



DIAGEO

United States Virgin Islands Landmark Public-Private Initiative



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Historic Opportunity



- Landmark public-private initiative between the Government of the Virgin Islands (“GVI”) and Diageo, the world’s leading spirits, wine and beer company.
- The new facility will produce bulk rum beginning in 2011. Beginning in 2012, the distillery will supply all bulk rum used to make Captain Morgan branded products for the United States.
- Captain Morgan is a global leader among premium spirits and is the second leading rum consumed in the world, with steady growth expected in the coming years.
- It is estimated that the environmentally sound, state of the art distillery will have capacity to distill up to 20 million proof gallons per year. This 30-year commitment will provide a major economic stimulus for the entire Territory of the U.S. Virgin Islands.

Historic Opportunity



- Consistent with the US Virgin Islands' commitment to preserving the environment, the new facility will incorporate appropriate ecological and environmental controls.
- The new facility will be compatible with St. Croix's existing economic activities.
- Construction and operation of the new production facility will provide an important boost to St Croix's economy, including creation of direct and indirect skilled jobs for Virgin Islands residents.
- The addition of Diageo's rum output, coupled with VIRIL's production at the Cruzan facility, combine to make the US Virgin Islands a highly competitive rum production venue.

Historic Opportunity



- Bulk rum production at the new facility will serve as an economic engine that benefits all Virgin Islanders. Over the next thirty years, it is forecast to generate over \$100 million in additional annual rum cover-over revenues which the GVI can dedicate to public purposes.
- This enhanced revenue stream will help the Virgin Islands attain its longstanding goals: fiscal autonomy, economic self-sufficiency, stability and growth.
- These revenues generated by the new bulk rum distillery will enable the GVI to finance needed capital investment throughout the Virgin Islands, enhancing the Virgin Islands' credit ratings in global capital markets.

Historic Opportunity



- The availability of additional rum cover-over revenues will enable the GVI to alleviate governmental deficits and accumulated debt and to provide indispensable pension plan funding.
- The GVI's public-private initiative with Diageo is transformative. It achieves the goals the Virgin Islands has pursued for over half a century and represents the Virgin Islands' most promising opportunity for economic growth for the next three decades.
- In addition, 3% of the annual cover-over receipts generated by the new facility will be directed to a trust account for the development, operation, and maintenance of community and/or sports facilities or urban redevelopment projects on St. Croix, St. Thomas, and St. John.

Innovative Economic Incentive Program



- **The Virgin Islands' economic incentives program to attract rum production: innovation built upon well-established fundamentals.**
 - The US Virgin Islands faces persistent economic challenges that demand immediate attention.
 - Some of the hardest hit US states have employed modern economic incentives to attract new manufacturing investment and, within only 10 or 15 years, have turned around lagging economies.

Innovative Economic Incentive Program



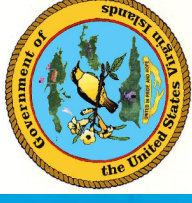
- The GVI has an attractive set of local incentives at its disposal, including:
 - The molasses subsidy, embedded in the Virgin Islands Code since 1967: needed to make the Virgin Islands competitive with foreign rum production venues where sugar cane is grown.
 - The marketing support payment ratified by the Virgin Islands legislature in 2006 with respect to Cruzan Rum: to support promotion of Virgin Islands-produced rum.
 - A production incentive designed to encourage Diageo to commit to expanding long-term rum production in the Virgin Islands.
 - Local tax incentives, available in law to manufacturers and others: traditional tool employed to attract new businesses.
 - Bond finance: issuance of Matching Fund Revenue Bonds by the Virgin Islands Public Finance Authority to fund a grant to Diageo for site development and construction of the distillery. To receive this grant, Diageo will develop, own and operate the plant.

Innovative Economic Incentive Program



- GVI will receive new cover-over revenues generated by rum production at the new distillery, a portion of which will be used as the financing mechanism for these incentives—providing the GVI with new cover-over revenues to fund the public purposes described earlier.
- The Virgin Islands has applied an innovative incentive program in a fair and balanced manner. The resulting public-private initiative positions the Virgin Islands as a global competitor in rum production.

