



## Contents

### Overview

- 3 Chief executive's introduction
- 5 About our business
- 7 Performance highlights

### Our approach

- 10 Sustainability & Responsibility Strategy
- 12 How we manage sustainability and responsibility
- 13 Engaging stakeholders
- 14 External credentials

### Our impacts

- 16 Alcohol in society
- 25 Water
- 32 Environment
- 40 Community
- 48 Our people
- 59 Governance and ethics
- 66 Our suppliers
- 72 Our customers and consumers

### About this report

- 79 Scope and boundaries
- 80 Principles of management and reporting
- 81 Reporting methodologies
- 84 Assurance
- 87 GRI index

This is a PDF version of our interactive online sustainability report found at <http://srreport2011.diageoreports.com>. We welcome stakeholders' views on our report and on our approach to sustainability and responsibility in general. To give your comments on this report please contact us at [sustainability@diageo.com](mailto:sustainability@diageo.com) or fill out our online survey at <http://srreport2011.diageoreports.com/top/contact-us.aspx#feedback>.

## Overview



Diageo's approach to sustainability is becoming an increasingly important element of our business strategy. Last year we refreshed our Sustainability & Responsibility Strategy; this year has been about refining and embedding it throughout our operations, and continuing to develop targets to allow us to measure performance consistently across all our impact areas.

We believe that financial success is only achievable in the long term if the way we achieve that success – the way we do business – is sustainable. This includes how we treat our people; the culture we promote internally; how we live our values in all our business relationships; how we use the natural resources that we rely on; and the effects we have on the communities in which we operate. As we reorganise our business to focus on new areas of growth, it is more important than ever that we ensure we have sustainable business practices that will allow us to achieve long-term success.

---

### In this section:

- Chief executive's introduction – page 3
- About our business – page 5
- Performance summary – page 7

## Chief executive's introduction



This has been a year of progress for Diageo. Our business is strong and becoming stronger. We are on track with the majority of our sustainability and responsibility targets. We have also instituted a significant reorganisation of the business, and our new configuration reflects our strategic focus on high-growth opportunities in traditional and emerging markets.

### Supporting our commercial strategy

Creating value for shareholders must be a principal concern of any business. At Diageo, we also recognise that our business must be sustainable in every sense – an important pre-condition for our commercial success.

Our financial results for the year ended 30 June 2011 illustrate that we have delivered performance that is both successful and enduring. For the tenth consecutive year we grew our organic top and bottom lines. Our net sales were over £9.9 billion, and we had an operating profit of £2.6 billion<sup>1</sup>. We continued to deliver operating margin improvement.

### Sustainability performance: a driver of growth

This performance demonstrates an inherent strength in our business and a sustainable model for value creation. A large part of our success is based on our financial strength, on the diversity offered by the 180 markets around the world in which we operate, and on our wonderful collection of brands. Moreover, a very strong supply chain and effective routes to market both contribute to our ability to grow.

Nonetheless, I am sure that our focus on the social and environmental impacts of the business gives us a competitive edge. Since 2004 we have described this as 'holistic performance'. By this we mean that success as a company is determined by more than simply the achievement of financial targets.

Diageo does not operate in a vacuum.

To succeed, we require the goodwill and support of a multitude of stakeholders, ranging from our investors and employees to the governments of and communities in the locations in which we operate. We are determined to be consistent, long-term in outlook, and true to our values. We believe that this is the key to maintaining the trust and confidence of all those stakeholders. We want excellent relationships with them all because that offers us the best environment for our business to thrive, and because it is the right thing to do.

There are other important measures. They include our culture and the way in which we treat our people. They include the way we live our values and our business conduct – in particular compliance with our Code of Business Conduct and operating in a wholly ethical way everywhere. They also include our commitment to being a good corporate citizen. All these are also drivers of growth.

We have pursued a strategy based on this approach. We have honoured commitments to international frameworks such as the UN Global Compact and CEO Water Mandate. We have done so in good times but also when circumstances have been more challenging – because we aim to manage our business with an eye to the long as well as to the short term. That means, for instance, being prepared to continue to make bold and innovative investments which will create a longer-term return.

### Long-term investment in water and the environment

Our decision to build a state-of-the-art bio-energy plant at our Cameronbridge distillery in Scotland is an illustration of this point. I am proud that we did so by investing significant capital in efficient, new, green technologies for a long-term environmental gain. With a £40 million expansion programme underway, we took the opportunity to invest a further £65 million in a renewable energy facility which uniquely combines a waste water treatment plant, biomass boiler and steam and electrical generation plant.

The environmental benefits will be significant. The facility aims to remove virtually all effluent discharge from the site, provide almost a third of its water and, crucially, supply 85% of its power from a renewable source. We also hope it will remove 56,000 tonnes of carbon each year – the equivalent of taking 44,000 cars off the road.

We make such investments to preserve the resources that our company, and the communities in which we operate, rely on. As a beverage company, this is particularly true for water. We have set challenging operational targets to reduce water wasted in water-stressed regions and complement this work with programmes such as 'Water of Life' that has brought clean water to approximately 5 million people since its launch in 2006. I am particularly proud of the contribution of our employees to these programmes.

<sup>1</sup> After exceptional items.

### Our role as a global beverage alcohol company


As a responsible company, we want to ensure that drinking alcohol continues to play a positive role in the life of our consumers and communities. This is core to Diageo's purpose to celebrate life every day, everywhere. We recognise that different cultures and religions have a range of views about the role of alcohol in society. This dictates that we work in partnership with stakeholders in our communities to tackle alcohol misuse. This year, in an effort to help contribute to effective policies and programmes to reduce harmful drinking, we have worked in co-operation with other companies and organisations to support the implementation of the World Health Organization (WHO) Global Strategy to Reduce Alcohol Related Harm.

Diageo also provides employment and contributes to the economic development of the communities in which we operate. In those communities our impact comes not simply from our operations. Through our Learning for Life programme we have invested in the long-term future of local communities, helping many who might otherwise be unemployed gain valuable skills to find jobs either in the hospitality industry or beyond. Since we launched Learning for Life in 2008, more than 50,000 people have benefited.

### Sustainability in a changing market

In the years to come there will be a shift in the balance of economic power from the developed world – principally North America and Western Europe – to the emerging markets of Africa, Latin America, Asia and those in Eastern Europe. Growth in these regions in the next decade is likely to outstrip that in the markets in which we have traditionally been strong. Very soon I expect them to represent at least half of our business.

This shift in global economic power will benefit Diageo and its stakeholders over the long term, and in May 2011 we announced a reorganisation to position ourselves and our resources to take advantage of this opportunity. In the immediate future the changes we have made will have some significant and difficult consequences for a number of our people, particularly in Western Europe and North America. We will support our employees through this change and, at the same time, build relationships with stakeholders less familiar with us. Above all our aim is to ensure that stakeholders new and old will always appreciate the value of doing business with Diageo.



Paul Walsh  
Chief executive

## About our business



Diageo is the world's leading premium drinks business with an outstanding collection of beverage alcohol brands across spirits, beer and wine. Our great range of brands and geographic spread mean that people around the world can celebrate with our products on every occasion. This is why 'celebrating life every day, everywhere' is at the core of what we do.

### Our business – key facts

- We trade in approximately 180 markets
- We employ over 23,000 people around the world
- Our largest single region is North America, accounting for 33% of total net sales while emerging markets<sup>2</sup> account for 34%
- We produce our brands in 43 distilleries, 16 breweries, 13 wineries, 19 packaging and blending operations, 9 warehouses and 8 other sites
- Diageo is listed on both the London Stock Exchange (as DGE) and the New York Stock Exchange (as DEO)
- At the heart of everything we do are our values

Find out more about our company at [www.diageo.com](http://www.diageo.com).

### Our brands

Many of our brands have been around for generations, while some have been developed more recently to meet new consumer tastes and experiences. We classify 14 brands as global strategic brands as they are the main focus of our business. Listed below, these brands made up 78% of marketing spend and 66% of net sales this year:

- **Whisky:** Johnnie Walker, Crown Royal, J&B, Windsor, Buchanan's, Bushmills whiskies
- **Vodka:** Smirnoff, Ciroc, Ketel One
- **Liqueur:** Baileys
- **Rum:** Captain Morgan
- **Tequila:** José Cuervo
- **Gin:** Tanqueray
- **Beer:** Guinness.

### Group numbers

	F11	F10	Growth
Volume (millions of equivalent units)	147.5	143.0	3%
Net sales (£m) <sup>3</sup>	9,936	9,780	2%
Marketing spend (£m)	1,538	1,419	8%
Community investment (£m)	28	25	12%
Operating profit <sup>4</sup> (£m)	2,595	2,574	1%
Employees <sup>5</sup>	23,786	23,287	2%

### Regions



Regions	Net sales £ million	Marketing £ million	Operating profit £ million	Community investment £ million	Employees
North America	3,324	(502)	1,232	3.3	3,970
Europe	2,614	(390)	621	13.7	7,927
Asia Pacific	1,181	(278)	158	5.2	2,756
Africa	1,341	(142)	320	2.6	4,260
Latin America & Caribbean	1,025	(181)	314	3.1	1,885
Global Travel & Middle East	381	(45)	164	5.2	2,756

<sup>2</sup> Include Russia & Eastern Europe; Turkey; Africa; Latin America & Caribbean; Middle East & North Africa; Asia Pacific (excl Australia, Japan, Korea)

<sup>3</sup> Includes £70m from Corporate in addition to regional figures

<sup>4</sup> After exceptional items. Includes a £172m loss from Corporate, Global Supply costs of £35m and International hub costs of £7m in addition to regional figures

<sup>5</sup> Average number on a full-time basis

### Our history

Diageo is still a relatively young company – we have only existed in our current form since 1997 – but our brands and our business have a rich heritage. Many of our historic brands, such as Guinness and Johnnie Walker, were built on the same principles of sustainability that we hold today.

Our earliest ancestor company, formed in 1749, is Justerini & Brooks – wine merchants and blenders of the famous J&B whisky range. Ten years after that, in 1759, Arthur Guinness signed the lease on the now world-famous St James's Gate brewery in Dublin, going on to create an iconic global brand. The Guinness family started the company with a vision and commitment to improve the lives of employees and the communities in which they lived.

Many of our distilleries were also established in the late eighteenth century. Through the nineteenth and twentieth centuries our range of brands and our business continued to innovate and expand under various parent companies. In 1997 Diageo was created through the merger of Grand Metropolitan PLC and Guinness PLC, creating a food and drinks conglomerate which included the world's greatest collection of premium drinks.

### Our values

At the heart of everything we do are our company values. We stand by them as the set of behaviours that we expect all our people to embrace to further our ambitions for our business, our people and our communities.

Our values are:

- We're **passionate about customers and consumers** – our curiosity and customer and consumer insights drive growth. We care for our brands. We're courageous in pursuing their full potential. We're innovative, constantly searching for new ideas that drive growth and spinning them across our business.
- We give ourselves and each other the **freedom to succeed** because this fosters an entrepreneurial spirit. We trust each other, we're open and challenging. We always behave as a team – when we're together and when we're apart.

- We're **proud of what we do** – we act sensitively with the highest standards of integrity and social responsibility. We enjoy and benefit from diversity.
- We will strive to **be the best** – we are restless, always learning, always improving. We constantly set high standards and then try hard to exceed them. We deliver results, win where we compete and celebrate our success.
- We **value each other** – we seek and benefit from diverse people and perspectives. We strive to create mutually fulfilling relationships and partnerships.

To demonstrate how serious we are about our values we carry out an annual employee values survey. We ask every one of our people how they believe we are demonstrating our values – as an organisation, as leaders and as teams.

## Performance summary

We have a number of performance targets in our impact areas. These will continue to be refined to represent management of our most material sustainability and responsibility impacts.

