

# SUSTAINABILITY — REPORT — 2017



**DISTELL**



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**Water usage** per litre  
of packaged product improved significantly in  
comparison to 2016, with a  
**13,5%** reduction  
(8,0% reduction against the 2014 base year)

**Electricity usage** per litre  
of packaged product was  
**3,6%** lower than 2016  
(6,5% lower than the 2014 base year)

**Our greenhouse gas emissions** decreased by **3,0%** in comparison to  
2016 (7,9% lower than the 2014 base year)

## SUSTAINABILITY HIGHLIGHTS

**B-BBEE level**  
status attained

**4**

**R19,1 million** spent on  
**socio-economic development**  
(direct and indirect CSI spend)

# OUR APPROACH TO SUSTAINABILITY REPORTING

## INTRODUCTION

Our sustainability report is a reflection of the financial performance of the year ended 30 June 2017. It provides insight into matters that are vital to our future prosperity and discusses our responsible management processes. These processes are crucial in driving our health and safety, social, environmental, transformation and economic imperatives.


The report is aimed at a wide range of stakeholders who influence our business. These include trade customers, investors, strategic business partners, suppliers, communities, government, consumers and our employees.


## CONTENT GUIDANCE

We consider and use a range of content guidance documents in the preparation of our reporting elements:

- The integrated report considers the requirements of the International Integrated Reporting Council's (IIRC) Integrated Reporting (<IR>) Framework.
- The annual financial statements presented in this report are prepared in accordance with International Financial Reporting Standards (IFRS) and the reporting guides provided by the South African Institute of Chartered Accountants (SAICA) and the Accounting Practices Committee (APC), where applicable, the South African Companies Act, No. 71 of 2008, as amended (the Companies Act), and the JSE Listings Requirements.
- We have applied the principles outlined in the King Code of Governance for South Africa 2009 (King III) in South Africa. We are making good progress in our preparations to implement the King IV Report on Corporate Governance™ for South Africa 2016 (King IV™) in 2018.

Our reporting is based on the concept of value creation through the six forms of capital: financial, manufactured, intellectual, human, social and relationship, and natural. These capitals are stores of value that are either increased, decreased or transformed through our business activities.

 Distell's definitions for the six forms of capital can be found on page 8 of our integrated report.

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

## SCOPE OF THE REPORT

The report covers the non-financial performance of Distell Group Limited (Distell Group) for the year ended 30 June 2017. The Distell Group is a leading producer and marketer of wines, spirits, ciders and ready-to-drinks (RTDs). The majority of our products are produced in South Africa and sold in more than 100 countries. Distell has an extensive worldwide distribution network which is supported by local production capability in Scotland, France, Angola and Kenya as well as joint venture and associate partnerships in countries that include Tanzania and Zimbabwe. Most of the Group's revenue (74,3%) is generated in South Africa.

All non-financial information relates to the Group's operations in South Africa only, unless indicated otherwise. As mentioned in previous sustainability reports, Distell has a 50% share in LUSAN Holdings Proprietary Limited (LUSAN). Where non-financial data is included from LUSAN wineries, this has been clearly stated.

There has been no change from last year in the scope and boundary of the report.

More detailed financial information is available in our integrated report which is available online ([www.distell.co.za](http://www.distell.co.za)). Additional information relating to presentations, events and results can also be found in the investor centre section of our website.

## 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 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 information – has been independently assessed and verified.

## FURTHER INFORMATION

For comments or queries regarding our reports, contact Dennis Matsane from our corporate affairs department.

E-mail: [info@distell.co.za](mailto:info@distell.co.za)

Tel: +27 21 809 7000

## FORWARD-LOOKING STATEMENTS

Due to the future-orientated principle of reporting, many statements in this report constitute forward-looking statements. These are not guarantees or predictions of future performance. As discussed in this report, the business faces risks, opportunities and other factors outside its control. These and other uncertainties may cause our actual future results to be materially different from those expressed in this report. Readers are therefore advised not to place undue reliance on forward-looking statements.

## STATEMENT BY THE CHAIRPERSON OF DISTELL'S SOCIAL AND ETHICS COMMITTEE

Distell recognises that multiple opportunities exist to grow if the company is able to solve the sustainability challenges it faces. For example, climate change necessitates that Distell's supply chain be energy and water efficient for optimised usage. By managing this proactively, Distell can identify cost-saving opportunities that enable it to deliver on its business promises through sound business practices and sustainable processes.

Accordingly, Distell has renewed its focus on sustainability by taking a holistic, integrated and structured approach. This culminated in the development of a comprehensive sustainability strategy built on environmental considerations and the expectations of its stakeholders, as well as the establishment of a Sustainability Council, effective in the 2018 financial year.

The Sustainability Council will provide strategic guidance on the implementation of Distell's sustainability strategy, with a key focus on resource efficiency (particularly water and energy stewardship). Stakeholder engagement will also receive dedicated focus during the next financial year to ensure that Distell continues to create value for all its stakeholders. These efforts complement the important work that Distell continues to perform with its stakeholders through various sustainability initiatives. These initiatives are discussed in more detail throughout this report.

Distell's social and ethics committee (SEC) assists the company with its sustainability, social and ethics responsibilities, and also manages and monitors the Group's sustainability performance. The SEC is chaired by an independent non-executive director who attends the annual general meeting to respond to shareholder queries. This ensures a culture of accountability and transparency.

## Statement of approval

The SEC has considered detailed reports on the matters discussed in this report. In general, the SEC is satisfied that Distell is fulfilling its social and ethical obligations as a good corporate citizen. The SEC reviewed this report and collectively believes it fairly represents the material matters and sustainability performance of the company.

As our important stakeholders, I trust that you will find this report insightful and reflective of Distell's journey to maximise its positive social, environmental and economic impact.



**GP Dingaan**

Chairperson: social and ethics committee

Stellenbosch  
30 August 2017

## NAVIGATIONAL ICONS

The following icons are applied throughout this report to improve usability and navigation between the relevant elements of the report.



This icon refers to Distell's website: [www.distell.co.za](http://www.distell.co.za).



This icon is used for cross-references to our integrated report.



This icon is used for cross-references in this report.

**All products mentioned in this report are not for sale to persons under the age of 18 years. As always, we appeal to consumers who have chosen to drink alcohol to enjoy our products responsibly.**




# OUR BUSINESS PHILOSOPHY

## WHO WE ARE

The Distell Group is a leading producer and marketer of wines, spirits, ciders and ready-to-drink (RTD) beverages, which are sold across the world. Our diverse portfolio of brands, with their rich heritage and authentic character, are priced across the price continuum to offer consumers a choice for every occasion.


Distell enjoys a growing global reach and continues to build the presence of its brands in select priority markets.

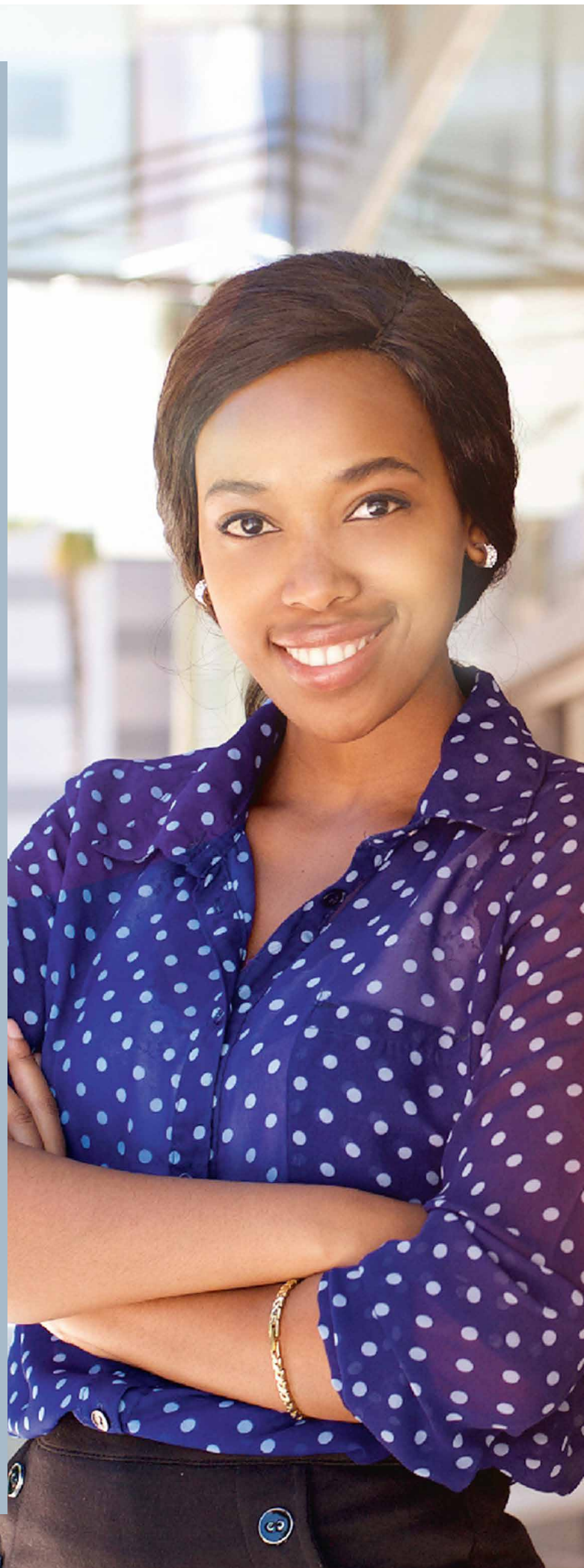
Distell was created in 2001 through the merger of Distillers Corporation (SA) Limited and Stellenbosch Farmers Winery Group Limited. We employ approximately 5 300 people and have an annual turnover of R22,3 billion.

 Read more about our group structure and where we operate from page 182 of our integrated report.

Many of our brands are household names to consumers in Africa and select international markets. These include Amarula Cream, Nederburg, Savanna and Scottish Leader, among others. Amarula Cream is South Africa's most widely distributed international alcoholic beverage brand, and is ranked as the world's second-largest cream liqueur. Our wines are sold on every continent. We created the cider category in South Africa and recently launched Savanna in China. Our cider brands, Hunter's and Savanna, are now readily available in many parts of Africa and Distell remains the second-largest producer of ciders worldwide.

Our portfolio of brands also includes a selection of international speciality spirits brands. The acquisition of Burn Stewart in 2013 helped us develop our business footprint in international markets and exposed us to the highly valuable and truly international Scotch whisky category.

 Read more about our comprehensive portfolio of wines, spirits, ciders and RTD beverages from page 12 of our integrated report.



## 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 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

 Read more about our strategic strengths, aspirations and capitals of value creation from page 6 of our integrated report.





# GROUP STRATEGY

The six core strategic themes referred to below contain the key focus areas to guide our future strategic journey. Each has been carefully crafted in support of our vision and mission, and reinforces our critical capabilities to effectively compete in the global alcoholic beverages market.

## 1 LEAD SELECTED MARKETS

We will establish and grow a portfolio of alcoholic beverage businesses that are regional leaders in selected emerging markets. We will be the world's largest cider company.

## 2 CRAFT DISTINCTIVE AND COMPELLING BRANDS

We will market a differentiated and distinctive brand bundle of wines, spirits and ciders that appeal to relevant consumer needs at key consumption occasions. We craft a portfolio of distinctive, niche, premium spirits and wine brands that complements our mainstream, high-velocity wine, spirits and RTD brands.

## 3 OWN THE LAST MILE

We will aim to win by owning the route-to-market in selected geographies around the world. By investing in market intelligence and building a strong network of partnerships, we are increasing market penetration and enhancing service levels so we can offer the right products in the right channels at the right time, efficiently and profitably.





## 4 SCALE UP EXCELLENCE

We will drive operational efficiency in ways that enable consistent quality, competitive pricing and improved returns. We will unlock value from any underperforming or underutilised assets.

## 5 SHAPE THE FUTURE

We will invest in talent, diversity and innovation so we're equipped to effectively compete in times ahead, and also to help shape a better, safer and more sustainable future.

## C CARE AND CONTRIBUTE

We're proud of our role as a caring, socially and environmentally responsible corporate citizen who conducts business with fairness and integrity. That means we promote safe and responsible alcohol consumption, drive socio-economic transformation, look after our planet and champion ethical business conduct.

# OUR STAKEHOLDERS

At Distell, we firmly believe that stakeholder relations is an interdependent function that relies heavily on environmental scanning (for identifying emerging issues, monitoring issues that have occurred, monitoring issues of interest, and social listening to shifting stakeholder expectations) and enhances the mechanisms for internal and external communication.

Our view is that effective stakeholder engagement is the basis for good corporate governance and we remain committed to this approach. As a responsible corporate citizen, we have also long recognised the strength of relationships with our key stakeholders and that social, economic and environmental interests are integral to the success of our business.

Stakeholder relations provides a platform for Distell to take into account stakeholder expectations, needs, concerns and opportunities. The aim of our stakeholder relations function is to help shift the company to an ambit of stakeholder responsiveness which is part of business as usual.

Guided by this philosophy, we initiated a reputation survey in 2016. The survey targeted all our key stakeholders in South Africa to gain a thorough understanding of the issues that are material to them and the level of their impact on them and us as a company. Those surveyed included government, non-governmental organisations (NGOs), media, investors, suppliers, customers, strategic partners, as well as 1 000 employees.

The feedback we received was most invaluable and included key actions to mitigate risk and identify opportunities for Distell. This has now been formalised into a targeted stakeholder engagement plan which will be deployed during the new financial year. We also have plans to extend future surveys to all our other stakeholders outside of South Africa.

Below is a high-level summary of our stakeholder engagement approach:

STAKEHOLDER GROUP	WHY ARE WE ENGAGING?	WHAT DO WE WANT TO ACHIEVE?
Trade customers	Our business is built around the ability of our trade customers to sell our products to consumers.	Our trade customers should have a thorough understanding of our business and brand portfolio. Our engagement facilitates this understanding and enhances Distell's position as a company that values quality, trust and integrity in everything we do.
Strategic business partners	Strategic partners play an important role in the growth and sustainability of our business.	Our engagement with strategic partners creates opportunities for mutually beneficial relationships that are long term in nature and respectful in character.
Suppliers	Suppliers provide services and products that are key to Distell's ability to produce and market our products.	Engagement guarantees continuous innovation that yields solutions that drive down our costs which enhances Distell's ability to produce.
NGOs and communities	NGOs and communities are an important stakeholder group since they are impacted by our operations. Engagement addresses issues of mutual concern, such as employment and economic development.	We want to foster transparency and openness, and facilitate positive dialogue which discusses and resolves issues of mutual interest.
Government	Distell engages with all levels and spheres of government. This includes both national and regional governments as well as government agencies such as regulators.	Strong relations between government and the private sector are good for the country and society as a whole. For Distell, this means creating value through enabling legislation, and partnering on community development and empowerment issues and maintaining our licence to operate.
Investors	Investors have a vested interest in Distell as providers of capital and we want to keep them informed about our financial performance and sustainability.	We want to build investor confidence by demonstrating that we adhere to the highest standards of corporate governance and that Distell is a company that creates value and return on investment for all its stakeholders.
Employees	Our employees are our biggest asset and we want to ensure that they remain committed and passionate about their work and the company.	We want our employees to be engaged as our ambassadors and to take pride in Distell as an employer of choice. This will enable us to attract and retain talent.
Consumers	Without our consumers our business would not exist because they are central to our existence. We therefore need to be consumer-focused, offering them value, quality and innovative products.	We want to build trust among our customers as well as provide unique moments of social enjoyment through the responsible marketing of our products. We also want to make it easier for our customers to engage with us, particularly on our product offerings.



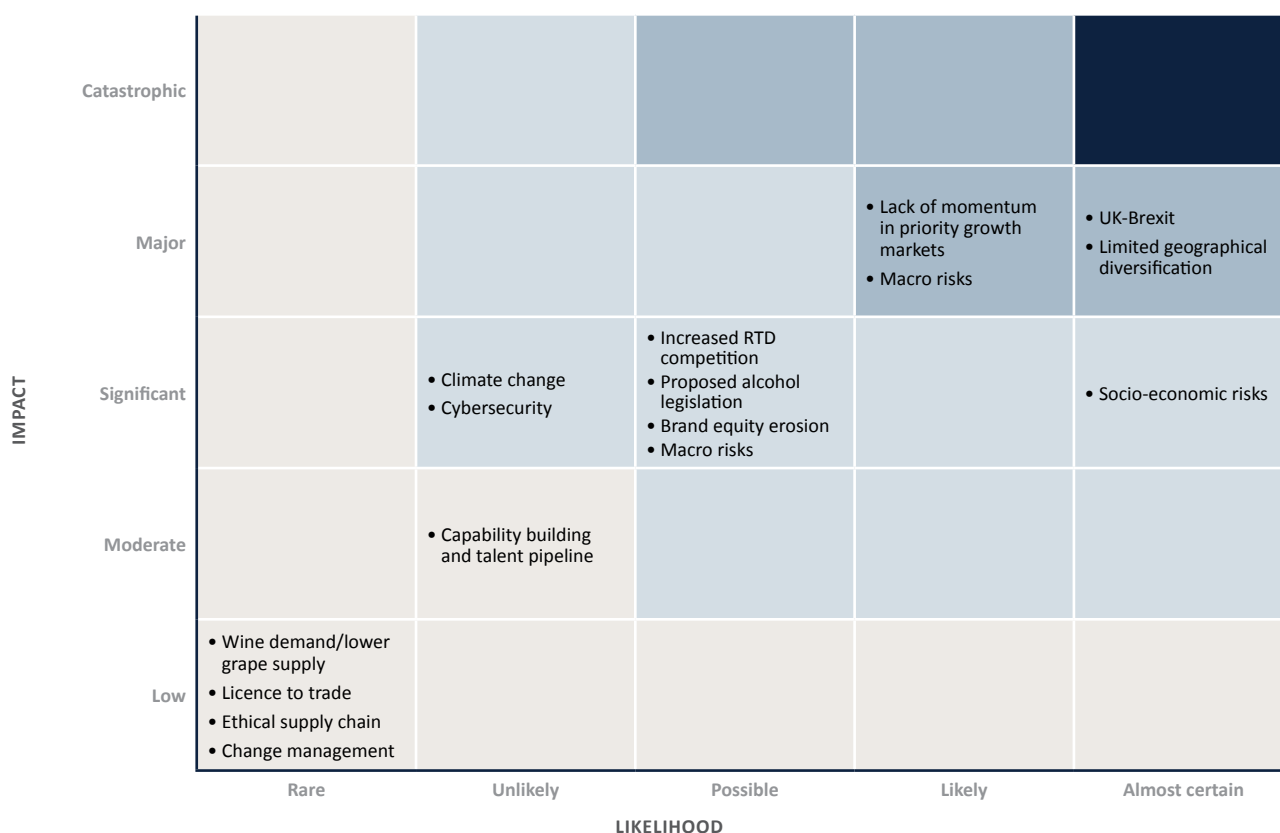
# CORPORATE STRATEGIC RISKS AND OPPORTUNITIES

Within the context of the Group's strategy, business plans and business philosophy, management has identified material matters and risks which it believes could impact the Group's ability to sustain future value and growth. These matters are also approached as opportunities, particularly to improve efficiencies and scale up excellence.

The directors and management believe the material matters and risks listed below are those that affect the performance and longer-term viability of the Group. The key strategic risks are reviewed regularly by the executive team and the risk and compliance committee. Read more about the risk management process in the risk report in the integrated report on page 174.

The successful management of the matters below will enable the sustainable execution of Distell's strategy and create value for all stakeholders.

