relevance and growth.



Our revised integrated transformation strategy aims to:

- Guide us toward achieving a Level 4 B-BBEE status by 2016 by aligning our transformation imperatives with our business strategy, and by developing and entrenching business processes that support transformation. This ensures that transformation is embedded in all that we do.
- Support this alignment through transformational leadership and ownership. Distell is committed to driving transformation, as well as enterprise and supplier development initiatives. Our integrated transformation strategy will also help us to optimise skills development and improve our preferential procurement scores. We will work closely with organisations and the dti to find suitable producers and manufacturers we can support, develop and eventually purchase from. We also aim to contribute toward the development, support and expansion of black-owned businesses, and will work to attract and retain black talent as part of the Distell drive to embrace diversity, thereby living out one of our core business values.

 Read more about the key initiatives that support Distell's integrated transformation strategy on page 37

Our transformation journey supports our business strategy, while aligning with government's national transformation goals.

### The Distell Development Trust

The Distell Development Trust is a key stakeholder in the implementation of our integrated transformation strategy and is strategically positioned to ensure that maximum social and economic value is unlocked.

In 2005, Distell became one of the first listed companies to include our employees in our B-BBEE share deal through our Employee Share Ownership Programme (ESOP). Through this programme, every employee with more than one year's service became a beneficiary and received a cash pay-out when the deal matured in February 2014.

This signified a proud moment for Distell on our transformation journey as the deal paid out in excess of R600 million after tax in March 2014 to approximately 4 000 employees as part of our ESOP.

The B-BBEE share deal has since been restructured to ensure that Distell's B-BBEE ownership credentials are maintained under the revised codes, with 17,7 million shares being issued to members of the B-BBEE consortium. The share deal will also enable the Distell Development Trust to effectively fund its corporate social investment programmes moving forward.

### The Transformation Council

Distell's transformation journey is steered by the Transformation Council, which is led by the Group managing director and five other directors, under the chairmanship of the director of corporate and regulatory affairs. The Council aims to increase the level of ownership and accountability of the whole business in terms of our B-BBEE performance through the robust monitoring of the execution of the strategy against our qualitative and quantitative goals. In this way, the Council is influential in shaping a new corporate culture and in strengthening Distell's corporate brand.

The Council's responsibilities include:

- Developing, approving and reviewing the integrated transformation strategy in line with the strategic aspiration to achieve a Level 4 B-BBEE contributor status by 2016
- Setting annual plans and targets for each element of the B-BBEE codes, as well as monitoring progress and evaluating opportunities to improve performance
- Understanding the human resources strategy in terms of creating a diverse and inclusive corporate culture
- Giving input in terms of the proposed activities to be implemented to assist with the cultural evolution that will be developing
- Evaluating opportunities for job creation and entrepreneurship
- Investigating opportunities for partnering with government
- Reviewing the annual feedback from government on B-BBEE performance and Employment Equity progress



## Key initiatives that support the implementation of Distell's integrated transformation strategy

Our integrated transformation strategy is supported by a number of flagship initiatives that are aligned with our business strategy, and that support the communities living and working near our operations. These include:

- Empowerment of communities through the Distell Development Trust and the Distell Foundation.  
📖 Read more on page 36
- Enterprise and supplier development initiatives such as, for example, the Solar Power Project and the Apple Juice Concentrate Project.  
📖 Read more on page 38
- Preferential procurement through engagement with suppliers on black ownership and B-BBEE status, as well as through the sourcing of suitable new black suppliers. Preferential procurement is a priority element on the revised B-BBEE scorecard, and as such, suppliers are a key stakeholder in the implementation of our strategy.  
📖 Read more about preferential procurement on page 42
- Empowerment of women in the workplace and of learners with disabilities through learnerships that enable opportunities for skills development and in some cases access to the formal economy.  
📖 Read more below

### Empowerment of women and learners with disabilities

In order to achieve our transformation goals, we are committed to appointing and promoting persons from designated groups, fast-tracking diversity, providing talented individuals with targeted coaching and mentoring, and making reasonable accommodation for women and people with disabilities. Distell invests in numerous employee-assistance programmes, including a bursary scheme, internships and learnerships aimed at the disabled, as well as programmes directed at women-focused learning. These investments affirm the value that Distell places on its employees.

#### Learnerships for the disabled

Over the past year, we had three learnership groups comprising 85 learners with disabilities. These groups started their NQF learnerships in June 2015 and completed them in July 2016. The three groups consisted of:

- Western Cape: 20 learners on an NQF level 1 Hygiene and Cleaning learnership
- Coastal Region: 45 learners on an NQF level 1 Plant Production learnership
- Northern Region: 20 learners on an NQF level 1 Business Practice learnership

#### Women-focused learning and development

We have boosted female participation in learnerships by introducing an NQF level 4 Customer Services learnership. The learnership commenced in October 2015 and will be completed in October 2016 with final results available in January 2017. A total of 41 African females from three regions within South Africa were enrolled in this intervention.



## Our B-BBEE performance

The robust nature of the integrated transformation strategy and the implementation of integrated business processes have put us firmly on course to become a leader in transformation.

**Our current B-BBEE rating, based on our 2014/2015 financial year performance and the Revised Codes of Good Practice, is a Level 7 B-BBEE contributor (discounted to a Level 8). This rating is in line with expected performance and was envisaged at the time of developing our integrated transformation strategy in October 2014.**

With the strategy now in place, we are on track to achieve our goal of obtaining Level 4 B-BBEE status by 2016. A critical part of reaching this goal is our continued work and collaboration with government – another key stakeholder in our transformation journey and a crucial partner in the launch of our Apple Juice Concentrate Project.

The need for apple juice concentrate creates a significant opportunity for economic growth and job creation in our industry, as it forms the base of our growing cider brands.

Owing to limited availability, less than half of our apple juice concentrate is currently procured from South African sources, with the balance having to be imported. To increase the percentage of apple juice concentrate that is procured from suppliers in our home country, Distell has included a dedicated project in its transformation strategy that will be rolled out over a period of at least ten years. The objective of this project is to help current suppliers expand their operations and assist in the development of new black-owned apple farmers and apple juice concentrate producers to support the expected increase in cider demand.

The project is currently in its planning phase, with initial feasibility studies underway and implementation planned to commence toward the end of 2016.

Distell is also in the process of developing an enterprise and supplier development strategy linked to our supply chain, which will create more opportunities for growth within the industry and will require close collaboration with government. We aim to implement this strategy within the next financial year.

### Future focus

Distell's transformation journey has gained great momentum over the past financial year. In the upcoming year, we plan to maintain this momentum and build on the successes achieved by:

- Embedding the business processes that were developed over the course of the year to ensure that our 'new way of working' becomes standard best practice
- Continuing to monitor and measure our integrated transformation strategy to ensure that our B-BBEE performance remains a priority.
- The Transformation Council continuing to implement good governance to support and strengthen our strategy moving forward

# SUPPLY CHAIN MANAGEMENT

## Why this matters

Distell must develop an integrated, efficient and agile supply chain that is reliable, responsive and meets our customers' requirements in full. This will enable us to become a trusted and valued business partner with superior competitive advantage, thereby supporting our aspiration for African market leadership.

### Key focus areas

- Our supply chain strategy
- Supply Chain Excellence
- Manufacturing
- Preferential procurement
- Responsible agricultural practices

### Key stakeholders

- Suppliers
- Employees
- Government (Department of Labour; Department of Trade and Industry)
- Customers

### 2016 highlights

- The development and ongoing implementation of Supply Chain Excellence and our E<sup>2</sup> Empowering Excellence framework
- The launch of the E+Scalator programme to support local supplier development

## Our supply chain strategy

Supply chain networks are becoming increasingly globalised and more complex. Outdated processes and practices, a fragmented network, poor integration and inconsistent standards are challenges that can arise from a poorly managed supply chain which result in the loss of competitive advantage. At Distell, we are committed to building a supply chain model that is efficient and agile, and that is shaped by superior supply chain capabilities that align with the key aspects of our corporate strategy.

## Our mission

The strategic intent of our supply chain strategy is therefore to enable Distell to successfully plan, procure, make and deliver products and brands to our customers through the work of talented people, appropriate technology and leading operational disciplines, processes and practices. This will ensure that quality, cost-efficiency, reliability, safety and sustainability remain a focus in all that we do.

## Our vision

Our vision is to build a customer-centric, efficient and effective supply chain that delivers on Distell's aspirations and expectations. This will enable us to become a truly global alcoholic beverages leader.

## Our response

To help Distell deliver on our mission and vision as outlined above, and to maximise shareholder return and produce quality products according to standardised best practice, we are focused on continuous improvement. In the year under review, we introduced a new supply chain framework and platform that will enable us to identify, develop and operationalise appropriate and standardised leading best practice to ensure a consistent, efficient and effective supply chain.

Part of this process was the development of Centres of Excellence, and, in particular, Supply Chain Excellence and Centres of Excellence Intrinsic.



# Supply Chain Excellence

In May 2015 we officially launched our Supply Chain Excellence journey. Supply Chain Excellence embodies our approach to developing, adopting and consistently implementing supply chain best practice across our business. Through this Centre of Excellence, we aim to succeed in the optimisation of our supply chain and the elimination of all sources of waste so as to develop a highly reliable and efficient end-to-end supply chain that meets our customers' expectations. Supply Chain Excellence therefore spans the full sequence of steps, processes and activities from the time a product is conceived to the time it is delivered to the customer. This demands standardised supply chain structures, policies, principles, processes, practices, tools and metrics that are uniformly applied, continuously improved and regularly benchmarked against best practice.

## Centre of Excellence Intrinsic

The purpose of the Centre of Excellence Intrinsic is to provide group-wide, proactive advice and expertise in the area of intrinsic standards and processes for wine, whisky, ready-to-drink beverages, brandy and other spirits in line with global leading practices.

In addition, the Centre of Excellence Intrinsic aims to promote the credibility of Distell and of our products through quality endorsements and rewards. The Centre furthermore aims to ensure that our grape supply is in line with our strategic direction, and provides effective and efficient viticulturist support and advice to improve business results.

The top five priorities of the Centre are to create technical manuals, review processes and products, monitor supplier sustainability, engage with stakeholders, and build winning teams.

