Diageo will now launch a Mandatory Tender Offer to the public shareholders of US

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Diageo plc, United Breweries (Holdings) Limited and United Spirits Limited have today announced agreements under which Diageo would acquire a 27.4% stake in USL, the leading spirits company in India. The consideration will be INR 1440 per share and the total consideration would be INR 57,254 million (approximately £660 million). Following completion of these agreements, Dr Vijay Mallya will continue in his current role as Chairman of USL, and UBHL and Dr Mallya will work with Diageo to build the USL business as the current consumer trends for premiumisation accelerate in India. The agreements are in two parts:

- An agreement to acquire a 19.3% interest in the current share capital of USL at a price of INR 1440 per share from the UBHL group, the USL Benefit Trust, Palmer Investment Group Limited and UB Sports Management (two subsidiaries of USL) and SWEW Benefit Company (a company established for the benefit of certain USL employees). Following this disposal, the UBHL group would continue to have a shareholding in USL amounting to 14.9% of current share capital.
- The shareholders of USL will be asked to approve the preferential allotment to Diageo at a price of INR 1440 per share of new shares amounting to 10% of the post-issue enlarged share capital of USL.

These agreements trigger an obligation on Diageo to launch a Mandatory Tender Offer to the public shareholders of USL. Diageo has therefore also announced that it will launch a tender offer to acquire, at a price of INR 1440 per share, a maximum of 37,785,214 shares, which equates to 26% of the enlarged share capital of USL.

On completion of the share purchases as described above and in the event that the tender offer were fully subscribed, Diageo will hold 53.4% of the enlarged USL share capital at an aggregate cost of INR 111,665 million (approximately £1,285 million). This represents a 20x multiple of USL's EBITDA for the year ended 31 March 2012 and the transaction would be eps accretive in year 2 and economic profit positive in year 6 assuming a 12 % WACC.

Diageo and Dr Mallya have entered into a memorandum of understanding under which they will form a 50:50 joint venture which will own United National Breweries' traditional sorghum beer business in South Africa. Diageo's investment for its 50% interest in the joint venture is expected to be approximately USD 36 million (approximately £25 million), subject to adjustment. Diageo and Dr Mallya are also considering the possibility of extending this joint venture in order to maximise opportunities which exist in certain emerging markets in Africa and Asia (excluding India).

Paul S Walsh, Chief Executive of Diageo, said:

'I am delighted at the opportunity Diageo has to be part of India's large and growing local spirits market. As a result of the agreements we are announcing today we will be well positioned to take the growth opportunities presented by a spirits market where growth is driven by the increasing number of middle class consumers. USL's number 1 position in local spirits together with our growing international spirits business of leading brands will enable us to grow across the consumer space as India's increasing number of middle class consumers look to enjoy premium and prestige local spirits brands as income levels rise. The combination of USL's strong business with the capabilities which Diageo brings as the world's leading premium drinks company will ensure that USL continues to lead the industry in India.

Vijay Mallya's experience in building USL to the leadership position it has is unique in our industry and in his position, as Chairman of USL, I look forward to working with him to deliver value for the shareholders of both USL and Diageo.

The acquisition of our shareholding in USL is fully aligned with our strategy to build our presence in the world's faster growing markets and enhances our position as the world's leading premium drinks company.'

Dr Vijay Mallya, Chairman of the UB Group, said;

'I am very proud of USL and what has been created over the last 30 years to bring this company to its pre-eminent position in India. I have had a long association with Diageo and therefore I am confident that this winning partnership with Diageo provides USL with the best possible platform for future growth. I am delighted to remain part of that journey as Chairman of USL as we work together to build continued value for the shareholders of USL and UBHL.'

The key points of the agreements between Diageo, UBHL and USL are:

- Completion of the acquisition of shares from the UBHL group, the USL Benefit Trust, Palmer Investment Group Limited and UB Sports Management (two subsidiaries of USL) and SWEW Benefit Company (a company established for the benefit of certain USL employees) is subject to a number of conditions. These conditions include the release of all security interests over the USL shares to be acquired by Diageo. They also include the receipt of mandatory regulatory approvals (including competition approvals) in India and elsewhere.
- Diageo has reached agreement with USL under which the shareholders of USL will be asked to approve (by special resolution) the preferential allotment of new shares to Diageo, at a price of INR 1440 per share. The price is subject to applicable pricing rules under Indian regulations. These new shares will amount to 10% of USL's post-allotment enlarged share capital. UBHL will vote in favour of the resolution. The preferential allotment is subject to certain conditions including USL shareholder approval and if successful, combined with the above acquisition of shares, would result in Diageo owning 27.4% of the enlarged share capital of USL.
- The preferential allotment and the acquisition of shares from the USL subsidiaries will enhance USL's financial strength, including a reduction in USL's net debt.
- Total consideration for the aggregate shareholding, representing 27.4% of the enlarged USL share capital, acquired through the arrangements for the acquisition and the preferential allotment described above would therefore be INR 57,254 million (approximately £660 million).
- The combination of the acquisition and the preferential allotment trigger an obligation on Diageo to launch a mandatory tender offer for a minimum of 26% of the issued share capital of USL. Diageo will launch a tender offer to acquire a maximum additional interest in USL of no more than 26% of the enlarged USL share capital. The tender offer will be at a price of INR 1440 per share, representing a premium of over 35% to the closing price of USL's shares on 24 September 2012, the last business day before the announcement that Diageo, UBHL and USL were in discussions regarding possible transactions. At that price, the total consideration under the tender offer (assuming full take-up) would be INR 54,411 million (approximately £625 million).
- Following the formal documentation review process of SEBI, the Indian takeover regulator, Diageo will post the tender offer documentation to USL shareholders. Completion of the acquisition and tender offer is expected to occur in the first quarter of 2013.
- Diageo will fund the acquisition through existing cash resources and debt. Diageo believes that its financial strength supports its current single A credit rating and will hold discussions with the rating agencies as a consequence of this announcement.
- In certain circumstances where the preferential allotment is not successful (including where it is not approved by the shareholders of USL), UBHL has agreed to sell additional shares in

USL to Diageo at a price of INR 1440 per share to ensure that Diageo has a minimum shareholding of 25.1%.

- In addition, if the share purchase agreement, the preferential allotment and the tender offer do not result in Diageo holding a majority interest in USL, UBHL has agreed to vote its remaining shareholding in USL as directed by Diageo for a four year period. UBHL will also vote its USL shares to enable Diageo to ensure that its nominees are appointed to the USL board.
- In the event that Diageo does not acquire a majority interest it is likely that a minimum shareholding of 25.1%, together with the voting arrangements and other governance arrangements agreed with the UBHL group and its relationship with Dr Mallya as Chairman of USL, would enable Diageo to reflect the results of USL in its consolidated accounts.
- The tender offer will be governed by the applicable takeover regulations of India and is subject to certain conditions.

JM Financial acted as lead transaction and financial adviser to Diageo on the transaction; BofA Merrill Lynch acted as joint financial adviser; UBS also provided financial advice to Diageo.

Slaughter and May and Platinum Partners acted as legal advisers to Diageo. Deloitte LLP provided Financial and Tax due diligence services.

For UBHL & USL:

Citigroup Global Markets acted as lead financial adviser; Ambit Corporate Finance advised UBHL on tax and structure-related issues.
Amarchand and Mangaldas & Suresh A. Shroff & Co. acted as lead legal adviser.
Legal adviser on matters of English Law - Herbert Smith Freehills LLP;
Legal adviser for legal due diligence process - Kanga & Co.