## RESIDUAL RISK HEAT MAP



	MATERIAL MATTER/RISK DESCRIPTION	MITIGATING ACTIONS/CONTROLS	RESIDUAL RISK DASHBOARD
<b>MACRO RISKS</b>			
<b>UK: Brexit</b>	Brexit could have a negative impact on South African wine exports to the UK as well as exports of Scotch whisky to South Africa from the UK, with possible currency impact due to a weaker pound if Brexit is disorderly. This will reduce the profitability of wine exports to the UK.	We are assessing the potential impact of a loss of duty-free market access and the related financial impact for Distell. We are formulating plans to mitigate the risk in our European operations including the establishment of our own route to market operation in the UK.	 <b>High</b>
<b>Other key international markets</b>	European Union (EU) instability will dampen consumer spend in our key EU markets.  Rising US trade protectionism could lead to loss of duty-free access for South African wines under the African Growth and Opportunity Act (AGOA).	We have to ensure the sustained profitability of the export portfolio by developing strong partnerships in key markets such as the US, UK and China.	 <b>High</b>
<b>South African market</b>	Further downgrades of South Africa's local-currency-denominated debt will lead to increased interest rates, weakness of the rand and a decline in the value of consumers' disposable income.	We are protecting and growing our market share by expanding our market service effectiveness programme while diversifying Group earnings in Africa and international markets. Further measures include extracting more value from Burn Stewart Distillers, Bisquit and our international business, while pursuing an inorganic growth strategy. We are improving profitability via cost-efficiency initiatives and focusing our brand portfolio and optimising our production and distribution network to protect market share and profitability.	 <b>High</b>
<b>African market</b>	Depressed commodity prices due to lower demand from China contribute to weaker currencies and rising foreign currency shortages. This results in the inability to extract foreign exchange from certain key markets, combined with lower growth in undiversified economies.	We are investing in local route-to-market and production to gear up for future market recovery while aligning our pace of investment with the possible risks. We will leverage our strength in mainstream wines and spirits, and seed and support our cider and premium global brands for medium-term growth.	 <b>Moderate</b>
<b>Climate change</b>	Extreme weather events can have a negative impact on South African grape and apple production, which affects the security of supply. A water crisis can disrupt production operations.	We are optimising our supply chain to be energy and water efficient. We are also investing in research to support our need to assure the sustainability of supply of our key grape and apple juice requirements.	 <b>Moderate</b>

## CORPORATE STRATEGIC RISKS AND OPPORTUNITIES CONTINUED

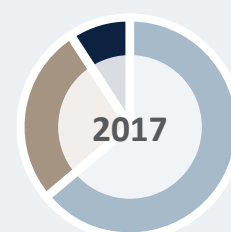
	MATERIAL MATTER/RISK DESCRIPTION	MITIGATING ACTIONS/CONTROLS	RESIDUAL RISK DASHBOARD
<b>INDUSTRY RISKS</b>			
<b>Increased RTD competition and pricing wars with large competitors</b>	Increased competition through lower beer prices and a step-up in trade investment through promotions, discounts, etc. could impact our market share and cost to compete.	We are investing in creating a differentiated RTD portfolio with an expanded route-to-market footprint in South Africa. We are also extracting cost-efficiencies from the supply chain to be able to price our core portfolio more competitively.	 <b>High</b>
<b>Proposed alcohol legislation</b>	Proposed alcohol legislation could include higher taxes, restrictions in alcohol marketing and packaging, a change in the legal drinking age and a limitation on licensed outlets.	We are participating in industry lobby efforts to influence legislation while showing our commitment to broad-based black economic empowerment (B-BBEE) and transformation in our value chain. We are building strong sales, trade marketing and distribution capability to improve in-outlet activation and increase our levels of customer service.	 <b>High</b>
<b>Wine demand growth in South Africa constrained by lower supply</b>	A continued decline in grape supply stocks are projected in the local industry.	We are developing a long-term sourcing raw materials for value strategy while developing partnerships with producers to support vineyard expansion in South Africa and Africa.	 <b>Low</b>
<b>COMPANY RISKS</b>			
<b>Limited geographic diversification</b>	Organic business growth, including exports, is unlikely to significantly reduce our exposure to South Africa. Industry consolidation is also increasing the barriers of entry in chosen growth markets.	Mergers and acquisitions will be the main driver of geographic diversification. We are pursuing opportunities that are value accretive within the next five years.	 <b>High</b>
<b>Lack of momentum in priority growth markets</b>	Slow incorporation of new acquisitions in growth markets, combined with a lack of momentum to implement the in-country production model, will limit our ability to capitalise on assumed benefits in acquisition models.	We have developed top management key performance indicators to drive the integration of acquisitions. We have also significantly increased our talent pipeline to be able to effectively implement our growth strategies.	 <b>High</b>
<b>Brand equity erosion</b>	The lack of a focused portfolio can compromise the health of core brands due to insufficient innovation and investment support.	We have focused portfolio strategies in place with effective investment support to build brand equity. We are also reducing the size of our brand portfolio and asset base to enable more focus.	 <b>Moderate</b>
<b>Capability building and talent pipeline</b>	Our decentralised model requires excellence in key commercial capabilities, which, in turn, requires sufficient internal talent to support the inorganic growth pipeline.	We are strengthening our employment policies and practices as well as reward systems, which include short- and long-term incentive schemes, to ensure that the right talent is recruited, developed and retained. Talent gaps are identified and filled through talent management and resourcing processes, which include recruitment from relevant industry players.	 <b>Moderate</b>



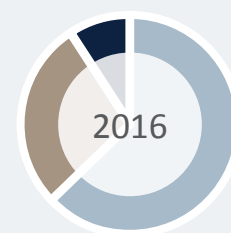
	MATERIAL MATTER/RISK DESCRIPTION	MITIGATING ACTIONS/CONTROLS	RESIDUAL RISK DASHBOARD
Information and cybersecurity	<p>The disruption of IT systems and loss of valuable and sensitive information and assets are risks to the Group.</p> <p>Failing to comply with tightening legislation poses a threat of significant financial penalties or restrictions.</p>	<p>We have an established cybersecurity internal control framework that is aligned to industry best practice and frameworks that govern internal roles, responsibilities and procedures. To reduce the risk of cyberattacks, management has launched a vulnerability management programme, which includes cybersecurity awareness, around phishing and ransomware.</p> <p>Distell's cybersecurity technologies are state of the art. Management is currently investing in data leakage prevention technology to avoid the sharing of highly confidential information with unauthorised parties.</p>	 Moderate
Licence to trade	<p>A perceived lack of progress with our B-BBEE rating could impact our ability to operate.</p>	<p>We have developed a robust integrated transformation strategy and implemented a governance structure – the Sustainability Council – which meets quarterly to monitor implementation and progress. We have implemented interim scorecard measurements with monthly status updates. A monthly progress report is submitted to the Group managing director and the B-BBEE scorecard has been added as a key performance measurement for our short-term incentive scheme.</p>	 Low
Ethical supply chain	<p>Significant product contamination and poor product recall can negatively impact on brand equity and result in reputational damage. This includes procurement from suppliers who may contravene our standards of ethical practices.</p>	<p>We have stepped up our quality management and procedures. Suppliers are bound by our supplier Code of Conduct to prevent damaging conduct such as unethical labour practices. Ongoing ethics training is taking place with our employees, distributors, partners and suppliers.</p>	 Low
Change management	<p>Distell's change journey can have a detrimental impact on selected stakeholders. This includes risks related to corporate reputation and the loss of critical skills.</p>	<p>Effective change management initiatives support and enable Distell's change journey. Our talent management process is used to retain critical skills.</p>	 Low

# CREATING AND SHARING FINANCIAL VALUE

	GROUP	
<b>Cash value added statement</b>	2017	2016
for the years ended 30 June	R'000	R'000
<b>Cash generated</b>		
Cash derived from sales	21 936 532	21 033 380
Net financing costs paid	(304 218)	(243 966)
Income from investments	7 163	7 501
<b>Cash value generated</b>	<b>21 639 477</b>	<b>20 796 915</b>
Cash payments to suppliers of materials and services	(11 675 493)	(11 305 261)
<b>Cash value added/wealth created</b>	<b>9 963 984</b>	<b>9 491 654</b>
<b>Cash utilised to:</b>		
Pay excise duty to the State	5 176 974	4 785 528
Pay tax on income to the State	500 341	617 204
Remunerate employees for their services	2 422 392	2 462 152
Provide shareholders with a return on the use of their risk capital	832 100	773 507
<b>Cash disbursed among stakeholders</b>	<b>8 931 807</b>	<b>8 638 391</b>
<b>Net cash retained from operating activities</b>	<b>1 032 177</b>	<b>853 263</b>
<b>Reconciliation with cash generated</b>		
Cash value added (above)	9 963 984	9 491 654
Less: Remuneration to employees for their services	(2 422 392)	(2 462 152)
Net financing costs paid	304 218	243 966
Payment of excise duty to the State	(5 176 974)	(4 785 528)
<b>Cash generated from operating activities</b>	<b>2 668 836</b>	<b>2 487 940</b>
<b>State taxes</b>		
Excise duty	5 176 974	4 785 528
Tax on income	500 341	617 204
Value added tax and alcohol levy	1 229 935	1 007 026
Employees' tax deducted from remuneration	449 478	395 364
Regional Services Council levies and property taxes	60 273	50 812
<b>Channelled through the Group</b>	<b>7 417 001</b>	<b>6 855 934</b>



2017		2016
64%	State	63%
27%	Employees	28%
9%	Other	9%







# MESSAGE FROM THE GROUP MANAGING DIRECTOR



RM Rushton | GROUP MANAGING DIRECTOR

Sustainability considerations continue to be a key factor in defining how we conduct our business. Even as Distell undergoes a transformation aimed at doubling its size by 2021, the company continues to acknowledge its role in society as a corporate citizen whose actions have the potential to impact the economy, the environment and our stakeholders.





We recognise that our stakeholders expect us to demonstrate trust and integrity in everything that we do and we continue to engage them regularly to gain a thorough understanding of the issues that are material to them. This understanding is the core of our sustainability commitment and something that, as true Brandcrafters, we have fully embraced.

 Read more about our engagement with our stakeholders on page 8.

Distell is also a signatory to the United Nations Global Compact (UNGC) and we take our obligations, as stipulated by our membership, seriously. We will continue to improve the integration of the UNGC Principles into our business strategy, operations and culture.

## SALIENT NON-FINANCIAL FEATURES

The following table reflects Distell's environmental performance against our 2014 base year and target for 2020:

STRATEGIC GOAL	BASE YEAR: 2014	TARGET: 2017	ACTUAL: 2017	TARGET: 2020
Reduce water usage (ℓ/ℓ)*	3,920	3,610	<b>3,600</b>	15% 
Reduce electricity usage (kWh/ℓ)	0,133	0,117	<b>0,124</b>	20% 
Reduce on-site energy usage (MJ/ℓ)	1,226	1,079	<b>1,260</b>	20% 
Reduce greenhouse gas (GHG) emissions (tCO <sub>2</sub> e/ℓ)	0,257	0,221	<b>0,236</b>	20% 

ℓ: litre.

kWh: one kilowatt hour.

MJ: one megajoule.

tCO<sub>2</sub>e: tonnes of carbon dioxide equivalent emissions.

\* Litres of water used per litre of packaged product.

 Read more about our performance against our environmental targets from page 61.

## PERFORMANCE AGAINST OUR STRATEGIC THEMES

Our six core strategic themes contain key focus areas to guide our future strategic journey. Each has been carefully crafted in support of our vision and mission, and reinforces our critical strategic capabilities to effectively compete in the global alcoholic beverage market.

In particular, the three themes discussed below, guide our commitment to be a caring and socially and environmentally responsible corporate citizen that conducts business with fairness and integrity. This includes ensuring that we have sound business practices, processes and people to help shape a better, safe and sustainable future.

### Scale up excellence

Our efforts to achieve excellence were recognised this year when Distell was awarded top honours at the Massmart Supplier Environmental Awards. The awards honour Massmart's local suppliers for their commitment and exceptional performance in the implementation of environmentally sustainable business practices.

For example, 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.

A highlight from our efforts over the past few years includes installing a new waste water treatment plant in Stellenbosch, Western Cape, which generates renewable biogas and pre-treats about 200 million litres of water per annum.

We have started executing a contingency plan to mitigate water restriction risks in the Western Cape, focusing on products vulnerable to single sources or high consumption.

Our glass bottle return and reuse programme continues to gain scale.

Distell's first large-scale solar photovoltaic plant was installed at the Springs facility in Gauteng. The plant has 4 440 panels and ranks among the top-five biggest solar installations in South Africa for factories producing consumer goods. The solar plant can produce up to 35% of the site's electricity consumption during peak production, reducing our dependency on Eskom, South Africa's public electricity utility, and contributing towards achieving our target of reducing carbon emissions by 25% by 2020.

### Shape the future

As part of our annual strategy review, we assessed Distell's potential growth opportunities based on consumption trends in global product categories and in relation to our core competencies. We also reviewed our underlying operating model and the key changes required to deliver on our strategic aspirations.

Our corporate culture was therefore a topic of robust discussion this year. Consequently, we developed a change roadmap to guide our culture change process towards high performance. We evaluated how aligned employees are with our six values, as well as how they experience our key drivers of success. These drivers include performance management, rewards and benefits, talent management, transformation, internal process optimisation and business communication.

**We remain committed to crafting an exciting workplace for our employees that promotes career well-being.**

We also created an enhanced Employee Value Proposition (EVP) to streamline recruitment and talent management processes, to position ourselves as an employer of choice in South Africa and beyond, and to effect a simple, transparent and auditable way of managing employee performance.

## MESSAGE FROM THE GROUP MANAGING DIRECTOR CONTINUED

### Care and contribute

**We are committed to being a caring, socially and environmentally responsible corporate citizen that conducts business with fairness and integrity. This includes contributing to safe and responsible alcohol consumption, driving socio-economic transformation and championing ethical conduct.**

Distell's ability to grow sustainably relies on the implementation of our six strategic themes. Our strategic themes are supported by the following sustainability enablers, which are described in more detail throughout this report:

- Our contribution to responsible drinking (page 22)
- Sustaining our communities (page 30)
- Shaping our people (page 34)
- Achieving transformation (page 44)
- Managing our supply chain sustainably (page 50)

Examples of our progress in demonstrating care and making a contribution include reaching our target of a level 4 B-BBEE status this year, an improvement from our previous level 8. We remain committed to transformative ventures, which build resilience and enable us to share value with all our stakeholders.

We are particularly proud of our enterprise and supplier development initiatives. Distell's E+Scalator programme is a dedicated incubator that works with black-owned small and medium-sized enterprises (SMEs) to aid their development within the Distell value chain. The programme consists of preferential funding and business development support, and is a dedicated channel to engage cross-functionally with the Group.

The empowerment project to develop apple juice concentrate suppliers made progress this year. This enables us to realise transformation in our value chain.

In the marketplace, the Amarula Cream 'Name Them, Save Them' campaign has been our most visible commitment to demonstrating care and making a contribution. 400 000 bespoke bottles of

Amarula Cream were sold as a tribute to the 400 000 elephants left in Africa.

A highlight in the last year was the establishment of a majority black-women-owned enterprise, The Handwork Hub, which supplies around 70% of our Amarula Cream bottle tassels. Through this initiative informal handwork was converted into formal employment.

We continue to support the Industry Association for Responsible Alcohol Use (ARA) in South Africa, and engage with regulators and industry bodies in other markets where we operate to ensure that we reduce the harm associated with alcohol abuse. This is further supported by our refocused corporate investment priorities.

### CHALLENGES AND OPPORTUNITIES

More robust legislative regimes and the impacts of climate change are some of the macro categories of challenges our business faces.

Proposed liquor legislation includes higher taxes, restrictions to marketing and packaging, changes to the legal drinking age, limitations on the number of outlets, expanded labelling requirements and sugar tax. These measures are applied at different levels and are at different stages of maturity in various markets. The overall trend is towards more restrictive decrees.

In September 2016 the South African National Liquor Policy was approved and published for public information. As this policy amends the Liquor Act, 59 of 2003 (the Liquor Act), Cabinet approved the publication of the National Liquor Amendment Bill. This amendment is aligned to the National Development Plan (NDP) and emphasises effective governance, social protection and job creation.

Our response is informed by our commitment to contributing to responsible drinking and innovating ahead of the regulatory curve. Focused legislation creates opportunities to optimise local sourcing, redirect marketing investment and develop alternative products.

Climate change consequences can affect the security of supply of raw materials such as grapes and apples, and requires an energy- and water-efficient supply chain for optimised usage. By managing this proactively we are able to identify cost-saving opportunities, find alternative sources and invest in cultivar research, as an example. Read more about our challenges and responses in the corporate strategic risk and opportunities section on page 10.

We have a well-structured process for identifying, monitoring and managing the principal risks that Distell faces. We recognise our responsibility to maximise opportunities and minimise threats so that we are able to continue creating value.



## FUTURE PROSPECTS

The various improvements made to our business since we revised our strategy in 2014 have enabled us to become more resilient and better equipped to respond to an ever-changing global landscape.

We have identified strategic initiatives to drive change, demonstrate care and make a contribution to the communities in which we operate. These include supporting communities by prioritising local sourcing and enterprise and supplier development; transforming and diversifying our business through our integrated B-BBEE strategy; and implementing world-class sustainability practices to nurture our environment and ensure we operate ethically.

In the next financial year Distell will launch an internal forum – the Sustainability Council. This forum will provide strategic thought leadership and oversight to ensure that our sustainability strategy achieves its key objectives. This includes monitoring the impact of our operations on the environment, local communities and governments in countries where Distell operates. The monitoring process will identify opportunities for, among others, local sourcing and entrepreneurship. In South Africa the Sustainability Council will review the progress of our transformation journey.

Distell's sustainability strategy will focus on:

- developing strategic key performance indicators (KPIs) to measure progress (including B-BBEE targets);
- identifying key projects to support the execution of our sustainability strategy; and
- identifying corrective actions to address areas of poor performance.

The Sustainability Council will report Distell's sustainability performance to the SEC. The agenda, mandate and terms of reference of the Sustainability Council are aligned with the requirements of the SEC (as outlined in the Companies Act and in King IV™). The Sustainability Council will therefore monitor matters relating to:

- social and economic development (taking into account employment equity, B-BBEE and the UNGC Principles);
- good corporate citizenship (ensuring that we promote equality, prevent unfair discrimination, reduce corruption and contribute to development of the communities);

- environmental, health and safety concerns (in particular, the impact of our activities and products or services);
- consumer customer relations (taking into account our advertising, public relations and compliance with consumer protection laws); and
- labour and employment (considering our position in relation to international standards for decent work and working conditions, as well as prioritising the educational development of our employees).

In this way the Sustainability Council will provide a critical oversight and internal governance function that will oversee Distell's sustainability performance.

The new financial year will bring its own mix of successes and challenges but we are confident that the sustainability foundations that we are putting in place will enhance our ability to deliver growth for all our stakeholders. This means operating in a sustainable and ethical manner, redoubling our efforts to execute excellence and building strong partnerships that create sustainable value for all our stakeholders.

I would like to take this opportunity to extend my sincere thanks to our board of directors, our people and our stakeholders who continue to play an important role in helping us address societal challenges.








**RM Rushton**  
Group managing director

# OUR KEY SUSTAINABILITY MATTERS

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

The following table provides a high-level summary of our five sustainability matters:

	WHY THIS MATTERS	OUR RESPONSE AND PERFORMANCE
<b>Our contribution to responsible drinking</b>   Read more: Page 22	Alcohol-abuse-related harm 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.	<p>Distell's internal alcohol consumption policy promotes responsible drinking among our employees</p> <p>Through active membership and participation with industry associations, such as the South African Liquor Brand Owners Association (SALBA) and ARA, we collaborate on industry best practice and engage with government on regulations and legislation that could impact our industry</p> <p>We invest in NGOs which are focused on raising awareness of, and providing treatment to, those affected by alcohol abuse</p> <p>We strictly enforce ARA's Code of Commercial Communication and Conduct, which includes ensuring that Distell's advertising and marketing material is tested and approved in line with the provisions of the code</p> <p>We are collaborating with FASfacts, the Eastern Cape Liquor Board and Rhodes University to begin the rollout of the Pregnant Women Mentoring Programme (PWMP) to vulnerable communities in the Mdantsane area of East London, Eastern Cape</p>
<b>Sustaining our communities</b>   Read more: Page 30	We strive to further promote socio-economic development through our corporate social investment (CSI) initiatives and also by supporting government in addressing South Africa's social and economic challenges.	<p>We continue to refine our investment strategy to support the implementation of our integrated B-BBEE strategy and address government's concerns around alcohol abuse and alcohol-related harm</p> <p>As part of this process we have realigned our key social initiatives to ensure a stronger focus on alcohol harm reduction and empowering communities</p> <p>This has been integrated with arts and culture, to ensure our initiatives align with our B-BBEE commitments for socio-economic development and transformation</p> <p>Direct and indirect CSI expenditure amounted to R19,1 million in 2017 (2016: R17,3 million)</p> <p>Five of our flagship projects participated in a social return on investment (SROI) capacity-building course. The training is software-based and enables project administrators to effectively gather and input data for the purposes of monitoring, evaluating and, ultimately, conducting impact assessments on projects</p> <p>We received an award for our support of The Magnet Theatre Educational Trust at the 19th Annual Business and Arts South Africa (BASA) Awards</p>

	WHY THIS MATTERS	OUR RESPONSE AND PERFORMANCE
<b>Shaping our people</b>   Read more: Page 34	<p>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 reflects global, regional and local business realities.</p>	<p>Following transformational changes to our business and operating model, we developed a 10-point change roadmap. The roadmap evaluates our culture and performance based on employees' alignment with our six values and how they experience our key drivers of success</p> <p>We created an enhanced EVP to streamline recruitment and talent management processes, and position ourselves as an employer of choice in South Africa</p> <p>We spent R34,2 million on training initiatives (2016: R26,4 million)</p> <p>26 790 consultations were carried out by nursing staff to promote employee health and wellness (2016: 28 447)</p> <p>1 722 lost days, up from 1 492 in 2016</p> <p>414 on-site incidents, down from 481 in 2016</p>
<b>Achieving transformation</b>   Read more: Page 44	<p>Transformation informs how we do business and aligns our transformation goals with those of the government. Commitment to diversity enables us to maintain our reputation as a responsible corporate citizen.</p>	<p>Due to the robust nature of our integrated B-BBEE strategy and the implementation of integrated business processes, we successfully improved our B-BBEE status from a level 8 to a level 4</p> <p>We held meetings with various stakeholders across the business to discuss our new National Employment Equity Plan 2017 – 2022. As in previous cases, the development of our new plan closely considered the findings of the Commission for Employment Equity (CEE) and government to address national transformation goals</p> <p>Through the successful implementation of our procurement strategy, we are on track to reach the 40% sub-minimum requirement for preferential procurement. In addition, we have increased black-owned spend in South Africa from 10,3% to 10,8%</p>
<b>Managing our supply chain sustainably</b>   Read more: Page 50	<p>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.</p>	<p>The ongoing implementation of supply chain excellence, supported by our E<sup>2</sup> Empowering Excellence framework, enables us to provide assurance to our stakeholders that we source, produce and deliver quality products in accordance with standardised and leading supply chain best practice</p> <p>We reduced the number of quality incidents by more than 50%, from 38 in 2016 to 14 in 2017</p> <p>We reduced injuries on duty (IODs) in our supply chain by 17%, from 357 in 2016 to 295 in 2017</p>

# OUR CONTRIBUTION TO RESPONSIBLE DRINKING

## WHY THIS MATTERS

As a major producer and key player in the alcoholic beverages industry, Distell supports the South African economy through job creation and tax contributions. While we respect the right of adults to consume alcoholic beverages responsibly, we recognise that alcohol abuse can have a harmful impact on the health and well-being of individuals, families and communities. This necessitates that we do our utmost to encourage a culture of responsible drinking.