## E<sup>2</sup>Empowering Excellence

To help Distell achieve the ambitions outlined above, we have developed a framework that will enable us to build on established best practice for both production and the supply chain and to ensure standardisation across our business. This framework is known as E<sup>2</sup>Empowering Excellence and incorporates the objectives, core principles, practices and tools necessary to become a world-class organisation.

To guide the implementation of E<sup>2</sup>Empowering Excellence across our production sites, we have conducted baseline assessments on 12 practices including supply chain alignment, demand planning and sales, and operational planning to understand the varying levels of supply chain practice across the business. With this knowledge in hand, we are now positioned to commence full implementation.

In the year under review, E<sup>2</sup>Empowering Excellence was implemented at our Springs and Adam Tas production sites. This will be followed by two additional production sites every six months over the course of the next four years until all production sites are integrated into our Supply Chain Excellence journey. In this way, we aim to provide assurance to our stakeholders that we source, produce and deliver quality products sustainably, consistently, reliably, competitively and in accordance with standardised and leading supply chain best practice.

# Manufacturing

Following the introduction of Supply Chain Excellence, our primary and secondary production activities have been integrated into a single manufacturing department to ensure the optimisation of our supply chain from end-to-end. Manufacturing therefore incorporates the sourcing, procurement, production and blending of alcoholic beverages until these are ready for bottling and final distribution.

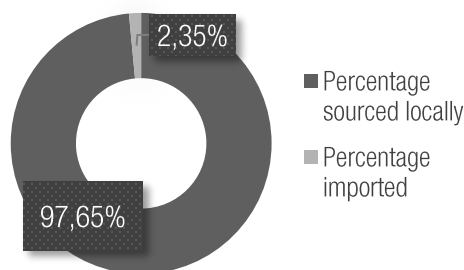
We spend in excess of R3,0 billion on raw materials. This comprises:

- Grapes (produced by our own farms as well as independent farms, used to produce wine for our brands)
- Wine (purchased in bulk from independent cellars and used in our brands)
- Grape juice concentrate (purchased concentrate from independent cellars to sweeten specific wine brands)
- Distilling products (sourced agricultural products such as barley, grapes and marula fruit used to produce whisky, brandy and other beverages)
- Apple juice concentrate (forms the base of all of our cider brands and we therefore maintain long-term relationships with key local and international producers of apple juice concentrate)
- Cream (large quantities of cream are used in the production of our cream liqueurs)

The bulk of our raw materials are sourced locally, thereby providing us with greater stability and control over our production while ensuring that we can source the volumes we require at the right quality and price to meet our product demand forecasts.



### Total litres of grapes, wine and wine-related products (330,8 million litres)



### Spent on raw materials

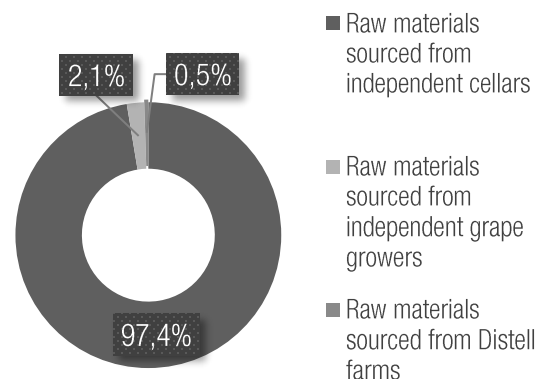
**R3,0bn**

2015: R2,3bn

### Spent on packaging materials

**R3,2bn**

2015: R3bn



Annually, we spend more than R3,2 billion on packaging materials, consisting of glass, cans, cartons, closures, labels and various other packaging items such as foils and shrink-wrap plastic. The rest of our budget is spent on suppliers of other goods and services, including:

- Bulk transport (transport of bulk product from our manufacturing plants to our bottling plants is outsourced to various third-party service providers. We continuously strive to increase the quantity of bulk product transported by rail)
- Packed product transport (we make use of a number of third party service providers to transport packed product from our bottling plants to our distribution centres across South Africa. Additionally, we deliver product from our production facilities directly to customer warehouses to save on transport and handling costs)
- Business support services (a number of service providers are used in support of our primary business activities, which include consultancy services, travel and accommodation, stationery, security and cleaning services)
- Marketing (we spend a large amount on merchandising material and gifting, as well as on media and sponsorship to promote our brands)

## Mitigating supply chain risks and managing quality

For our key commodities such as glass, labels, and cartons we have specific sourcing strategies in place that take into account not only cost and continuity of supply, but also other aspects such as local supplier development, preferential procurement and lead time considerations. These strategies are updated regularly to ensure alignment with leading best practice.

 Read more about local supplier development and preferential procurement from page 42

Where feasible, we source materials from facilities close to our production sites to reduce logistical costs. Securing local supply also assists us in limiting our exposure to foreign exchange fluctuations. Despite our preference for locally sourced and produced materials, a certain portion must be imported. This includes materials currently not produced in South Africa, as well as materials where insufficient capacity exists in the local manufacturing industry, thereby necessitating imports to meet our demand.

We actively monitor the quality and punctual delivery of all supplies to ensure that the material we receive meets our quality requirements for each product type. We also conduct on-site audits and, where necessary, assist suppliers to improve their production processes to ensure consistent quality.

Finally, we are proactive in reducing the environmental impact associated with our products and the packaging materials we use. Glass represents the bulk of our packaging material. As such, we have various ongoing initiatives to improve recycling efforts and reduce the need for and costs associated with new glass.

 Read more about these initiatives from page 46



## Preferential procurement

Procurement is an essential strategic function within our business that creates value in the form of savings while guarding our reputation through responsible and ethical purchasing. It is also critical in building successful and sustainable partnerships with our suppliers, while practicing due diligence.

### Preferential procurement and B-BBEE

Preferential procurement is managed by Distell's procurement function. During the reporting year, we have had significant success in supporting B-BBEE through the development of a model that enables each function within the organisation to monitor its preferential procurement rating. Using this model, Distell's purchasing staff were able to focus their efforts on meeting our transformation and supplier development objectives and we are on track to reach the 40% sub-minimum requirement for preferential procurement. In addition, we have increased black-owned spend from 6,0% to 11,8% during the last financial year. This was mainly achieved through obtaining certificates from all key suppliers, as well as shifting a significant amount of spend from generic suppliers to black-owned suppliers. This has resulted in a steady increase in the number of black-owned and black women-owned businesses with which Distell has partnered.

### Supplier development

A robust and sustainable supplier base is critical to the success of the organisation and Distell is focused on the development of local suppliers, especially those from disadvantaged backgrounds. This is in line with our national transformation objectives, in terms of which we are committed to empowering PDIs to develop their enterprises to a point that they are able to become key partners in our supply chain.

This requires equipping suppliers with the legal, personal, financial and customer-focused knowledge necessary to run a business sustainably. To facilitate this, Distell launched the E+Scalator programme in 2016. This programme is aimed at developing new and existing black-owned suppliers to Distell and facilitates the intersection of skills development, funding and procurement activities. A pilot group of enterprises and suppliers are currently enrolled in the E+Scalator programme and benefit of advisory services to accelerate the growth and development of micro-enterprises and qualifying small enterprises. To accelerate supplier development, we have established a dedicated funding mechanism to make capital available for specific projects and equipment.

### Localisation of supply

Procurement from local suppliers has many important benefits, including improvement in quality (because the product does not need to be transported over vast distances), reduced transport costs, improved control (as the supplier is based locally), stronger relationships with suppliers and the growth of local economies. Distell is constantly on the lookout for opportunities to increase the percentage of local supply. We are most proud of the following initiatives:

- A highly-specialised team of qualified and experienced viticulturists and winemakers that support and assist the local wine industry  
📖 Read more from page 44
- The Apple Juice Concentrate Project  
📖 Read more from page 38
- The Papkuilsfontein Vineyard  
📖 Read more from page 45
- Distell's owner-driver scheme

### Distell's owner-driver scheme

This scheme was established in 1999 to enable drivers who were originally employed by Distell the opportunity to establish their own businesses and undertake deliveries on behalf of retailers and on-consumption outlets. Drivers were given access to funding and were able to purchase vehicles at a reasonable cost. They were awarded contracts to secure a guaranteed income and were trained in critical business disciplines. Drivers were also given access to a technical mentor who was available to offer guidance in the maintenance of vehicles. Distell provided ongoing business coaching and mentorship through a structured liaison programme.

Currently, 88% of our customer deliveries from our 20 distribution centres are done by owner-drivers. Their earnings for the 2014/2015 financial year equated to R127,2 million.

## Responsible agricultural practices

At Distell, we adhere to various environmental, social and governance standards across our farms. This includes holding our independent suppliers and service providers to the highest standards, and we have service level agreements in place with both, to ensure all our products are harvested and manufactured to the same environmental, ethical and human rights standards we have established on our own farms. Key initiatives that support our environmentally responsible agricultural practices are outlined below.

 Read more about how we uphold and enforce human rights on our farms from page 45

## Integrated Production of Wine Scheme (IPW)

All Distell farms are registered with IPW, a voluntary environmental sustainability scheme established by the South African wine industry in 1998. The scheme complies with international wine industry environmental sustainability criteria,<sup>2</sup> promotes biodiversity conservation, and aims to reduce the environmental impact of agricultural activities as well as the amount of industrial inputs that are required for growing vines.

The scheme further requires accurate record-keeping of all vineyard activities, and consists of a set of guidelines specifying good agricultural and manufacturing practices related to grape and wine production, as well as packaging activities. Compliance with the IPW guidelines is assessed on an annual basis through the completion of a self-evaluation questionnaire and is independently audited on a spot check basis. Compliance provides our consumers with assurance that our grape production was undertaken with due consideration for the environment, and that our wine has been produced in an environmentally responsible manner and in a manner that ensures it is safe for human consumption.

To certify our wines are IPW-compliant, we ensure that our independent suppliers are IPW-accredited and that they adhere to environmentally sound farming practices. Since 2001, all our purchasing contracts stipulate that suppliers must comply with and supply proof of IPW-compliance. In addition, all our current suppliers are monitored and assisted where necessary to maintain IPW-compliance.