Innovative Economic Incentive Program



- **The Virgin Islands’ application of its economic incentives program balances risks and benefits fairly between GVI and Diageo.**
 - In consideration of the Virgin Islands’ economic incentives, Diageo forgoes opportunities to locate its rum production in foreign venues, opting instead to build and operate a new rum production facility on St. Croix and source all of its Captain Morgan Rum for the US market in the Virgin Islands for the next thirty years or more.
 - Diageo incurs substantial out-of-pocket transition costs.
 - GVI provides Diageo with an option to receive a grant for construction of the new facility in lieu of reduced annual incentive payments.
 - Prior to the issuance of the bonds, Diageo is liable to the USVI for \$25 million in liquidated damages in the event it breaches the contract and does not timely cure it.
 - Diageo commits to produce bulk rum for the Captain Morgan brand, one of its most valuable premium brands, for thirty-years, at agreed-upon levels, to generate new rum cover-over revenues for the GVI.
 - If Diageo breaches its main obligations during the thirty-year period and does not timely cure them, Diageo is liable to GVI for substantial liquidated damages.
 - As a condition for operating in the Virgin Islands, Diageo agrees to heightened compliance with Virgin Islands labor and environmental laws.

About Diageo

- Diageo is the world's leading premium drinks business with an outstanding collection of beverage alcohol brands across spirits, wine and beer categories.
- These brands include: Smirnoff, Johnnie Walker, Guinness, Red Stripe, Baileys, J&B, Captain Morgan, Jose Cuervo, Tanqueray, Crown Royal, Beaulieu Vineyard, Sterling Vineyards wines, and Bushmills Irish Whiskey.
- Diageo is a global company, trading in more than 180 markets around the world. The company is listed on both the London Stock Exchange (DGE) and the New York Stock Exchange (DEO).
- Diageo was formed in 1997, following the merger of GrandMet and Guinness, and is headquartered in London.
- Diageo employs more than 22,000 talented people worldwide, with offices in 80 countries. We have manufacturing facilities across the globe including Great Britain, Ireland, United States, Canada, Spain, Italy, Latin America, Australia and India.
- The word Diageo comes from the Latin for day (dia) and the Greek for world (geo). We take this to mean every day, everywhere, people celebrate with our brands.



About Captain Morgan



- Captain Morgan Original Spiced Rum is a global leader among rum brands and the second leading rum consumed in the United States.
- Inspired by Captain Henry Morgan, the legendary buccaneer who was a leader and adventurer with a taste for the finest Caribbean rums, Captain Morgan products have always had roots in the Caribbean.
- Captain Morgan is the #6 premium spirit and the #2 premium rum in the world by volume according to Impact Databank. Captain Morgan has grown to nearly a seven million case brand in the United States alone and we are targeting continued strong growth.
- Captain Morgan brands include Captain Morgan Original Spiced Rum, Captain Morgan Private Stock, Captain Morgan Tattoo, and Captain Morgan Parrot Bay rums.



About Captain Morgan



Product Descriptions

- Captain Morgan Original Spiced Rum is a favorite worldwide. It is a smooth golden rum blended with mellow tropical spices.
- Captain Morgan Silver Spiced Rum is the slightly sweeter version of Captain Morgan Original Spiced Rum.
- Captain Morgan Private Stock is made from the finest of Captain Morgan's reserves, then married with a richer blend of mellow island spices to make a rum perfect for sipping and savoring on the rocks with a twist of lime.

Production

- Made with molasses, water, grain and yeast, Captain Morgan Original Spiced is distilled in a continuous still.
- Once distilled, the clear spirit is aged in oak barrels for up to a year, adding a golden color and lots of character to the rum even before the flavors and spices are added.
- The brand's characteristic taste is achieved through a unique and proprietary recipe, which is blended into the rum mixture at the final stages of production.