In addition, the social impact of alcohol-abuse-related harm creates a cost burden on government. This indirectly affects consumers' disposable income, for example, through additional tax burdens. While consumers may not reduce their alcohol consumption levels in absolute terms, they will make other adjustments, for example, by trading down, buying smaller pack sizes or switching categories. This has a direct impact on our business.

## HIGHLIGHTS FOR 2017

- 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.
- We are collaborating with FASfacts, the Eastern Cape Liquor Board and Rhodes University to begin the rollout of the PWMP into vulnerable communities in the Mdantsane area in East London, Eastern Cape.





## GOVERNING OUR CONTRIBUTION TO RESPONSIBLE DRINKING

We actively participate with industry bodies focused on preventing alcohol abuse and contributing to responsible drinking. Distell is a member of SALBA and represents the alcohol industry on issues of common interest, such as excise duties, illicit trade and engagement with various government departments. Through our involvement with SALBA we work closely with ARA on many of our social investment projects which are linked to ARA initiatives.

Our contribution to encouraging responsible drinking among consumers is reported to Distell's SEC.

## LOCAL AND REGIONAL TRENDS IN ALCOHOL CONSUMPTION

According to a 2015 World Health Organisation (WHO) study on global alcohol consumption per capita, South Africa is the third-highest consumer nation in Africa and 19th in the world. Consumption increased to 11,5 l per capita in 2015, up from 11 l in 2014. By 2025, WHO estimates that South Africa's alcohol consumption will increase to 12,1 l per capita. This increase is on par with the anticipated rise in alcohol consumption across Africa.

According to the World Bank, sub-Saharan Africa's population in 2014 was approximately 973 million people – 43% of them under 14 years old. Due to the expected increase in the number of potential new alcohol consumers, the African continent has been identified by the alcohol industry as a key growth area. In particular, the world's leading producers have increasingly focused their efforts on selling their products to fast-growing developing countries via the acquisition of local producers.

For example, SABMiller and AB InBev, the world's two largest beer producers, merged in October 2016. The merged entity has identified Africa as a strategic opportunity and critical driver for growth.

The expanding commercial activities of the alcohol industry and the subsequent increase in alcohol consumption among consumers is anticipated to result in a growing burden of alcohol-abuse-related harm.

In addition, around one-third of all the alcohol consumed in Africa is 'unrecorded', often being home-brewed through artisanal production, either by fermenting or distilling malted grains, fruits, sugar cane, honey or palm trees. The consumption of home-made and illegally produced alcohol may be associated with an increased risk of harm because of unknown and potentially dangerous impurities or contaminants in these beverages.

## International and local efforts to curb alcohol-abuse-related harm

The WHO, giving effect to its concern over alcohol-abuse-related harm, released the Global Strategy to Reduce the Harmful Use of Alcohol in 2010 and the Global Action Plan for the Prevention and Control of Non-Communicable Diseases in 2013.

The South African Government continues to grapple with the impact of alcohol use and abuse on public health. According to an article published by the Public Health Association of South Africa in 2015, heavy and episodic alcohol use results in acute negative physical and social outcomes. This includes accidents, unintentional injuries and deaths, interpersonal violence and sexual risk. Alcohol abuse can further destroy families and disrupt communities.

To curb the impact of alcohol abuse and reduce the burden on public health resources, government proposed the National Liquor Policy in 2014. This policy outlines various measures to limit the availability of and access to alcohol. The measures include restricting alcohol advertising, raising the legal drinking age, and introducing more restrictive trading hours and days, and distribution hours.

The National Liquor Policy was approved by Cabinet in September 2016 and published for public information. As this policy amends the Liquor Act, Cabinet approved the publication of the National Liquor Amendment Bill.

The intervention focuses on:

- reducing socio-economic harm and the costs associated with alcohol abuse;
- restructuring the alcohol industry; and
- enhancing co-operation between all spheres of government.

## OUR CONTRIBUTION TO RESPONSIBLE DRINKING CONTINUED

### DISTELL'S RESPONSE TO INDUSTRY REGULATION


The South African Government expects the alcohol industry to contribute towards reducing the burden its products have on the welfare of all South Africans. At Distell we agree that alcohol-related harm must be reduced and prevented, and we endeavour to address issues of irresponsible drinking by supporting the communities we serve. Distell supports ongoing engagement with government on key priority measures and regulations aimed at reducing the impact of alcohol abuse.

Government's concerns are highlighted in the National Liquor Policy and include, among others, the socio-economic impact of alcohol abuse and the slow pace of transformation in the industry. The policy outlines the need to standardise key aspects of regulation, improve regulatory collaboration, and trade in illegal or illicit alcohol. The key aspects of this policy addressed by Distell and our response to each, are outlined below.

1

#### Mitigating the socio-economic impact of alcohol abuse and alcohol-related harm


We actively participate in initiatives focused on raising awareness about responsible alcohol consumption and the long-term effects of alcohol abuse. This includes a strong focus to address fetal alcohol spectrum disorder (FASD) and fetal alcohol syndrome (FAS).

 Read more about how we contribute to alcohol-related harm reduction in our communities from page 26.

2

#### Transforming South Africa's alcoholic beverages industry

We developed a comprehensive and integrated B-BBEE strategy in 2016. This strategy helps us to achieve our own transformation aspirations as well as those of government.

 Read more about our approach to transformation from page 46.

3

#### Collaborating on key aspects of regulation to improve implementation and adherence

We continue to actively engage with government on proposed legislation and matters pertaining to the regulation of the alcohol industry. Distell engages with government through SALBA.

4

#### Combating trade in illegal and illicit alcohol

The WHO estimates that about 26% of the South African alcohol industry is illicit. These players have an unfair competitive advantage as they are not subject to the tax regime and can trade without having to pay excise duties. They are also not subject to the various distribution, marketing and retail regulations designed for the formal sector. This undermines the efforts of regulators and industry. In response, Distell has developed an internal framework to address this issue. Through SALBA, Distell plays a key role in managing and co-ordinating industry initiatives to combat the illicit trade in alcohol.

While we are committed to working with government, we have expressed concern about certain aspects of the National Liquor Policy. This includes government's intention to restrict alcohol advertising.

While government contends that advertising glamourises the use of liquor and targets the youth, industry has taken the position that advertising is an effective method to raise brand awareness and influence responsible consumption and purchasing decisions. The industry raised concerns that a ban on advertising could result in unintended consequences, such as job losses, reduced taxes and an increase in illicit products.

We believe that the regulation must find a balance between minimising harm and maximising social and economic good.

In response, the industry proposed a co-regulation model and has formulated alternatives to proposals in the National Liquor Bill. These alternatives are targeted at vulnerable consumer segments and involve a self-enforced code of conduct.

For example, through sales and marketing practices, the industry has insight into consumption drivers and consumer habits. The industry is therefore able to identify vulnerable groups and

can target its consumer advertising and its education and support programmes in a way that considers vulnerabilities among consumer segments.

### Mitigating the risk of restrictive alcohol legislation


More robust liquor legislation includes, among others, higher taxes, restrictions to marketing and packaging, changes to the legal drinking age and limitation on outlets. While measures are applied differently across our operating markets, the trend is towards more restrictive decrees.

Going forward, we believe that, through ongoing and meaningful engagement, it is possible to find appropriate solutions to address alcohol abuse and its related challenges in South Africa, without prejudicing the alcohol industry.


**Our response is informed by our commitment to contributing to responsible drinking and by innovating ahead of the regulatory curve.**

We are proactively focused on:


Supporting responsible consumption through focused CSI that makes an impactful contribution towards preventing alcohol-abuse-related harm

 Read more about our CSI strategy from page 31.


Driving B-BBEE and transformation within our value chain

 Read more about our transformation initiatives from page 48.

Utilising local suppliers and procurement partners to stimulate meaningful economic activity in South Africa

 Read more about preferential procurement from page 48 and about our local enterprise and supplier development initiatives from page 55.

Producing alternative products with lower alcohol content to cater for health-conscious consumers and promote responsible consumption

 Read more about our brand offerings in our integrated report from page 12.

## OUR CONTRIBUTION TO RESPONSIBLE DRINKING CONTINUED

### DISTELL'S APPROACH TO CONTRIBUTING TO RESPONSIBLE DRINKING

#### Controlling the sale and marketing of alcoholic beverages

Leading practice starts at Distell, where many of our employees are exposed to alcohol in the workplace during the production of wines, spirits, ciders and RTD beverages. To manage employee consumption while on duty, we have a strict company-wide alcohol policy. We supplement employee education and training programmes with practical interventions to ensure responsible behaviour.

In addition to our alcohol policy, we promote responsible drinking through our marketing and advertising activities.

Distell's Marketing Ethics and Brand Communication policy will be rolled out in the new financial year. This policy will guide our employees, distribution agents and strategic partners on how to develop and distribute ethical and responsible content when marketing and promoting our alcoholic beverages to consumers. This policy is underpinned by our purpose: to provide unique moments of social enjoyment through responsibly marketing well-crafted wines, spirits and ciders.

Our policy will broadly cover the following four focus areas:

- **Ethics and responsible behaviour:** Distell's code of ethics includes extensive coverage of how employees should conduct business. This includes, for example, receiving gifts from clients. As the 'public face' of Distell, marketers also have an inherent responsibility to be more socially responsible. This means showing concern for people and the environment in which we do business. Distell's code of ethics is underpinned by our six values, which inform the way that we function as a business.
- **Principles governing marketing ethics and brand communication:** Distell has developed 12 principles to govern its marketing and brand communication practices. These include preventing our products from appealing to underage people. All marketing is aimed at adults (18+ years) and will never target anyone younger. Additional principles include contributing to responsible consumption by marketing moderate drinking as a relaxed, sociable and enjoyable part of life in safe and appropriate circumstances; promoting the use of clear, factual and neutral information about the alcohol content of our brands; and ensuring that our marketing does not suggest any association with aggressive, violent or anti-social imagery or behaviour, including illicit drug use.
- **Consumer engagement guidelines:** Distell communicates directly with consumers through multiple marketing programmes. All communication is of an advertising and promotional nature and adheres to ARA's Code of Commercial Communication and Conduct. The programmes include strict regulation of all marketing that uses digital and social media,

and monitoring of the use and administration of all social media and online platforms.

- **Monitoring and enforcement:** Compliance with the Marketing Ethics and Brand Communication policy is mandatory and is an embedded and integral part of the approval process for all marketing activities across all regional business units wherever we communicate with our consumers.

#### Strategic partnerships with industry associations

We actively participate in industry bodies focused on preventing alcohol abuse and contributing to responsible drinking.

While many environmental factors influencing the direction and pace of regulatory change are outside the control of the industry, we can control the way we respond to them. By doing so, we can participate in the regulatory process in a meaningful way. Our challenge in the medium term is to ensure that our industry pays attention to these issues, that we get ahead of the regulatory agenda and address the root causes before they result in new legislation.

#### *The South African Liquor Brand Owners Association (SALBA)*

Distell is a member of SALBA, a non-profit organisation established in September 2005 and whose members include manufacturers and distributors of alcoholic products in South Africa. SALBA's objective is to represent its members on issues of common interest, such as:

- **Excise duties:** SALBA co-ordinates industry positions and liaises with National Treasury during the annual excise adjustment process. On an ad hoc basis, it consolidates the industry position on tax policies that impact its members and the industry in general.
- **Illicit trade:** SALBA plays a key role in managing and co-ordinating industry initiatives to combat illicit trade in alcohol.
- **Ensuring that its members retain their licence to trade:** This objective is the cornerstone of SALBA's commitment to responsible and ethical trade. For example, SALBA is a founding member of ARA and participates in Wine Industry Ethical Traders Association (WIETA).
- **Engaging with various government departments:** SALBA engages government on policy, legislation and regulations that impact the alcohol industry. SALBA is the recognised industry representative on statutory bodies such as the Wine and Spirit Board and the National Regulator of Compulsory Specifications. SALBA represents the South African alcohol industry at international forums such as the World Wine Trade Group (WWTG), the World Trade Organisation (WTO) and the WHO.



### High excise duties and illicit trade

We recognise the potential impact that high excise duties and illicit trade can have on our business.

**Excise duties are imposed on products such as alcoholic beverages to compensate for possible externalities. 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 attractiveness of illicit trade in alcoholic beverages, including counterfeit products, which remain a key business challenge.**

During the year regulatory changes in many of our markets caused further disruption and uncertainty. In Mozambique and Zambia, for example, tax excise stamps are required to authenticate products. In Tanzania our business was affected by the ban on the importation, manufacture, sale and consumption of alcohol in sachets from 1 March 2017. Numerous unfavourable excise increases were announced, which benefit beer and locally produced spirits.

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.

Globally, illicit trade in alcoholic beverages, including trade in counterfeit products and cross-border smuggling, remains a key business challenge. For example, expanded illicit trading with cheaper products takes market share from legal products distributed by Distell. There is also a risk of consumer harm as illicit products are not subject to the same quality standards and requirements as legal products.

To mitigate this risk 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 prioritise continuous innovation in tamper-proof packaging to eliminate counterfeiting. Read more about our response to illicit trade from page 26 of this report, and about excise duties in the markets in which we operate from page 38 of our integrated report.

### *The Industry Association for Responsible Alcohol Use*

Through our involvement with SALBA, we work closely with ARA on many of our social investment projects linked to ARA initiatives.

Established in 1989, ARA is a registered non-profit organisation focused on preventing the negative consequences of alcohol abuse. ARA has over 300 members, including the majority of South Africa's alcohol beverage manufacturers and brand owners, and a number of distributors and retailers. The organisation creates awareness through a variety of projects and campaigns that target high-risk, vulnerable youth and adults.

We work closely with ARA to address alcohol abuse among youth, with a special focus on the importance of parents and guardians

as role models to teenagers. To support this, ARA produced educational books on youth and alcohol, and contracted Life Talk, an NGO, to educate parents, schools and community groups about the harmful effects of underage drinking.

In partnership with ARA, Distell implements drinking and driving awareness campaigns. We also communicate the dangers associated with alcohol abuse and drinking and driving through the health warnings on our product labels, and in our advertising and marketing material. Employees in our distribution chain are trained to discourage patrons from excessive consumption and driving while intoxicated.


## OUR CONTRIBUTION TO RESPONSIBLE DRINKING CONTINUED

### Reducing alcohol-abuse-related harm

Among the social burdens of alcohol consumption is FASD. FASD is an umbrella term for a range of disorders that affect children whose mothers consume alcohol during pregnancy.

The most severe manifestation of FASD is FAS. The main effect of FAS is permanent damage to the central nervous system. People with FAS are afflicted with life-long intellectual, learning and behavioural challenges. Given that pre-natal alcohol exposure can affect any fetal organ development, people with FAS experience visual, auditory and cardiac problems.

As South Africa's leading producer and marketer of wines, spirits, ciders and RTD beverages, Distell has a responsibility to market alcoholic beverages in a way that encourages responsible consumption and promotes alcohol-related-harm reduction.

 Read more about how Distell promotes responsible drinking from page 26 of this report.

This responsibility extends further to the management of social, environmental or economic impacts that can arise as a result of Distell's operations. Distell has taken an active role in raising awareness around the consequences of drinking while pregnant through strategic partnerships with FASfacts and the Foundation for Alcohol Related Research (FARR).

### FASfacts

Distell partnered with FASfacts in 2008. FASfacts is a non-profit organisation focused on raising awareness about the impact of alcohol consumption during pregnancy, particularly within high-risk, rural communities in Worcester, Western Cape. FASfacts provides support and counselling to mothers through initiatives such as the Pregnant Women Mentoring Programme (PWMP).

The PWMP is managed by a social worker who works closely with mentors. 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 to not drink alcohol during pregnancy. They are then provided with information and supported through monitoring and family counselling. Expectant fathers are included in the PWMP programme, encouraging both parents to take responsibility for their unborn child.

In the year under review the PWMP reached 169 pregnant women in vulnerable communities in Worcester. This includes, among others, women living in the neighbourhoods of Roodewal and Avian Park.

Of the 169 women who participated, 142 (84%) consumed alcohol when they joined the programme. Of these 142 women, 82 (58%) stopped drinking as a result of the observation and mentorship provided through the PWMP.

### Expanding the PWMP into other communities in South Africa

In 2015 Distell was approached by the Eastern Cape Liquor Board for input on how to manage and reduce the socio-economic effects of excessive alcohol consumption in the province.

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

To implement the programme effectively, research is required to determine trends in alcohol consumption by women during pregnancy. This research will focus on:

- Phase 1: conducting a baseline and end-term evaluation of the FASfacts intervention
- Phase 2: determining support during pregnancy (this includes families of children with FASD)
- Phase 3: formative assessments of FASfacts interventions within the Mdantsane area

Rhodes University was selected as the research partner for this programme, with all research funded by Distell. The first phase of research is under way.

### *The Foundation for Alcohol Related Research*

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

#### **Intervention and prevention**

FARR's 'Healthy Mother, Healthy Baby' (HMHB) intervention programme 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 their unborn child. In 2016, Distell undertook to fund the HMHB programme for a total of three years. The intervention was focused on the Pabellelo, Rosedale and Louisvale Road residential areas in Uppington.

In 2017, the number of HMHB clients increased substantially. This increase can be attributed to overcoming difficulties in recruiting and appointing suitable community workers in the first year of the programme. Once appointed, additional time was then required for community workers to establish trust within their communities. Now that community workers have been appointed it is anticipated that this programme will gain momentum.

Six women could not complete the programme during the year as they moved away from targeted residential areas.

RESIDENTIAL AREA	NEW HMHB CLIENTS ADMITTED: 2017	NEW HMHB CLIENTS ADMITTED: 2016
Pabellelo	30	9
Rosedale	39	12
Louisvale Road	26	16
<b>Total</b>	<b>95</b>	<b>37</b>

In the remaining half of calendar 2017, FARR will organise a nine-month baby clinic as part of the HMHB programme in Uppington. This will enable FARR to monitor babies born during the programme for any symptoms of FASD or FAS.

#### **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. During the year FARR trained 72 (2016: 21) individuals as part of the Uppington project.

### **FUTURE FOCUS**

- In the new financial year we will focus our efforts on implementing a holistic approach to contributing to responsible drinking within the communities in which we operate.
- This includes broadening the reach of our consumer-targeted interventions to also include the outlets and establishments in which alcohol is consumed, with the aim of creating safe and aspirational environments for consumption.
- We recognise that this approach requires partnership with government and industry, and targeted engagements with relevant stakeholders will therefore receive a stronger focus going forward.

# SUSTAINING OUR COMMUNITIES

## WHY THIS MATTERS

We strive to further socio-economic development and make meaningful contribution to the communities in which we operate by supporting community welfare through our CSI initiatives. Education, life and technical skills, job creation, entrepreneurship and environmental awareness are the outcomes we pursue in implementing our holistic development strategy.

## HIGHLIGHTS FOR 2017

- Distell received an award for its support of The Magnet Theatre Educational Trust at the 19th Annual BASA Awards.
- In 2016, five of Distell's flagship projects participated in a SROI capacity-building course, based on Sinzer software. This software enables project administrators to effectively gather and input data for the purposes of monitoring, evaluating and, ultimately, conducting impact assessments on projects. Participants were also taught the SROI process in order to ensure that, in future, external consultants will only be needed for the purposes of verification and quality assurance.





## GOVERNANCE OF CSI AT DISTELL

Our social investment and performance efforts are guided by our CSI strategy. As a responsible corporate citizen we recognise the role that we should play in empowering the communities in which we operate. We believe that the success of Distell is intertwined with that of our communities. The well-being of communities is thus critical to ensuring that they can meaningfully participate in the economy, as this creates opportunities for them to thrive. To ensure that our CSI strategy is aligned with Distell's corporate strategy and delivers material impact to communities, progress with its execution is reported biannually to Distell's SEC.

