



**GUINNESS GHANA**  
BREWRIES LIMITED

# **CIRCULAR TO SHAREHOLDERS**



## COMPANY PROFILE

Your company, Guinness Ghana Breweries Limited ("GGBL" or the "Company"), operates a total beverage portfolio operating from two sites in six drink categories: Stout, Lager, Ready-to-Drink ("RTD"), Adult Premium Soft Drinks (APNADs), Mainstream Spirits and International Premium Spirits. GGBL is the market leader in the beer brewing industry in Ghana with a share of approximately 53% of the total beer market.

GGBL is a listed entity whose shares are traded on the Ghanaian Stock Exchange. Its majority shareholder is a subsidiary of Diageo plc, which owns 72.42% of the Company, while the remaining 27.58% of its shares are held by several reputable institutional and public portfolio investors and several thousand individual retail investors. GGBL emerged out of the acquisition by the Diageo business, Guinness Ghana Limited, of the Heineken business, Ghana Breweries Limited, in 2004. GGBL continues the long heritage of local production (over 50 years) with a myriad of brands, as well as the distribution of Heineken Lager (since 2004) and International Premium Spirits (since 2009). Heineken previously owned 20% equity in GGBL through Heineken Ghanaian Holdings B.V. On 6<sup>th</sup> October 2015, Diageo announced that it has acquired Heineken's shares in GGBL through an acquisition of Heineken Ghanaian Holdings B.V. GGBL will continue to produce and distribute the Star brand of beer.

Today, your Company operates from two brewing sites: Achimota in the Greater Accra region and Kaasi in Kumasi, capital of the Ashanti region.

Your Company recognises the importance of investing in its brands, sales and distribution partners, people, the environment and corporate social responsibility. In this regard, GGBL continues to invest significantly in these areas while ensuring that it also invests in value-adding capital assets that will significantly drive future growth.

### Brands

The broad brand portfolio of GGBL appeals to the majority of the Ghanaian population targeting the full spectrum of the market. As a Total Beverage business with a portfolio of strong local and international brands, we implement a winning strategy through local execution, to market and sell our brands.

Your Company has recently added Orijin Bitters, Orijin RTD, Star 'Lite' Beer and Top Malt to its portfolio with Smirnoff Black Ice and Ruut Extra launched two years ago. Market demand for GGBL's products remains strong and consequently your Company has continued to invest in its brands through advertising and promotion. GGBL has also undergone substantial capital investment over the last three years, modernising its asset base and substantially increasing its total capacity to meet future market growth (including expanding the capacity of the Kumasi brewery by an additional 33%).

Your Company operates with a single-minded focus for its brands, to ensure unique brand positioning supported by relevant and resonating brand associations. All our marketing activities are regulated by and comply with the globally applicable Diageo Marketing Code, which ensures that GGBL remains proactive and responsible in its promotions. We set the pace leading the local raw material agenda in Ghana by producing Ghana's first cassava based beer, Ruut Extra.

### Sales and Distribution Partners

Your Company operates through a hybrid direct distribution network with 33 key distributors ("KDs") and 200 strategically selected wholesalers and retailers. These direct customer KDs and wholesalers in turn distribute our entire portfolio of spirits, beer and soft drinks to 600 smaller wholesalers, 23,000 retail on-trade consumption outlets and 7,000 off-trade retail customers.

### Zero Harm, Environment and Quality

Your Company's stated aim is to achieve Zero Harm, whereby Everyone goes home safe, Everyday, Everywhere. This is the single biggest priority for your Company and as such is embedded in your Company's culture. In order to make this a reality, your Company has invested significantly in capital equipment and in building the capability of its people.

GGBL is committed to being a responsible environmental citizen and as such, has invested in effluent treatment plants at our two brewery sites in order to reduce its effluent discharge. In addition, your Company reduces its environmental footprint through continuous improvement and investment in environmentally friendly equipment and processes. The quality of your Company's brands and its culture of never compromising on quality is a source of great pride.

### Sustainability and Responsibility

At the core of our business is our commitment to effective and efficient utilisation of available resources to drive value for all stakeholders, including the communities in which we operate. We believe that 'doing good' can be 'good for business' and have invested considerable resources in our local sourcing initiative since 2012 increasing local raw materials use from 12% of our total raw materials base in 2012, to 48% in 2015, improving the livelihoods of many communities in Ghana along the way. GGBL's intent is to increase its local raw material sourcing to 70% by the end of 2017.