 Read more about how we manage the environmental impact of our farms from page 46

 Read more about biodiversity conservation from page 60

## Organic wine production

The German-based LACON GmbH, a major international body that certifies organically grown agricultural foodstuffs, requires that organic farming principles be applied for three consecutive years before wines produced from these vines may be labelled as organic.

To acquire LACON certification, organic wine-farming projects should not dominate, but co-exist, with natural systems. Biological cycles involving micro-organisms, soil, fauna and plants are encouraged. Organic farming projects should sustain or build soil fertility, make use of manure and vegetable waste, follow sustainable production methods, and limit the use of the permitted agrichemicals. In addition, pollution and damage to the environment must be minimised, and the use of non-renewable resources reduced by following energy conservation practices and moving towards renewable energy sources.

LACON has again confirmed accreditation of an area of 170,48 hectares (ha) of Papkuilsfontein Vineyards, which we jointly own with a consortium of black entrepreneurs and a local community trust, and our Nederburg cellars, which are accredited for the production of organic wines. An additional area of 59,67 ha is expected to be LACON-accredited within the next two years, with a remaining 134,18 ha as conventional vineyards.

 Read more about the Papkuilsfontein Vineyards from page 45

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<sup>2</sup> IPW complies with international wine industry environmental sustainability criteria, including the 'Global Wine Sector Environmental Sustainability Principles', as published by the International Federation of Wine and Spirits (FIVS), as well as the 'OIV. Guidelines for sustainable Viti-viniculture: Production, processing and packaging of products' as published by the International Organisation of Vine and Wine (OIV).

## Developing new agricultural enterprises

In line with our national transformation objectives, one of our core priorities is to empower previously disadvantaged individuals and develop enterprises to enable them to become key partners in our supply chain.

In 2003, we embarked on a long-term project to assist the establishment of new vineyards in the Northern Cape. Funds and land have been supplied by government, and technical expertise and training is provided by viticulturists from nearby independent cellars, which are also involved in the processing of harvested grapes. Distell then purchases the wine produced through this project. We have further played a leading role in bringing together the respective stakeholders and managing the respective working groups.

We envisage that this project will lead to the establishment of approximately 500 ha of vineyards. Owing to funding cuts from government resources, no further planting was possible in the year under review. However, governmental stakeholders have indicated that funding will resume in 2017. During 2016, we therefore focused on improving the management techniques of new entrants to grape farming. These new entrants were aided by support from established suppliers in the area. Distell's Apple Juice Concentrate Project provides another opportunity for economic growth and job creation in our industry.

 Read more about the Apple Juice Concentrate project from page 38

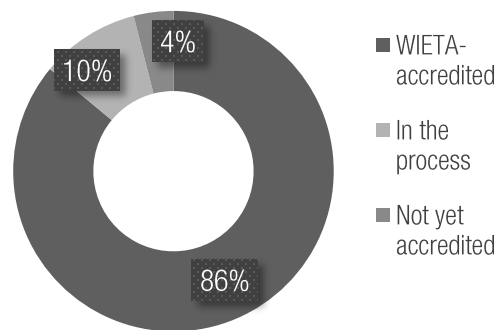
## The Wine and Agricultural Ethical Trade Association (WIETA)

WIETA is a non-profit, voluntary association that was formally established in 2002, and has been instrumental in bringing together stakeholders in the Western Cape wine industry to discuss and debate issues around ethical trade. Distell has been a member of WIETA since its inception and all farms we own comply with WIETA's Code of Conduct<sup>3</sup>, which is founded on the following principles:

- Child labour will not be utilised
- Employment should be freely chosen
- All employees have the right to a healthy and safe working environment
- Employees have the right to freedom of association
- Employees should receive a living wage
- Working hours must not be excessive
- Harsh or inhumane treatment is prohibited, as is unfair discrimination
- Regular employment must be provided
- Worker's housing and tenure security rights must be respected

In 2011, we introduced the WIETA principles and Code of Conduct to the rest of our grape growers and wine producers. Our target is to ensure that all of these suppliers adhere to WIETA principles by 2017. Currently, 86% of our suppliers are WIETA-accredited, 10% are in the process of accreditation and 4% have yet to start the process.

2016 percentage of WIETA-accredited suppliers



## Future focus

We will continue to integrate all our production sites into our Supply Chain Excellence journey to ensure that we source, produce and deliver quality products sustainably, consistently, reliably, competitively and in accordance with standardised and leading supply chain best practice. This includes strengthening our efforts to reach our transformation and supplier development objectives through the E+Scalator programme and supporting initiatives.

To strengthen our grape and wine supplier network we will focus on revising and optimising current viticulture practices among suppliers and on our own farms. We will also look to evaluate value-add opportunities for suppliers in terms of the wine or wine-related products they supply. Looking forward, we will further evaluate opportunities to boost new entrants to grape farming in regions outside of the Northern Cape, in particular in the region of the Lower Orange River, and in the Western Cape.

<sup>3</sup> The Wine and Agricultural Ethical Trade Association: <http://www.wieta.org.za>

# UPHOLDING HUMAN RIGHTS

## Farm workers' rights and benefits

To ensure that we uphold the human rights of all workers, especially on our farms, we adhere to and exceed requirements set out in South Africa's Basic Conditions of Employment Act.

- Employees from our wholly-owned farms, as well as employees from LUSAN farms, can participate in the Distell Provident Fund. The Fund's board of trustees consists of ten elected member employee trustees and four appointed employer trustees. The Fund provides benefits for the members upon their retirement (whether on account of age or ill health), or for their dependents or nominees upon the death of such members.
- Farm workers can join subsidised medical funds, and mobile clinics provide additional health support to labourers.
- Functional literacy programmes are also available to workers across all of our farms.
- Employment-linked housing is made available, and, in some instances, is available rent-free, including water and electricity. Some farms provide free transport to assist farm workers with their weekend shopping and attending sports, school, religious and cultural events.
- Our farm workers earn between 20% and 74% more than the amount prescribed by law, depending on their employment grade.

In addition, we offer the following benefits beyond what the Basic Conditions of Employment Act prescribes:

- Annual leave (five days more per annum)
- Family responsibility leave (three to six days more per annum)
- Annual bonus (13th cheque)
- Maternity leave (33% to 50% more than prescribed)

We have stringent measures in place to ensure compliance with all laws pertaining to employment in South Africa. At all operations, the relevant labour legislation is visibly displayed on notice boards, is accessible to all employees and each employee has a contract of employment.

All prospective employees must submit proof of identification to ensure that they are of legal working age before we will consider employing them.

We also adhere to recommendations set out in the Code of Good Practice for the agricultural sector and abide by the South African Bill of Rights as enshrined in our Constitution.

All employees, including farm workers from our wholly-owned farms and the LUSAN farms (where we do not have full management control), have the right to join or form a trade union.

In the case of the LUSAN farms, these rights include the following:

- Trade union access to the workplace
- Deduction of trade union subscriptions
- Collective bargaining

## Enabling workers to share in the benefits and enhance their quality of life

Economic equity extends to our farming operations. Distell, together with a group of Gauteng entrepreneurs and a local community trust, is the joint owner of Papkuilsfontein Vineyards – a 975 ha farming venture.

Established in 1998, the project is underpinned by an extensive transfer of skills including wine-growing, wine farm management, winemaking and marketing. Our labour practices on LUSAN farms are based on the same principles followed at all Distell wine farms.

A shared-ownership scheme has been part of the Durbanville Hills company structure since its inception, and includes all grape suppliers to Durbanville Hills. In addition, 50 000 shares (5% of total shares) have been issued to the Durbanville Hills Workers' Trust. A director elected by the employees represents the farm workers on the board of directors.

The Workers' Trust drives several development initiatives within the farm worker community, including adult education programmes and the funding of high school fees for children on the supplier farms.

## Developing Fairtrade labels

We have certified Papkuilsfontein farm as Fairtrade. Fairtrade is a global movement that champions sustainability and development through trade. Wines are certified according to strict Fairtrade Standard, requiring a percentage of the final shelf price to be channelled directly back to the farm labourers.

The Fairtrade premiums are channelled to a farm workers' trust, which is managed by the farm labourers according to Fairtrade principles.

For more information visit: [www.fairtradelabel.org.za](http://www.fairtradelabel.org.za)

## Managing the occupational health and safety of farm workers

We strictly adhere to the principles set out by the Fertilisers, Farm Feeds, Agricultural Remedies and Stock Remedies Act No. 36 of 1947 regarding training, protection and testing. Our farms are subject to external third-party audits as part of IPW certification.

All hazardous chemicals, such as post-process laboratory chemicals, are stored in dedicated storage areas. Used chemicals are removed by an external contractor on a regular basis, and are treated and disposed of at certified hazardous waste sites. Safe disposal certificates are kept on record.

# PRESERVING OUR ENVIRONMENT

## Why this matters

The production of wines and alcoholic beverages relies heavily on the region's climate. Environmental resources such as the soil, climate, water and energy form the basis of our products. As such, Distell is wholly dependent on the long-term health of the environment, from farm to consumer.

| Key focus areas                                                                                                                                                                                                                                                                                                     | Key stakeholders                                                                                                                                                                                                                                                                                                   | 2016 highlights                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"><li>• Compliance with changing legislation</li><li>• Managing our environmental responsibility</li><li>• Climate change and our carbon footprint</li><li>• Water usage and sustainable water supplies</li><li>• Waste management</li><li>• Conservation of biodiversity</li></ul> | <ul style="list-style-type: none"><li>• Municipalities</li><li>• Suppliers</li><li>• Government (Departments of Environmental Affairs and Water and Sanitation, as well as Agriculture, Forestry and Fisheries)</li><li>• Consumers</li><li>• Local communities</li><li>• Non-governmental organisations</li></ul> | <ul style="list-style-type: none"><li>• While the expansion of our production facility at Springs impacted our resource usage and contributed significantly to us not being able to meet our 2016 resource usage targets, we are confident of the benefits moving forward</li><li>• A new, dedicated returnable crate for the 660ml Hunter's range was launched and will increase our ratio of return on this bottle</li><li>• We acted collaboratively to effectively manage complaints at a waste water disposal area in Worcester</li></ul> |

The rising cost of energy, the changes to the climate and the variations in the quality and supply of water, have all had a major impact on our operations. We recognise that these changes are partly as a result of industrial activity – from the burning of fossil fuels to the negative effects of emissions, effluent and waste. We therefore continue to focus on improving the cost-and energy-efficiency of our production processes, and substitute fossil fuels with renewable energy solutions where possible.