## OUR CSI STRATEGY

As outlined in 'Our contribution to responsible drinking', we remain committed to the guidelines prescribed by government to address its concerns about alcohol-abuse-related harm and the South African alcoholic beverages industry. This includes the B-BBEE codes.


Our CSI function closely aligns with our core and contribute strategic theme and provides support across different areas of the business. Such support includes supporting community empowerment within the supply chain.

As we look to grow Distell's presence in Africa and entrench our position as a global business, our CSI strategy will incorporate international best practice. This includes taking guidance from the 2030 Sustainable Development Goals, as well as the WHO's global strategy on alcohol-related harm reduction.

In order to implement our CSI strategy we further recognise the need to adopt a collaborative stakeholder approach. This means

establishing strategic partnerships with key stakeholders in order to develop sustainable and empowered communities. Our stakeholder approach will therefore focus on:

- maintaining relationships with our key partners;
- participating in government agendas;
- collaborating with industry associations and lobby groups; and
- engaging directly with communities to address their specific needs.

 Read more about our approach to stakeholder engagement from page 8 of this report.




### Looking ahead

The priorities that we identified in 2017 will shape our approach going forward. Our objective is to establish an integrated CSI programme with regional and country-specific focus, as well as a sustainable ethos. This approach is illustrated in the diagram below:



Our integrated CSI programme will support both our corporate social responsibility and investment approach through a focus on enterprising communities and harm reduction, respectively.

## SUSTAINING OUR COMMUNITIES CONTINUED

FOCUS AREA	WHAT	WHY	
<b>Harm reduction</b>	Supporting pregnant women and unborn babies through projects focused on preventing FASD  Educational awareness on the short- and long-term effects of alcohol abuse and equipping people with the information they need to make informed decisions about alcohol consumption	This approach supports the ambitions of the National Liquor Policy and the Sustainable Development Goals 2030.	 Read more about our approach to alcohol-related harm reduction and preventing FASD in 'Our contribution to responsible drinking' from page 22.
<b>Enterprising communities</b>	Supporting poverty alleviation through community empowerment and job creation	This approach supports the ambitions of Distell's corporate strategic pillar to care and contribute.  It also supports Distell's contribution to its B-BBEE commitments for socio-economic development and transformation, as well as the company's commitment to the Sustainable Development Goals 2030.	 Read more about this in this chapter from page 33 and in 'Achieving transformation' from page 44.
<b>Strategic partnerships</b>	Community outreach projects that incorporate skills development, sponsorships or an arts and culture component	Distell recognises the positive contribution that can be made to communities through these strategic partnerships.	 Read more about this in this chapter from page 33.

While all corporate social investment and responsibility projects supported during the year under review delivered real value and benefit to communities across the country, we recognise that a broad distribution of investment hinders efforts to deliver substantial impact. In November 2016, Distell reviewed its involvement in all projects with a view to ensure greater co-ordination and an increased focus on key strategic areas, with a primary focus on empowering communities.

Our ultimate goal is to ensure maximum societal benefit and as such our ability to measure the impact of initiatives will be an important

consideration for all ongoing partnerships and funding. We will not necessarily continue with our SROI capacity-building course. However, we will collaborate with beneficiaries to build capacity. This will ensure that, when Distell exits a project, it continues to be impactful and deliver measurable value for communities.

Distell will continue to drive employee volunteerism across the business. To ensure that our employee volunteer programme supports our key focus areas a revised strategy to guide employee volunteerism will be developed in the new financial year.

## 2017 PROJECT HIGHLIGHTS

This year, direct and indirect CSI expenditure amounted to R19,1 million (2016: R17,3 million).

Alcohol-abuse-related harm reduction	36%
Youth development	7%
Skills development and job creation	12%
Social and community development	33%
Other (including salaries, membership fees, donations, infrastructure, and other arts and culture initiatives)	12%

The following section provides an update on several key CSI projects that Distell supported during the year. For more information about our corporate social responsibility initiatives, in particular alcohol-related-harm reduction and preventing FASD, go to page 28.

### Empowering communities through entrepreneurship and skills development

As part of our commitment to care and contribute, we recognise the role we must play as a company in addressing high levels of unemployment and poverty in South Africa. This includes supporting local economies through investment in capacity-building projects that grow business skills and accelerate job creation. Distell has therefore taken an active role in skills development through its partnership with Bergzicht Training. Beneficiaries include unemployed, unskilled and semi-skilled individuals from communities in the Western Cape.

#### Bergzicht Training

Bergzicht Training is an NGO based in Stellenbosch, Western Cape, that promotes skills development in disadvantaged communities. The organisation teaches individuals skills that are needed for entry-level employment across different sectors of the South African job market. This includes personal life skills development, and providing basic competencies needed in any workplace situation.

In 2017, Distell sponsored seven students who participated in Bergzicht Training's City & Guilds' Professional Cooking and Food and Beverage Service Programme. This 10-week programme prepares participants for employment as professionally trained waitrons, cooks, kitchen assistants and assistant chefs in the hospitality and tourism industries. The programme consists of seven weeks of theoretical and practical training, followed by a three-week work-integrated learning opportunity at various hospitality and tourism organisations.

All seven students successfully completed this programme and five of them have been placed in well-known restaurants, guest houses, hotels and wine estates across the Western Cape.



Read more about Distell's local enterprise and supplier development initiatives from page 49.

#### Supporting communities through arts and culture initiatives

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 that benefits community upliftment at large. We continue to be involved in projects linked to arts and culture.

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

Magnet Theatre provides a full-time, two-year theatre training and job creation programme geared specifically toward township youth. This programme forms a bridge between townships, tertiary education institutions and the professional theatre industry. It further includes training in performance skills (voice, dance, theatre and singing), academic development (including English literacy), and access to the theatre industry through mainstream and community performance.

Results for 2016 indicate that 69% of graduates found regular employment after completing the programme, while 27% are currently enrolled in a tertiary institute. 96% of Magnet Theatre's graduates are either employed or furthering their studies.

In 2017, Magnet Theatre offered participants the opportunity to stay with the programme for an additional year to complete a practical internship in the industry. It is anticipated that this will stimulate employment, the creation of self-generated productions, and future career opportunities for 2016 graduates as opposed to university access.

### FUTURE FOCUS

- In the year ahead we will focus on building strong partnerships with our beneficiary organisations.
- We will assist them to build internal capacity to ensure their ongoing sustainability beyond Distell's funding.
- We will measure the impact of our funding and investment into beneficiary organisations to ensure that we optimise the benefit for targeted communities.
- We will also look to invest in a flagship project that will be scalable and replicable in any of the countries in which we operate.
- We will facilitate the integration of corporate social investment and responsibility initiatives – including the Distell Foundation and improved alignment with the Distell Development Trust – to ensure sustainable, long-term impact.

# SHAPING OUR PEOPLE

## WHY THIS MATTERS

Talent plays a crucial role in delivering against Distell's strategic theme to shape the future. We have identified a high-performance and agile organisational culture as a strategic enabler for all six pillars of our corporate strategy.

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, and building a diverse and sustainable talent pipeline, which is reflective of global, regional and local business realities.

## MAJOR SHIFTS IN 2017

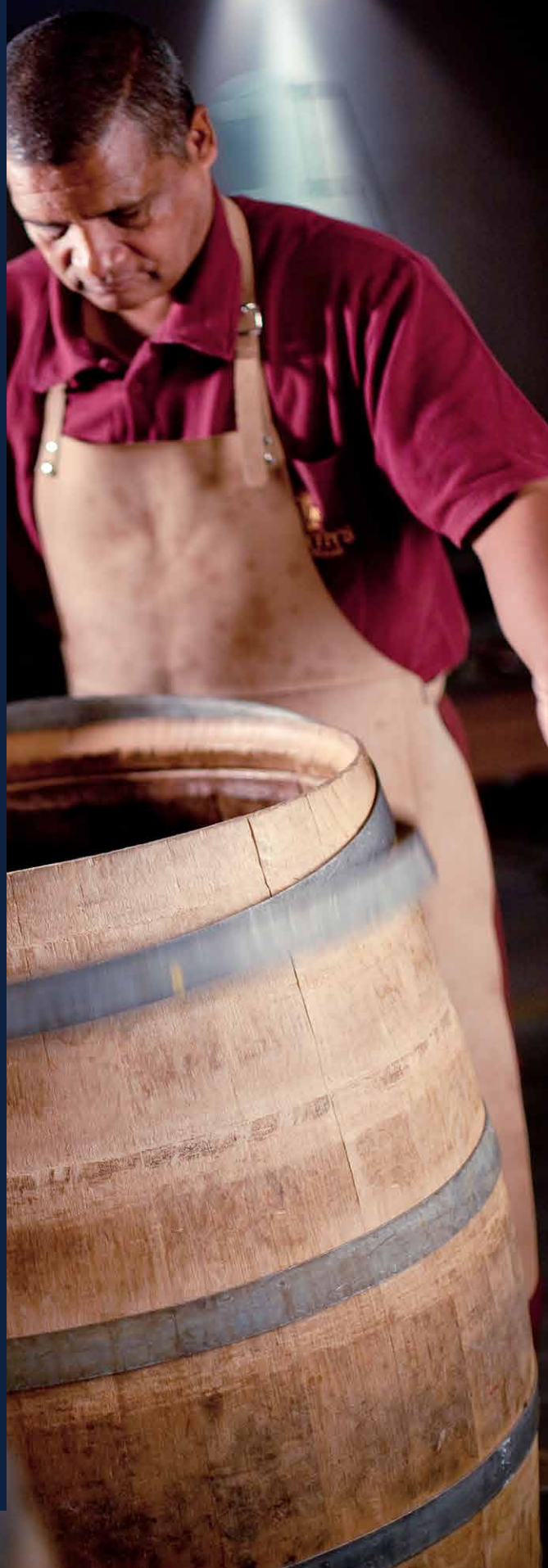
As part of our annual strategy review we assessed our potential growth opportunities, based on global category imperatives combined with our core competencies. We reviewed our underlying operating model and the key changes required to deliver on our aspirations. This followed one of our key learnings since starting on our strategic journey in 2014: our strategy was reshaped, but the operating model was not yet aligned. We also recognised the following:

- Strategy execution relies on a focused programme that is outcomes-driven and performance-based.
- Capability building is a multi-year process.
- Success relies on an aligned and committed leadership team, coupled with a high-performance culture.

As an outcome of this review we made key decisions that require transformational changes to our business and operating model. Our intent is to reduce our cost base and to further enhance efficiencies in the business as we continue to pursue growth domestically and in select international markets. This included redefining and refining the roles and responsibility of global marketing teams and business units, while centralising functions such as procurement and logistics.

## HIGHLIGHTS

- We developed a change roadmap to guide our culture change process.
- We spent R34,2 million on training initiatives – this includes R17 million spent on other training initiatives at regional and operational levels, including skills and mentorship programmes.
- In February 2016, we initiated our Executive Development Journey. The objective of this programme is to define Distell's leadership brand and associated behaviours with the executive team. These workshops are being replicated and rolled out to the next level of leadership in Distell.
- In March 2017, we introduced a disabling injury frequency rate (DIFR) system. Our initial rating was 8,6 – this decreased to 5,3 in June 2017. Our DIFR target for 2018 is 4,2 and we aim to reach 'zero harm' by 2022.





## GOVERNANCE OF OUR PEOPLE AT DISTELL

Distell's journey of shaping its people is governed by our People Council, which is chaired by the Group human resources director. The council aims to embed a high-performance and agile organisational culture across the whole business. This is supported by biannual talent review forums as well as a performance management system that enables managers to cascade goals and key performance indicators aligned to our strategy to guarantee execution, delivery and impact of our employee-focused performance indicators.

## OUR EMPLOYEE COMPOSITION

The following table reflects Distell's employee composition as at 30 June 2017.

Breakdown of employees	MALE				FEMALE				Total
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Top management	1	6	2	45	1			12	67
Senior management	5	6	7	59	1			22	100
Professionally qualified <sup>1</sup>	37	45	12	171	11	26	5	118	425
Technically skilled <sup>2</sup>	269	236	20	271	117	174	22	239	1 348
Semi-skilled <sup>3</sup>	686	590	11	37	147	167	9	81	1 728
Unskilled <sup>4</sup>	306	208	5	9	69	140			737
Total permanent	1 304	1 091	57	592	344	509	36	472	4 405
Temporary employees	96	24	1	23	93	39	5	51	332
Offshore									626
Grand total	1 400	1 115	58	615	437	548	41	523	5 363

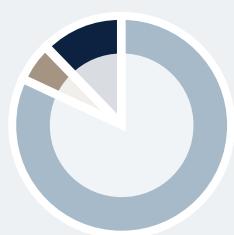
<sup>1</sup> Professionally qualified and experienced specialists and mid-management.

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

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

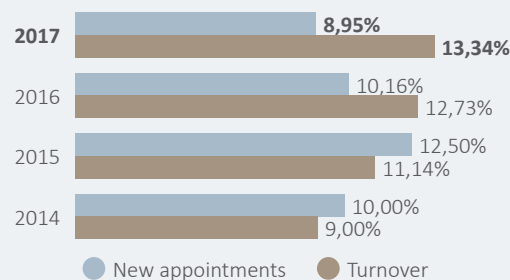
<sup>4</sup> Unskilled and defined decision-making.

### Our employee composition



82% ● South African permanent  
6% ● South African temporary  
12% ● International

### New appointments and turnovers



For a more detailed breakdown of our appointments, go to page 40.

## SHAPING OUR PEOPLE CONTINUED

### 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.

In 2016, we engaged extensively with a representative group of Distell employees to develop a set of inclusive values that reflect our evolving culture and that guide our long-term success. We therefore aligned our values with our wider strategic journey.

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.

In November 2015, we conducted our first comprehensive employee engagement survey. This survey enabled us to identify how to motivate our people, with the aim of transforming Distell into a high-performance organisation.

Importantly, this requires creating an effective workplace culture that positively impacts employee behaviour. Therefore, as a further outcome of this survey, we identified the need to implement a culture change strategy with clear objectives.

#### Distell's 10-point change roadmap

During the year we developed a change roadmap to guide our culture change process. This roadmap evaluates our current culture and performance based on how aligned employees are with our six values, and how they experience our key drivers of success. These drivers include performance management, rewards and benefits, talent management, transformation, internal process optimisation and business communication.

The evaluation was based on feedback from our employee engagement survey and a number of focus groups held during the year. We have subsequently identified key focus areas and initiatives that are needed to successfully drive culture change within Distell.

These include aligning employees with our values to develop the behaviours we need to build a high-performance culture. If employees live our values, they will retain a **customer and consumer focus**; tackle challenges and opportunities with **courage**; take **responsibility** for their words, actions and commitments; **respect** people's views, attitudes and opinions; and act with **integrity** – with **collaboration** driving our success.

We identified 10 main focus areas to drive culture change within Distell. The following success indicators are crucial to our success:

- Management will proactively lead and drive the culture change process, which includes demonstrating support through behaviour and actions.
- We will implement integrated business processes.
- All employees will be actively involved in the culture change process; this includes ongoing communication and engagement on progress, successes, failures and challenges.
- We will track progress on change interventions against agreed metrics.

Creating an effective workplace culture is an ongoing journey and, with the co-operation of all employees, the executive leadership team is committed to building an organisation that is flexible and responsive to change.



Great  
company,  
culture,  
leaders

Well-being

Exciting  
workDevelopment  
opportunities

Reward


### Employee value proposition

Through our engagement initiatives we identified what matters most to our employees. In response, we created an EVP that responds to our employees' needs and creates the right environment for them to learn and grow.

Our EVP enables us to streamline recruiting and talent management processes and ensures a simple, transparent and auditable way of managing employee performance. This is critical in supporting our ambition to position ourselves as employer of choice in South Africa and beyond.

In 2014, we embarked on a workplace strategy to deliver our enhanced EVP across several countries. With technology a key driver across all areas of an organisation, we recognised the need for a cloud-based solution that would enable efficient deployment of our EVP internationally. Distell therefore made the decision to implement SuccessFactors, a global suite of cloud-based human capital management (HCM) software.

HCM enables us to create a workplace environment that fosters the development of great talent, in line with current trends and technology.

 Read more about SuccessFactors from page 40.

We identified the following focus areas as critical to our EVP:

#### *Great company, culture, leaders*


Distell offers its employees an opportunity to work in a company with an impressive heritage and distinctive brands – many of which are global award winners. In addition to recent acquisitions in Kenya, France and Scotland, Distell expanded its presence in emerging markets in Africa, South America and China. This creates opportunities for our employees to learn and grow across a wide range of global business processes and functions that make up our value chain.

#### *Well-being*

In order to achieve our strategic objectives we recognise that we should invest in the well-being of our people. Distell's well-being approach is holistic and built on six key elements:

- Career well-being: we offer training and development programmes, as well as internships

- Physical well-being: on-site wellness days, on-site occupational healthcare services as well as employee assistance programmes to promote employees' physical well-being
- Spiritual well-being: we are investigating programmes to embed spiritual well-being across the business
- Financial well-being: financial awareness sessions include financial planning and debt management
- Community well-being: our employee volunteer programme enables our people to engage in their communities
- Social well-being: we provide our opportunities to participate in team-building activities, informal get-togethers and engage on an internal social media platform

 Read more about employee safety, health and wellness from page 42.

#### *Exciting work*

We are committed to crafting an exciting workplace for our employees that promotes career well-being. This is an important driver of employee engagement and contributes to an effective and productive workplace culture.

#### *Development opportunities*


We enhance our employees' career paths through formal training and development opportunities. Our corporate learning and development centre offers employees a variety of courses linked to their individual development plans.

An accelerated development programme develops high-potential talent for general management roles. A graduate development programme attracts top graduates to Distell. A comprehensive team leader and middle management development programme was introduced in 2017 to develop leaders across the business. This is in addition to several internships, learnerships, skills programmes and apprenticeships.

 Read more about Distell's learning and development approach from page 38.

#### *Reward*

Our reward philosophy is aimed at driving a high-performance culture by ensuring that our employees are motivated and committed to the success of Distell. Our reward policy takes into account the principles of market competitiveness, internal equity and pay for performance. Distell's remuneration committee ensures that our reward offering is fair and aligned with best practice.

 Read more about Distell's remuneration philosophy in our integrated report, from page 166.

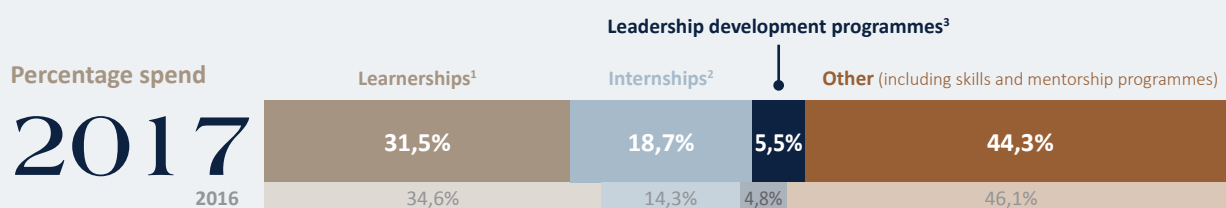
## SHAPING OUR PEOPLE CONTINUED

### LEARNING AND DEVELOPMENT

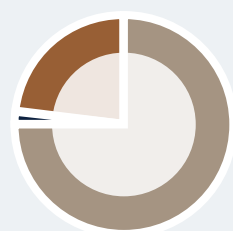
We are committed to growing Distell's future leaders and we invest in training programmes, including internships, learnerships, skills programmes, apprenticeships and adult basic education.

#### An overview of our learning and development activities

We spent R34,2 million on training initiatives – this includes R17 million spent on other training initiatives at regional and operational levels, including skills and mentorship programmes.

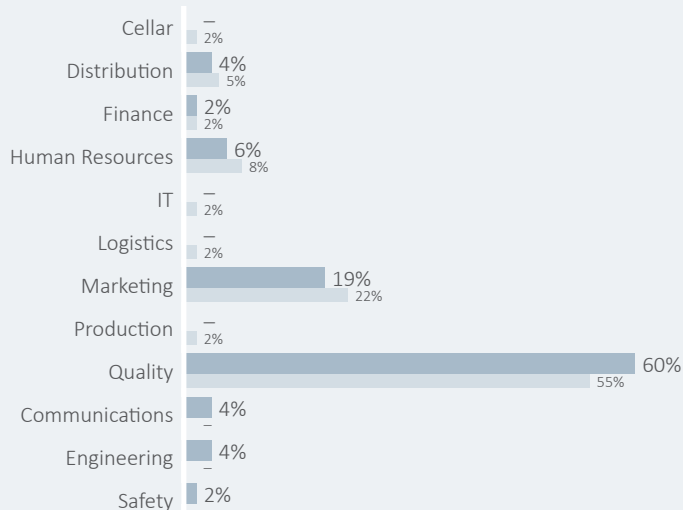


#### Interns by race



— White (2016: 2%)  
**75%** African (2016: 81%)  
**2%** Indian (2016: 2%)  
**23%** Coloured (2016: 15%)

#### Interns by functional area



#### PERCENTAGE OF LEARNERS WHO ARE PDIs

	2017	2016
Learnerships	94%	97%
Internships	100%	100%
Leadership development programmes	52%	57%
Other	68%	69%

In line with our integrated B-BBEE strategy, we aim to offer a high percentage of our internships to PDIs.