### Alcohol in society

Target by 2011	This year's performance 2010–2011	Achievement
Where technically possible, all regional units and brands teams use Diageo's online approval for marketing activities, SmartApprove	SmartApprove is fully embedded throughout the business where technically feasible. For more information <a href="#">click here</a> .	Achieved
Implement an online learning tool for a refreshed digital code of practice	Online training tool developed and distributed to marketing staff and agency partners. For more information <a href="#">click here</a> .	Achieved
<b>Target by 2013</b>	<b>2010–2011</b>	
Ensure that Diageo marketing is 100% compliant with the Diageo Marketing Code (DMC)	Approximately 0.1% of marketing activity globally breached the DMC. For more information <a href="#">click here</a> .	In progress
Responsible drinking reminders (RDRs) are included in 100% of above-the-line advertising material	Included in approximately 99.9% of our global approved above-the-line advertising. For more information <a href="#">click here</a> .	In progress
DRINKIQ.com is included on all renovated and new brand labels	In process of developing a comprehensive compliance report. For more information <a href="#">click here</a> .	In progress
Responsible drinking initiatives are in place in our top 40 markets (by value)	Programmes are in place in 39 of our top 40 markets. For more information <a href="#">click here</a> .	In progress
Effective industry self-regulatory or co-regulatory codes in place in our top 40 markets (by value)	Programmes are in place in 34 of our top 40 markets. For more information <a href="#">click here</a> .	In progress

### Water

Target by 2015	This year's performance 2010–2011	Cumulative performance 2007–2011	Achievement
Improve water efficiency by 30%	Improvement of 3.0%. For more information <a href="#">click here</a> .	Improvement of 15.8%	In progress
Reduce water wasted at water-stressed sites by 50%	Reduction of 5.6%. For more information <a href="#">click here</a> .	Reduction of 9.0%	In progress
Reduce the polluting power of wastewater by 60%, measured in biological oxygen demand (BOD)	Increase of 31.3%. For more information <a href="#">click here</a> .	Increase of 25.6%	Off track
Improve access to safe drinking water for 8 million people in Africa	Approximately 1 million people benefited. For more information <a href="#">click here</a> .	Approximately 5 million people benefited	In progress

### Environment

Target by 2015	This year's performance 2010–2011	Cumulative performance 2007–2011	Achievement
Reduce carbon dioxide emissions by 50%	Reduction of 7.1%. For more information <a href="#">click here</a> .	Reduction of 13.9%	In progress
Eliminate waste to landfill	Increase of 91.4%. For more information <a href="#">click here</a> .	Reduction of 44.7%	In progress
<b>by 2015</b>	<b>2009–2011</b>		<b>Achievement</b>
Reduce: average packaging weight by 10% <sup>6</sup>	Reduction of 3.3%. For more information <a href="#">click here</a> .		In progress
Reuse: increase average recycled content across all packaging to 42% <sup>7</sup>	No change, at 35.0%. For more information <a href="#">click here</a> .		In progress
Reuse/recycle: make all packaging 100% recyclable or reusable <sup>8</sup>	Increased by 0.3% to 98.0% recyclable or reusable. For more information <a href="#">click here</a> .		In progress

<sup>6,7,8</sup> Performance data only available against baseline year of 2009.



## Community

### Target by 2011

Contribute 1% of operating profit<sup>9</sup> to charitable causes every year

### This year's performance 2010–2011

Contributed 1.1%. For more information [click here](#).

### Achievement

Achieved

### Target by 2011

Train 50,000 people through the Learning for Life programme worldwide, against a 2009 baseline

### 2010–2011

25,544 people trained. For more information [click here](#).

### 2009–2011

50,999 people trained

### Achievement

Achieved

## Our people

### Target by 2011

Reduce our lost-time accident frequency rate<sup>10</sup> by 50% against a 2007 baseline

### This year's performance 2010–2011

Reduction of 24.8%. For more information [click here](#).

### Cumulative performance 2007–2011

Reduction of 77.4%

### Achievement

Achieved

Women in 30% of senior management positions

27% women in senior management. For more information [click here](#).

Not achieved

50% or more of employees 'super-engaged', highest measure in values survey

39% said they were 'super-engaged' in 2011 Values Survey. For more information [click here](#).

Not achieved

## Governance and ethics

### Target by 2011

All employees worldwide take part in the Compliance and Ethics Business Code of Conduct training

### This year's performance 2010–2011

All employees completed training. For more information [click here](#).

### Achievement

Achieved

## Our suppliers

### Target by 2011

Launch sustainable agriculture sourcing guidelines

### This year's performance 2010–2011

Launched in August 2010. For more information [click here](#).

### Achievement

Achieved

Develop an initiative on cream with the Baileys brand team, as the first of our priority materials

Launched a programme with main cream supplier in Ireland focused on promoting sustainable dairy farming. For more information [click here](#).

Achieved

Ensure all 700 'potentially highest risk suppliers' complete a self-assessment through SEDEX

519 suppliers completed. For more information [click here](#).

Not achieved

Audit 50 highest risk suppliers and work with them to improve performance

64 suppliers were audited either by Diageo or through AIM-PROGRESS. While no significant issues surfaced, corrective actions relating to identified issues are being addressed. For more information [click here](#).

Achieved

Ensure that 50% of electricity for supply sites is renewable

52% of electricity sourced is renewable or low-carbon. For more information [click here](#).

Achieved

Engage 30 suppliers in projects to support sustainable packaging improvements

More than 30 engaged. For more information [click here](#).

Achieved

Include key suppliers' environmental performance in our sourcing and supplier management processes

We created a pilot scorecard, and engaged key suppliers, but have since decided to join the 2012 CDP Supply Chain Project. For more information [click here](#).

Not achieved

<sup>9</sup> After exceptional items.

<sup>10</sup> Number of accidents per 1,000 employees resulting in time lost from work greater than one day.

## Our approach



Diageo is proud to be a company whose purpose is 'celebrating life, every day, everywhere'. As the world's leading premium drinks business, this requires us to think especially deeply about our responsibilities to society and more broadly what it means to be a sustainable company. We are helped in this by our relationships with stakeholders around the world, whose needs and concerns continue to deepen our understanding of our sustainability impacts.

The sustainability of our business relies on creating 'shared value', by which we mean bringing benefits to those who are involved in or affected by our operations as well as ourselves. As our business strategy evolves and we focus more resources in emerging markets with different governance environments and stakeholders, our sustainability agenda is becoming even more important. Developing good relationships with these stakeholders will be important in ensuring that we can grow our business sustainably for mutual benefit in these markets.

---

### In this section:

- Sustainability and Responsibility Strategy – page 10
- How we manage sustainability and responsibility – page 12
- Engaging stakeholders – page 13
- External credentials – page 14

## Sustainability & Responsibility Strategy

Diageo's purpose is 'celebrating life, every day, everywhere'. If we are truly to celebrate everything we do, the principles of sustainability and responsibility must run through every aspect of our business and help support sustainable growth that we can be proud of.

### Our strategy framework

To reflect the evolution of our approach, we have changed the name of our strategy to 'Sustainability and Responsibility'. 'Sustainability' reflects how we are increasingly taking into account our wider economic, social and environmental impacts throughout the value chain, and how our non-financial performance supports the long-term success of the company. 'Responsibility' reflects our particular role as a beverage alcohol company in promoting responsible drinking.

We refreshed this strategy partly in response to a changing marketplace – whether changes in approach to alcohol regulation; resource scarcity such as water affecting nine of our production sites, parts of our supply chain and local communities; economic development challenges as our business increasingly grows in emerging markets; and climate change impacts addressed at the Cancun Communiqué.

The strategy includes six key impacts across four key channels in our value chain: our suppliers, our operations, our consumers and our customers. Note that this year we have separated water as its own area of focus to reflect the material impact we believe water scarcity can have on our business as well as our local communities, particularly in water-stressed regions.

While all our impacts are important, they are not all equally relevant to each aspect of the value chain, and we manage this accordingly. You can see a breakdown of our programmes in the table below, as well as which programmes are particularly relevant to each channel.

Ultimately, our approach to what to focus must include the needs and concerns of our business partners and other key stakeholders. Currently we are formalising our stakeholder engagement system to help us ensure we adequately address concerns from around the world. See our approach to [engaging stakeholders](#).

### Our purpose

Celebrating life,  
every day,  
everywhere

### Our value chain



### Our impacts



### Our value chain

For Diageo, the value chain starts with our supply chain and goes through every aspect of our operations and the way we do business through to the way our products are sold and consumed.

- **Our suppliers:** at the procurement end, we primarily look at the standards and practices that our principal suppliers are using – such as the agricultural community that produces our main raw materials as well as those producing the other materials and energy we purchase.
- **Our operations:** in operational terms we examine the impacts of every aspect of how our products are produced, from innovation and branding through to production in our distilleries, wineries and breweries, and beyond that to bottling, packaging and distribution.
- **Our customers:** following this stage, our value chain includes how we sell our products to our customers – such as global retailers, convenience stores, bars, restaurants and in some cases, governments – and how they in turn sell our products to shoppers and consumers.
- **Our consumers:** finally we look at drinking patterns among our consumers themselves and increasingly how they dispose of our products.

The social, economic and environmental impacts that our business and brands have at every stage of this chain vary. Below, you can see which areas of our Sustainability & Responsibility Strategy are most relevant to which areas of our value chain.

### Key Impacts Across Our Value Chain

Our impacts	Our suppliers	Diageo PLC – our people & operations	Our customers	Our consumers
<b>Alcohol in society</b>				
Responsible marketing and consumer information		●	●	●
Programmes to address alcohol misuse		●	●	●
Stakeholder dialogue and alcohol policy		●	●	
<b>Water</b>				
Water efficiency	●	●		
Water quality	●	●		
Local water access		●		
Collective action and advocacy		●	●	●
<b>Environment</b>				
Carbon reduction	●	●	●	
Waste elimination	●	●	●	●
Sustainable packaging	●	●	●	
Sustainable agriculture	●	●	●	
Other	●	●		
<b>Community</b>				
Economic impact (local hiring, sourcing, partnerships, etc)	●	●	●	
Community investment (capacity building, social entrepreneurship, disaster relief, etc)		●	●	
Brand-led investment		●	●	●
<b>People</b>				
Safety		●		
Health and wellbeing		●		
Diversity and inclusion		●		
Developing talent		●		
Reward and recognition		●		
Other		●		
<b>Governance and ethics</b>				
Code of Business Conduct and other policies	●	●	●	●
Partnering with suppliers	●	●		

### Materiality

We based our global strategy on an analysis of what Diageo believes to be material, incorporating findings from our own trend analysis, internal engagement about the needs of the business, and informal external engagement processes. Issues that surfaced from this analysis were prioritised against a set of weighted indicators representing the risk and opportunity for the company, and our understanding of stakeholder need or concern. We are currently in the process of formalising the stakeholder engagement aspect of our materiality analysis.

## How we manage sustainability and responsibility

We manage sustainability and responsibility in the same way that we manage all our business operations, at global and local levels. At the highest level, sustainability and responsibility are overseen by the Corporate Citizenship Committee, chaired by the chief executive.

### Strategy and governance

Chaired by the chief executive, the Corporate Citizenship Committee is responsible for making decisions or, where appropriate, recommendations to the board or executive committee, concerning our Sustainability & Responsibility Strategy, policies and issues. This includes performance, measurement and reporting for the following impacts across Diageo's value chain: alcohol in society, water, broader environmental sustainability, community, our people and governance and ethics.

Two executive working groups (one on alcohol in society, chaired by the director of corporate relations, and one on environmental performance, chaired by the president of global supply) assist the Corporate Citizenship Committee with decisions on specific issues. Additionally, a newly formed cross-functional leadership team, chaired by Diageo's global director of corporate social responsibility, advises on the strategy development for each key sustainability and responsibility impact at each stage of the value chain, including supplier management, operations, and relations with customers, consumers and investors.

Beyond this global management, the regions and local markets manage those sustainability and responsibility areas most material for them given their specific operational footprint.

### Policies and standards

We have global codes, policies and standards covering all aspects of sustainability and responsibility. A note on definitions:

- Global policies cover the principles we commit to in undertaking various business activities and are relevant to most employees
- Global standards are more procedural and apply to specialist activities. These will apply only to individuals in certain specific roles.

Document type	Subject	Sustainability & Responsibility Programme
Code	Code of Business Conduct	All
Policy	Marketing	Alcohol in society Customers and consumers
Policy	Quality	Customers and consumers
Policy	Competition & Anti-trust	Governance and ethics
Policy	Anti-Money Laundering	Governance and ethics
Policy	Tax	Governance and ethics
Policy	Occupational Health & Safety	Our people
Policy	Anti-Discrimination & Human Rights	Our people
Policy	Employee Alcohol	Alcohol in society
Policy	Environment	Environment/Water
Standard	Partnering with Suppliers	Our suppliers

To learn more about our policies and standards, visit: [www.diageo.com](http://www.diageo.com).

Both policies and standards stem from our Code of Business Conduct which defines how everyone at Diageo is expected to do business. Below are those that are particularly relevant to how we manage our sustainability and responsibility programmes although these do not represent the full spectrum of our policies and standards.

### Risk factors

Our ability to understand and manage risk, including certain sustainability risks that are material to the business, is central to creating long-term shared value for all our stakeholders. A thorough understanding of risk allows us to make more informed and better decisions and thus deliver better business performance.