We are also aware of society's growing concerns about harmful environmental practices. Our environmental strategy is therefore based on six key principles outlined in our environmental policy. The policy acknowledges our responsibility to the environment and society, and commits us to building and preserving the environmental resources we depend on.

- 1 Comply with all relevant environmental legislation
- 2 Independent environmental auditing and certification of our activities against relevant environmental standards, including IPW and the ISO 14001 environmental management system (EMS) standard at all our relevant farm and production facilities to ensure continual improvement in our environmental performance
- 3 Reduce our overall environmental impacts and prevent pollution by using best practices and technologies. This includes reducing our greenhouse gas (GHG) emissions per litre of packaged product in line with our stated performance targets
- 4 Improve environmental performance by applying suitable measurement and monitoring mechanisms. This includes increasing the efficient usage of resources by reducing our water, electricity and fossil fuel-based energy usage per litre of packaged product across our production sites, in line with our stated performance targets
- 5 Report annually on our environmental activities and performance in our sustainability report and our Carbon Disclosure Project report
- 6 Involve all employees in our environmental awareness programmes to ensure they consider the environment as part of their day to day activities

📄 Read our full environmental policy online at [www.distell.co.za](http://www.distell.co.za)



## Strategy and management

We manage our production activities according to the ISO 14001 EMS. Our compliance with the ISO 14001 EMS is audited internally and externally, and, in most cases, is externally certified. In addition, Distell's social and ethics committee oversees all our environmental practices, and we continue to drive environmental awareness among our employees through the development and distribution of training materials that highlight our environmental management programmes, policies and standards. We furthermore provide employees with access to externally facilitated sustainability training workshops, as well as a dedicated intranet knowledge base that offers a range of environmentally focused e-learning modules.

📖 Read more about our ISO 14001 certification on page 49

✉️ We encourage employees and stakeholders to provide us with feedback on how to further improve our environmental management strategy via our dedicated email address – [environmental@distell.co.za](mailto:environmental@distell.co.za)

## Integrated sustainability strategy

In the year under review, Distell initiated the development of an integrated sustainability strategy in collaboration with Incite, an independent sustainability consultant. The strategic framework has since been presented to and approved by our executive board and further development work will be undertaken during the next financial year.

## Resource efficiency targets

In 2015, Distell introduced revised resource efficiency targets<sup>4</sup> for 2020 related to the usage of water, electricity and fossil fuel-based energy in our production processes. This revision came as a result of reaching our initial targets which had been set for 2018 at the end of 2014. The revised 2020 targets have since been broken down into annual sub-targets. This will enable us to actively drive annual improvements in performance so as to ensure that we reach our long-term goals.

## Our performance

The impact of relocating a large portion of cider fermentation and blending capacity from Monis in Paarl to Springs facility resulted in our being unable to reach our resource efficiency targets for 2016. This impact was exacerbated by a production line being shut down for upgrades towards the end of the financial year. The upgrades took two months and related specifically to the implementation of the 660ml crate project. The production line can now handle production in crate, together with bottle and crate washing, while running at higher production speeds. The future efficiency benefit of these changes will be advantageous but will only be realised in future financial years.

📖 Read more about performance against resource efficiency targets in this chapter

## Annual strategic review

As part of our annual corporate strategic review, it was decided that our primary and secondary production departments would be integrated into a single manufacturing department, and incorporated into the new Supply Chain division. Part of this restructuring process involved moving our environmental sustainability, quality management and health and safety departments into the Supply Chain Excellence department within the broader Supply Chain division. Going forward, we believe that this will lead to stronger responsibility and accountability of core activities at site-level, while strengthening and integrating the assurance functions at corporate level. Part of this division's functions include the standardisation of best practice across all operations, and the standardisation of certain reporting indicators. We are currently finalising this re-alignment process terms of our Supply Chain Excellence strategy, as well as corporate and site structure.

📖 Read more about supply chain excellence from page 40

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<sup>4</sup> These targets are intensity targets related to litre equivalents of packaged product produced at Distell's production sites, including the LUSAN wineries. The revised targets rely on 2014 as a base year, with 2020 as the target year.

## ISO 14001 Certification

ISO 14001 is an internationally accepted environmental management certification system. Being ISO 14001 certified means that a facility is managing its environmental impacts in a formal and documented manner. This enables the facility to continually monitor, evaluate and thereby reduce its environmental impacts and improve its performance.

In 2015, ISO 14001:2004 (the previous standard for ISO 14001) came under review, and an updated version was published. Following this publication, we are in the process of reviewing all sites that were certified under ISO 14001:2004 to ensure that these align with the new version.

## Compliance with changing legislation

We regularly review all new and proposed environmental legislation, regulations and policies to assess their potential impact on our business and operations, and to provide feedback to government where appropriate. This gives us the opportunity to engage with relevant regulatory bodies and proactively take the necessary steps to ensure compliance.

This reporting year saw the promulgation of a number of new regulations in terms of relevant Acts. We have assessed the impact of these legislative changes on our business activities and highlighted the most significant impacts below:

### Carbon Tax and Offset

The Minister of Finance has indicated that Carbon Tax will be implemented from 2017,<sup>5</sup> with the draft regulation on Carbon Offset published in June 2016. At Distell, our policy to date has focused on reducing our direct tax liable emissions first and foremost, before considering emission offset schemes as provided for under the proposed Carbon Offset regulation. As such, the impact of this draft regulation is not initially significant to Distell.

The government position is that Carbon Tax will be implemented in 2017. However, a number of policies and regulations must still be published in order to effect the implementation of the Carbon Tax. This includes the National Greenhouse Gas Emission Reporting Regulations, of which a draft was published on 7 June 2016 for public comment. We will continue to monitor progress in this regard moving forward.

## Waste water handling

The reporting period saw administrative amendments to the City of Cape Town's Treated Effluent By-law originally published in 2010. The amendments clarified requirements relating to the use of treated effluent, to bring this in line with the requirements of the National Water Act No. 36 of 1998. It is not anticipated that this will have a direct impact on Distell or our operations.

## Distell's engagement with local authorities

Distell regularly engages with the relevant municipal authorities to proactively manage concerns of mutual importance.

- The long-proposed, new Treated Effluent By-laws of the Stellenbosch municipality will have an impact on our Adam Tas effluent treatment facility that is currently under construction. As such, Distell is actively involved in informal engagements with the Stellenbosch municipality relating to the proposed By-laws to better prepare for any possible impact as the By-laws are not yet available for public comment.
- Distell participates in quarterly meetings with other industry players as part of the City of Cape Town's Accelerate Cape Town initiative. This initiative aims to position the city as a globally recognised business destination in Africa, which is driven by sustainable business practices. The initiative also provides us with a forum to discuss how industry and local government can work together to improve the environment in and around Cape Town and promote sustainable business practices.
- Distell is a member of the Stellenbosch River Collaborative, which was established to address the deteriorating water quality in the Eerste River catchment area. The Collaborative has gone from strength to strength, and has increased its interaction with the Stellenbosch Municipality in terms of river rehabilitation and clean-up activities along the Plankenbrug and Eerste Rivers. The Collaborative is also in the process of formally registering with the municipality to become a public representative body, which will provide the Collaborative with formal recognition and strengthen its position in engagements with the local authority.
- Distell is also an active member of the Cape Winelands District Municipality Air Quality Forum. The forum did not meet during the reporting period.

<sup>5</sup> The proposed tax rate is R120/t CO<sub>2</sub>e levied after an initial 60% tax-free threshold. A 10% annual tax rate increase has been proposed for the first five years, while the 60% threshold will be revised only after five years.

# Managing our environmental responsibility

## Measuring and monitoring systems

Since its implementation in July 2010, our greenhouse gas (GHG) reporting database has played a critical role in monitoring and managing our environmental management practices at an operational level. Tracking the GHG emissions for all our South African-based facilities, the database collects data on direct fuel and electricity purchases from our financial SAP system and converts it directly into carbon dioxide equivalent emissions (CO<sub>2</sub>e). Non-financial activities, such as the application of fertiliser and business-related travel, are tracked separately and fed into the GHG database.

In addition, we developed a site services dashboard (SSD) to monitor our performance against our resource usage reduction targets related to water, electricity and fossil fuel-based energy. Going forward, SSD will be expanded to include measurements related to waste water quantity and quality and will be integrated into broader supply chain reporting systems.

## Environmental certification

We are progressively implementing ISO 14001 certification at all our South African-based manufacturing facilities by formally certifying at least one site per annum. We prefer to submit sites for the external auditing process when we are satisfied that they meet all the necessary requirements. Our implementation process is depicted below:

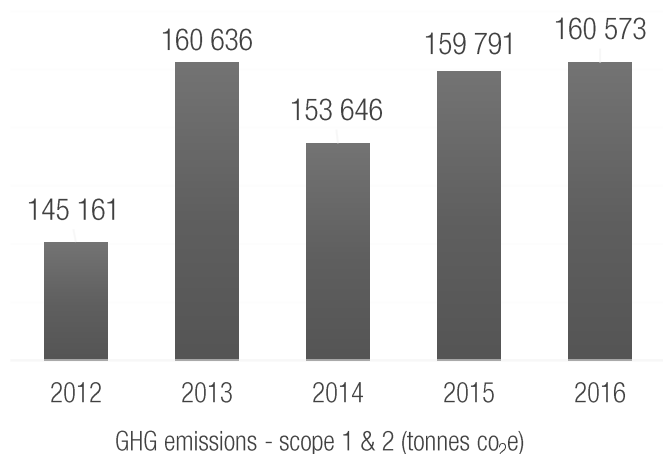


In total, 94% of our sites (2015: 94%) are actively implementing ISO 14001, and 59% (2015: 53%) have already been externally certified, with Goudini distillery becoming the latest site to be externally certified during the reporting year. During the new financial year, our focus will be on reviewing our corporate management system and site level documents and procedures to ensure compliance with the newly published 2015 version of the ISO 14001 standard. Once this has been completed, we will continue with external certification under the new ISO 14001: 2015 standard.