 Read more about our integrated B-BBEE strategy from page 45.

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> Our leadership development programmes are fundamental to growing our talent pipeline, and are designed to provide theoretical and practical training to high-potential employees.

## Programme highlights

### Executive Development Journey

**In February 2016, we initiated our Executive Development Journey. The objective of this programme is to define Distell's leadership brand and associated behaviours with the executive team. These workshops are currently being replicated and rolled out to the next level of leadership in Distell.**

The executive team attended the following three workshops during the year:

- Effective functioning of the team
- Feedback on the employee engagement survey and the focus groups conducted (this provided valuable input that was incorporated into the compilation and rollout of Distell's change roadmap)
- 360° top leadership assessment and personal feedback workshop

 Read more about Distell's change roadmap to create an effective workplace culture from page 36.

### Accelerated Development Programme

This flagship 24-month programme was launched in May 2016 to accelerate the development of internal high-potential candidates. The focus is to build longer-term succession plans for general management roles.

Since its launch nine delegates have completed the first component of the programme, which involved a series of modules presented by the University of Stellenbosch Business School. These delegates will join Distell's Value Chain Exposure Programme in the second half of calendar 2017, which will immerse them in all functional areas of the business. A second intake of high-potential nominations will begin the programme concurrently.

### Supervisory (Team leader) Development Programme

This is a new mandatory, generic leadership development programme aimed at Distell's first line supervisors and team leaders. It is a practical, hands-on programme that equips team leaders with

the necessary knowledge and skills to lead effectively and efficiently. This programme will be rolled out to all supervisors and team leaders on an incremental basis, with supply chain leaders being our first priority.

### Middle-Management Development Programme

This is a new mandatory, generic leadership development programme aimed at middle managers. This programme provides middle managers across the business with the skills and knowledge to effectively manage their teams and drive performance and organisational outcomes within their workplace. This programme will be rolled out to all middle managers on an incremental basis, with supply chain leaders being our first priority.

### Mentorship Programme


A formal Mentorship Programme was implemented in June 2014 with the purpose of developing the careers of high-potential candidates. During phase one, 14 protégés, mentors, and line managers were mentored and trained successfully. Of the protégés, 64% were PDIs.

Phase two was implemented in September 2016, with 88% of protégés PDIs. The participants included delegates from Distell's Accelerated Development Programme.

A third rollout is planned for 2017. Several high-potential individuals, including African, Coloured and Indian employees, have been identified through our talent review processes to participate in this programme.

### Coaching Programme

Our Coaching Programme relates primarily to short-term performance improvement in a specific skills area. As a further extension to our Leadership Development Journey and Talent Review Forums, individuals are offered coaches on a needs-driven basis for career development purposes. In addition, a Coaching for Performance Programme has been introduced for all line managers to equip them with the necessary skills to embed a high-performance culture across Distell.

 Read more about empowerment of women and learners with disabilities from page 38.

## Other training initiatives

### Skills programmes

In addition to our learnership programmes, we offer seven 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.

### Total number of employees

SKILLS PROGRAMMES 2017	NQF LEVEL	2017	2016
Basic machine operations	3	10	12
Beverage filling and closing	3	39	35
Labelling and coding	3	37	31
Operating a fill-and-seal machine	3	5	10
Packing and unpacking	3	37	30
Managing others	5	38	45
Washing and inspection	3	10	Not offered
Total		176	163



## SHAPING OUR PEOPLE CONTINUED

### TALENT MANAGEMENT AND SUCCESSION PLANNING

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

#### Our talent management strategy

At Distell we view talent management as a dynamic, ongoing process of systematically attracting, assessing, developing, deploying and retaining talent for critical roles. This ensures continuity and effective organisational performance. We strive to develop talent pools that reflect the demographic diversity of the communities in which we operate. This is part of our responsibility as a responsible corporate citizen dedicated to transformation.

In the past year, we successfully:

- confirmed our critical roles, underpinned by robust short- and long-term succession plans;
- improved our recruitment strategy by introducing a strategic resourcing approach that helps us to identify high-quality talent; and
- implemented our Executive Development Journey to foster leadership competency.

To achieve higher levels of success with our talent management strategy going forward, we are focused on:


- aligning our talent management strategy with our corporate strategy; and
- prioritising transformation to ensure that Distell has a diverse workforce.

As part of our talent management strategy we annually conduct regional, functional and global talent review forums. These 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.

These forums are attended by line and human resource managers and enable us to identify skills deficits across our organisation. We assess our talent management strategy to ensure it aligns with our corporate strategy. This is achieved through the following strategic focus areas:

- Determine a view of Distell's leadership pipeline, potential, performance and employment equity approach
- Effectively plan succession cover for all critical roles
- Determine our strategic resource requirements for key management roles based on future planning projections

- Ensure that leadership's career plans meet their aspirations as well as our outlook on their progress potential

 Read more about Distell's employment equity performance from page 35.

#### SuccessFactors – our talent management system

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

In September 2015 we embarked on the company-wide implementation of SuccessFactors – a fully integrated talent suite. SuccessFactors is a cloud-based, HCM solution designed to support Distell employees in their learning, and provide visible, trackable, aligned succession and talent processes.

In May 2017, our talent and organisational effectiveness office conducted a satisfaction survey to test the user experience and adoption of SuccessFactors across South Africa. The survey recorded a positive response, with more than 70% of users indicating a positive experience. The following modules have been implemented and are in use:

- Performance and Goals, which runs Distell's performance management process. This is the third successful year of running this functionality
- Recruitment, which includes an applicant tracking system and a careers page for internal and external candidates. This has been live for two years

We are deploying succession and career development in our human resources department as a pilot. Once the pilot is concluded it will be deployed across Distell – beginning in August 2017. This module will run the processes surrounding succession planning and assist employees with their career paths – specifically those identified as top or high-potential talent.

In South Africa we will launch the Learning module of SuccessFactors in June 2018. This module will enable eLearning across the organisation and provide a comprehensive, centralised learning and development platform for Distell's employees.

Globally, we have rolled out Performance and Goals. International rollout for Recruitment and Succession and Career Development is planned for 2018.

## 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

49 cases were referred to the Commission for Conciliation, Mediation and Arbitration (CCMA). Of these 49 cases, 20 were resolved in favour of Distell, 12 remained unresolved, seven cases were settled by mutual agreement, six cases were withdrawn and four cases were resolved in favour of the employees.

### 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 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 32,77% 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*	2017	2016
FAWU	9,55%	12,92%
NUFBWSAW	13,89%	12,45%
ABANTU	1,68%	2,13%
Other	7,64%	6,76%
Total	32,77%	34,26%

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

## SHAPING OUR PEOPLE CONTINUED

### EMPLOYEE SAFETY, HEALTH AND WELLNESS

The physical and psychological health of our employees has a direct impact on their productivity. It is 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 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.

#### Distell's occupational health and safety strategy


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 developed a comprehensive OHS strategy. This strategy places particular emphasis on documenting and monitoring health and safety risks through ongoing, biannual safety 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 preventive measures include providing OHS training to all employees, promoting OHS through various education initiatives and offering health interventions to reduce the incidence of illness.

#### Management of health and safety at Distell

In 2017, Distell initiated a new management system for health and safety. This system is based on the new ISO 14001:2015 and ISO 45001:2017 standards, and integrates operational health, safety and environmental (HSE) matters. It further aligns Distell's management of health and safety with its Supply Chain Excellence journey. Officially launched in May 2015, our Supply Chain Excellence journey embodies our approach to developing, adopting and consistently implementing supply chain best practice across our business. This new integrated management system will therefore put Distell at the forefront of managing our production practices in an integrated manner. A document development process will further ensure the integration of all corporate HSE documentation to create one set of HSE documents. We anticipate the following benefits:

- Cost savings through better management and monitoring of our HSE performance
- Improved HSE compliance and performance at site level
- Standardised and simplified management of risks related to HSE, using best-practice management principles as set out in the relevant ISO standards

 Read more about our Supply Chain Excellence journey and our integrated management system from page 52.

#### Employee safety, health and wellness highlights for 2017

- In March 2017, we introduced a DIFR system. Our initial rating was 8,6 – this decreased to 5,3 in June 2017. Our DIFR target for 2018 is 4,2 and we aim to reach 'zero harm' by 2022.
- We identified training and development opportunities at site level that will bolster employee capabilities.
- A new induction video for employees, visitors and contractors was designed to reinforce a culture of safety.
- Excellence forums were established to assist with creating policies, procedures and standards across our manufacturing sites in support of our Supply Chain Excellence journey.
- Various additional forums were established during the year, for example, a corporate risk committee and manufacturing risk forum that meet to discuss health and safety risks, and environmental matters relevant to Distell and our employees.

#### Number of injuries resulting in lost time

**138**  
(2016: 133)

To reduce this number going forward we will increase our health and safety awareness training and on-site management.

#### Number of lost days

**1 722**  
(2016: 1 492)

More employees were booked off due to an increase in the number of severe accidents sustained by employees. To reduce this number going forward we will increase our health and safety awareness training and on-site management.

#### Number of on-site incidents

**414**  
(2016: 481)

The number of IODs decreased due to enhanced risk management.

#### Number of reported occupational diseases

**6**  
(2016: 4)

Increase in the number of reported occupational diseases. Occupational diseases relate to upper-limb disorders due to repetitive actions on production lines.

#### Number of work-related fatalities

**0**  
(2016: 0)

As in the previous year, no fatalities were reported.

## Wellness

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

In 2017, nursing staff carried out a total of 26 790 (2016: 28 447) clinic visits. The main focus of these clinic visits was OH, but a variety of other health-related issues were also addressed. This voluntary counselling and testing for HIV/Aids, annual physical examinations, vision tests, hypertension and diabetes testing, and tuberculosis (TB) testing for any employees 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 change management was selected as the wellness topic. We provided employees with tools to better handle changes in the business as a result of a restructuring process. Certain sites offered employees communication and conflict management tools, and substance abuse information sessions.

In total, 24 wellness sessions were hosted during the year and 219 employees voluntarily attended this year's sessions.

### Distell's employee assistance programme

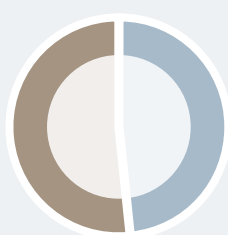
We recognise that employees' personal issues can have a negative effect on their productivity at work. As a result our employee assistance programme (EAP) offers employees the opportunity to address these issues through OH service providers such as facilitators, social workers and health sisters.

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 number of new cases and total number of cases managed over the course of the year remained stable for Distell's social and medical EAPs. This reflects employees' ongoing participation in these programmes.

### Social EAP

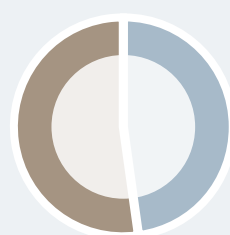
**1 469** Total number of cases managed per financial year (2016: 1 658)



**197** New cases (2016: 207)  
**209** Finalised cases (2016: 219)

### Medical EAP

**806** Total number of cases managed per financial year (2016: 880)



**53** New cases (2016: 58)  
**64** Finalised cases (2016: 63)

## FUTURE FOCUS

- To support employee wellness in the coming year, we will continue to implement change management training to equip employees with the tools to handle change. Money management training and debt counselling will receive greater focus in the upcoming year. Trauma counselling and equipping employees with the tools they need to manage traumatic incidents remain a focus.
- A new Health and Safety Compliance Assurance model is being created to assist with effective audits at site level.
- A new incident management system is being designed to ensure effective avenues for reporting health- and safety-related incidents among employees.

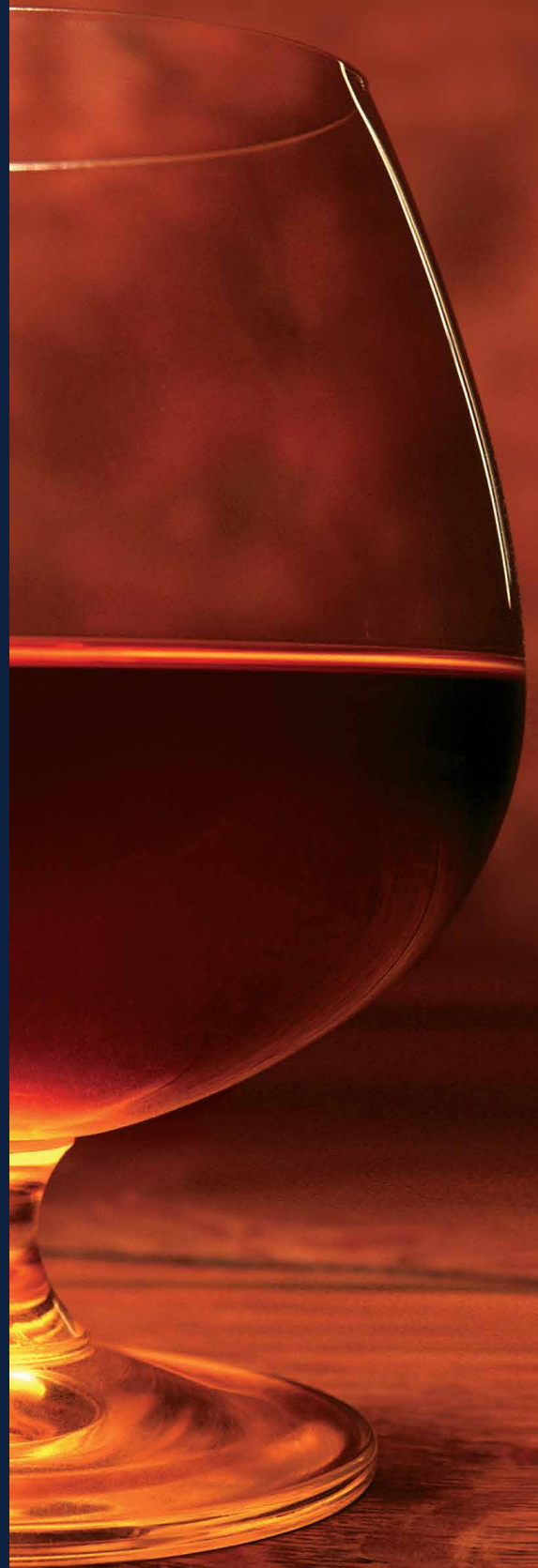
# ACHIEVING TRANSFORMATION

## WHY THIS MATTERS

Our transformation journey is a key strategic imperative that is integrated into all aspects of our business. A commitment to transformation informs how we do business and aligns us with South Africa's national transformation goals. It shapes our corporate culture to become more inviting and welcoming and 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 and is dedicated to socio-economic growth in the key markets in which we operate.

A lack of progress in meeting our transformation goals could negatively impact our B-BBEE rating. We must therefore ensure that we attain and retain the best B-BBEE scorecard achievable to ensure that we maximise our commercial prospects in South Africa in a positive and sustainable way. This will not only protect our licence to operate, but further demonstrates our commitment to transformation, affirms our position as a good corporate citizen and supports our corporate strategy through the care and contribute strategic theme.





## GOVERNANCE OF TRANSFORMATION AT DISTELL

Distell's transformation journey is steered by the Transformation Council. This council 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. This is achieved through 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 B-BBEE strategy in line with the strategic aspiration of maintaining our level 4 B-BBEE contributor status;
- setting annual plans and targets for each element of the B-BBEE scorecard, 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; and
- reviewing the annual feedback from government on B-BBEE performance and employment equity progress.

To ensure that our B-BBEE strategy is aligned with Distell's corporate strategy and provides focused contributions in areas of significant impact, the council reports to the SEC biannually. Going forward the Transformation Council will be repositioned as one of the forums that will report to Distell's Sustainability Council.

## OUR INTEGRATED B-BBEE STRATEGY

In October 2014, the Broad-based Black Economic Empowerment Amendment Act came into effect and by May 2015 businesses that were being verified had to do so according to the Revised B-BBEE Codes of Good Practice.

Based on the revised codes, our B-BBEE rating for our 2014/2015 financial year was a level 7 B-BBEE contributor (discounted to a level 8).

To improve our transformation performance Distell implemented its integrated B-BBEE strategy in 2016. This new strategy ensured alignment with and support of the government's national transformation goals. This includes amendments to the Liquor Act, which calls for the transformation of the liquor industry to improve inclusivity and remove barriers to entry.

**Due to the robust nature of our integrated B-BBEE strategy and the implementation of integrated business processes we successfully improved our B-BBEE status from a level 8 to a level 4 by the end of the 2016 financial year.**

Our integrated B-BBEE strategy aims to:

- help us maintain a level 4 B-BBEE status by aligning our transformation imperatives with our corporate strategy, and by developing and entrenching business processes that support transformation. This ensures that transformation is embedded in all that we do;
- optimise skills development and improve our preferential procurement scores. We work closely with organisations and the dti to find suitable producers and manufacturers we can support, develop and eventually purchase from;
- contribute toward the development, support and expansion of black-owned businesses; and
- help us attract and retain black (African, Coloured or Indian) talent as part of the Distell drive to embrace diversity, thereby living out one of our core business values.

## ACHIEVING TRANSFORMATION CONTINUED

### OUR B-BBEE PERFORMANCE

Our current B-BBEE rating, based on our 2016 financial year performance and the Revised Codes of Good Practice, is a level 4 B-BBEE contributor.

#### Our B-BBEE scorecard and performance per element

Distell's key elements of transformation are measured against the targets set for B-BBEE as determined by the code:

	MAXIMUM WEIGHTING	2017*
Ownership	25	24,17
Management control	15	6,34
Skills development	20	21,05
Enterprise and supplier development	40	30,38
Socio-economic development	5	4,02
Total score	105	85,96

\* Our B-BBEE scorecard was issued on 22 September 2016 for the 2016 financial year. This scorecard is valid until 21 September 2017.

#### Ownership

The Distell Development Trust (the Trust) is a key stakeholder in the implementation of our integrated B-BBEE strategy.

The Trust effectively operates as a broad-based ownership scheme (B-BOS) and was established as part of the B-BBEE deal concluded by Distell in 2005. The main purpose of the Trust, as set out in the Trust Deed, is to identify opportunities to advance black economic empowerment and ownership in the interest and benefit of beneficiaries. The Trust Deed further specifies that 85% of beneficiaries should be black (African, Coloured or Indian) people, and at least 50% of those beneficiaries should be women.

An Independent Competent Person's Report (ICPR) concluded in June 2017 found that the 'fiduciaries of the Distell Development Trust comply with the rules for a B-BOS with regard to the racial and gender demographics of the board of directors as well as the rules for independence'. The ICPR further confirmed that 'at least 95% of the value of benefits allocated by the Distell Development Trust accrues to black people and at least 55% accrues to black women'.

During the period under review the Trust disbursed a total of R4,74 million to six programmes:

- Impumelelo Academy for Social Innovation (Impumelelo)
- School Turnaround Foundation (STF)
- Rural Education Access Programme (REAP)
- SA College for Tourism (SACT)
- Rapport Onderwysfonds (ROF)
- UWC Making a Difference (MAD)

Enabled by the Trust's funding, Impumelelo produced two youth-related, best-practice publications: 'Youth Empowerment 2016'

and 'Developing the Youth'. Impumelelo also ran masterclasses, including a class on how to assess the impact of social investments. Impumelelo is currently developing an awards programme aimed at recognising community programmes across South Africa that have demonstrated prize-worthy social innovation.

STF developed a turnaround methodology that addresses challenges in South Africa's public schooling system. These challenges include, among others, a high drop-out rate and mediocre learner outcomes. STF successfully piloted this methodology in several provinces during the year. With funding from the Trust, STF is further applying this methodology in four primary schools in the Worcester area, Western Cape.

REAP assists learners from poor rural areas with the social tools required to study and succeed at university. Funding from the Trust primarily supports monthly mentoring, advice and counselling provided by dedicated student development advisers. Funding is used for related support services deemed necessary by REAP.

Annually, the SACT trains approximately 90 women between the ages of 18 and 35 years. These are generally unskilled and unemployed black women from poor communities in and around the peace parks of southern Africa.

Peace parks are also known as trans-frontier conservation areas (TFCAs). The Southern African Development Community (SADC) Protocol on Wildlife Conservation and Law Enforcement of 1999 defines a TFCA as 'the area or component of a large ecological region that straddles the boundaries of two or more countries, encompassing one or more protected areas as well as multiple resource use areas'.

To support the sustainability of the parks the SACT provides training to women on the hospitality skills necessary to obtain employment at the guesthouses, lodges and other small accommodation

facilities in and around the peace parks. Following their graduation from the SACT the college attempts to place graduates in positions of employment or in paid internships or learnerships. The Trust's funding is used to assist with paid internships.