Diageo has a robust framework of internal controls and risk management, which we describe in detail in our annual report (<http://srreport2011.diageoreports.com/our-approach/engaging-stakeholders.aspx>). Our structured approach to addressing social, environmental and economic impacts helps us manage risk more efficiently, strengthen our reputation and brands, avoid or reduce occurrences that could cause loss and build trust with stakeholders. Our ability to manage such impacts well today is crucial to our ability to thrive in the future. To ensure this attitude to risk is understood and managed consistently throughout the business, we have developed the role of our regional risk management committees.

Our annual report contains the full list of **risk factors** we consider to be material to the business. Risks we consider to be particularly relevant in terms of our sustainability and responsibility impacts include:

- **Alcohol in society, community, customers and consumers:** the social acceptability of our products and our ability to address stakeholder concerns about alcohol misuse
- **Environment, water, community, suppliers:** the impacts of climate change on resource scarcity including water scarcity, water quality and the price of raw materials
- **Governance and ethics:** unwarranted regulation of our business
- **Our people:** our ability to attract and retain talent, especially in emerging markets.

## Engaging stakeholders

Understanding how our business affects our stakeholders is essential for determining what our key impacts are and how we need to manage them. Engagement is a process that ranges from sharing information and discussing issues with stakeholders to, at its best, working in partnership on projects of mutual interest.

### Our approach

The desire to learn and understand diverse points of view is implicit in our values. We aim to learn from our stakeholders, and include their views as part of our decision-making processes.

We engage with our stakeholders at two main levels, local and global. At a local level, employees across many functions engage with our people, local governments, customers and community groups on issues of immediate concern to them. At a global level, we engage with our investors, global customers, suppliers and multi-national organisations such as United Nations agencies or NGOs that have a broad remit.

At both levels, engaging with stakeholders has helped to inform our activities around the world. We run surveys with certain stakeholders – such as employees, investors and customers – to seek feedback on our programmes. In some cases we hire third parties to engage our stakeholders since we feel that using external researchers can encourage stakeholders to be more open and honest in their feedback. This year we commissioned an independent organisation to interview a representative group of stakeholders interested in each of our sustainability and responsibility impacts.

### Our stakeholders

We define our stakeholders as all those who affect or are affected by Diageo's business. They include internal and external stakeholders, ranging from employees, investors and commercial partners to governments and local communities.

This table sets out each stakeholder group and examples of how we currently engage them.

Stakeholder group	Our engagement programme
Investors	<ul style="list-style-type: none"> <li>• Formal annual general meetings</li> <li>• Meetings between investors, senior leadership and investor relations team</li> <li>• Conversations between corporate social responsibility team, investor relations team and investors</li> <li>• Annual investor audit</li> <li>• Online communications</li> <li>• Analysts' reports</li> <li>• Investor conferences</li> </ul>
Employees	<ul style="list-style-type: none"> <li>• Values survey</li> <li>• Team meetings</li> <li>• Employee newsletters</li> <li>• Forums</li> </ul>
Commercial partners	<ul style="list-style-type: none"> <li>• Annual customer survey</li> <li>• 'Top-to-Top' meetings between Diageo and customers' senior executives</li> <li>• Third-party supplier audits</li> <li>• Speak Up helpline</li> </ul>
Consumers	<ul style="list-style-type: none"> <li>• Consumer carelines</li> <li>• Formal market research</li> <li>• Brand and corporate websites</li> <li>• Social media</li> <li>• Product information on packaging</li> </ul>
Government/regulators	<ul style="list-style-type: none"> <li>• Briefings and direct meetings</li> <li>• Multi-stakeholder forums</li> </ul>
Local community organisations and non-governmental organisations	<ul style="list-style-type: none"> <li>• One-to-one meetings or conversations</li> <li>• Multi-stakeholder forums</li> <li>• Annual reviews (Diageo Foundation)</li> <li>• Ongoing partnerships</li> </ul>
Media	<ul style="list-style-type: none"> <li>• Senior leadership meetings</li> <li>• Global networks</li> <li>• Regular media surveys</li> </ul>

### Issues of importance to stakeholders

The following are topics that surfaced this year as being important to our external stakeholders. These are not meant to represent the key interests and concerns of our stakeholders as a whole. It reflects the most frequent themes from a preliminary stakeholder study we commissioned as well as our own conversations this year with close to fifty people including investors, government officials, NGOs, consultants, academics, industry groups, media and police representatives.

- **Alcohol misuse:** addressing impacts on health and social cohesion
- **Consumer information:** providing information and resources about the impacts of alcohol to consumers
- **Marketing:** marketing alcoholic brands responsibly to adults
- **Alcohol policy and regulation:** demonstrating self regulation is effective
- **Sustainability management:** setting challenging long-term targets across all key priorities and proving a return on investment
- **Water:** managing impacts on local water bodies
- **Transparency in reporting:** disclosing a balanced report of corporate impacts, in the case of beverage alcohol, including misuse of alcohol
- **Collaboration and partnerships:** including stakeholders in sustainability initiatives.

We have addressed each of the issues in some

way within this report. Note that there are other issues that surfaced less frequently, such as climate change, biodiversity, tax, health and wellbeing, responsible downsizing, capacity building, gender diversity, packaging, sustainable brands, supplier management and lobbying.

### Responding to stakeholder concerns

Stakeholder engagement is not one-way communication. Our objective is to respond to the issues raised by stakeholders in a satisfactory way. In doing so, we aim to prioritise high-impact issues raised by stakeholders that are strategically important to us.

For example:

- When external stakeholders were concerned that marketing was increasingly moving online and the industry's controls were not adapting quick enough, we started work with industry groups to develop digital guidelines to complement our own Digital Marketing Code. These guidelines will be announced in September 2011.
- It was increasingly important to our customers that our products help them minimise their own environmental footprint so we developed our Sustainable Packaging Guidelines with this mind.
- This year there has been a particular focus

from stakeholders on effective access to human rights remedies, as highlighted in the Ruggie Report ([www.business-humanrights.org/media/documents/ruggie/ruggie-guiding-principles-21-mar-2011.pdf](http://www.business-humanrights.org/media/documents/ruggie/ruggie-guiding-principles-21-mar-2011.pdf)), and as a result we extended our SpeakUp line to our suppliers.

### Formalising our programme

Our business works with and responds to stakeholder concerns through the particular global function or local market that holds the stakeholder relationship. While issues of broader concern have been shared informally across our business, we would like to improve how we capture this data globally because this decentralised model means that there may be activity taking place in engaging and responding to stakeholders that we are unable to record in our global Sustainability & Responsibility Report and address in our Strategy.

As we worked this year to refine and embed our Sustainability & Responsibility Strategy across the business, we began to improve our stakeholder engagement systems by working more closely with local markets to capture feedback and engaging more systematically with global stakeholders. Because this work is not yet complete, we have not included recent feedback into our strategy development. We will continue to consider the best way to capture stakeholder feedback from around the world into our strategy, planning and programmes.

## External credentials

**We have always believed that our success as a company is measured by more than just financial targets. Being benchmarked against our peers and the wider business community is important for understanding how our approach to sustainability measures up to prevailing standards and attitudes.**

### Sustainability indices and rankings

For eight years, Diageo shares have been selected for inclusion in some of the leading sustainability indices and rankings:

- **Dow Jones corporate sustainability assessment** ([www.sustainability-indexes.com/](http://www.sustainability-indexes.com/))

This year Sustainability Asset Management, the research organisation behind the Dow Jones Sustainability World Index, gave Diageo a Gold Class rating following a Bronze rating last year. Only three beverage companies received this rating, and we were the only alcoholic beverage company amongst those. We were also awarded the Significant Distinction prize as Category Sector Mover

2011, which is given to the company that achieves the biggest proportional improvement from the previous year in sustainability performance in their sector.

- **FTSE4GOOD** ([www.ftse4good.com/](http://www.ftse4good.com/))  
FTSE Group confirms that Diageo has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series again this year.
- **Carbon Disclosure Project** ([www.cdproject.net/en-US/Pages/HomePage.aspx](http://www.cdproject.net/en-US/Pages/HomePage.aspx))  
We have participated in the Carbon Disclosure Project (CDP) since it began in 2000. CDP challenges the world's largest companies to measure and report on their carbon emissions and integrate the cost of climate change into assessments of their business. This year in the CDP's 2010 report, Diageo was one of nine participating beverage alcohol companies, receiving a 67 'disclosure score' and a B 'performance level.'
- **Business in the Community** ([www.bitc.org.uk/](http://www.bitc.org.uk/))  
This UK-based international network of businesses committed to sustainability placed Diageo in the Gold band of its corporate responsibility index for 2010. Diageo has been awarded either Silver or Gold for the last five years.

### External codes and charters

Diageo is a signatory to a number of external codes and charters that reflect our principles.

- **UN Global Compact and CEO Water Mandate:** we signed the UN Global Compact, the world's largest corporate citizenship initiative, in 2002. In 2008 we endorsed the CEO Water Mandate, a UN-sanctioned private/public partnership that aims to address the world's growing water crisis as pressures intensify from climate change, population growth and development.
- **Cancun Communiqué:** Diageo signed the Cancun Communiqué urging governments to make rapid progress on a number of key issues during the sixteenth UN Climate Change Conference of the Parties (COP16) in Cancun, Mexico.
- **Dublin Principles:** the Dublin Principles provide guidance for mutually-acceptable means of co-operation, based on ethical principles, for all those concerned with alcohol consumption and its effects, including the beverage alcohol industry, public health officials, researchers, and others. The principles were adopted by consensus by an international group of experts in 1997.

## Our impacts



We structure our Sustainability & Responsibility Strategy around our 'impacts'. By impacts we mean who or what our business affects, and in what way. Ensuring we focus on our most material impacts involves engaging our stakeholders to understand their interests and concerns.

We define our impacts as: alcohol in society; water; environmental sustainability; community; our people; and governance and ethics. Each is managed as a separate programme organised at both global and local levels.

### Focusing on water

Given the global importance of water scarcity and its material impact on our business, we have separated water out from our other environmental and community impacts in our Sustainability & Responsibility Strategy and reporting. This brings together the work we do within our operations and in our communities to preserve this important resource and help enable access to clean water.

### Impacts across the value chain

While managing our impacts outside our gates is much more difficult than doing so within our operations, it is no less important. This is why we also have specific programmes for our suppliers and our customers and consumers. These programmes (called 'cross-priority activity' in last year's report), are also reported in this section..

---

#### In this section:

- Alcohol in society – page 16
- Water – page 25
- Environment – page 32
- Community – page 40
- Our people – page 48
- Governance and ethics – page 59
- Our suppliers – page 66
- Our customers and consumers – page 72



## Alcohol in society



We believe that responsibility for understanding and tackling the impacts of alcohol misuse is shared by a wide range of stakeholders. As producers and marketers we accept our share of that responsibility, often taking the lead in driving initiatives and debate. But a general shift in public attitudes will only come about through collective action. In this section we set out our principles and practice in promoting a more positive role for alcohol in society.

---

### In this section:

- Executive summary – page 17
- Responsible marketing and consumer information – page 18
- Partnerships and programmes to address alcohol misuse – page 20
- Stakeholder dialogue and alcohol policies – page 22

## Executive summary

Drinking alcohol has been part of the social and cultural life of many communities throughout the world for centuries. It plays a predominantly positive role in society, bringing benefits to our societies and economies, and is enjoyed as part of a balanced, healthy lifestyle by millions of people. We are proud of our brands and all that we have done to become the world's leading premium drinks business.

Nevertheless, alcohol misuse by a minority of consumers is a serious and significant issue. Its consequences are bad for individuals, families and society, and damaging to our reputation and that of our brands. It is therefore in our interest to help tackle it.

### Performance against targets

Last year we developed our first set of public targets in the area of alcohol in society. We are proud to say that we have accomplished both our 2011 targets and are either on track or ahead on the others. Our results are summarised in the tables below. Please see the relevant sections for the commentary on each result.

### Our strategy

Changing attitudes and behaviour cannot be achieved by one organisation, or even the drinks industry, acting alone. It will take time, and the commitment of multiple stakeholders:

- Individual drinkers and their families and friends
- Teachers, doctors, employers and colleagues
- NGOs
- Governments and law enforcers
- Everyone involved in making, marketing and selling alcohol.