# Climate change and our carbon footprint

## Our carbon footprint



We were unable to reach our 2016 10,0% reduction target for our GHG emissions per litre of packaged product (kg CO<sub>2</sub>e/l) from the 2014 base year, achieving only a 5,18% reduction in comparison to 2015. Therefore, our performance declined against our pre-set glide path.

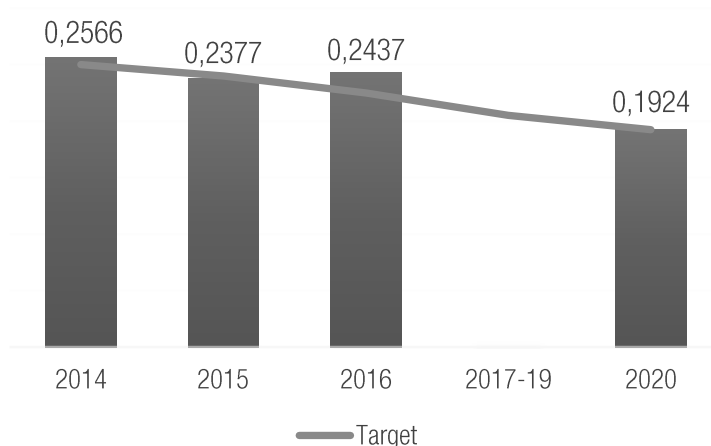
During the next financial year, a recently installed biogas boiler at our Wellington distillery will become operational. This will result in a reduction in fossil fuel-based energy used, in particular coal. In addition, a newly approved solar PV facility at our Springs plant will become operational in 2017. This will reduce our dependency on coal-based electricity from Eskom. These two projects will result in a significant reduction in our carbon footprint.

 Read more about these projects and our fossil fuel-based energy usage below.

Our largest impact on climate change is caused by burning fossil fuels on-site to generate steam for our boilers and by the purchase of coal-based electricity from Eskom – counting 43,6% and 52,0% respectively toward our direct emissions (Scope 1 and 2). In the period under review, our direct emissions increased by 0,5% to 160 573 tonnes CO<sub>2</sub>e (2015: 159 791 tCO<sub>2</sub>e). Our emission intensity per litre of product increased by 2,4% to 243,7 tCO<sub>2</sub>e per million litres of packaged product (2015: 237,7 tCO<sub>2</sub>e).

Despite a 1,8% reduction in our production volumes, these increases resulted from a 1,9% rise in coal used in our production boilers and a 20,0% increase in fuel used in the mobile combustion of our forklifts. Our total GHG emissions, including Scope 3 and “out of scope” emissions, amounted to 488 447 tCO<sub>2</sub>e (2015: 510 669 tCO<sub>2</sub>e). This is a 4,4% reduction from last year.

## GHG emissions (kgCO<sub>2</sub>e/l)



This year, we submitted our sixth annual carbon footprint report to the Carbon Disclosure Project (CDP). As with the previous years, Carbon Calculated<sup>6</sup> externally verified our data against the ISO 14064-3:2006 standard and provided us with limited assurance on the 2015 disclosure figures. Our report was assessed by CDP and was awarded a 99B disclosure and performance score based on their evaluation of the completeness of our submission and of our performance against their best-practice criteria.

<sup>6</sup> [www.carboncalculated.co.za](http://www.carboncalculated.co.za)



## Distell's carbon footprint (tonnes CO<sub>2</sub>e)

|                                                                              | 2012*                      | 2013                       | 2014                       | 2015                | 2016           |
|------------------------------------------------------------------------------|----------------------------|----------------------------|----------------------------|---------------------|----------------|
| <b>Scope 1 direct emissions</b>                                              |                            |                            |                            |                     |                |
| Stationary combustion                                                        | 70 699                     | 70 954                     | 65 287                     | 68 965              | 70 005         |
| Mobile combustion – forklifts                                                | 768                        | 1 303                      | 1 152                      | 1 191               | 1 429          |
| Mobile combustion – vehicle fleet                                            | 4 168                      | 4 022                      | 3 959                      | 5 320               | 5 241          |
| Fertiliser application on farm                                               | 371                        | 325                        | 455                        | 450 <sup>1</sup>    | 427            |
| <b>Total Scope 1 emissions</b>                                               | <b>76 006</b>              | <b>76 604</b>              | <b>70 853</b>              | <b>75 926</b>       | <b>77 102</b>  |
| <b>Scope 2 direct emissions</b>                                              |                            |                            |                            |                     |                |
| Purchased electricity                                                        | 69 314                     | 84 032                     | 82 793                     | 83 865              | 83 471         |
| <b>Total Scope 2 emissions</b>                                               | <b>69 314</b>              | <b>84 032</b>              | <b>82 793</b>              | <b>83 865</b>       | <b>83 471</b>  |
| <b>Total Scope 1 and 2 emissions</b>                                         | <b>145 320</b>             | <b>160 636</b>             | <b>153 646</b>             | <b>159 791</b>      | <b>160 573</b> |
| <b>Scope 3 indirect emissions</b>                                            |                            |                            |                            |                     |                |
| Purchased goods & services (packaging material)                              | 393 005                    | 402 175                    | 285 844                    | 301 075             | 275 559        |
| Business travel (commercial airlines)                                        | 2 277                      | 9 128                      | 4 573                      | 5 588               | 4 741          |
| Third-party transport and distribution (owner driver)                        | 4 173                      | 4 361                      | 4 466                      | 4 266 <sup>1</sup>  | 3 722          |
| Third-party transport and distribution (Unbottled product)                   | 31 641 <sup>1</sup>        | 35 151 <sup>1</sup>        | 34 047 <sup>1</sup>        | 32 048 <sup>1</sup> | 33 013         |
| Third-party transport and distribution (bottled product)                     | 5 458                      | 6 160                      | 6 851                      | 7 901 <sup>1</sup>  | 10 776         |
| <b>Total Scope 3 emissions</b>                                               | <b>436 554<sup>1</sup></b> | <b>456 975<sup>1</sup></b> | <b>335 781<sup>1</sup></b> | <b>350 878</b>      | <b>327 581</b> |
| <b>Total Scope 1, 2 and 3 emissions</b>                                      | <b>581 874</b>             | <b>617 611</b>             | <b>489 427</b>             | <b>510 669</b>      | <b>488 154</b> |
| Non-Kyoto Protocol GHG emissions – Freon R22                                 | 942                        | 248                        | 176                        | 0                   | 0              |
| Outside of Scope 1, 2 and 3 – Biomass (wood chips)                           | -                          | -                          | 285                        | 0                   | 0              |
| <b>Total emissions</b>                                                       | <b>582 816</b>             | <b>617 859</b>             | <b>489 888</b>             | <b>510 669</b>      | <b>488 154</b> |
| Full-time employees (FTE)                                                    | 4 464                      | 4 592                      | 4 608                      | 4 696               | 4 411          |
| Kilowatt hours electricity consumed                                          | 70 014 458                 | 84 880 943                 | 82 793 193                 | 81 422 070          | 81 040 031     |
| <b>Intensity figures</b>                                                     |                            |                            |                            |                     |                |
| kWh per FTE                                                                  | 15 684                     | 18 485                     | 17 967                     | 17 339              | 18 372         |
| Tonnes CO <sub>2</sub> e per FTE <sup>2</sup>                                | 32,6                       | 35,0                       | 33,3                       | 34,0                | 36,4           |
| Tonnes CO <sub>2</sub> e per million litres of packaged product <sup>2</sup> | 260,1                      | 259,1                      | 256,6                      | 237,7 <sup>1</sup>  | 243,7          |

\* 2012 is our based year as per the ISO 14064-3 standard

<sup>1</sup> Updated following independent verification of data

<sup>2</sup> Scope 1 and 2 only





## Reducing our emissions through energy efficiency

To reduce both our direct and indirect GHG emissions and minimise our carbon footprint, we are focused on reducing our dependence on fossil fuels and coal-based electricity, which account for the vast majority of our emissions.

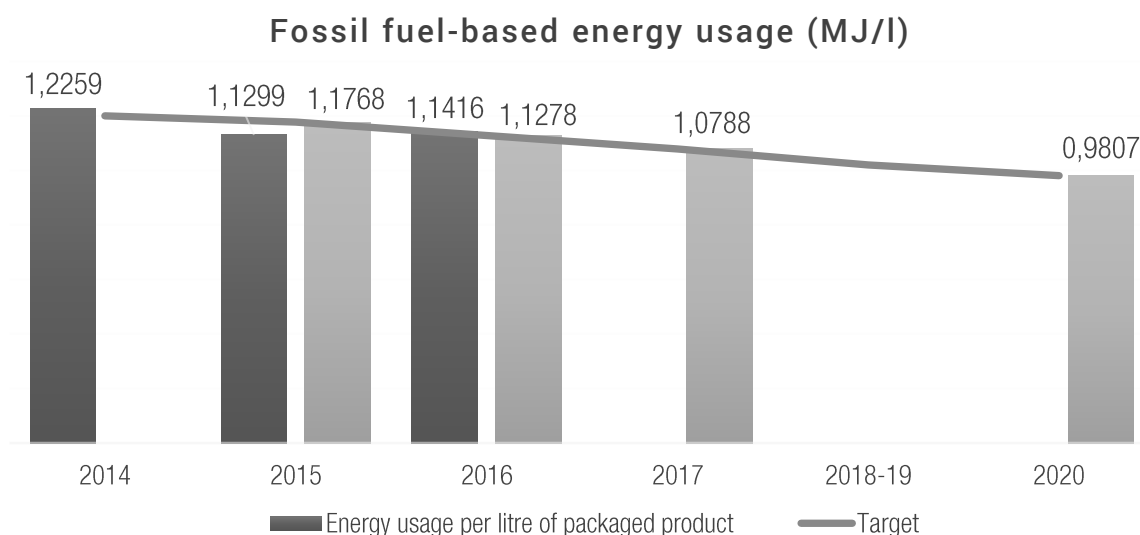
Our 2020 energy efficiency targets include:

- 1 Reducing our on-site fossil fuel-based energy (MJ/l) by 20% per litre of packaged product.
- 2 Reducing the amount of electricity we use in the production process (kWh/l) by 20% per litre of packaged product.