In the upcoming financial year the Trust's main focus will be on three areas:

- Empowerment of women in rural communities
- Education and work readiness
- Youth employment and entrepreneurship in townships


#### Management control

According to the 17th CEE annual report little has changed in the past three years when it comes to transformation and reducing inequality in South Africa's labour sector. This is evidenced by the following analysis of the country's workforce profile according to occupational level. This analysis is presented in the 17th CEE annual report and is based on employment equity reports submitted by employers for the 2016 reporting year.

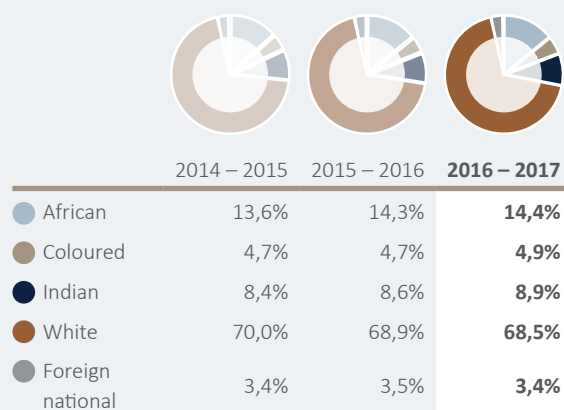
According to the report key contributors to this slow pace of transformation include, among others: employment equity not yet being recognised by a number of employers as a business imperative, and not yet being integrated into business strategies and plans to promote equity. In light of this the CEE has deemed it urgent to promulgate section 53 of the Employment Equity Act (EEA), 1998. Section 53 deals with State contracts to expedite transformation and increase compliance levels, while triggering financial consequences for non-compliance with the EEA.

While this approach is more stringent and could present new challenges to Distell, we understand the importance of inclusive transformation to our country's future.

To achieve our transformation goals, we focus on the commitments we made in our National Employment Equity Plan 2012 – 2017. This plan considers the concerns raised by the CEE, as well as those flagged by government in the B-BBEE codes and the National Liquor Policy.

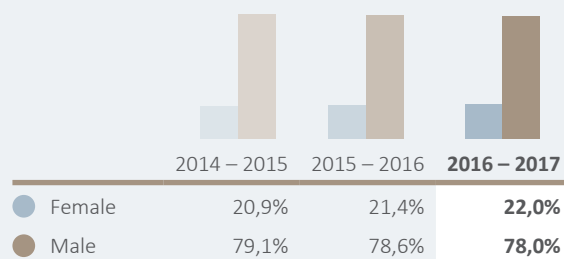
 Read more about the National Liquor Policy and Distell's response to concerns raised about the alcohol industry from page 12.

#### Workforce profile of top management by race



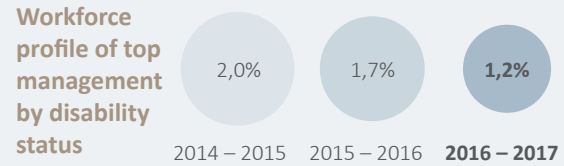
Source: Commission for Employment Equity

#### Workforce profile of top management by gender



Source: Commission for Employment Equity

#### Workforce profile of top management by disability status



Source: Commission for Employment Equity

#### Distell's employment equity progress

At the end of our 2017 financial year we made the following progress against our EE targets for appointments and promotions within the business:

- for top and senior management, 64% of appointments and 50% of promotions went to PDIs;
- for middle management, 78% of appointments made and 45% of promotions went to PDIs; and
- for junior management, 90% of appointments made and 88% of promotions went to PDIs.

In the past financial year we scheduled meetings with various stakeholders across the business to discuss our new National Employment Equity Plan 2017 – 2022. As previously the development of our new plan took close consideration of the findings of the CEE and government to address national transformation goals.

## ACHIEVING TRANSFORMATION CONTINUED

### *Skills development*

Launched in May 2016, our flagship Accelerated Development Programme identifies and fast-tracks internal, high-potential candidates for general management roles. Nine delegates have completed the first component of this programme – six of whom are PDI candidates. These delegates will join Distell's Value Chain Exposure Programme in the second half of 2017, which will immerse them in all functional areas of the business.

A second intake for the programme will begin in 2017 and we will once again focus on identifying high-potential PDI candidates.

In line with our integrated B-BBEE strategy we also aim to offer a high percentage of our internships to PDIs.

 Read more about the internships offered by Distell from page 38.

### ***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, 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.

### *African Women-focused Learnership*

To increase black female participation in learnerships and to empower and develop women within our workforce we introduced an NQF Level 4 Customer Service Learnership in Distell Southern Africa. The learnership provides a broad understanding of marketing and brand management principles. It builds practical competence in sales and negotiation skills, promotion techniques, optimisation of customer satisfaction, handling customer complaints, working in sales and marketing teams, and compliance and legislative considerations.

A total of 47 black female employees – predominantly customer service consultants – enrolled in this 18-month learnership. 36 learners have qualified to date. Seven learners have resigned from this learnership.

### *Learnerships for disabled persons*

In July 2016, 80 disabled learners successfully completed the NQF Level 1 Learnership. Of these individuals, 36 began the NQF Level 2 Learnership in November 2016 (one learner has since resigned from this learnership). It is envisaged that additional disabled learners will join this programme during 2017. We are collaborating with other organisations to assist in the challenge of absorbing these learners into suitable roles.

 Read more about how Distell promotes learning and skills development across the business from page 38.



### Enterprise and supplier development

The South African Government has prioritised entrepreneurship and the advancement of SMEs as a catalyst to achieving economic growth and development.

To this end enterprise and supplier development, which includes preferential procurement, constitutes the biggest allocation of the B-BBEE scorecard (40 points) as it encourages economic inclusion and poverty alleviation through job creation. Developing enterprises in the supply chain further supports preferential procurement and creates an enabling environment for SMEs.

As such, increasing the number of black-owned and black-women-owned enterprises in South Africa remains a top priority. Distell similarly recognises that transforming our supply chain will enable us to contribute toward a more equitable and sustainable society.

Distell is therefore focused on the development of local suppliers, particularly 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 the point that they are able to become key partners in our supply chain.

### Preferential procurement

Preferential procurement is managed by Distell's procurement function. Our preferential procurement strategy has four main focus areas:

- **Certificate compliance** – We continue to encourage our suppliers to obtain and provide us with valid B-BBEE certificates. Failure to obtain certification is a risk for Distell as our B-BBEE scorecard is reliant on the status of our suppliers. We therefore collaborate with suppliers, with a particular focus on SMEs, to create awareness of the importance of obtaining valid B-BBEE verification.
- **Reporting and accountability** – In 2016, we developed a verified reporting tool that enables each business function in Distell to monitor its preferential procurement rating, take ownership for its scores and monitor the status of its suppliers. In this way Distell's purchasing employees can focus their efforts on meeting our transformation and supplier development objectives.
- **Shift spend** – We continue to shift a significant amount of spend from generic suppliers to black-owned suppliers. This resulted in a steady increase in the number of black-owned and black-women-owned businesses with which Distell has partnered.
- **Supplier development** – This remains a priority focus, supported by our E+Scalator programme.

Through the successful implementation of our procurement strategy during the year, we are on track to reach the 40% sub-minimum requirement for preferential procurement. In addition,

we have increased black-owned spend in South Africa from 10,3% to 10,8%.

### Enterprise and supplier development

To facilitate enterprise and supplier development 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 from advisory services to accelerate growth. To create opportunities for supplier development we established a dedicated funding mechanism to make capital available for specific projects and equipment.

 Read more about Distell's enterprise and supplier development initiatives from page 56.

### Socio-economic development

We strive to further socio-economic development and make meaningful contributions to the communities in which we operate by supporting community welfare through our CSI initiatives.

In 2015, we redirected our CSI strategy. We remain committed to the guidelines prescribed by government to address its concerns about the South African alcoholic beverages industry. These include, for example, socio-economic impact of alcohol abuse, as well as the slow pace of transformation within the industry. We are further committed to aligning our CSI efforts to the requirements of the B-BBEE codes.

We have subsequently scaled down our number of CSI projects. This supports our ultimate goal of ensuring maximum benefit and impact, as well as alignment with our own and government's socio-economic and transformation goals.

 Read more about the key CSI projects that Distell supported during the year from page 33.

**We remain committed to these transformative ventures, which build resilience and enable us to share value with all our stakeholders.**

### FUTURE FOCUS

- Looking ahead, our B-BBEE performance remains a priority and we must ensure that we retain our B-BBEE status.
- We will focus on evaluating and monitoring the impact of our current transformative interventions, and proactively identify additional interventions that are scalable and replicable.



# MANAGING OUR SUPPLY CHAIN SUSTAINABLY

## WHY THIS MATTERS

We aim to remain a trusted and valued business partner with superior competitive advantage. Outdated processes and practices, a fragmented network, poor integration and inconsistent standards are challenges that can arise from a poorly managed supply chain. This could result in lost competitive advantage.

At Distell we are committed to building a supply chain model that is efficient, agile and meets our customers' requirements in full. These supply chain capabilities must further align with the key aspects of our corporate strategy. In particular, our supply chain plays an important role in delivering on the strategic theme to scale up excellence.

In addition to an efficient and agile supply chain, we recognise that our long-term sustainability is intrinsically linked to the availability of the natural resources used in the production of our wines and alcoholic beverages. These include, for example, soil, water and energy, which form the basis of our products. As such Distell is wholly dependent on the long-term health of the environment, from farm to consumer. We must ensure that our supply chain practices and processes are sustainable and protect the environment on which we depend.



## HIGHLIGHTS FOR 2017

- We reduced the number of quality incidents by more than 50%, from 38 in 2016 to 14 in 2017.
- We reduced IODs in our supply chain by 17%, from 357 in 2016 to 295 in 2017.
- We launched E<sup>2</sup> Manufacturing Practice Implementation at seven manufacturing sites during the year. We started the implementation of planning practices, including sales and operations planning, demand planning and supply planning.
- The number of returnable bottles collected and returned to Distell increased by 30%. While this is environmentally beneficial, contributing to an overall reduction in carbon emissions, the increase negatively impacted Distell's environmental performance. This was due to increased energy and water demands related to the washing of returnable bottles and the associated new returnable crates.
- We reduced odour risks at the Worcester waste water disposal area. Pilot testing of a pre-treatment facility is nearing completion and construction of a waste water treatment facility will commence in 2018.
- We repaired our water recycling system at our Springs facility. This resulted in an approximate 44 000 ℓ reduction in water use, within our water use target for 2017.
- The 1 400 kWp solar PV facility at Springs was completed in December 2016, generating 856 690 kWh during the reporting year.
- A dedicated biogas boiler was installed at the Wellington distillery in September 2016. This biogas boiler uses the biogas/ methane from the anaerobic waste water treatment plant to produce steam for distilling. This has reduced our carbon footprint by 89 tCO<sub>2</sub>e.
- The severe drought in the Western Cape prompted a dedicated focus on securing sustainable water supply at our production facilities. A water risk assessment was initiated and numerous engineering studies were completed during the year to identify supplementary water supply options.

## GOVERNANCE OF DISTELL'S SUPPLY CHAIN

To ensure the effective governance of Distell's supply chain, its various departments meet monthly to discuss current performance and better practice. These include the manufacturing operating committee and supply chain excellence review. The outcomes of these meetings are then fed into the monthly supply chain functional review, which looks at the performance of Distell's supply chain holistically. Sustainability metrics are integrated into the objectives of every department within Distell's supply chain. These metrics are reviewed regularly to track and measure performance.

In addition to the above, the manufacturing division in our supply chain established an operational risk committee that meets quarterly. This committee consists of the senior manufacturing management team. It focuses on the management of operational and manufacturing risks, such as health and safety, fire and environmental risk. In addition, the board's social and ethics, and risk committees oversee our environmental practices from a corporate governance perspective.

In the year under review Distell completed its integrated sustainability strategy in collaboration with Incite Sustainability, an independent sustainability consultant. The strategy was approved by our executive committee in May 2017 and a number of governance changes will be implemented in 2018 to give effect to the strategy. This includes, for example, the establishment of a Sustainability Council at executive level. This council will be chaired by our corporate and regulatory affairs director, and will meet quarterly.



Read more about the Sustainability Council from page 3.

## MANAGING OUR SUPPLY CHAIN SUSTAINABLY CONTINUED

### OUR SUPPLY CHAIN MANAGEMENT STRATEGY

Distell's supply chain exists to successfully deliver:

- in full, as per our customers' requirements;
- reliably, on time and at the appropriate level of quality, as per our commitments to customers;
- responsibly, within acceptable and competitive lead times;
- sustainably, with full consideration of our social and environmental stakeholder impacts; and
- at the right price, with appropriate levels of customer service and assurance.

We recognise that efficiency is a critical driver of success.

We therefore seek to improve overall efficiency in scale through high-demand, low-variability production processes, which are simultaneously agile and able to produce high-quality, premium products at lower volumes. This can be achieved through 'scaling up excellence' in our supply chain – from planning, procurement and manufacturing, to how we deliver our products to our customers.

#### OUR MISSION

**The strategic intent of our supply chain strategy is 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.**

During the year we focused on eight key strategic initiatives to enhance Distell's supply chain:

- Create a lean and agile supply chain network
- Adopt leading supply chain planning practices
- Develop a new procurement operating model
- Develop an innovative logistics operating model
- Deliver a sustainable supply chain
- Focus on empowering excellence
- Develop a supply chain management information system
- Develop competent people

### SUPPLY CHAIN EXCELLENCE AND E<sup>2</sup> EMPOWERING EXCELLENCE

In May 2015, we officially launched our supply chain excellence journey. Supply chain excellence (SCE) embodies our approach to developing, adopting and consistently implementing supply chain best practice across our business.

To help us achieve excellence in our supply chain, we developed a framework built on established best practice for both manufacturing and the supply chain to ensure standardisation across our business. 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.

**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 manufacturing sites, we conducted baseline assessments on 12 practices within in our supply chain in 2016. These practices included supply chain alignment, demand planning, sales and operational planning to understand the varying levels of supply chain practice across the business.

This knowledge enabled us to implement E<sup>2</sup> Empowering Excellence manufacturing practices at our Springs and Adam Tas production sites in 2016. E<sup>2</sup> Empowering Excellence manufacturing practices consist of five foundation practices, namely leading and managing change, visual management, 5S, team work and focus improvement. We have since launched E<sup>2</sup> Empowering Excellence manufacturing practices at three additional scale sites (Green Park, Port Elizabeth and Wadeville), three additional spirits sites (Worcester, Goudini and Wellington) as well as at East Kilbride in Scotland.

We began implementing sales and operations planning, demand planning and supply planning practices in 2017. We launched focused improvement projects within manufacturing. This has delivered promising cost savings. Since introducing these planning practices we have also seen an improvement in decision-making and proactive management of under- and oversupply risks.

Over the past two years, the execution of E<sup>2</sup> Empowering Excellence has been challenging, particularly at our manufacturing scale sites. This is primarily due to resource availability, capability and other operational needs taking priority. To address this we embarked on the implementation of the five foundation practices in model areas at each site in 2017. We expect that this will enable us to more quickly extract benefit from our Supply Chain Excellence journey. It will also enable us to establish reference areas on site that can be used to replicate work practices at other areas on site and in manufacturing. We will continue to focus on sustaining current E<sup>2</sup> Empowering Excellence practices that have been successfully implemented at our sites.

Our SCE department focuses on quality management, operational HSE, as well as broader strategic, environmental sustainability activities. These activities include participation in the Stellenbosch River Collaborative, as well as overseeing corporate governance reporting, which includes our report to the CDP. To ensure a broader HSE focus in Distell, risk roles that previously focused predominantly on fire and security risk at our production sites have been revised. As part of this process the following changes are being implemented:

- Additional HSE management positions have been created at the larger production sites.
- HSE personnel will report to the relevant operational plant managers, with technical support from the SCE corporate centre.
- The operational plant managers will be fully accountable for ensuring that operational sites comply with the relevant HSE legal requirements and that the site improves its overall HSE performance in line with stated corporate targets.
- The corporate SCE department is responsible for drawing up relevant HSE policies and standards, as well as undertaking the relevant assurance assessments, to ensure that sites comply with the relevant legal requirements and Distell's HSE policies and standards.
- The SCE department will also support the operational sites with technical advice. This includes undertaking internal audits as well as supporting sites during external audits.
- The SCE Group HSE manager and SCE Group environmental manager will transition the existing ISO 14001:2004 EMS to the new 2015 standard, and develop Distell's health and safety management system to meet the requirements of the proposed ISO 45001 standard. The SCE Group quality manager will further transition the existing ISO 9001 quality management system to the new 2015 standard.

 Read more about how we promote employee health and safety from page 42.

### Managing our top supply chain risks

Efficient procurement and supply chain management are important business imperatives to ensure the continuous availability of suitable quality product at competitive prices. We have identified the following risks in our supply chain. These risks threaten our ability to achieve SCE.

RISK	MITIGATING ACTIONS
<b>Fires at manufacturing sites</b>	Fire prevention and detection systems are installed at various sites. In addition we conduct monthly and weekly checks on all fire prevention and detection systems. Annually, system checks are performed by external service providers to ensure that our systems comply with relevant safety standards and requirements. Monthly audits are performed by Distell's risk officers to ensure compliance.
<b>Reliable water supply</b>	Water is essential for our operations and, due to changing rainfall patterns and failing municipal water infrastructure in South Africa, insufficient and unreliable water supply has become a risk. With the drought in the Western Cape, South Africa, we are using, and exploring further, the use of reliable and good-quality local underground water sources. At all our operations we are focused on reducing our general water usage and employing technology to recycle water for cleaning purposes.
<b>Ineffective effluent management</b>	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.  At our smaller wineries waste water is used to irrigate grazing or vineyards. At our larger production facilities (located within municipal areas), waste water is discharged to municipal treatment plants. This excludes our waste water treatment facility at the Worcester plant, where we discharge waste water into a controlled evaporation area. Sampling of discharged waste water is performed by sites and by local municipalities to ensure compliance with relevant by-laws. The construction of an anaerobic water treatment facility is complete at our Adam Tas site. Construction of an anaerobic water treatment facility at our Springs site has been approved and construction will commence in the new financial year.
<b>Shortages of cans and glass</b>	A two-year volumes forecast is shared with our suppliers monthly to plan capacity. A number of our high-volume, high-risk bottles have dual local supply agreements in place.
<b>Unsustainable supply of raw materials</b>	We have established long-term relationships with grape and wine producers whose viability, financial stability and success are of critical importance to us. We collaborate closely with our suppliers to ensure the sustainability of the supply chain at cost-competitive levels. We work continuously to identify areas for higher-yielding grape production with lower input costs. We have an established global supply network that enables us access to better product, service and pricing options. Global supply partners help us to counter local supplier capacity constraints.



## MANAGING OUR SUPPLY CHAIN SUSTAINABLY CONTINUED

### QUALITY AS A DRIVER OF EXCELLENCE

**To remain a trusted and valued business partner, Distell must deliver superior products and packaging. Quality is therefore a critical component of everything that we do at Distell.**

This includes working with procurement to establish quality requirements for external suppliers, ensuring that our manufacturing and production processes meet international and national quality standards for each product type, and establishing and maintaining quality controls. We also conduct on-site audits and, where necessary, assist suppliers to improve their production processes to ensure consistent quality.

This ultimately ensures that Distell functions as effectively as possible to stay ahead of competitors.

At Distell, quality is divided into two components:

- quality control, which includes procedures to ensure that our manufactured products meet our defined quality and customer and consumer requirements; and
- quality assurance, which includes procedures to ensure that we identify mistakes or defects in manufactured products.

We further focus on five strategic focus areas to meet our quality requirements across the business. These include:

- Trade quality assurance
- Governance (quality management systems)
- Supplier development
- Hygiene improvement
- Quality assurance and control

Quality managers are appointed at each production site and are responsible for co-ordinating the practices and processes required to exceed our quality standards. This includes, for example, monitoring consumer complaints, which is a key performance indicator for all manufacturing sites. This ensures constant focus and attention on the consumer. In addition, trade quality visits are now included as part of the quality manager function.

#### *Quality as a contributor to efficiency and waste reduction within the Distell supply chain*

Any product that does not meet our quality standards is decanted. This results in unnecessary effluent and waste. We have invested substantial resources to achieve the principles of 'first time right' and 'quality at source' to reduce non-conforming quality write-offs. This is discussed in more detail under 'Achieving quality in 2017', below. Other initiatives to reduce waste include collaboration between our supplier development team and our procurement and packaging Centre of Excellence to drive the implementation of light-weight packaging materials that are environmentally friendly and conform to our quality requirements.

### Achieving quality in 2017

In 2017, we assessed our quality performance of the past three years to identify gaps and incidents of poor performance within our quality management system. For example, we noted a general lack of supplier accountability. Poor quality was estimated to have cost Distell approximately R134 million between 2014 and 2016.