We work in partnership with organisations that can offer the resources and capability to help us achieve our goals – which are to:

- Promote effective industry-wide standards in responsible marketing and selling
- Provide a wide range of information to help our consumers make well-informed and responsible choices about when, whether, and how they drink
- Support and promote effective, evidence-based programmes that aim to prevent, target and tackle alcohol misuse by raising awareness and changing consumer attitudes and behaviour
- Argue for fair and effective alcohol policies around the world based on evidence, properly enforced, without unintended consequences
- Promote a balanced, honest and well-informed discussion about the role of alcohol in society.

### Highlights of the year

- We **advanced our industry-leading global Digital Code of Practice** for online marketing
- We continued to develop and implement new programmes and partnerships to address the misuse of alcohol in our top markets

- We **supported regional industry conferences** in association with the International Center for Alcohol Policies to promote greater awareness and support for the World Health Organisation (WHO) Global Strategy to Reduce the Harmful Use of Alcohol.

### Outlook

- As national governments determine how to best apply the WHO Global Alcohol Strategy, we will continue to support them in finding effective and fair approaches. We will also continue to work in partnership with others to implement impactful programmes to address misuse.
- In September 2011 the UN will host a high-level meeting on the prevention of non-communicable diseases (NCDs) such as heart disease, cancer, obesity and respiratory disease. The UN has identified four leading contributory factors of which alcohol misuse is one alongside diet, physical activity and tobacco use. International attention on NCDs may provide Diageo and the rest of our industry with further opportunities to support effective approaches to preventing alcohol misuse. The challenge for the industry is to define its role more clearly and to demonstrate better the impact of its approach and programmes. There are also more opportunities for working with retailers to increase the scale of Diageo and industry initiatives. The Responsibility Deal in the UK, which establishes ways in which the Government and business can work together to achieve positive change that cannot be addressed by legislation alone, may offer a template for other countries.

## Alcohol in society

Target by 2011	This year's performance 2010–2011	Achievement
Where technically possible, all regional units and brands teams use Diageo's online approval for marketing activities, SmartApprove	SmartApprove is fully embedded throughout the business where technically feasible. For more information <a href="#">click here</a> .	Achieved
Implement an online learning tool for a refreshed digital code of practice	Online training tool developed and distributed to marketing staff and agency partners. For more information <a href="#">click here</a> .	Achieved
Target by 2013	2010–2011	
Ensure that Diageo marketing is 100% compliant with the Diageo Marketing Code (DMC)	Approximately 0.1% of marketing activity globally breached the DMC. For more information <a href="#">click here</a> .	In progress
Responsible drinking reminders (RDRs) are included in 100% of above-the-line advertising material	Included in approximately 99.9% of our global approved above-the-line advertising. For more information <a href="#">click here</a> .	In progress
DRINKIQ.com is included on all renovated and new brand labels	In process of developing a comprehensive compliance report. For more information <a href="#">click here</a> .	In progress
Responsible drinking initiatives are in place in our top 40 markets (by value)	In place in 39 of our top 40 markets. For more information <a href="#">click here</a> .	In progress
Effective industry self-regulatory or co-regulatory codes in place in our top 40 markets (by value)	In place in 34 of our top 40 markets. For more information <a href="#">click here</a> .	In progress

## Responsible marketing and consumer information

We believe that responsibility for understanding and tackling the impacts of alcohol misuse is shared by a wide range of stakeholders – by ourselves as a drinks company, certainly – but also by our customers and consumers, and many other influencers in society, from government and law enforcement agents to educators and parents.

An area over which we do have control is our own marketing. We aim to market our brands responsibly, and give consumers clear information about our products to help them make informed decisions about drinking – or not drinking. Three principles embody our approach to responsible marketing and consumer information: following our own codes; abiding by industry marketing codes; and making information available to consumers.

### Following our own codes

We have two codes that govern our marketing standards: the Diageo Marketing Code (DMC) and the Digital Code of Practice. The DMC is our mandatory minimum standard and applies across all our markets and governs every aspect of our activities, from research and development to marketing, promotion and packaging. We review it every 12 to 18 months to ensure it addresses evolving issues in the marketplace.

We ensure that the codes' principles and practices – which provide a clear framework for marketing our brands responsibly to adults – are embedded across Diageo through an ongoing programme of awareness, communication and training.

Our Digital Code is an extension of the DMC and provides guidance to our marketers on how to navigate the complexity of digital and mobile channels and technologies. This year, we refreshed the Digital Code to provide further guidance and enhanced compliance requirements reflecting our ongoing commitment to leadership in responsible marketing. The refreshed code will be fully rolled out to relevant employees next year.

In recognition of the fast-moving nature of the digital environment, our internal cross-functional Digital Governance Leadership Team (DGLT) meets regularly to review emerging marketing trends and to set policy that governs our marketing activity in new channels, reinforcing our commitment to remain at the forefront of responsible marketing and self-regulation. The DGLT comprises representatives from marketing, corporate relations, legal and information systems teams. Employees help ensure compliance with our codes by raising any concerns, or reporting breaches, through our confidential 'SpeakUp' helpline.

### Abiding by industry marketing codes

We believe that the industry as a whole should follow standards of a similar level to those we set within Diageo. We abide by industry self- or co-regulation codes in markets where they exist and work with industry bodies to establish codes where they do not. See: '[Stakeholder dialogue and alcohol policies](#)'.

While we manage our business in compliance with industry codes, unfortunately we did have several breaches which are outlined in the table below. In each case, we took corrective action to ensure mistakes were addressed and will not be repeated.

For example, in the US, a billboard with a Diageo brand advertisement was placed by our media agency too close to a school in Seattle, Washington, despite a contractual agreement with the media agency to abide by the DMC. At our request, the agency undertook an audit of the brand's billboard advertisements in the city to verify that this was a single mistake. We feel confident that these breaches are unfortunate anomalies and do not reflect an endemic compliance issue.

Following is the list of complaints made regarding Diageo's marketing that were upheld by industry bodies:

### Complaints about advertising upheld (1 July 2010–30 June 2011)

Country	Industry body	Complaints	Notes	
Australia	Alcohol Beverages Advertising Code (ABAC)	Diageo brands	1	October 2010, consumer-generated photographs showing minors were submitted to the Bundaberg Facebook page and not moderated promptly by the brand owners.
		All alcohol beverages	21	
Ireland	Advertising Standards Authority for Ireland (ASA)	Diageo brands	2	1. January 2011, wrong Bushmills variant featured in a print advertisement that referenced the award-winning status of Bushmills 1608. 2. April 2011, Budweiser found in breach of the code by making an unsubstantiated claim about the coldness of the serve.
		All alcohol beverages	3	
UK	Advertising Standards Authority (ASA)	Diageo brands	0	
	Portman Group	Diageo brands	0	
USA	Distilled Spirits Council of the United States (DISCUS)	Diageo brands	1	June 2011, Jose Cuervo found in violation of placement standards due to a print advertisement placed in close proximity to a school.
		All alcohol beverages	3	

## Making information available to consumers

Our Diageo Alcohol Beverage Information Policy (DABIP) stipulates that all new product launches, packaging renovations and promotional packaging changes are required to include responsible drinking reminders, allergen information, alcohol-by-volume and DRINKiQ.com on primary package. We also publish the nutritional information about our products on DRINKiQ.com, and on packaging where such information is required by law. To read more about our DRINKiQ programme [click here](#).

Where legislation prohibits any alcohol website, including our DRINKiQ site, we include nutritional information on our packaging. We continue to put this policy in place on all brands as packaging and labels are renovated. Where permitted under local law, all our business units must implement DABIP when bringing new, piloted, renovated or repackaged products to market.

## Performance against targets

The table below sets out the targets that we measure to help manage our work in responsible marketing and providing consumers information to make responsible decisions. Commentary on each follows the table.

### 1. SmartApprove

This year we fully embedded our online tool, SmartApprove, throughout the business where technically feasible to make the process of checking and approving our marketing materials quicker and easier. All marketing activities in SmartApprove are reviewed by legal, corporate relations and/or marketing to ensure compliance with our codes and policies and a record of approvals is automatically kept on the system.

### 2. Online learning tool for Digital Code of Practice

As planned, we developed and distributed an online training tool to provide easy access to and understanding of our Digital Code of Practice to our employees and agency partners. This will be especially useful since we are

continually updating the Code to match trends in the digital marketplace.

### 3. 100% compliance with DMC

This year around 0.1% of marketing executions were in violation of our code. These were a minute percentage of the thousands of pieces of marketing collateral produced by Diageo uploaded in our SmartApprove system, nevertheless, we are disappointed to have had any breaches and will continue to strive for total compliance.

### 4. Responsible drinking reminders on all advertising

An audit of our global materials revealed excellent compliance; responsible drinking reminders are a mandatory part of our Diageo Marketing Code.

### 5. Inclusion of DRINKiQ.com on all renovated and new brand labels

Diageo's consumer information policy applies to Diageo-owned alcohol beverage brands in all markets. The development and implementation of this mandatory policy has been, and is, a journey. As a global drinks business, we face complex challenges in developing and implementing such a global policy on packaging, as we operate in over 180 markets with thousands of packaging variations, across spirits, wines and beers. Diageo is wholly committed to this policy and is investing the resource required to implement it across our business. It has been the subject of very careful planning to ensure we provide consumers with information about our brands so that they continue to make informed choices, and that we do so in the most efficient and effective manner possible.

Our process for implementing this policy is organic and will be undertaken as brands are renovated or launched. Our brand change teams and legal counsel provide guidance and instruction to our markets to ensure compliance. We are not aware of any brands that have not complied with the policy and are in the process of developing a comprehensive compliance report.

## DRINKiQ

Diageo's [www.DRINKiQ.com](http://www.DRINKiQ.com) website promotes responsible drinking by increasing public awareness and dialogue around alcohol issues. Launched in 2008, the award-winning website was extended in 2010–11 to Belgium, and now covers 19 countries in nine languages: Chinese, Dutch, English, French, German, Greek, Italian, Russian, and Spanish.

The website aims to bring together the best programmes and information – not just our own – for anyone with an interest in promoting responsible drinking. It contains experts' views, facts about alcohol, responsible drinking tips, nutritional information about Diageo brands, and an outline of our approach to responsible drinking for consumers. In addition the site's resource centre targets four specific stakeholder groups – parents, educators, law enforcers and retailers – giving information and resources to help them prevent and tackle issues related to the misuse of alcohol.

## Employee engagement

Our DRINKiQ employee engagement initiative, an interactive session to discuss and encourage responsible decisions about drinking – or not drinking – has proved hugely successful. It has now been rolled out to over 19,200 employees around the world and is a formal part of new employee inductions in 21 countries. The initiative is designed both to help employees make responsible drinking decisions for themselves, and to give them the confidence to be ambassadors to discuss responsible drinking with others.

## Workshops with stakeholders

As well as running internal DRINKiQ workshops, we also run workshops with stakeholders. For example, in Nigeria we worked with the Federal Road Safety Commission to include DRINKiQ as part of the country's driving licence curriculum. Similarly, in Ghana, DRINKiQ sessions have been accepted by the National Drivers' Academy as mandatory for all commercial drivers seeking to upgrade, renew or apply for licences.

Target by 2011	This year's performance 2010–2011	Achievement
1. Where technically possible, all regional units and brands teams use Diageo's online approval for marketing activities, SmartApprove	SmartApprove is fully embedded throughout the business where technically feasible	Achieved
2. Implement an online learning tool for a refreshed digital code of practice	Online training tool developed and distributed to marketing staff and agency partners	Achieved
by 2013	2010–2011	
3. Diageo marketing 100% compliant with the Diageo Marketing Code (DMC)	Approximately 0.1% of marketing activity globally breached the DMC	In progress
4. Responsible drinking reminders (RDRs) included in 100% of above-the-line advertising material	Included in approximately 99.9% of our globally approved above-the-line advertising	In progress
5. DRINKiQ.com included on all updated and new brand labels	In process of developing a comprehensive compliance report	In progress

Also in Ghana, we teamed up with the University of Ghana to train 68 peer counsellors to run DRINKiQ sessions with university students. The campus radio and Facebook site also referenced or linked to DRINKiQ.com as a way to raise awareness further. The sessions have been so well received that DRINKiQ sessions will become a mandatory part of the induction programme for 1,000 new students next year.

In China, having trained our employees in DRINKiQ, we ran sessions for selected bartender schools in Shanghai, Guangzhou and Chengdu.

The training sessions attracted around 120 bartender students. It is our hope that these students will become ambassadors for the responsible drinking message when they turn professional.

Diageo Korea has been running DRINKiQ sessions with stakeholders since 2009 – including bartenders, local companies, universities, and members of the public sector. This year, 47 DRINKiQ sessions were held with approximately 2,270 stakeholders and a DRINKiQ mobile application was released to support our awareness raising efforts.