### Fossil fuel-based energy usage

Our fossil fuel-based energy usage depends on the volume of product we produce during the year and fluctuates according to market demand as well as forward-planning stock management, and thereby creates an uneven trend towards our 2020 target. This is particularly relevant to our spirit production process as these products require time to mature before they can be bottled and sold. Brandy and whisky, for example, legally require a minimum of three years maturation.

As such, if additional stock is required based on predicted future stock requirements, we need to distil the raw spirit using fossil fuel-based energy before the spirit can be bottled. Therefore, our 'energy usage per litre of packaged product' can vary greatly if predicted future demand differs from current demand.



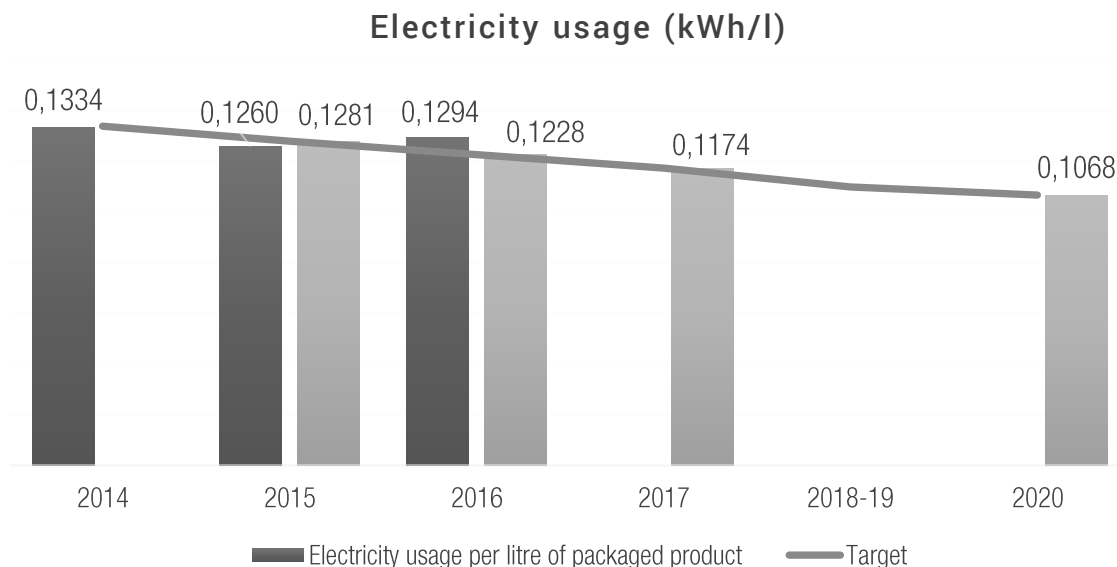
Our overall fossil fuel-based energy usage increased in comparison to 2015 and we were unable to reach our 8.0% reduction target from our 2014 base year – achieving 6.88%. The increase in fossil fuel-based energy usage was due to an 8.3% increase in required energy at our bottling facilities. This was heavily influenced by expansions at our Springs production site, which included the construction of a new fermentation and blending facility. As Springs is our largest production facility, any major shift in production efficiency will have a pronounced impact on overall corporate efficiency.

The installation of a de-aerator at our Worcester distillery will see a reduction of approximately 87 tonnes of coal per annum. The new-purpose biogas boiler at our Wellington distillery is expected to become operational from August 2016. The boiler makes use of methane gas produced as a by-product at the anaerobic wastewater treatment facility on site. This will result in a significant reduction in coal usage at our Wellington distillery.

## Electricity usage

Similarly to our fossil fuel-based energy usage, our electricity usage increased in comparison to 2015. As such, we were unable to reach our 2016 reduction target. This was due primarily to a 12% increase in electricity usage at our bottling facilities, with Springs experiencing a 40% increase in electricity usage. Springs used approximately 22% of Distell's total electricity usage for 2016.

An estimated electricity saving of 456 000 kWh was achieved during the reporting year due to the implementation of the following energy-saving projects across our operations: energy-efficient lighting upgrades at Green Park, Nederburg and Adam Tas; and optimisation of the compressed air system at JC le Roux and Adam Tas.

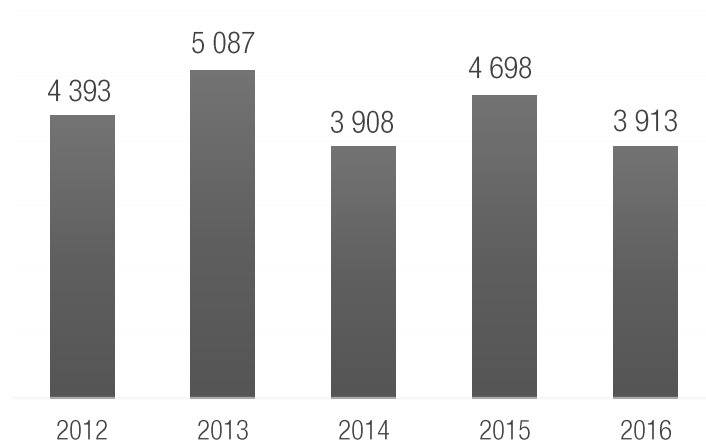


## Non-energy-related GHG emissions

We reduce our non-energy-related GHG emissions by capturing, purifying and using the carbon dioxide (CO<sub>2</sub>) released during the fermentation of apple juice for cider production to carbonate our products. This in turn reduces our CO<sub>2</sub> purchases. This year, we expanded our cider bottling facility in Springs to include fermentation and blending capabilities. The expansions included the installation of a CO<sub>2</sub> capturing facility, similar to that of our facility in Paarl.

In the year under review, the overall capturing of CO<sub>2</sub> was impacted by a reduction in fermentation activities at our Paarl facility while the Springs facility was not yet fully operational. This resulted in a 16,7% reduction in the total volume of CO<sub>2</sub> captured.

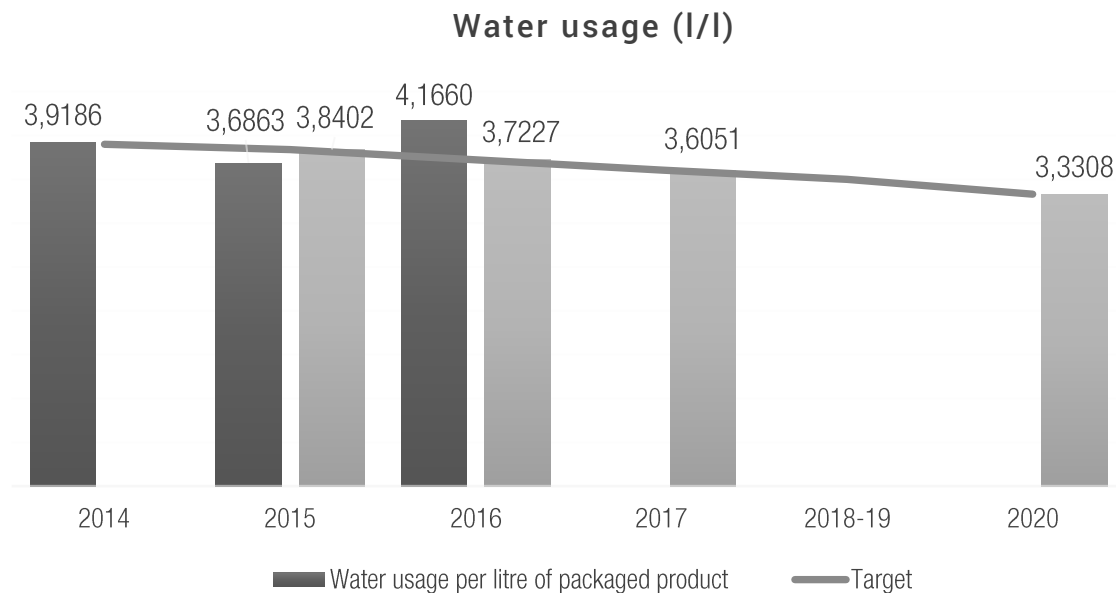
## Tonnes of CO<sub>2</sub>e captured



## Water usage and sustainable water supplies

Distell is dependent on water for agricultural expansion, the production of raw materials and for production processes. The importance of securing a reliable water supply – and ensuring that water quality is protected – is therefore critical, particularly as climate variability becomes more evident. Changes in temperature, rainfall, precipitation patterns and weather extremes, such as flooding and drought, could affect our ability to produce quality products. Our reputation is also at risk if we fail to manage our operations and the impact on water quality, or if we do not adhere to legislation. We therefore recognise our obligation to use water responsibly and treat and dispose of waste water sensibly.

Water usage at our production sites is measured and recorded on a continuous basis on our SSD system. This enables improved management and reporting of water usage



Performance against our 2016 target was poor. Water usage increased significantly and was above our original 2014 base year. This again was due to expansions at our Springs facility and was compounded by the breakdown of our pasteuriser water recycling project, which was equipped to recycle 100m<sup>3</sup>/day. The implementation of a bottle upgrade project further resulted in unanticipated breakages of bottles in the pasteuriser. The pasteuriser then had to be drained and cleaned which required the discharge of pasteuriser water. The intermittent interruptions resulted in additional water usage and associated energy usage. These factors together resulted in a 52% increase in water usage Springs and contributed significantly to a 31% increase in water usage per litre of production at our bottling facilities. This pasteuriser water recycling project will be reinstated and expanded following the completion of expansions at Springs, equipping the facility to recycle an increased amount of water moving forward.

A number of additional water saving opportunities have been identified at Springs and are in the process of being implemented. These include the recycling of water used to rinse bottles, as well as the recycling of the reverse osmosis retentate water stream. We have appointed an external service provider, Proxa,<sup>7</sup> to undertake specific water audits at our Green Park, Wadeville and Spring sites with the aim of identifying additional water saving opportunities. As part of our War on Waste programme, Distell personnel also contribute ideas and are actively involved in seeking new and innovative water saving opportunities across our operations. The implementation of three identified projects is expected to result in an estimated annual savings of 1 175m<sup>3</sup> of water per year.