At the same time we take seriously our responsibility to guard against alcohol misuse, and do so by strict observance of our Marketing Code, plus consumer facing programmes that provide relevant information, enable informed choices and drive positive behavioural change, as well as collaboration with a broad range of public and private stakeholders, including the industry body, the Association of Alcohol Manufacturers and Importers.



## BACKGROUND

Ghana's economy has enjoyed significant growth during the last five years but this growth has been accompanied by macroeconomic imbalances and a currency that has devalued rapidly, with rising inflation and interest rates.

Nevertheless, Ghana has been politically stable and scores well ahead of the African region for ease of doing business. In the medium term, the economy is projected to recover as the macroeconomic situation stabilises, together with higher oil and gas production coming on stream, and increased levels of private investment. We expect demand for GGBL's products to continue to grow as consumers' disposable income levels improve.

Following the rights issue of GHS70m in November 2011 the Company successfully reduced its net debt outstanding from GHS105m in June 2011 to GHS11m in December 2011. However, over the last three years, the economic climate worsened as the Cedi depreciated by over 100% and interest rates rose from 11% to 25%. This led to the business growing at a slower rate than originally forecast, due to weaker consumption growth and tougher than anticipated macroeconomic conditions, together with power outages and rationing increasing costs.

Over the last three years the Company has invested significantly in capital expenditure to increase the capacity of the Kumasi brewery, install spirits blending and bottling capability and renovate the Malta Guinness bottle. Total assets have grown from GHS244m in June 2012 to GHS481m in June 2015, funded primarily through debt.

The macroeconomic backdrop has increased the burden of the debt financing with market interest rates having increased significantly, as well as putting pressure on the operating performance of the business. As a result your Company has a more than optimal amount of debt.

In order to address these issues, GGBL needs an injection of additional equity funding. After a number of internal reviews, your Board of Directors believe that a rights issue for one hundred and eighty million Ghana Cedis (GHS180m) completed by June 2016, would give you, our shareholders, the opportunity to contribute to GGBL's future while enabling your Company to reduce its debt levels, increase its profitability and enable us maintain our market leading position in Ghana.

## BENEFITS OF THE RIGHTS ISSUE

The Board is seeking authorisation from shareholders to undertake a rights issue of GHS 180m. Our key objectives from the rights issue are as follows:

- Decrease the interest burden on your Company;
- Return GGBL to an optimal capital structure;
- Provide GGBL with the financial flexibility to invest in future value creative projects;
- Return your Company to a position where it will be profitable; and
- Preserve your Company's position as the leading Total Beverage portfolio business in Ghana.

## CONCLUSION

In view of the above, the Directors of GGBL recommend that shareholders vote in favour of the following resolutions:

1. THAT the Company be and is hereby authorised to raise additional capital of up to GHS180m through a renounceable rights issue by June 2016 (the "Offer"). The Offer shall first be made to the Company's members on its register of members as at the close of day on a date to be determined by the Company's Board of Directors. Shares shall be offered to the members in proportion, as nearly as the circumstances admit, to the number of shares that they are entitled to, payable in full. The Company's Board of Directors is hereby authorised to issue renounceable provisional letters of allotment in accordance with the Rules of the Ghana Stock Exchange. The Company's Board of Directors is also hereby authorised to determine the share price, modalities and duration of the Offer, and the allotment of shares in respect of the Offer, taking into account market conditions, and subject to the Company's Regulations, the Rules of the Ghana Stock Exchange and all other applicable laws.
2. THAT the Board of Directors be and is hereby authorised, should the Company receive subscriptions in excess of the GHS 180m being sought under the Offer, to consider whether or not to issue additional shares of the Company to satisfy the extra demand, subject to the discretion of the Board of Directors, the Company's Regulations, the Rules of the Ghana Stock Exchange and all other applicable laws.
3. THAT the Board of Directors be and are hereby authorised, subject to the rules of the Ghana Stock Exchange and all other applicable laws, to allot, issue and/or deal in all such shares as are not subscribed to by existing shareholders, and to allot, issue or grant offers of such shares to non-shareholders as they may deem necessary.

Your Company, GGBL, its Board of Directors and management remain excited by GGBL's growth prospects and look forward to creating significant future value for you, GGBL's esteemed shareholders.



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