Based on this assessment we developed a list of quality 'change drivers' and improvement opportunities. This culminated in the launch of our Journey to Crafting Quality Excellence in January 2017. This journey prioritises:

- the need for a dynamic Distell 'Quality Community' to lead and execute quality assurance and compliance across the business;
- creating robust governance systems that reduce duplication of effort while improving effectiveness;
- implementing and maintaining superior quality control practices;
- providing excellent customer and consumer experiences with Distell products and services; and
- developing and driving new hygiene practices and standards to foster a hygiene culture.

### SUSTAINABLE 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 practising due diligence.**

The bulk of our raw materials are sourced locally, 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. Raw materials include:

- 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

Annually, the biggest portion of spend in our supply chain is on packaging materials. In particular, we purchase 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. These include transport, business support services and marketing.

For our key commodities, such as glass, labels and cartons, we have specific sourcing strategies in place that take into account cost, continuity of supply and lead time considerations.

Distell prioritises preferential procurement and the development of local enterprises and suppliers in line with South Africa's Broad-based Black Economic Empowerment Codes of Good Practice. These codes aim to create an environment that enables growth and economic empowerment for all.

As Africa's leading producer and marketer of wines, spirits, ciders and RTD beverages, we have the responsibility to leverage our purchasing power in support of the government's economic transformation objectives. We support these objectives through our preferential procurement strategy, which outlines how we can increase our procurement from black-owned and black-women-owned businesses.

Currently, 93% of Distell's procurement spend is on B-BBEE-compliant suppliers and service providers.

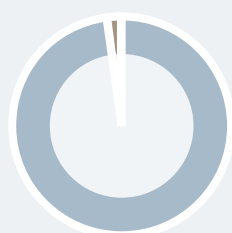


Read more about our preferential procurement strategy and commitment to B-BBEE from page 45.

### Local enterprise and supplier development

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, and materials where insufficient capacity exists in the local manufacturing industry, thereby necessitating imports to meet our demand. Such materials include, for example, rectified grape juice concentrate and wine spirits.

#### Total litres of grapes, wine and wine-related products (400 million litres)



98% Sourced locally  
2% Imported

Procurement from local suppliers has many more 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.

To facilitate local enterprise and supplier development, Distell launched the E+Scalator programme in 2016. This programme is aimed at developing new and existing black-owned suppliers to help their development in the Distell value chain. The programme consists of preferential funding and business development support, and is a dedicated channel to engage cross-functionally with the Group. Suppliers further benefit from advisory services and business support. To accelerate enterprise and supplier development, we established a dedicated, zero-interest fund to make capital available for specific projects and equipment.

In 2017, we set aside R20,5 million for funding. These funds were successfully distributed and subsequently depleted during the year. We have committed an additional R4 million for 2018.

### Currently over 50 enterprises and suppliers engage with Distell through our E+Scalator programme, with a pipeline of opportunities being incubated.



## MANAGING OUR SUPPLY CHAIN SUSTAINABLY CONTINUED

### *Highlights of our enterprise and supplier development activities in 2017*

#### **The Handwork Hub**

The Handwork Hub is a new, black-women-owned enterprise developed in partnership with the E+Scalator programme in 2017. This enterprise provides Distell with the distinctive, hand-made yellow tassels that are attached to each bottle of Amarula. Through its partnership with the E+Scalator programme, The Handwork Hub secured a long-term lease for a property in Somerset West, operating machinery and a delivery vehicle, all through zero-interest loan funding. Distell provided additional support in the form of business development, trustee administration services, administration support and a long-term, offtake agreement.

Significantly, The Handwork Hub has created 28 permanent jobs, with formerly casually employed women benefiting from formalised employment and a consistent income.



#### **The 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 Distell's apple juice concentrate is procured from South Africa, with the balance imported. To increase the percentage of apple juice concentrate procured from South African suppliers, we established an enterprise development project in partnership with government to develop new apple farmers. Distell included this dedicated Apple Juice Concentrate Project in its B-BBEE strategy. The objective of this project is to develop new black-owned apple farmers and apple juice concentrate producers, as well as new black-owned processing facilities. This supports Distell's expected increase in cider demand and enables us to achieve transformation in our value chain.

The project is located in the Eastern Cape and made progress during the year. This enables us to realise transformation in our value chain.

#### **Buy-back centres for returnable bottles**


Distell continues to investigate different methods to increase its ratio of returnable bottles. A significant component of this is identifying sales regions in which there are high volumes of returnable bottle sales but low return ratios and no buy-back centres. Where the establishment of buy-back centres is constrained by inadequate access to facilities or transport, Distell is investigating opportunities to establish black-owned enterprises, in particular, low volume, bottle collection businesses that are run by black entrepreneurs. This will create opportunities for sustainable, black-owned enterprises while increasing Distell's ratio of returnable bottles.

In 2017, Distell identified two potential sites and operating partners for pilot buy-back centres in the Western Cape. Distell will assist these entrepreneurs with facilities, transport, marketing material and business development support.

### 33 Degree Energy Systems

33 Degree Energy Systems is a majority black-owned enterprise that was established by the E+Scalator programme to deliver power solutions to Distell. The company received business development support as part of its initial incubation period. In 2016, Distell commissioned 33 Degree Energy Systems to complete its first installation for a 1 400 kWp solar PV plant at the Springs facility. Construction took 83 days to complete, with an average of 200 panels installed each day.

The Springs solar PV plant can produce up to 35% of the site's electricity consumption during peak production. This reduces Distell's dependency on traditional power sources and contributes towards Distell's target of reducing its carbon emissions by 25% by 2020. Following completion of Distell's solar PV plant, 33 Degree Energy Systems investigated, and is concluding, new supply contracts with various power purchase agreement (PPA) customers.

 Read more about the Springs facility from page 68 and Distell's environmental targets from page 61.



### 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 trained in critical business disciplines. Drivers were given access to a technical mentor, who was available to offer guidance on the maintenance of vehicles. Distell provides ongoing business coaching and mentorship through a structured liaison programme.

Currently, 40% of volumes sold in South Africa and Namibia are delivered by our owner-drivers. Their combined earnings in the past financial year equated to R128 million.



## MANAGING OUR SUPPLY CHAIN SUSTAINABLY CONTINUED

### ENVIRONMENTAL SUSTAINABILITY

The rising cost of energy, 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.

The drought in Gauteng and the ongoing severe drought in the Western Cape have highlighted the critical importance of ongoing, focused water management across our business. A strategic water risk assessment, in collaboration with WWF South Africa, is being completed, while a number of engineering assessments are under way to identify alternative water supply options. The alternative options being investigated include drilling of boreholes and water reclamation, recycling and reuse. This is over and above the continued focus on reduced water use within our operations.

#### Managing our environmental responsibility

##### *Measuring and monitoring systems*

Since its implementation in July 2010, our 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 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.

We developed a site services dashboard (SSD) to monitor our performance against resource usage reduction targets related to water, electricity and fossil fuel-based energy. The SSD has subsequently been rolled out to all our manufacturing sites and includes measurements related to waste water quantity and quality. The SSD provides the data required for our monthly manufacturing and engineering reports, which further integrated all production, cost and overall equipment effectiveness (OEE) reporting and disclosures.

##### *Environmental certification*

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 externally certified. During 2017, we initiated the process of transitioning our ISO 14001 EMS from the previous 2004 standard to the new 2015 standard. As part of this process we will integrate the ISO 9001 Quality Management System and the proposed ISO 45001 Health and Safety Management System into our management approach. This new integrated management system will put Distell at the forefront of managing our production practices in an integrated manner.

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 (2016: 94%) are actively implementing ISO 14001 and 59% (2016: 59%) have already been externally certified. As reported in 2016, the focus for 2017 was on transitioning the existing ISO 14001 EMS to the new 2015 standard. As such, no new sites were externally certified during the reporting period. Once we have successfully transitioned the existing EMS to the new 2015 standard, we will continue with external certification under the new standard.

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.

The existing ISO 14001:2004 is being transitioned to the new 2015 standard. Once this has been completed, all sites that were certified under ISO 14001:2004, as well as the remaining uncertified sites, will be certified against the new 2015 standard.

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

<b>National GHG reporting</b>	<p>On 3 April 2017, the Minister of Environmental Affairs published new regulations under the National Environmental Management: Air Quality Act, 2004 (Act 39 of 2004) relating to the compulsory reporting of GHG emissions. The initial requirement of these regulations mandates that data providers register with the Department of Environmental Affairs within 30 days if emissions from their business operations and activities breach certain thresholds. Distell has registered as required.</p> <p>The next requirement is that registered data providers report the relevant information to the Department of Environmental Affairs annually, by 31 March. This will be done as required.</p>
<b>Measuring, recording and reporting water taken for irrigation purposes</b>	<p>On 17 February 2017, the Minister of Water and Sanitation promulgated new regulations under the National Water Act, 1998 (Act 36 of 1998) related to the need to measure and record the volume of water taken from a water resource for irrigation purposes. The requirement is that farms should install water meters to measure the amount of water irrigated for agricultural purposes. Our farms division has budgeted for the installation of the relevant meters and these will be installed in 2018.</p>
<b>Determining the existing lawful use through 'validation and verification' process</b>	<p>The Department of Water and Sanitation (DWS) initiated the process of determining the 'existing lawful use' of water users in the Berg-Olifants water management area through a validation and verification process in terms of section 35 of the National Water Act, 36 of 1998. This is a legal process that validates and authorises water use previously used under the Water Act, 1956, and transitions it under the National Water Act, 1998. This process is being progressively implemented across the country as the full ambit of the National Water Act is implemented.</p> <p>The relevant documentation has been completed for all the Distell and LUSAN properties and submitted to the DWS-appointed consultants. The process is still ongoing and we will continue to undertake the necessary actions to ensure the necessary legal requirements are complied with.</p>

We are aware of society's growing concerns about harmful environmental practices. We closely adhere to our environmental policy, which is based on six key principles. The policy acknowledges our responsibility to the environment and society, and commits us to building and preserving the environmental resources upon which we depend.

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

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



## MANAGING OUR SUPPLY CHAIN SUSTAINABLY CONTINUED

### Distell's engagement with local authorities

Distell regularly engages with the relevant municipal authorities to proactively manage issues of mutual interest.

- Stellenbosch Municipality's long-proposed Treated Effluent By-law proposes new discharge quality requirements that necessitate pre-treatment. This by-law will have a significant impact on Distell's operations, if passed. This includes, for example, impacts on the Group's Adam Tas effluent treatment facility, which is currently under commissioning. Distell will also be required to pay increased discharge costs to the municipality at our Bergkelder and J.C. Le Roux facilities until such time as effluent is treated. As such Distell is actively involved in informal engagements with Stellenbosch Municipality to better prepare for any possible impact. In addition, Distell provided feedback on the draft by-law when it became available for public comment at the beginning of 2017.
- Distell is a founding 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 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.
- During the reporting year Distell engaged with numerous local authorities regarding the management of waste water from our different production sites. This included engagements with:
  - Stellenbosch and Breede Valley Municipalities related to our Adam Tas and Worcester production sites;
  - Ekurhuleni Metropolitan Municipality related to our Springs and Wadeville production sites; and
  - Nelson Mandela Bay Metropolitan Municipality related to our Port Elizabeth production sites.

These engagements focused on creating awareness of the increasing need for waste water pre-treatment at our production sites due to the impact of our operational waste water discharges on the municipal sewage treatment facilities. In response Distell is actively planning the construction of a number of waste water treatment facilities within the next two to three years.

- Stellenbosch Municipality established an innovative community project focused on river stewardship, known as the Stellenbosch River Stewardship Action Programme. This project subdivided the Eerste River catchment into a number of smaller management units. Businesses and other community groups can 'adopt' these management units and commit to improving the relevant riverine environment through the removal of alien trees or waste, as well as through replanting indigenous vegetation. In September 2016, Distell adopted a portion of the Eerste River that forms the boundary of our Adam Tas production site. We initiated an environmental impact assessment, in collaboration with Remgro, for the development of a river maintenance management plan for this section of the river. This plan focuses on repairing existing erosion damage and removing trees from the river bed that are responsible for obstructions and resultant flow diversion and erosion.



## Preserving our environment – Distell's 2017 performance

In 2015, Distell introduced revised resource efficiency targets<sup>1</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 to ensure that we reach our long-term goals. We have established new waste water volume and organic load-based targets, commencing in 2018 with 2020 as our target date. These new waste water volume and organic load-based targets use 2017 as a base year.

### Climate change and our carbon footprint

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 – contributing 45,5% and 50,4% respectively toward our direct emissions (Scope 1 and 2). In 2017, our direct emissions increased by 1,8% to 163 474 tCO<sub>2</sub>e (2016: 160 573 tCO<sub>2</sub>e). Our emission intensity per litre of product decreased by 3,04% to 236,3 tCO<sub>2</sub>e per million litres of packaged product (2016: 243,7 tCO<sub>2</sub>e). This is in line with the 4,77% increase in production volumes in 2017.

Our total GHG emissions, including Scope 3 and 'out of scope' emissions, amounted to 506 285 tCO<sub>2</sub>e (2016: 488 104 tCO<sub>2</sub>e). This is a 3,7% increase from last year.

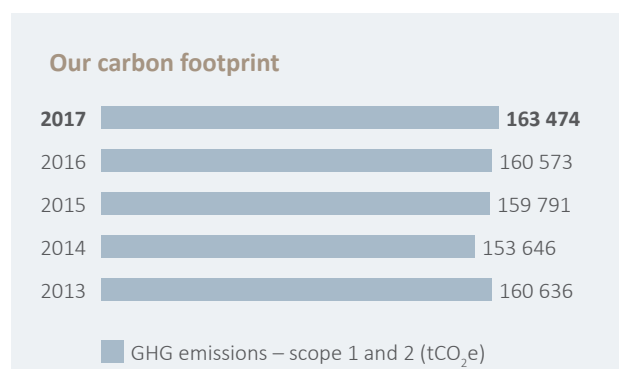
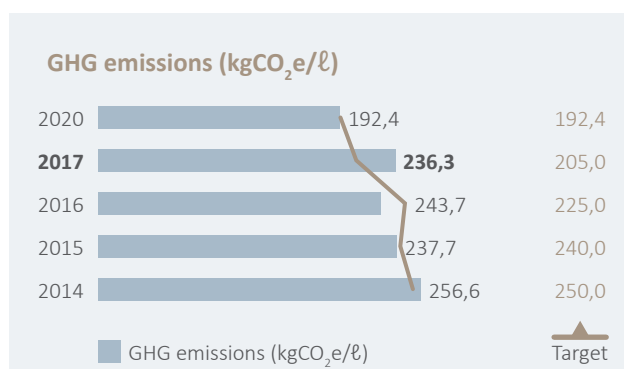
We were unable to reach our 2017 14,0% reduction target for our GHG emissions per litre of packaged product (kgCO<sub>2</sub>e/l) from the 2014 base year, achieving only a 7,93% reduction in comparison to 2016. Our performance is lagging behind our pre-set glide path.

During the year the biogas boiler at our Wellington distillery became operational in October 2016. This resulted in a reduction in fossil fuel-based energy used, in particular coal. In addition, the solar PV

facility at our Springs plant became operational in December 2016. As these two projects were only operational for part of the year, they resulted in a marginal reduction in coal and electricity usage of 1,88% and 1,85% at the relevant production sites, respectively. It is anticipated that we will see improved reductions in our coal and electricity usage in 2018.

This year we submitted our seventh annual carbon footprint report to the CDP. As with previous years, Carbon Calculated<sup>2</sup> externally verified our data against the ISO 14064-3:2006 standard and provided us with limited assurance on the 2015 disclosure figures. Our previous report was assessed by CDP and our performance score improved to an A- (2016: 99B)<sup>3</sup> based on their evaluation of our performance against their best-practice criteria.

During the year Distell sold the Le Bonheur and Stellenzicht wineries, and the Lomond and Ernita farms. These divestments require us to amend our GHG base year, which is currently 2014, in line with the ISO 14064-3:2006 standard. This is needed to ensure that we compare our annual emissions against an equivalent and comparable base year. This will be done during the new financial year and reported in next year's sustainability report and carbon disclosure reports.



<sup>1</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.

<sup>2</sup> [www.carboncalculated.co.za](http://www.carboncalculated.co.za).

<sup>3</sup> In the past year the CDP revised its scoring methodology. Companies now receive only a final grade (A to D-) based on the score obtained in the highest achieved level. This replaces the 2016 scoring methodology, which included a percentage for disclosure.

## MANAGING OUR SUPPLY CHAIN SUSTAINABLY CONTINUED

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

	2017	2016	2015	2014*	2013
Scope 1 direct emissions					
Stationary combustion	74 435	70 005	68 965	65 287	70 954
Mobile combustion – forklifts	1 305	1 429	1 191	1 152	1 303
Mobile combustion – vehicle fleet	4 918	5 241	5 320	3 959	4 022
Fertiliser application on farm	377	427	450	455	325
<b>Total Scope 1 emissions</b>	<b>81 035</b>	77 102	75 926	70 853	76 604
Purchased electricity	82 439	83 471	83 865	82 793	84 032
<b>Total Scope 2 emissions</b>	<b>82 439</b>	83 471	83 865	82 793	84 032
<b>Total Scopes 1 and 2 emissions</b>	<b>163 474</b>	160 573	159 791	153 646	160 636
Purchased goods and services (packaging material)	283 623	273 793 <sup>1</sup>	301 075	285 844	402 175
Business travel (commercial airlines)	4 125	4 741	5 588	4 573	9 128
Third-party transport and distribution (owner-driver)	2 486	3 722	4 266	4 466	4 361
Third-party transport and distribution (unbottled product)	35 664	33 052 <sup>1</sup>	32 048	34 047 <sup>1</sup>	35 151 <sup>1</sup>
Third-party transport and distribution (bottled product)	16 125	10 571 <sup>1</sup>	7 901	6 851	6 160
<b>Total Scope 3 emissions</b>	<b>342 023</b>	325 879 <sup>1</sup>	350 878	335 781 <sup>1</sup>	456 975 <sup>1</sup>
<b>Total Scopes 1, 2 and 3 emissions</b>	<b>505 497</b>	486 452 <sup>1</sup>	510 669	489 427	617 611
Non-Kyoto Protocol GHG emissions – Freon R22	–	–	–	176	248
Outside of Scopes 1, 2 and 3 – Biogas <sup>3</sup>	788	–	–	–	–
Outside of Scopes 1, 2 and 3 – Biomass (wood chips)	–	–	–	285	–
<b>Total emissions</b>	<b>506 285</b>	486 452 <sup>1</sup>	510 669	489 888	617 859
Full-time employees (FTEs)	4 291	4 411	4 696	4 608	4 592
Kilowatt hours electricity consumed	81 622 551	81 040 031	81 422 070	82 793 193	84 880 943
kWh per FTE	19 022	18 372	17 339	17 967	18 485
Tonnes CO <sub>2</sub> e per FTE <sup>2</sup>	38,1	36,4	34,0	33,3	35,0
Tonnes CO <sub>2</sub> e per million litres of packaged product <sup>2</sup>	236,3	243,7 <sup>1</sup>	237,7	256,6	259,1

\* 2014 is our base year as per the ISO 14064-3 standard.

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

<sup>2</sup> Scopes 1 and 2 only.

<sup>3</sup> Biogas produced as a result of anaerobic waste water treatment and used for steam production as part of the production process.

### 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:

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

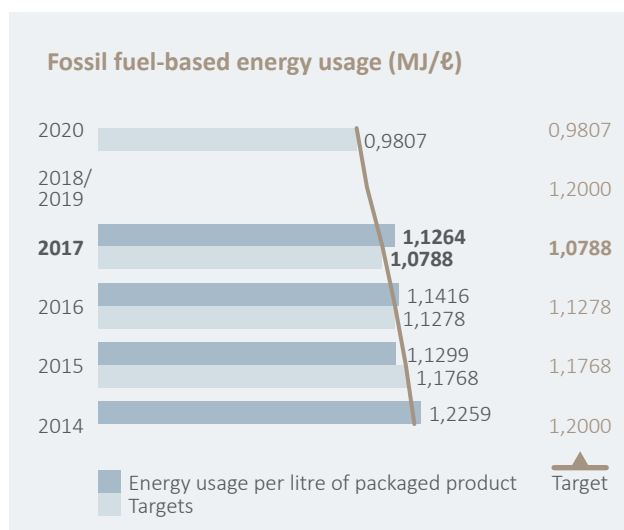
### Fossil fuel-based energy usage

Our fossil fuel-based energy usage depends on the volume of product we produce during the year and fluctuates according to market demand and forward-planning stock management, thereby creating 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 for 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 a minimum of three years 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.

Overall, our fossil fuel-based energy usage decreased in comparison to 2016. However, we were unable to reach our 12,0% reduction target from our 2014 base year – achieving only 8,11%. The main reason for not reaching our 2017 fossil fuel-based energy usage target was due to a 4,0% increase in the required energy at our manufacturing facilities.

Energy required was heavily influenced by the additional 20,4 million returnable bottles received and washed, as well as the additional washing of 5,7 million returnable crates during 2017. This washing required additional steam, which resulted in the increase in energy usage. However, the increase in returnable bottles has a significant overall environmental benefit as the energy required to make a new bottle is much higher than the steam and energy required for washing a returnable bottle. It is estimated that approximately 200 kg of coal is saved per every 1 000 washed returnable bottles.