<sup>7</sup> Proxa water treatment specialists – [www.proxawater.com](http://www.proxawater.com)

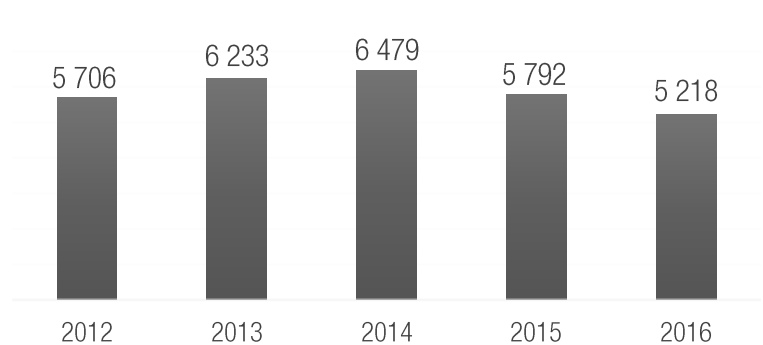
# Waste management

We generate various types of waste during the production, packaging and distribution of our products. The majority of our waste consists of organic primary waste, as well as inorganic waste such as glass bottles and other packaging waste.

## Organic waste management

Primary waste consists of grape skins, stalks and seeds that remain after we have extracted the juice used in our products. This waste is organic and can be composted or used elsewhere. The reporting year saw a 9.9% reduction in the volume of organic waste recycled and recovered. This directly relates to a decrease in the volume of grapes pressed, which is dependent on the grape harvest as well as on our wine production requirements. This in turn is subject to varying climatic conditions.

Organic waste recovered and recycled (tonnes)

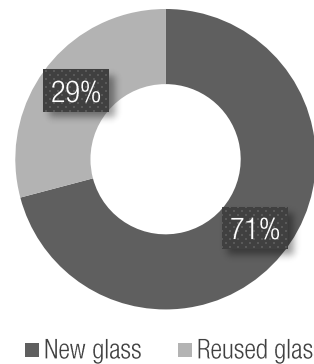


## Inorganic waste management

### Glass

This year we used a total of 288 746 tonnes (2015: 310 900 tonnes) of glass bottles, of which 71,6 % (2015: 73,0%) comprised new glass, and the remaining 81 872 tonnes (2015: 84 891 tonnes) comprised reused glass. We are actively working towards reducing the impact of glass in our packaging activities by adopting the 'three Rs' of waste management: reduce, re-use, recycle.

Glass used in 2016 (total of 288 746 tonnes)

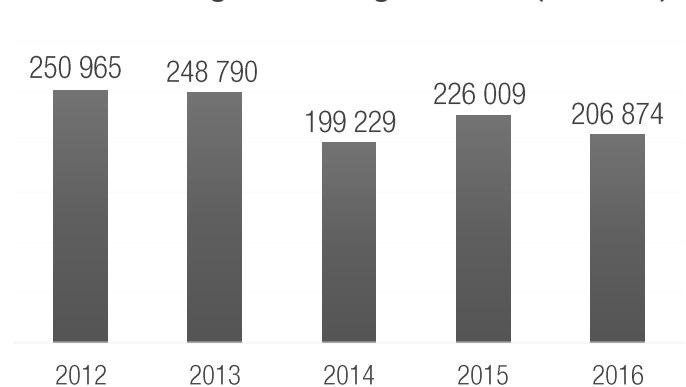


### Reducing the amount of new glass we require

This year we bought 206 874 tonnes of new glass – an 8,5% decrease compared to 2015 (226 009 tonnes). This decrease can be attributed to the following:

- Production volumes decreased 1,8%.
- An additional lightweighting project was implemented,<sup>8</sup> resulting in an estimated glass weight reduction of 1 443 tonnes. Since introducing lightweight bottles in 2009, our total annual glass requirements have reduced by 27 617 tonnes. This represents an approximate 9,6% reduction in our annual glass requirements.
- The reuse of glass bottles collected through our ongoing 'Give back, Get back' (GBGB) initiative. Through this initiative, we reused a total of 81 872 tonnes (2015: 84 891 tonnes) of glass. This amounts to 149,8 million bottles (2015: 154,2 million) and represents 28,4% (2015: 27,0%) of our total glass requirements.

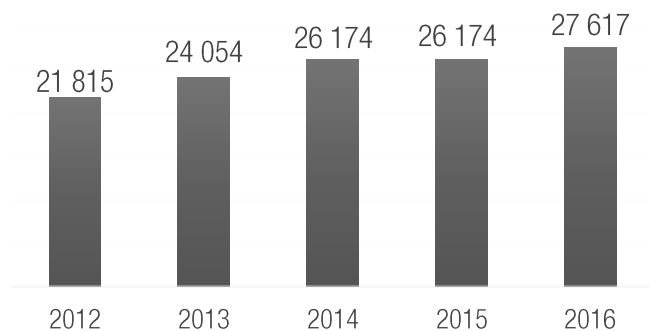
New glass bought 2016 (tonnes)



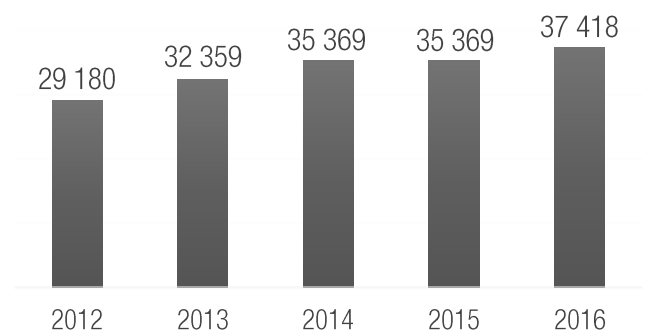
<sup>8</sup> Lightweighting refers to a manufacturing technique that enables glass packaging to be made lighter, without compromising on quality or safety. This reduces the amount of glass needed in packaging and production, benefitting our carbon footprint and reducing our cost of bottles and transport.

The graphs below illustrate the annual reduction in required glass, and associated reduction in the amount of CO<sub>2</sub>e released as a result of our lightweight projects.

**Cumulative reduction in required glass (tonnes)**



**Cumulative reduction in CO<sub>2</sub>e released**



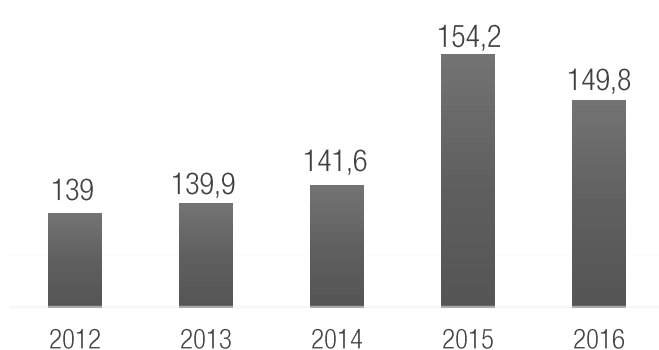
### Re-using glass through bottle returns

Three of our plants – namely, Ecowash, Green Park and Port Elizabeth – are equipped to wash used bottles. The number of bottles washed at these facilities during 2016 enabled us to reuse a total of 149,8 million bottles (2015: 154,2 million). This amounted to an 81 872 tonnes (2015: 84 891 tonnes) reduction in the amount of glass we were required to purchase and equated to a saving of 143 451 tonnes (2015: 148 353 tonnes) of CO<sub>2</sub>e that would have been emitted if new bottles had been purchased.

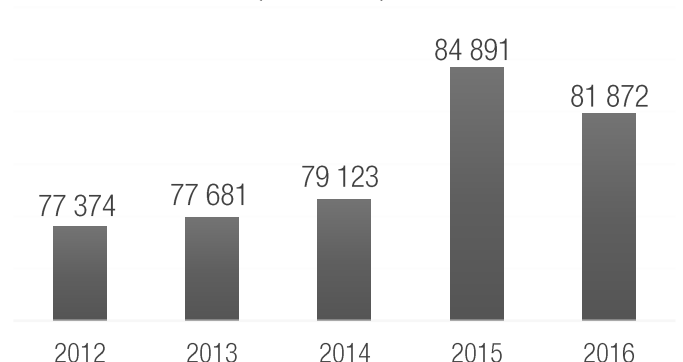
Through our GBGB programme, we encourage consumers to return used glass containers to participating retailers in return for a deposit. All bottles suitable for this type of recycling are clearly marked on the product's label. Before they are deemed suitable for reuse, returned bottles undergo stringent quality checks during the washing, sterilisation, rinsing and drying processes to ensure they meet food safety criteria. Those that do not meet the criteria are sent to recycling plants as cullet.

Over the last two years the GBGB programme has been analysed for opportunities to increase the return ratio of bottles. This assessment resulted in the development of a dedicated, returnable crate for the 660ml Hunter's ciders range. This initiative was launched on 1 July 2016, at the start of the new financial year, and it is envisaged that it will have a significant impact on the number of bottles returned through the GBGB programme.

**Number of glass bottles returned and reused (millions)**



**Glass returned and reused (tonnes)**



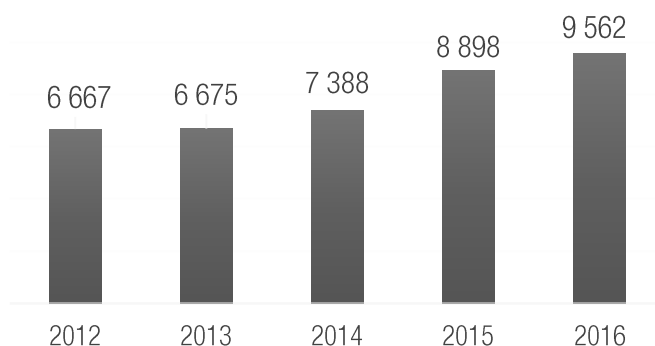


## Recycling glass

Glass waste from production activities is collected, sorted and stored onsite until it is collected for reuse or recycling as cullet by dedicated contractors. All broken or unsuitable bottles are sold to glass recycling companies where they are melted and made into new glass bottles. Any funds secured in this way are used to expand our recycling system.