Russia has also been running DRINKiQ sessions since 2009 and has engaged approximately 5,000 participants, including Diageo partners as well as students of 19 Moscow institutions of higher education, including Moscow State University of Management, Moscow State University of Transportation, and the Moscow International Business School.

## DRINKiQ gathers pace at Turkish Grand Prix

DRINKiQ.com was featured on the helmets and race suits of Lewis Hamilton and Jenson Button, and on their cars' mirrors and rear wings at the 2011 Turkish Grand Prix.

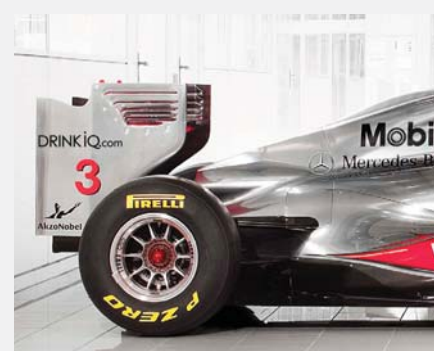
Johnnie Walker highlighted our commitment to responsible drinking at the 2011 Formula One Turkish Grand Prix by replacing its branding of the Vodafone McLaren Mercedes F1 Team with 'DRINKiQ' branding.

Lewis Hamilton, 2008 FIA Formula One World Drivers' Champion, commented: "It's always

interesting to see what the latest Johnnie Walker initiative is and to understand what it could achieve. By having DRINKiQ on the cars in Turkey, we will hopefully help to raise awareness of the site and get the message out there."

Jenson Button, 2009 FIA Formula One Drivers' World Champion, added: "Responsible drinking is a cause that is close to our hearts. The exposure generated on the Vodafone McLaren Mercedes cars throughout the weekend will be massive for DRINKiQ and I hope this will inspire people to make the right choices when drinking alcohol."

Responsible drinking has always been at the heart of the brand's partnership with Vodafone McLaren Mercedes. Since double F1 World Champion Mika Häkkinen became Johnnie Walker's Responsible Drinking Ambassador in 2006, he has encouraged close to 800,000 consumers in 30 countries to join the pact to 'never drink and drive', at [www.JoinThePact.com](http://www.JoinThePact.com). Mika added: "I strongly support this cause and hope this initiative at the Turkish Grand Prix will further increase awareness of DRINKiQ."



## Partnerships and programmes to address alcohol misuse

We know that some people – albeit a minority – drink too much, and by doing so cause harm to themselves, to others, and to their communities. The social consequences of alcohol misuse are a matter of significant concern to a responsible company like Diageo.

Alcohol misuse is also bad for business. Its social consequences damage our reputation, the reputation of our brands and our licence to operate, as well as bringing the industry as a whole into disrepute. For both social and business reasons, therefore, we play an active part in tackling alcohol misuse.

### Our approach

We invest in our own programmes, but we believe that the best way to change behaviour

is for all interested parties – other beverage alcohol companies, retailers, governments, NGOs, law enforcement organisations, public health groups, communities, educators, parents, and individuals – to work together and invest in initiatives that raise awareness and seek to change attitudes and behaviour. Such initiatives are therefore a central part of our work in this area. In total, this year we supported more than 240 programmes either directly or indirectly in 49 markets, including 39 of our top 40.

We continue to focus our efforts on our top 40 markets (by value) because this is where we have the greatest influence. The size of our operations, and the network of strategic alliances we have in place, all help ensure the success of our initiatives.

We are pleased to note that responsible drinking initiatives are in place in every market except for one – Indonesia, and we are working to address the challenges of addressing alcohol misuse there. Beyond our top 40 markets we support initiatives in 10 other countries. (In total

we either directly or indirectly supported 241 programmes in 49 countries in 2011.)

### Activity during the year

Given the diverse cultures and issues across our top 40 markets, there is no one-size-fits-all approach for discouraging alcohol misuse. We therefore tailor our programmes to local issues and the needs of our consumers, customers and stakeholders. Our local business units determine what their major issues are and, depending on local circumstances, develop programmes to address those issues. Below are highlights from some of our programmes in each region.

### Africa

- **Nigeria:** through our partnership with the Federal Road Safety Commission, DRINKiQ training is to form part of the country's driving licence training curriculum piloting in Lagos with plans to roll out to the rest of the country before the end of the year. Diageo was also the only alcohol producer to be invited to

sign up to the UN Decade on Road Safety in Nigeria, and we helped bring together key stakeholders at the high-profile Guinness football match between Argentina and The Super Eagles to sign up to a 'don't drink and drive' pledge.

- **South Africa:** brandhouse, our joint-venture company in South Africa, ran the Number One Taxi Driver Campaign again this year. This programme has been running since 2004 and strives to enhance road safety by addressing and rewarding road safety among minibus taxi drivers. The campaign places special emphasis on further educating those drivers who are committed to providing a quality service in roadworthy vehicles, while driving safely and with courtesy. So far more than 2,000 taxi drivers have been tested.

#### Asia Pacific

- **Australia:** Diageo partnered with the Australian Hotels Association, New South Wales and Queensland to launch a bar staff training package, Better Nights. Queensland Hotels Association to launch a bar staff training package, Better Nights, in Brisbane. The package includes a DVD, CD, a bar manager facilitation guide, and copies of take-away leaflets for bar staff. As part of this programme, the Diageo sales team is sharing the package with 4,000+ customers nationally to help them improve customer service in the industry.
- **India:** Wheel Watch India is a multi-city initiative that promotes awareness of the dangers of drink-driving. In partnership with the Institute of Road Traffic Education and the traffic police, Diageo helped train drivers of transport vehicles, who work independently and don't belong to a fleet or company. Through this programme, 20,000 drivers of commercial vehicles will be trained, with 10,479 trained so far.
- **Korea:** In Korea we continued our 'Cool Drinker' programme which promotes responsible drinking through messages in public spaces, mobile applications and responsible drinking ambassadors at universities. This year, 75 employees participated in the ambassador programme training a total 2,500 college students at 17 universities, a significant increase in participation from prior years.

#### North America

- **Canada:** we launched a nationwide mobile phone application, #TAXI (Pound Taxi), that connects callers to the first available local taxicab company, encouraging consumers to make their last call of the night one that will get them home safely. We promote the service with retail partners across Canada, as well on promotional materials for consumers in bars and restaurants.
- **US:** Diageo continues to support the Responsible Retailing Forum (RRF), a group dedicated to engaging industry partners, regulators, law enforcement agencies and public health stakeholders to prevent underage access to alcohol in retail establishments. Currently, RRF is testing and refining its award-winning model in five states. RRF's annual conference this year focused on the programmes, relationships and other resources that industry partners can contribute to local efforts to enhance the success of this approach.

#### Latin America & Caribbean

- **Mexico:** Diageo has been a significant contributor to the country's 'Conduce sin alcohol' (drive without alcohol) programme, donating 50,000 breathalyser kits and printing thousands of leaflets on responsible drinking. Since its launch, deaths on the road have dropped by 30%, and the programme been hugely popular with the public, as well as being recognised nationally and internationally for its success. Also, in its second year running in Mexico, Johnnie Walker's Join the Pact campaign awarded consumers with free taxi miles if they signed up to the pact. This year the Mexican Center of Philanthropy (CEMEFI) awarded Join the Pact for being the 'most socially responsible project in Mexico' saying 'this award aims to publicly acknowledge those socially responsible best practices that demonstrate a positive impact on society while at the same time contributing to business success'.
- **Latin American & Caribbean-wide:** the Guardian Angels campaign continues to grow across the region. Launched in 2005, the programme is brought to life during the holidays through 'winged' brand ambassadors who take to the street, enter retail establishments and populate billboards throughout the region, reminding consumers to look out for friends and family when celebrating with alcohol.

#### Europe

- **Europe-wide:** Nightlife Confessions is a new responsible drinking campaign with the message that 'being in control of your drinking helps you get more out of a night out'. Around 600 consumers were interviewed about responsible drinking at nightlife hotspots across Germany, Belgium and Denmark in a special Nightlife Confessions video booth, and the interviews were uploaded to [www.nightlife-confessions.com](http://www.nightlife-confessions.com), as well as featuring on YouTube, Facebook and Twitter. Within six months, the site had over 100,000 unique visits, while the campaign had a strong impact on a third of target consumers in Belgium and half those in Germany, namely those who regularly drink to excess and later regret it.
- **Spain:** since 2005 we have teamed up with Spanish racing driver Pedro Martínez de la Rosa as our Responsible Drinking Ambassador to spread the 'don't drink and drive' message. Recently we've expanded the programme to social media, creating an online community using Twitter, YouTube and Facebook. This year we launched an iPhone app called 'BBBien!' which helps users find the best public transport near their location. During the Christmas holiday period 2010 there were 17,000 downloads of the application.
- **Russia:** in 2010 our business, as part of the Alcohol Beverage Committee, supported a pilot to implement screening and brief intervention by family physicians and doctors at the Medical Academy of Postgraduate Education in St. Petersburg. So far, it has encompassed 200 doctors and 700 patients. The hope is to expand the programme in Moscow and other regions of Russia.
- **UK:** Diageo is funding a training programme for midwives to help them educate expectant mothers about the risks of alcohol to their unborn child. Run by the National Organisation for Foetal Alcohol Syndrome, it will reach an estimated 10,000 midwives over the next three years. [Read more.](#)

#### Our performance

##### Target by 2013

Responsible drinking initiatives in place in our top 40 markets (by value)

##### This year's performance 2010–2011

In place in 39 out of top 40

##### Achievement

In progress

## Diageo and the next generation

Diageo has always been at the forefront of campaigns for responsible drinking. Whether it means signing up a Formula 1 driver to be an ambassador for an anti-drink-driving campaign in Spain, or making it easier for Canadians to order a safe cab home after a night out, Diageo is working everywhere to improve safety and promote responsible choices.

In the long run, it's much better for us and for society if people drink responsibly. To some extent that's simply good business: we don't want to be associated with problem drinking and we don't ever want people to regret buying our products. But we can and do go further.

Drinking while pregnant can be dangerous. We know that, and it's a message we want to spread to everybody in society. That's why Diageo has given its backing – and its funding – to a project to educate midwives in the issues surrounding alcohol and pregnancy.

We started in 2010 with a training programme for 226 midwives. We had expected some criticism, however the positive response from stakeholders has been extremely encouraging. An astonishing 94% of the people we trained didn't just believe that it was useful, but felt that it should be compulsory for all midwives in the UK.



So this year we announced that the pilot programme would be vastly expanded. We're providing the funding to train 10,000 more midwives in how to explain the dangers of drinking while pregnant. That will mean better advice for one million pregnant women, and hopefully better health for all those babies.

## Stakeholder dialogue and alcohol policies

Our ability to help create a more positive role for alcohol in society depends to a great extent on a balanced regulatory framework within which alcoholic beverages are responsibly made, marketed, sold and consumed.

### Our approach

We partner with many stakeholders to help define and deliver policies that encourage responsibility – by industry, government and our consumers. Recognising that there are diverse views on the proper way to address alcohol-related issues, we work to foster balanced debate and broad stakeholder dialogue.

Nonetheless, to ensure a sustainable future for our industry, we think it is vital to establish consensus on public policy issues such as responsible marketing and retailing, drink driving, legal purchase age, labelling and tax policy, as well as on other regulatory measures such as how to deal with non-commercial alcohol. Non-commercial alcohol is defined as traditional drinks produced for home consumption or local trade, unregistered and counterfeit products, and 'surrogate' alcohol derived from medicinal compounds, automotive products, cosmetics and other substances.

We therefore support effective and targeted alcohol policies at both global and national level. To be effective, we believe such policies must:

- Be based on the best evidence
- Account for drinking patterns
- Target at-risk groups
- Treat all forms of alcohol equally

- Involve all stakeholders in working towards a common goal.

We recognise the importance of having strong industry codes in the countries in which we operate, and work in partnership with self-regulatory bodies, the World Federation of Advertisers and industry groups to establish them. We are working with the International Center for Alcohol Policy to strengthen self-regulation systems for responsible marketing in more than 10 countries (see: [www.global-actions.org](http://www.global-actions.org)).

### Activity during the year

We continue to work with our stakeholders to promote effective alcohol policies and aim to address concerns in the marketplace through active stakeholder engagement and partnership. This year we were involved in two particularly significant partnerships, working with industry on helping member states implement the World Health Organisation's Global Alcohol Strategy and the UK's Responsibility Deal.