The biogas boiler at our Wellington distillery became operational during October 2016. This resulted in an approximately 36-tonne reduction in our coal use. The boiler makes use of methane gas produced as a by-product at the anaerobic waste water treatment facility on-site.



### Electricity usage

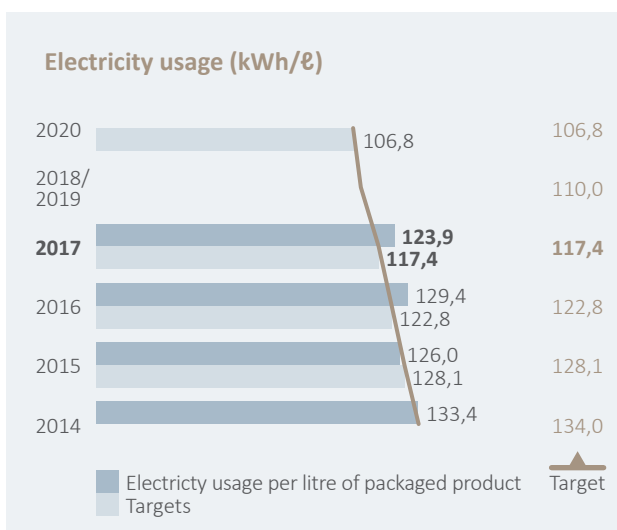
Similar to our fossil fuel-based energy usage, while our electricity usage decreased in comparison to 2016, we were unable to reach our 2017 reduction target. This was primarily due to a 0,2% increase in electricity usage at our manufacturing facilities. Our Springs facility experienced a 12% increase in electricity usage due to the additional fermentation and blending activities and the associated additional motors and pumps. Springs accounted for approximately 25% of Distell's total electricity usage for 2017.

While increased electricity usage at Springs negatively impacted our performance against our 2017 reduction target, there were also numerous inefficiencies across the supply chain that contributed to increased electricity usage. These include poor performance of certain high-speed bottling lines, and planning inefficiencies with plants running below capacity due to sharp sales peaks and poor sales forecasting. These inefficiencies exacerbated the impact of the large electricity base loads at certain sites. Improving the accuracy of our sales forecasting and our operational efficiency is a focus area for the Distell manufacturing team.

The new 1 400 kWp solar PV electricity generation plant became operational at our Springs facility in December 2016. A total of 856 690 kWh of solar power was generated during the year.

The construction of a new waste water treatment facility at Springs will commence in the new financial year. The facility will generate biogas/methane as a by-product of the treatment process. The biogas/methane will be used to generate electricity and it is estimated that 500 000 kWh of electricity will be generated per month once it becomes operational.

In May 2017, Distell signed a power purchase agreement with L'Ormarins Proprietary Limited. Subsequently, electricity generated by the L'Ormarins hydro-electrical power station will be wheeled to our Adam Tas site in Stellenbosch. While a number of technical aspects still need to be finalised, we anticipate that this agreement will commence in 2018. It is estimated that up to 3,5 MWh of electricity will be secured from this source on an annual basis.



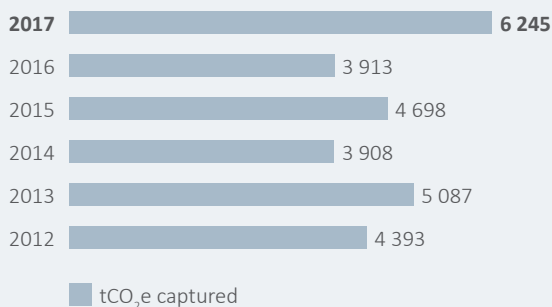
## MANAGING OUR SUPPLY CHAIN SUSTAINABLY CONTINUED

### Non-energy-related GHG emissions

We reduce our non-energy-related GHG emissions by capturing, purifying and using the 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 CO<sub>2</sub> captured increased by 59,6%. This was due to Springs' fermentation activities being fully operational.

#### tCO<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 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.

We achieved our 2017 target for water usage. This was a significant improvement on last year's performance. The main reason for our success was the repair of the pasteuriser recycling system, which was further expanded to include the recycling of water discharged during reverse osmosis (RO). This resulted in an estimated average of 120 ℓ of water being recycled daily.

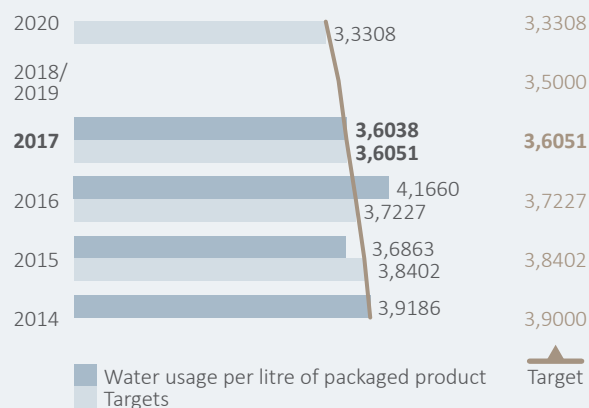
Water audits have been completed at our Green Park, Wadeville, Springs, Worcester, Adam Tas, Goudini and Wellington plants. A number of opportunities to further reduce water usage have been identified. These will be progressively implemented going forward. Water audits at the Port Elizabeth and Monis facilities are planned for the new financial year.

During the year the DWS started the verification and validation of water use in the Berg-Olifants water management area. This process will determine Existing Lawful Water Use (ELU) in terms of section 35 of the National Water Act, 1998. This specifically relates to the abstraction and storage of water for agricultural and industrial use. During the year we completed all required documentation for relevant Distell farms and production facilities, and submitted this documentation to the DWS-appointed consultants. We await the outcome on this process, which is expected in September or October 2017.

We appointed the World Wildlife Fund (WWF) for Nature to undertake a water risk assessment of our production facilities using the water risk filter tool. The final draft outcome of this assessment was received in June and appropriate response measures are being finalised. A number of engineering studies are under way to identify alternative water supply options in the Western Cape due to the severe drought.

The construction of a new waste water treatment facility at Springs will commence in the new financial year. The facility will use RO to return a portion of treated effluent water to the quality of drinking water. This reclaimed water will be used in the production process for non-product contact reuse, such as, for example, washing floors on-site. The water will comply with the South African National Standard (SANS) 241 drinking water standard.

#### Water usage (ℓ/ℓ)





### 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, and inorganic waste such as glass bottles and other packaging waste.

### Organic waste management

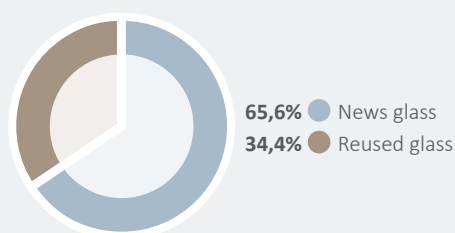
Primary waste consists of grape skins, stalks and seeds that remain after we extracted the juice used in our products. This waste is organic and can be composted or used elsewhere. The reporting year saw a 5,9% reduction in the volume of organic waste recycled and recovered. This directly relates to a decrease in the volume of grapes pressed, which is dependent on the grape harvest and on our wine production requirements. This, in turn, is subject to varying climatic conditions.

### Inorganic waste management

#### Glass

This year we used a total of 311 529 tonnes (2016: 288 746 tonnes) of glass bottles, of which 65,6% (2016: 71,6%) comprised new glass and the remaining 107 233 tonnes (2016: 81 872 tonnes) comprised reused bottles. We are actively working towards reducing the impact of glass in our packaging activities by adopting the 'three Rs' of waste management: reduce, reuse, recycle.

Glass used in 2017 (total of 311 529 tonnes)



### Reducing the amount of new glass we require

This year we bought 204 296 tonnes of new glass – a 1,2% decrease compared to 2016 (206 874 tonnes). This is despite the fact that production volumes increased by 5,8%. This decrease can be attributed to the reuse of glass bottles collected through our ongoing 'Give back, Get back' (GBGB) initiative. Through this initiative we reused a total of 107 233 tonnes (2016: 81 872 tonnes) of glass. This amounts to 194,8 million bottles (2016: 149,8 million) and represents 34,4% (2016: 28,4%) of our total glass requirements.

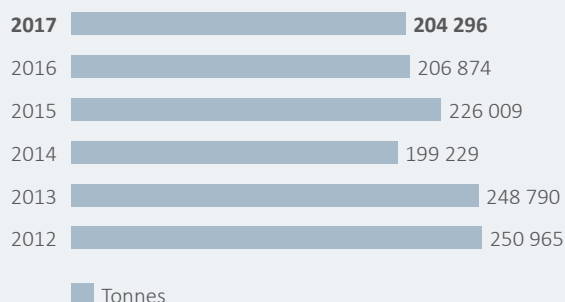
### Reusing glass through bottle returns

Four of our plants – Springs, Ecowash, Green Park and Port Elizabeth – are equipped to wash used bottles. The number of bottles washed at these facilities during 2017 enabled us to reuse 30% more bottles than the previous year, or a total of 194,8 million bottles (2016: 149,8 million). This amounted to a 107 233 tonne (2016: 81 872 tonne) reduction in the amount of glass we were required to purchase and equated to a saving of 198 345 tonne (2016: 143 451 tonne) of CO<sub>2</sub>e that would have been emitted if new bottles had been purchased.

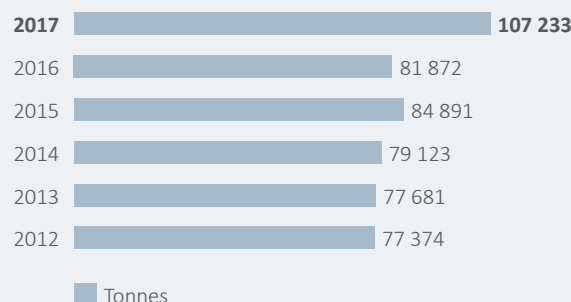
Through our GBGB programme we encourage consumers to return used glass containers to participating retailers in return for a deposit. All bottles suitable for this type of recycling are clearly marked on the product's label. Before they are deemed suitable for reuse, returned bottles undergo stringent 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 660 ml Hunter's range. This initiative was launched on 1 July 2016, at the start of the reporting year. The project enabled an increase in the return ratio between sold bottles versus returned bottles to improve from 78,7% to 85,5%. This represents an increase of returned bottles from 23,2 million in 2016 to 49,3 million in 2017 – a 212,5% increase.

New glass bought 2017 (tonnes)

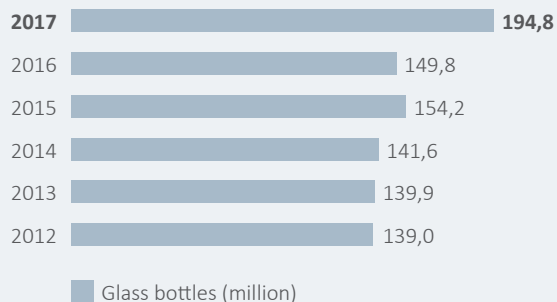


Glass returned and reused (tonnes)

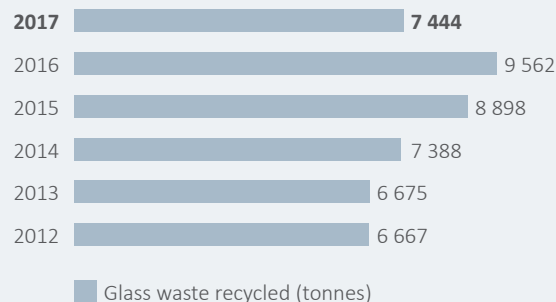


## MANAGING OUR SUPPLY CHAIN SUSTAINABLY CONTINUED

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



### Glass waste recycled (tonnes)



#### Recycling glass

Glass waste from production activities is collected, sorted and stored on-site 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 recycled glass 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 2017, the volume of glass recycled decreased to 7 444 tonnes. This is a 22,15% decrease from 2016 (9 562 tonnes). This was primarily due to a 51,09% reduction in the glass recycled for cullet at our Ecowash washing plant. This reduction was primarily due to the successful implementation of the 660 mℓ returnable bottle project and specifically the returnable crate. The crate protects the bottles resulting in fewer bottles having to be discarded and recycled for cullet while the bottles can rather be washed and reused.

#### 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, reuse 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)	2017	2016	2015	2014	2013	2012
Cartons and paper	1 490	2 263	2 030	1 761	1 684	1 577
Plastic <sup>1</sup>	1 041	763	892	875	857	862
Tetra Pak	0,00	3,26	7,32	2,40	4,60	2,20
Metal (including cans)	276,5	357,7	256,6	265,8	170,8 <sup>3</sup>	N/A <sup>2</sup>

<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 54.

### 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:

- Discharged to municipal sewer
- Used 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 decreased by 14,4% to 1 640 266 ℓ (2016: 1 915 861 ℓ), while our waste water intensity decreased to 2,38 litres of effluent per litre of packaged product (2016: 2,90 ℓ/ℓ). This reduction is in line with the reduction in water use at the sites.

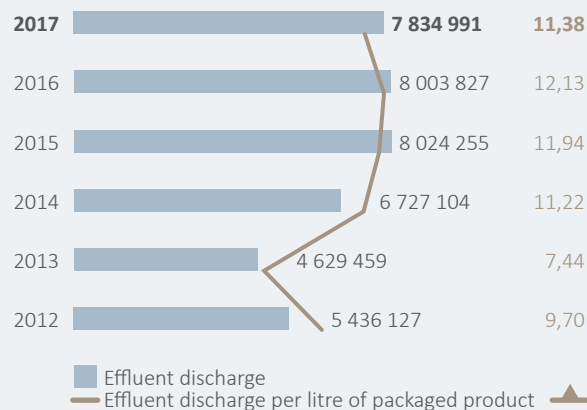
 Read more about our water usage from page 64.

The construction of the Adam Tas anaerobic water treatment facility in Stellenbosch has been completed but is still in the final commissioning phase with the biological treatment process acclimatising to the treatment of the specific waste water.

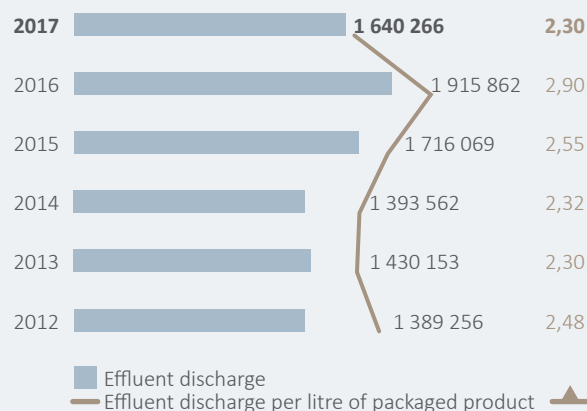
The construction of the new waste water treatment facility at our Springs production plant has been approved and construction will commence in the new financial year. The anaerobic treatment facility will produce biogas/methane, which will be used to generate electricity at the plant. A portion of the waste water will be treated to produce drinking water for non-product contact reuse at the site. The full pilot plant evaluation for a new anaerobic waste water treatment facility at our Worcester facility is nearing completion. Once this is complete a proposed technical design will be presented. The construction of the plant will be put out on tender during the new financial year and construction should also start during the financial year.

An effluent characterisation study will be undertaken at our Wadeville production plant with the intention of designing a waste water treatment plant. The intention is to issue a tender for the construction of the treatment facility during the new financial year.

### Waste loading of effluent (including LUSAN)



### Effluent discharged 2017 (including LUSAN)



## MANAGING OUR SUPPLY CHAIN SUSTAINABLY CONTINUED

### *Effluent disposal and treatment initiatives*

#### *Klipvlak in Worcester*

During the year Solamoyo Processing Company (Solamoyo), of which Distell is a shareholder, developed an action plan to address previous odour complaints at Klipvlak. This plan was approved by the Cape Winelands District Municipality (CWDM). While this action plan was initially successful, power outages resulted in standing water that triggered further complaints. These power outages were a result of service failure by Eskom. Subsequently, Solamoyo met with community representatives and officials from the CWDM to discuss these complaints. Further changes were made with respect to the management of the mechanical evaporators which addressed the odours. The management of odours is an ongoing focus.

Veolia Water Solutions and Technologies (Veolia) was appointed to undertake a waste water treatment pilot study to determine the technical viability and proposed design of a waste water treatment facility. This study is nearing completion and construction of the treatment facility is planned to commence during 2018.

#### *Wadeville production site*

The Wadeville Production site discharges waste water from production into the Ekurhuleni Metropolitan Municipality (EMM) sewer network. This is similar to the approach followed at our Springs site. The Wadeville site received a notice from EMM to look into pre-treatment of the production waste water. Distell has subsequently appointed consultants to undertake a sampling programme at the site to determine the composition of the waste water to allow for a technical viability and proposed design to be completed. This will be completed during 2018.

#### *Springs production site*

The construction of a new waste water treatment facility was approved at the Springs production site. Construction of the facility will commence during 2018. The facility will consist of a number of treatment steps, which include an energy and water reclamation component. The biogas from the anaerobic waste water treatment process will be used to generate electricity, while water will be recovered for non-product reuse following further aerobic, ultra-filtration and RO treatment processes. It is estimated that 500 000 kWh of electricity can be generated per month by this facility. In addition, it is estimated that approximately 1 800 l of water can be reclaimed daily from the treatment process.

### **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. We also have service-level agreements in place with both our independent suppliers and service providers 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.

#### **World Wildlife Fund for Nature 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.

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.

During the reporting year Distell sold the Lomond, Le Bonheur, Stellenzicht and Ernita farms, resulting in the associated reduction in land set aside for conservation under Distell's control. These farms were sold primarily to reduce the number of wine brands and stock-keeping unit (SKU) that Distell owns. This will reduce the complexity of the Distell portfolio and enable a more focused approach.

#### **Integrated Production of Wine Scheme (IPW)**

We continue to follow the principle that all grape and wine suppliers to Distell should be compliant 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>1</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.

<sup>1</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), and the 'OIV Guidelines for sustainable Viticulture: Production, processing and packaging of products' as published by the International Organisation of Vine and Wine (OIV).

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, and 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 way that ensures it is safe for human consumption.

To certify our wines are IPW-compliant we ensure that our independent suppliers are IPW-compliant and 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.

### Organic wine production

The Swiss-based Société Générale de Surveillance (SGS), a major international body that certifies organically grown agricultural foods, requires that organic farming principles be applied for three consecutive years before wines produced from these vines may be labelled as organic.

To acquire SGS 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 Papkuilsfontein Vineyard's, which we jointly own with a consortium of black entrepreneurs and a local community trust, and our Nederburg and Adam Tas cellars, which are accredited for the production of organic wines.

### 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>2</sup>, which is founded on the following principles of social compliance:

- 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
- Workers' 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 was to ensure that all of these suppliers adhere to WIETA principles by 2017. Currently, 93% of our suppliers are WIETA-accredited and 7% have yet to start the process.

In international markets the focus on social compliance within the wine industry has increased significantly. Customers and consumers are demanding increased assurance that acceptable social standards are being met by suppliers. Nordic countries, in particular, have requested alternative social compliance. Distell has been fully co-operative with these requests and spot audits have not shown significant deviations from acceptable social compliance norms.

Looking forward, we also aim to work alongside our suppliers to define better responsible agricultural practices. This will include taking into account the requirements of WIETA, as well as national and international better practice. We also aim to engage more regularly with government to determine how we can better align our performance with their own as well as those of international standards authorities.

PERCENTAGE OF WIETA-ACCREDITED SUPPLIERS	2017	2016
WIETA-accredited	93%	86%
In the process	0%	10%
Not yet registered	7%	4%

<sup>2</sup> <http://www.wieta.org.za>.



## MANAGING OUR SUPPLY CHAIN SUSTAINABLY CONTINUED

### UPHOLDING HUMAN RIGHTS

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 10 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 dependants or nominees upon the death of such members.
- Farmworkers 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 farmworkers with their weekend shopping and attending sports, school, religious and cultural events.
- Our farmworkers 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 farmworkers 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

### FUTURE FOCUS

- In the upcoming year we will actively entrench the principle of 'quality at source' at all manufacturing sites to ensure end-to-end quality success. We will also implement new supplier measurements and performance management tools to support adherence to the principle of 'first time right'.
- A new waste water treatment facility is being considered for the Wadeville production site in 2018. This facility will reduce the amount of organic load discharged to the local authority's sewer network. It will also enable us to recover energy from the water treatment process in the form of biogas/methane, which can be used to generate electricity for steam production.
- Construction of a new waste water treatment facility will commence at our Springs facility in 2018. This facility will enable water recovery for non-product reuse. Electricity can also be generated from the biogas/methane that is produced as part of the anaerobic treatment process.
- Going forward, Distell will ensure that all waste water treatment facilities first include an energy generation component. This should either be electricity or steam generated from the biogas/methane produced during the treatment process. In addition, water reclamation for non-product reuse should be investigated and implemented, where feasible.



**DISTELL GROUP LIMITED**

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