As we improve our recycling systems across our sites, we expect the amount of glass recycled to increase. However, eliminating wasteful practices remains a priority to ensure any increase in our recycling figures can be attributed to our recycling systems rather than higher than anticipated production wastage. During 2016 the volume of glass recycled increase to 9 562 tonnes. This is a 7,46% increase from 2015 (8 898 tonnes).

### Glass waste recycled (tonnes)



## Other packaging and production waste

Waste from packaging material is generated during our secondary production activities, which include bottling and packaging of our products. We have introduced a range of initiatives to reduce, re-use and recycle packaging material, without compromising the quality or image of our products or brands. Where appropriate, we have switched to materials that are more environmentally friendly, or reduce volume and weight to landfills.

| Other packaging and production waste (tonnes) | 2012         | 2013               | 2014  | 2015  | 2016  |
|-----------------------------------------------|--------------|--------------------|-------|-------|-------|
| Cartons and paper                             | 1 577        | 1 684              | 1 761 | 2 030 | 2 263 |
| Plastic <sup>1</sup>                          | 862          | 857                | 875   | 892   | 763   |
| Tetra Pak                                     | 2,2          | 4,6                | 2,4   | 7,32  | 3,26  |
| Metal (including cans)                        | <sup>2</sup> | 170,8 <sup>3</sup> | 265,8 | 256,6 | 357,7 |

<sup>1</sup> An increase in the amount of plastic waste recycled reflects the waste resulting from the packaging of consumables bought from suppliers, rather than waste generated through our own production activities. The fluctuation in weight from year to year should be read in this context.

<sup>2</sup> Data not reported at the time.

<sup>3</sup> Includes only metal can waste.

Read more about our manufacturing activities from page 40

## Effluent and waste water

Waste water and effluent are by-products of our production process, however, the bulk of our waste water results from washing and cleaning in place (CIP) practices. CIP is critical to ensure our products comply with product quality and health and safety standards and cannot be eliminated. The volume and quality of waste water produced at our sites are either measured by us or by local authorities. The data is kept on site, uploaded onto our SSD database and reviewed by the management forums within our manufacturing business units on a monthly basis.

Generally, Distell's production sites use two methods to dispose of waste water:

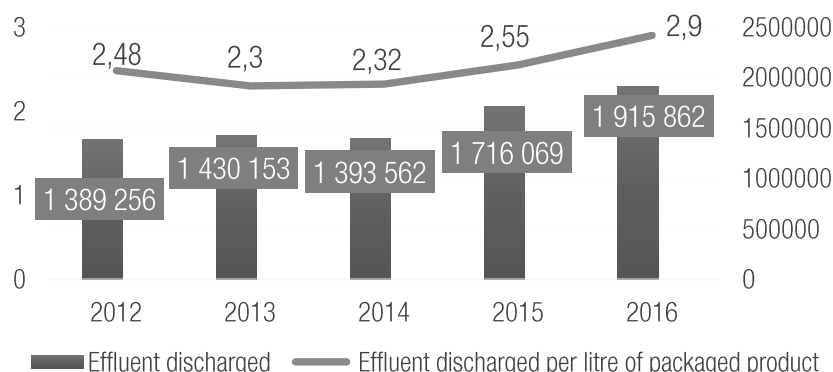
- Discharge to municipal sewer
- Use for crop irrigation.

Our approach is to look for ways to reduce the load on the local authorities and use treated waste water for irrigation while minimising our environmental impact. The relevant disposal method depends on the site-specific conditions and the type of effluent.

In the year under review, the absolute volume of waste water and effluent from our sites increased by 11,6% to 1 915 861m<sup>3</sup> (2015: 1 716 069m<sup>3</sup>), while our waste water intensity increased to 2,90 litres of effluent per litre of packaged product (2015: 2,55/l). This was expected due to the increase in water usage at our sites.

Read more about our water usage from page 55

**Effluent discharged 2016 (including Lusan)**

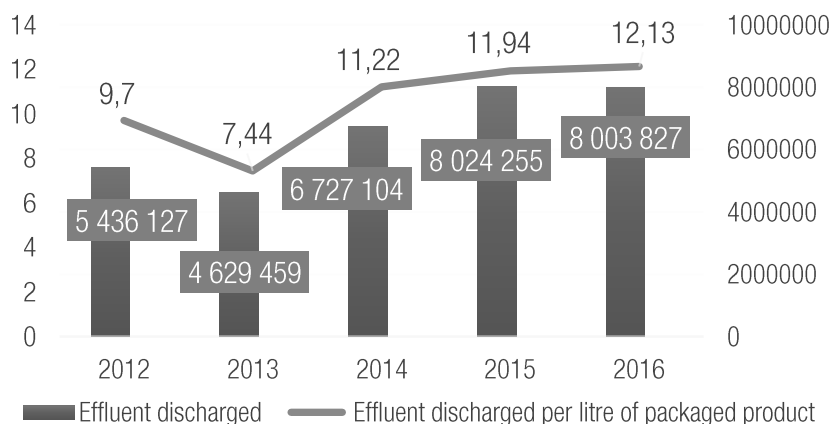


The Adam Tas anaerobic water treatment facility in Stellenbosch is currently in the final stages of construction and is expected to come on line in August 2016. The plant will pre-treat waste water before discharging it to the Stellenbosch municipality sewage work for final treatment. Biogas produced as a by-product of the waste water treatment facility will be used to generate steam for heating the treatment plant. It is planned that surplus steam could be used by the production facility in the future.

A tender has been issued for the design and build of a new waste water treatment facility at our Springs production plant. This tender specifies the construction of an anaerobic treatment facility with the biogas produced being used to heat and power the plant. A portion of the waste water will be treated to produce drinking water for non-product contact reuse at the site. The tender closes in August 2016 and construction is expected to begin in the new financial year.

A detailed technical assessment for a new anaerobic waste water treatment facility at our Worcester facility was completed. However, due to the composition of the waste water, it has been advised that a further pilot plant evaluation be undertaken. The detail of the pilot plant evaluation is being finalised and will be completed during the next financial year.

**Waste loading of effluent (including Lusan)**



## Effluent disposal and treatment initiatives

### Klipvlak in Worcester

In line with environmental best practice, we established an environmental monitoring committee to oversee the operation of the controlled evaporation facility at Klipvlak in Worcester. The management of the area is undertaken by a special purpose entity – Solamoyo Processing Company – of which Distell holds a 40% share. The Solamoyo Processing Company manages the waste water disposal activities on behalf of the Breede Valley Municipality in terms of a water services agreement.

During the reporting period the committee met twice to evaluate the performance of the Klipvlak facility. A number of odour complaints were registered with the Cape Winelands District Municipality. This resulted in the municipality issuing a compliance notice under the National Health Act, 2003, which required Solamoyo to draw up and implement an action plan to address the odour complaints.

A number of actions were undertaken, including re-sleeving the existing effluent pipeline under the Hex River after it was found that the river water was entering the pipe through a number of manholes situated along the river bed. This resulted in a substantial increase in the volume of waste water requiring handling at the facility which could not be supported by the current design. A mechanical evaporator was bought and installed to assist with the increase in evaporation. Since implementation, these actions have been successful in addressing odour complaints received from the Klipvlak facility.

### Ernita Farm in Wellington


In November 2015, the Spruitriver Water Users Association (SWUA) informed us of a sewage spill in the river originating from our Ernita Farm. The situation was investigated and it was found that the soak-away drainage field situated near the farm labourers' houses had become saturated and effluent was instead draining into the river via an irrigation drainage ditch. Two emergency conservancy tanks were installed and sewage water was collected and taken to the Wellington sewage works.

Subsequently, a detailed assessment of the situation at our Ernita Farm was concluded and it was decided that a dedicated sewage works for the farm labourers' houses should be constructed. An external contractor, W2 Africa, was appointed and the sewage works was constructed in accordance with the requirements of the National Water Act, 1998, and in collaboration with the Department of Water and Sanitation as well as SWUA. This project was completed and became operational in June 2016.



## Conservation of biodiversity

Growth in industrial agriculture impacts the natural environment. It is therefore important to establish and support sustainable farming practices that protect the environment for the long-term benefit of all. Whether owned by Distell or by an independent supplier, each farm involved in our operations must utilise sustainable farming practices. In the context of the South African wine industry, best practice is set out in the IPW scheme.

 [Read more about the IPW from page 43](#)

## World Wildlife Fund for Nature (WWF) and the Biodiversity and Wine Initiative

The Biodiversity and Wine Initiative (BWI) is a partnership between the South African wine industry and the conservation sector. It requires that all farms voluntarily set aside land for conservation to enable the natural habitat to flourish. The BWI guidelines form an integral part of the IPW guidelines and, as such, all IPW members must comply. However, BWI previously provided additional recognition to farms that set aside land for conservation, so-called BWI Member and Championship farms.

BWI has now indicated that it will no longer provide separate recognition to BWI Member farms setting aside land for conservation. However, the WWF, with whom the BWI have operated for the last few years, will continue giving recognition to previous BWI Championship category farms. Neethlingshof and Uitkyk, are both Championship category farms which ensure that critical conservation areas are being preserved for future generations. From 2016, these farms will be known as WWF Champions in Conservation. Uitkyk, Le Bonheur, Groenhof and Plaisir de Merle are also members of the Greater Simonsberg Conservancy.

The area we have set aside for conservation, either through BWI or other conservancies, totals 2 017ha, or 39% of the total area owned or partly owned by Distell.

 [Read more about our approach to responsible agricultural practices from page 43](#)

### Future focus

In 2017, we will focus on the completion of our integrated sustainability strategy and, as part of this process, the development of a water stewardship strategy. We are finalising the appointment of WWF to assist us with a risk assessment on the use and availability of water at our production facilities, and are developing best practice water management guidelines to oversee the management of water on our farms.

The newly established Supply Chain Excellence division (now incorporating the environmental sustainability department) is developing an integrated health, safety and environmental (HSE) management system and will focus on strengthening the HSE operational teams at production sites. This focus will further include restructuring the ISO 14001 EMS to be in line with the 2015 standard while ensuring that those site certified under the 2004 standard maintain certification until the new system is complete.