#### • WHO's Global Strategy

The World Health Organisation (WHO) launched its Global Strategy to Reduce the Harmful Use of Alcohol ([www.who.int/substance\\_abuse/msbalcstrategy.pdf](http://www.who.int/substance_abuse/msbalcstrategy.pdf)) in May 2010 to address alcohol misuse around the world. Together with other major international drinks companies, national trade associations and domestic companies, we aim to work constructively with WHO member states to support implementation of the Global Strategy by contributing to realistic, effective policies and programmes to prevent and reduce harmful drinking.

This year we took part in a number of regional industry consultations organised by the International Center for Alcohol Policies (ICAP), to raise industry bodies' collective

level of awareness of and engagement in the Strategy. ICAP is a not-for-profit organisation, supported by major producers of beverage alcohol that promotes dialogue between the drinks industry, research and public health communities, government, and civil society in developing alcohol policy around the world. It is the lead organisation for implementing the Global Actions on Harmful Drinking ([www.who.int/substance\\_abuse/msbalcstrategy.pdf](http://www.who.int/substance_abuse/msbalcstrategy.pdf)).

During these consultations we shared examples of our responsible drinking initiatives that could be considered best practice in the areas of underage drinking, drink driving and industry self-regulation.

We also presented participants with an overview of the Global Actions. This work is the result of a collective commitment by chief executives of major international drinks producers to make a significant and meaningful effort to address harmful drinking through a combination of global and local initiatives, with a particular emphasis on low- and middle-income countries. It addresses three areas: self-regulation of advertising and marketing; drink driving; and research and action on non-commercial alcohol.

#### • The Responsibility Deal ([responsibilitydeal.dh.gov.uk/responsibilitydeal/files/2011/03/Core-Commitments-Supportive-Collective-Pledges.pdf](http://responsibilitydeal.dh.gov.uk/responsibilitydeal/files/2011/03/Core-Commitments-Supportive-Collective-Pledges.pdf))

This initiative, announced by UK Secretary of State for Health Andrew Lansley in March 2011, shows how partnership and challenge can be the most effective way of tackling some public health objectives. Working in partnership with members of the voluntary sector, business, industry and the retail sector, the Responsibility Deal is able to deliver faster and better results than a regulatory route, which is not always available.

Within the Responsibility Deal, Diageo is specifically focusing on fostering a culture of responsible drinking, which will help people to drink within guidelines. Together with others in the drinks industry Diageo has made collective pledges in terms of alcohol

labelling, consumer information at point of sale in the on and off trade, funding of Drinkaware Trust and 'Why let the good times go bad?' campaign, prevention of under-age sales, responsible marketing of alcohol, and local community actions to prevent social and health

harms. Additionally, Diageo has made individual pledges including funding support for NOFAS and the nationwide expansion of the Best Bar None scheme.

### Performance against targets

Target by 2013	This year's performance 2010–2011	Achievement
Effective industry self-regulatory or co-regulatory codes in place in our top 40 markets (by value)	In place in 34 out of top 40	In progress

### Membership of industry bodies

Over the years, we have helped establish many social aspects organisations (SAOs). These are industry-funded organisations that work with government, the private sector and NGOs to promote responsible drinking and tackle alcohol misuse. We have worked with SAOs to develop codes of responsible marketing and raise awareness about responsible drinking. Following is a list of our SAO memberships as of 30 June 2011, plus links to their websites.

SAO	Location	
DrinkWise	Australia	<a href="http://www.drinkwise.org.au">www.drinkwise.org.au</a>
Educ'alcool	Canada	<a href="http://www.educalcoool.qc.ca">www.educalcoool.qc.ca</a>
Asociación de Productores e Importadores de Bebidas Alcohólicas de Centroamérica (APIBAC) (Association of producers and importers of alcoholic drinks of Central America)	Central America	
Forum-psr	Czech Republic	<a href="http://www.forum-psr.cz">www.forum-psr.cz</a>
GODA	Denmark	<a href="http://www.goda.dk">www.goda.dk</a>
European Forum for Responsible Drinking (EFRD)	European Union	<a href="http://www.efrd.org">www.efrd.org</a>
Entreprise & Prévention	France	<a href="http://www.ep.soifdevivre.com">www.ep.soifdevivre.com</a>
DrinkAware	Ireland	<a href="http://www.drinkaware.ie/">www.drinkaware.ie/</a>
Mature Enjoyment of Alcohol in Society (MEAS)	Ireland	<a href="http://www.meas.ie">www.meas.ie</a>
Fundación de Investigaciones Sociales A.C. (FISAC)	Mexico	<a href="http://www.alcoholinformate.org.mx">www.alcoholinformate.org.mx</a>
STIVA	The Netherlands	<a href="http://www.stiva.nl">www.stiva.nl</a>
Industry Association for Responsible Alcohol Use (ARA)	South Africa	<a href="http://www.ara.co.za">www.ara.co.za</a>
Fundacion Alcohol y Sociedad (FAS)	Spain	<a href="http://www.alcoholysociedad.org">www.alcoholysociedad.org</a>
Taiwan Beverage Alcohol Forum (TBAF)	Taiwan	<a href="http://www.tbaf.org.tw">www.tbaf.org.tw</a>
DrinkWise Thailand Association	Thailand	<a href="http://www.knowyourlimit.asia">www.knowyourlimit.asia</a>
The Portman Group	UK	<a href="http://www.portman-group.org.uk">www.portman-group.org.uk</a>
The Century Council	USA	<a href="http://www.centurycouncil.org">www.centurycouncil.org</a>



## Diageo leads Mexican roundtables on alcohol

Diageo believes that we work best when we work together. Responsible use of alcohol is a hot-button issue in Mexico. The laws about drinking and driving are often misunderstood, and, to make matters worse, there is a large market in illicit alcohol production. So in October 2010 we sponsored roundtable discussions with multiple stakeholders in Mexico City on how to improve laws and regulations to encourage more responsible attitudes and behaviour.

Diageo has experience from all over the world in promoting responsible drinking and we are able to share learnings across markets. For example in the United States, we have learned the positive impact of comprehensive drink driving legislation, the importance of sanctions at state level, and how industry and government can work together to get results.

The Secretary of Safety of Mexico City and the Federal Commissioner for the Protection of Sanitary Risks were among those who sat down with Diageo representatives for a series of round table discussions on promoting responsible drinking in the country. Diageo is already committed to fighting drinking and driving, but we wanted to go further and get input from many others including NGOs, youth groups and experts to help identify how the Mexican Government can continue to make progress, by, for example, reducing the legal limit to no alcohol for younger drivers. Born too at the summit was the idea of online training for bartenders and even valet parking attendants, which Diageo will launch next year.



Along with the heads of government agencies, the roundtables considered how federal initiatives might help address the large illicit and counterfeit issue in Mexico. Estimates that illicit alcohol makes up over 40% of the total market for alcohol were shared as a stimulus for better ways to tackle the threat they pose to the health and safety of Mexican consumers.

## Water



Given the global importance of water scarcity and its material impact on our business, we have separated water out from our other environmental impacts in this year's Sustainability & Responsibility Report, bringing together the work we do within our operations and our work in our communities.

---

In this section:

- Executive summary – page 26
- Operations – page 27
- Community involvement – page 30
- Collective action – page 31

## Executive summary

For Diageo the water challenge is most acute in Africa, where the UN predicts that 50% of the population will face water scarcity by 2025. We are proud of our strong presence in and commitment to Africa – which accounts for about 14% of our total net sales but 84% of our organic growth. We expect this growth to continue, but with increased production comes increased demand on water management, an especially important problem in a region where we have identified that around half of our production sites are located in water-stressed<sup>11</sup> areas. Africa therefore is currently the most important, but by no means the only, focus of our water programme.

### Performance against targets

This year we increased our investment and commitment to water poverty<sup>12</sup> in our local communities and are proud of these results. However, addressing the impact on water of our direct operations remains challenging. While we have made progress against our targets, we need to accelerate our rate of improvement if we are to reach our 2015 goals. This will be a key priority for us next year.

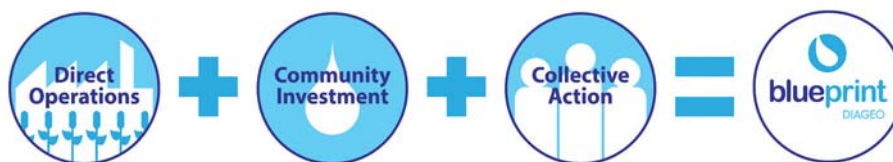
Our results are summarised in the tables below. Please see the relevant sections for the commentary on each result.

### Direct operations

Target by 2015	This year's performance 2010–2011	Cumulative performance 2007–2011	Achievement
Improve water efficiency by 30%	Improvement of 3.0%. For more information <a href="#">click here</a> .	Improvement of 15.8%	In progress
Reduce water wasted at water-stressed <sup>11</sup> sites by 50%	Reduction of 5.6%. For more information <a href="#">click here</a> .	Reduction of 9%	In progress
Reduce the polluting power of wastewater by 60%, measured in biological oxygen demand (BOD)	Increase of 31.3%. For more information <a href="#">click here</a> .	Increase of 25.6%	Off track

### Community involvement

Target by 2015	This year's performance 2010–2011	Cumulative performance 2007–2011	Achievement
Improve access to safe drinking water for 8 million people in Africa	Approximately 1 million people benefited. For more information <a href="#">click here</a> .	Approximately 5 million people benefited	In progress



### Strategy

Last year we consolidated and simplified our water activities into our Blueprint Water Framework. Designed to effect substantial, sustainable and measurable change, the strategy is based on three platforms:

- **Operations:** we work to reduce our impact on water in our production facilities and supply chains. This involves:
  - Improving water efficiency in our facilities
  - Absolute reduction on water use at water-stressed sites
  - Reducing the polluting power of wastewater<sup>13</sup> from our facilities
  - Engaging directly with suppliers in water-stressed countries where we operate, to encourage more sustainable strategies for agriculture.
- **Community involvement:** we aim to improve access to water where we operate by supporting the stewardship of water resources. Launched in 2006, our Water of Life programme aims to enable access to clean drinking water, and where possible sanitation, to approximately 1 million people a year across Africa.
- **Collective action and advocacy:** we work with others to accelerate progress on the UN Millennium Development Goals for water and sanitation. Through the concerted efforts of our employees, consumers, customers, suppliers, NGOs, governments and other businesses we work to raise awareness and deliver targeted initiatives in this key area.

### Highlights of the year

- **Safe Water for Africa:** we launched this innovative programme in partnership with the Coca-Cola Foundation, WaterHealth International and the International Finance Corporation towards a goal of expanding sustainable access to clean water across the continent.
- **Water recovery in Kenya:** East Africa Maltings Ltd was awarded a GREENiQ Gold Medal (an internal commendation given to sites that meet our water targets) for its water recovery project in Kenya which improved water efficiency at this water-stressed area by 36.1% compared to our 2007 baseline. [Read more.](#)
- **Technological improvements** to our Cameronbridge distillery, Scotland were implemented, resulting in a 12% reduction in the amount of water required to make a litre of spirit.
- **Water survey:** we completed a water survey at each production site to identify where technology and ways of working can be improved to achieve best practice in water management.
- **Other initiatives:** several smaller initiatives in particular locations have made a difference to our environmental performance there, such as keg consolidations in Dublin and laser printer replacing labels in Argentina.

<sup>11</sup> Diageo's definition relates to risk of operational disruption due to water scarcity and the UN's water-stress occurs when annual water supplies drop below 1,700 cubic metres per person. When supplies drop below 1,000 cubic metres per person per year, a country faces water scarcity for all or part of the year.

<sup>12</sup> Water poverty is defined as the state of not having sufficient water for basic needs because it is not available.

<sup>13</sup> 'Wastewater' is defined by our Environmental Leadership Team as 'All water leaving site as trade effluent'. It does not include the following water that leaves the site:

1 Wastewater used for agricultural purposes (eg irrigation) that are associated with Diageo's processes. 2 As moisture in spent grain, yeast, kieselguhr or other solid wastes. 3 As water in gaseous form. 4 As precipitation via storm drains. 5 As discharges via foul sewer. 6 Having been used for cooling purposes and returned to source without any chemical alteration.

## Outlook

After further refining our methodologies this year with the support of external consultants, we now have a greater understanding of our baseline – particularly of our water management in water-stressed areas, and of how we manage effluent. This should help us improve performance against our targets in the coming year.

Our community investment will continue to support and complement our work in our operations, so that we can reduce our impact on watersheds and improve access to safe drinking water in the regions where we operate.

We plan to step up our support for local collective action to share best practice with other organisations fighting water poverty.

And we will continue to explore ways of working collaboratively with governments, local water users, NGOs and communities to make progress towards long-term solutions to the water challenges in our affected markets.

## Operations

Water is both a major ingredient of our brands and an important component in our production processes. Therefore we must work to preserve the water sources we rely on, particularly in water-stressed regions, and monitor the quality of the water we return to source.

### Water-stressed sites

We have identified nine production sites as being located in areas which are water-stressed. As we grow, reducing water wasted is very challenging, but it is critical that we preserve this essential resource.

### Performance against targets

The table below sets out our 2015 targets, against a 2007 baseline. Commentary on each follows the table.



Target by 2015	This year's performance 2010–2011	Cumulative performance 2007–2011	Achievement
1. Improve water efficiency by 30%	Improvement of 3.0%	Improvement of 15.8%	In progress
2. Reduce water wasted at water-stressed sites by 50%	Reduction of 5.6%	Reduction of 9.0%	In progress
3. Reduce the polluting power of wastewater by 60%, measured in biological oxygen demand (BOD)	Increase of 31.3%	Increase of 25.6%	Off track

### 1. Improve water efficiency by 30%

Water efficiency improved by 15.8% against our 2007 baseline, with an improvement of 3.0% in 2011. Our improvement was driven by:

- Investments in water recovery at East Africa Maltings which improved water efficiency by 36.1% since the 2007 baseline
- The replacement of reverse osmosis filters and the installation of rinsing recovery systems in the Americas. In Plainfield, USA a water recovery system has saved 2.3 million gallons of water per year
- The closure of the Port Dundas distillery in Scotland and the subsequent volume transfer to a more efficient site
- Introduction of line lube systems, laser printers replacing labels and keg consolidations.

Improving water efficiency is a collaborative effort. We invest in technology and monitor where and how we use water. We will also continue to engage the skills, knowledge and commitment of our employees in saving water.

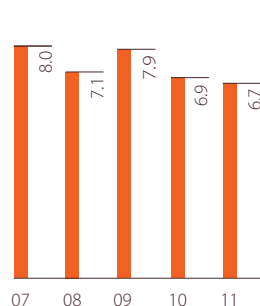
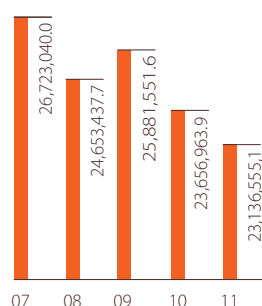
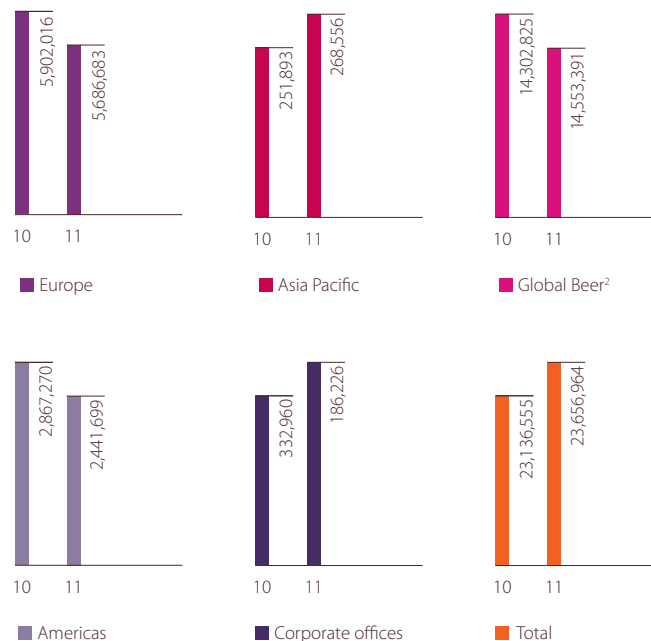
### 2. Reduce water wasted at water-stressed sites by 50%

Water wasted at water-stressed sites decreased by 9.0% from our 2007 baseline, with a reduction of 5.6% in the past year.

While we have worked on establishing the infrastructure to maximise efficiencies in water-stressed sites, the improvement compared to last year (from 3.62M m<sup>3</sup> to 3.48M m<sup>3</sup>) was driven mostly by water recovery initiatives at Kenya Maltings and Kenya glass and data capture improvements at sites in Africa.

Nevertheless, we are encouraged by what we have learned at all nine of our water-stressed sites in the US, Ghana, Kenya, the Philippines and Uganda. We are investing in water treatment and recovery systems, along with more targeted water conservation and employee engagement efforts. In Nairobi, Kenya, where three of our nine water-stressed sites are located, an effluent treatment and water recovery plant at the glass manufacturing site has reduced water use by 80%. Early water footprinting of our Tusker Beer brand, which is produced in Kenya, revealed the complexities of the issues, especially given our broad range of products and activities. We recycle the water used for humidification in the germination stage of the maltings process, which saves 12% of the site's water use each year.

## Water efficiency (L/L)

Water use (m<sup>3</sup>) by year<sup>^</sup>Water use by region<sup>1</sup> (m<sup>3</sup>)

## Total water withdrawal by source

Water Used by regions <sup>14</sup> (m <sup>3</sup> )	Ground (borehole/well)	Mains	Surface (river/lake)	For community use	Total
Europe	3,437,885	1,322,734	926,064	0	5,686,683
Asia Pacific	0	255,951	12,605	0	268,556
Global Beer <sup>15</sup>	7,819,428	6,135,667	618,258	19,962	14,553,391
Americas	747,525	952,258	741,916	0	2,441,699
Corporate offices	4,246	181,980	0	0	186,226
Diageo (Total)	12,009,084	8,848,590	2,298,843	19,962	23,136,555

### 3. Reduce the polluting power of wastewater by 60%, measured in biological oxygen demand (BOD)

The polluting power of wastewater increased by 25.6% against our 2007 baseline, with an increase of 31.3% in the past year.

This year BOD increased from 30.1 BODkt to 39.6 BODkt. The increase was a result of planned increases of production in Europe as well as improved data capture at some sites in Nigeria and Ghana.

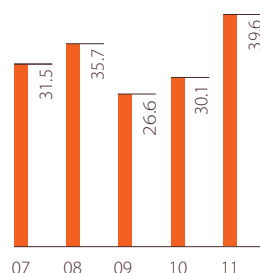
While we are disappointed with increase in BOD, we expect our progress to improve significantly in the coming years, as the majority of our BOD impact comes from one site – Cameronbridge distillery in Scotland – where we are building a bio-energy plant which will reduce the BOD load. Cameronbridge distillery is responsible for 68% of our total wastewater BOD, and we expect this to fall by around 90%. We anticipate that this will bring us very close to our 60% reduction target.

There are already some encouraging results in different parts of the world. In St Croix, US Virgin Islands, we opened a new rum distillery in December 2010. Water is a significant issue for the area, and before we began construction we made assurances that wastewater from distillation would be purer than the water from the surrounding area. Now 90% of all fresh water used in the distillation process is recycled.

Of the total volume of wastewater that we discharge globally:

- 42% gets treated at our own treatment plants
- 31% gets treated through municipal facilities
- A further 3% of our wastewater is used as fertiliser on agricultural land
- 25% of our wastewater flows untreated under permit into water bodies, usually to the sea. The impact of these outflows is measured by environmental authorities.

#### Wastewater polluting power (BOD kt)



<sup>^</sup> 2009, 2010 and 2011 covered by KPMG's limited assurance scope.

<sup>15</sup> Global Beer includes breweries in Africa, Ireland, Jamaica and Seychelles

## Leading the way in Africa

**Globally Diageo has set a target for increasing water efficiency by 30% by 2015, and for those sites that are in water-stressed areas, the target is a 50% reduction in water wasted against a 2007 baseline. We were particularly pleased, therefore, that this year our East Africa Maltings plant in Kenya (EAML) achieved a gold GREENiQ medal for water conservation – the first in Africa and all the more significant because EAML is located in a water-stressed site.**

Through a combination of employee engagement, operational efficiencies and creative engineering projects, including an innovative water recovery system, the team at EAML, led by General Manager Mumbi Muiruri and supported by Safety Manager Sammy Mugo, has improved water efficiency by 36% since 2007. It now takes 6.4 litres of water to process 1kg of malted barley, as opposed to the previous figure of 10.5 litres<sup>15</sup>.

Commenting on their gold medal, David Randall, Supply Director Africa, said: 'This is a great achievement that should be an example to all our sites in Africa - particularly those that are in water-stressed areas. Water is an absolutely critical asset for our business so it is essential that we continue to invest in improving how we manage it. The GREENiQ medals have certainly helped encourage this step up in water performance and I know that East Africa Maltings have inspired other sites and individuals to rise to the challenge.'



Clearly the work doesn't end there. The EAML team has a number of other projects in the pipeline to improve water efficiency still further, including identifying investing in water metering and completing another water recovery project pipeline to improve water efficiency still further, including identifying investing in water metering and completing another water recovery project.

\* This number for water efficiency is outside the scope of KPMG's limited assurance

<sup>15</sup> All regions represent production sites, while 'corporate offices' represent the marketing, sales, and other demand-side functions

## Community involvement

**Our Water of Life programme, which aims to provide access to clean water, complements the work we do in our direct operations. We use our local knowledge and stakeholder partnerships to ensure that clean water is available where it really counts – to communities, households and individuals.**

We know that clean water is essential to sustainable development by contributing to improved health and education levels and the reduction of poverty. Our Water of Life programme (WOL) aims to provide safe drinking water to people in need. Since June 2006, we have launched WOL projects in 14 countries, mostly in Africa, supporting a range of initiatives including boreholes, hand-dug wells, rainwater harvesting and domestic filtration devices.

As well as providing access to clean water, the projects we support also aim to:

- Combine safe water provision with sanitation
- Educate people about good hygiene and sanitation
- Develop people's skills and communities' ownership
- Have self-financing elements to ensure the upkeep of equipment and technology.

### Performance against targets

Our aim to provide access to clean water to an additional 1 million people in Africa each year from 2007 to 2015 represents an important way in which Diageo Africa contributes to the UN Millennium Development Goal 7, target 1: To reduce by half the proportion of people in Africa without access to water and adequate sanitation.

This year, according to our partners, our Water of Life community projects should have enabled access to clean water to approximately

1 million additional people. To estimate these figures, we aim to assess the following criteria for each beneficiary. He or she should:

- Live within two kilometres of the water source, or 500 metres if in an urban area
- Be able to get his or her water from:
  - piped water into a dwelling, plot or yard
  - a public tap/standpipe
  - a tube well/borehole
  - a protected dug well
  - a protected spring
  - rainwater collection
  - water filtration and purification.

These parameters support our drive to establish and maintain high standards in providing water to our communities, and drive our measurement of the impact of projects. Efforts are underway to increase the quality of data on beneficiary numbers, as we continue to derive learnings and aim to further strengthen our sustainable impact in this key area. Please see the [About this report](#) for more details of how we estimate the number of beneficiaries of our programmes.

### Activity during the year

A number of initiatives across Africa have been put in place this year as part of Water of Life. Here is just a selection.

- **Guinness Ghana Breweries and the Ghanaian government** jointly commissioned a water project at Pobikorpe, a water-stressed area in the Ga West Municipality. Water of Life aims to provide access to clean water to over 160,000 Ghanaians across the country by the end of 2011.
- **Brandhouse and the Mbashe Water Project, South Africa:** in partnership with local NGO Mvula Trust, Diageo's marketing and distribution partner, brandhouse, provided a small-town water delivery system, comprising 13.5 kilometres of pipeline and 30 standpipes, to reach all the district's 6,000 inhabitants.
- **East Africa Breweries and Embu, Kenya:** in partnership with Ecotact (an NGO in Kenya), East Africa Breweries Limited (EABL) funded

a water and sanitation project in Embu, a community northeast of Nairobi. It will benefit around 45,000 residents and bring an end to the perennial water challenges facing this community. The project is part of EABL's commitment to ensure the sustainable development of communities in the region.

- **Arthur Guinness Fund CrystalPur Water Filters project, Ghana and Nigeria:** under the Water of Life Programme, the **Arthur Guinness Fund** is seed-funding a social enterprise project in Ghana and Nigeria to build a sustainable market for affordable household filters, called CrystalPur. The project will benefit over 210,000 people in both countries by August 2011, and will increase the entrepreneurial and training skills of many more. Targeted at low-income families whose main source of water is surface water, CrystalPur filters eliminate 99.99% of all waterborne bacteria and parasites, with no chemical or mechanical parts. The filters provide a point-of-use treatment, improving water quality in the household rather than at community level.
- **Yunnan, China:** while most of our WOL activity is in Africa, we have also been working on providing clean access to water in China for the last four years. Diageo's donations contributed to the development of 69 water cisterns in five villages helping an estimated 290 villagers. This year, Diageo employees visited the cisterns and planted greenery around the surrounding area.
- **India – a joint project with the Forum for Organised Resource Conservation and Enhancement (FORCE):** FORCE is a leading water conservation NGO. Together we built rainwater harvesting structures in Delhi so that groundwater could be replenished through 50 abandoned tubewells. We estimate that the project will provide 10,000–14,000 people with up to 40 million litres of clean water per year.

### Target by 2015

Improve access to safe drinking water for 8 million people in Africa

### This year's performance 2010–2011

Approximately 1 million people benefited

### Cumulative performance 2007–2011

Approximately 5 million people benefited

### Achievement

In progress

## Local access to clean water

Clean water meets a basic human need, but it is all too scarce in some parts of the world, particularly Africa, where Diageo has significant operations. Through our Water of Life programme we have been working to make sure that our presence – and use of the local water source – will make life better for local communities.

This is all the more significant when our operations are located in water-stressed areas like East Africa. In Kenya, our East African Breweries business has been lending its support to the Blocks of H2Ope project. Blocks of H2Ope builds sanitation blocks in some of the most deprived areas of Kenya, such as the informal townships just outside Nairobi. These sanitation blocks provide showers to the local inhabitants and thus stop the spread of waterborne diseases.

294,000 people have so far benefited from our 42 new blocks, which have been built at a cost of 92 million Kenyan shillings (584,248 GBP). And that's all been achieved in only two years of work.



## Collective action

We cannot achieve critical and stretching targets for increasing water access on our own. Partnerships and joint action are a key part of delivering our commitment. As such, we also seek to work with other organisations on the water access challenge, often taking the lead as a member of the UN Global Compact's CEO Mandate.

We are committed to helping achieve the UN Millennium Development Goal to reduce by half the proportion of people in Africa without access to water and adequate sanitation and are active members of UN and other initiatives aimed at initiatives designed to achieve this goal.

As a signatory of the UN Global Compact, Diageo has committed to provide clean drinking water to 1 million Africans each year through to 2015 – 8 million in total. Our chief executive Paul Walsh is a signatory of the CEO Water Mandate, which commits business leaders to take action in the development, implementation and disclosure of water sustainability policies and practices.

### Multi-stakeholder partnerships

We recognise that the challenges in addressing water poverty in the communities in which we operate can only be addressed through collaboration with others. We are members of the Beverage Industry Environmental Roundtable, a coalition of beverage industry companies and supporting partners that work together on a variety of environmental and stewardship initiatives, including water conservation and resource protection.

In 2010, we hosted a series of multi-stakeholder roundtables in partnership with the International Business Leaders' Forum to discuss how the private sector, government and other stakeholders could address the challenging topic of water scarcity. These were held across Africa (Cameroon, Ghana, Kenya, Nigeria and South Africa) and the themes and outcomes of the roundtables were then discussed at the UN Global Compact Leaders' Summit in New York. Two major findings surfaced, including the need for:

- **Strategic partnerships between businesses**, to improve water supply and delivery in their respective markets
- **Water business networks** made up of businesses concerned about water issues, and committed to making inputs and monitoring water strategies.

### Safe Water for Africa

Toward these goals, this year we announced a strategic partnership to provide sustainable access to safe drinking water in Africa with the World Bank's International Finance Corporation, the Coca-Cola Foundation and WaterHealth International (WHI) to launch the Safe Water for Africa (SWA) initiative. We and our partners have committed over US\$6 million in seed funding to deliver sustainable safe water access for communities across Ghana, Nigeria, and Liberia in 2011, with new country programmes expected in 2012 and beyond. The SWA partnership is a private sector-led initiative based on the use of an innovative, but most importantly self-sustaining, model of water provision. WHI already installs, operates, and maintains decentralised water treatment facilities – WaterHealth Centres – throughout the developing world. Using a combination of technologies, these centres treat local water sources to produce water that meets World Health Organization standards. This is available for a nominal usage fee, either on site or pumped to additional distribution points. We and our partners will continue to work together to provide financing and co-ordinated support on the ground.



## Environment



A note on water: given the global importance of water scarcity, this year we are treating water as an impact in its own right and only report the top-level performance in this section. The commentary can be found in the [water section](#). In practice of course the two areas are interdependent, and water is included in all our environmental policy-making and implementation.

“For us, sustainability is about being ready for the future – planning for how the world will be in 100 years. Climate change, water scarcity, limited resources and energy prices are all going to have an impact on our business. This is why we are taking decisive action now.” Paul Walsh, chief executive

---

### In this section:

- Executive summary – page 33
- Carbon emissions – page 34
- Waste – page 36
- Sustainable packaging – page 38
- Other environmental impacts – page 39

## Executive summary

Our vision is for all Diageo brands to be sourced sustainably, produced sustainably, delivered to the customer and consumer sustainably in packaging that has the smallest environmental footprint, and for all Diageo employees to work in sustainable buildings. Being a responsible steward of natural resources also makes a positive difference to our relationships with communities, customers, employees, investors and other stakeholders.

### Performance against targets

In each of our key environmental impact areas, we have set ongoing targets to achieve by 2015 against a baseline of our 2007 performance, with the exception of packaging for which the baseline was set in 2009. Our results are summarised in the tables below. Please see the relevant sections of 'Environment' for the commentary on each result, with the exception of the water results, which are covered in the [water section](#).

### Our approach

Our key environmental impacts are in the areas of greenhouse gas emissions, water management and pollution, waste to landfill, and packaging. Managing our environmental impacts and meeting our targets is a multi-faceted, ever-evolving challenge, but just like our wider approach to sustainability and

responsibility, we work towards the following consistent characteristics in our environmental management.

- **Business-focused:** efficient management of water, waste and carbon emissions also improves our profitability
- **Holistic:** not only do we drive our environmental agenda throughout the value chain, but where possible we deliver environmental improvements alongside our other sustainability and responsibility priorities in our operations and local communities.
- **Collaborative:** we seek collaborative relationships with other companies and organisations, such as the Beverage Industry Environmental Roundtable, to share best practice.
- **Embedded in our systems:** our Executive Environmental Working Group (EEWG) manages environmental issues at the top level of our business, sets our environmental policy, reviews environmental priorities regularly and ensures compliance is measured and monitored
- **Transparent:** we report our environmental performance both in terms of absolute impact and as measures relative to production, and restate prior-year data as necessary to give a more accurate representation of our performance.

### Highlights of the year

- **Green energy:** 52% of our electricity now comes from low-carbon sources.
- **Carbon Trust Standard:** Diageo achieved re-accreditation to the Carbon Trust Standard for our business in Scotland. This award

certifies that the business there has measured, managed and reduced its carbon footprint rather than off-setting emissions. This was driven in part by our investment in the Roseisle distillery, and the reduction in the use of heavy fuel oil and a kiln fan replacement at the Ord malting plant.

- **New facilities:** the formal opening of two new distilleries in St Croix, US Virgin Islands and Roseisle, Scotland represented a combined £150 million investment into the next generation of environmentally sustainable production facilities, aiming to reduce CO<sub>2</sub> emissions by 28,000 tonnes.
- **Ichon Korea:** this packaging plant met all its 2015 targets in 2011 – the first for Diageo.
- **GREENiQ in Africa:** two sites in Africa were granted GREENiQ awards (an internal commendation given to sites that meet environmental performance criteria). East Africa Maltings Ltd was awarded a GREENiQ Gold Medal for water and Isipingo in South Africa was granted a gold medal in the waste category. [Read more.](#)
- **Huntingwood, Australia:** this site achieved large decreases in carbon emissions when we replaced old air compressors with new oil-free energy efficient compressors. [Read more.](#)

### Operational targets

Target by 2015	This year's performance 2010–2011	Cumulative performance 2007–2011	Achievement
Reduce carbon dioxide emissions by 50%	Reduction of 7.1%. For more information <a href="#">click here</a> .	Reduction of 13.9%	In progress
Reduce water wasted at water-stressed sites by 50%	Reduction of 5.6%. For more information <a href="#">click here</a> .	Reduction of 9.0%	In progress
Improve water efficiency by 30%	Improvement of 3.0%. For more information <a href="#">click here</a> .	Improvement of 15.8%	In progress
Reduce the polluting power of wastewater by 60%, measured in biological oxygen demand (BOD)	Increase of 31.3%. For more information <a href="#">click here</a> .	Increase of 25.6%	Off track
Eliminate waste to landfill	Increase of 91.4%. For more information <a href="#">click here</a> .	Reduction of 44.7%	In progress

### Sustainable packaging targets

Target by 2015	This year's performance 2009–2011	Achievement
Reduce: average packaging weight by 10% <sup>16</sup>	Reduction of 3.3%. For more information <a href="#">click here</a> .	In progress
Reuse: increase average recycled content across all packaging to 42% <sup>17</sup>	No change, at 35.0%. For more information <a href="#">click here</a> .	In progress
Reuse/recycle: make all packaging 100% recyclable or reusable <sup>18</sup>	Increased by 0.3% to 98.0% recyclable or reusable. For more information <a href="#">click here</a> .	In progress

<sup>16, 17, 18</sup> Performance data only available against baseline year of 2009.

## Outlook

Over the course of the next year, we will continue to work towards our key targets with a particular focus on integrating our sustainability efforts into the business – whether through packaging innovation with the marketing team, GREENiQ programmes with our office employees, or agricultural guidelines with our suppliers. While all of our environmental targets are important, we are putting extra efforts into our water programmes, particularly at water-stressed sites.

## Reviewing our targets

In 2008 Diageo set environmental targets based on baseline data from the year ended 30 June 2007 with the aim of achieving these targets by the end of the calendar year 2015. Since setting these targets and reporting our performance against them, as necessary we have included acquisitions and reset our 2007 baseline data in accordance with GRI guidelines. Until this year these acquisitions were relatively minor in terms of our overall impact on the environment, typically less than 5%. However, in

2011 we announced our intention to buy several larger businesses. We will therefore review the implications of these proposed acquisitions for our Environmental Reporting Guidelines in terms of the total volume of production and overall impact on the environment. This review may lead us to re-frame the targets. If we do need to re-frame the targets, we will consult with key external stakeholders on how we should do so, and confirm the new approach in our Sustainability & Responsibility Report 2012.

## GREENiQ: harnessing employee power

**Since we created our 2015 targets in 2007, we've been working hard to minimise our operations' environmental impact. Targeting the obvious things can be straightforward. But to find opportunities to address our other impacts we need the knowledge and ideas of those who know the business best – the people on the ground in our operations.**

This is where our employee programme GREENiQ comes in. GREENiQ encourages employees to act as environmental champions, as members of their site's 'green team', with an awards programme for the best environmental initiatives. These work along 'Olympic medal' lines – from bronze for programmes such as setting environmental targets, to gold, for achievements such as sending no waste to landfill.

The first winners were announced in August 2010. More than 80 medals were awarded, including 32 golds, to sites across the world, including Shanghai, London, Buenos Aires, Budapest, Dublin and Menstrie in Scotland. Each winner was awarded £15,000 to invest in a new environmental initiative of their choice.

The GREENiQ management team are building on the great enthusiasm generated by the 2010 awards, by launching a new platinum category. This rewards gold medal sites that help another facility start a green team. It's a great way for two sites in different parts of the world to team up, share experiences and spread best



environmental practice. Although the scheme is in its early stages, eight platinum pairs have formed already, linking sites from Europe and North America with Asia and Africa.

'Reducing our environmental impacts is a serious issue, but to engage colleagues we wanted to make it fun as well as worthwhile,' says Fergal Reilly, Environmental Co-ordinator Facilities. 'Our business is about celebration and we try to bring that into everything we do. GREENiQ works so well I think because we tap into our people's sense of community – and their competitive spirit!'

## Carbon emissions

Currently, most of our energy comes from fossil fuels. Not only are these a non-renewable energy source, but their use produces greenhouse gases that are the main contributor to climate change. This has far-reaching consequences, not only threatening our supply of raw materials, but affecting the health and economic wellbeing of our communities.

While our business has a smaller carbon footprint than many global consumer products companies, it is still energy intensive. We use

energy to brew beer, distil spirits and make wine. Our suppliers use it to make bottles and packaging, transport raw materials to our sites and deliver the finished product to our customers. With this environmental challenge, together with rising energy prices, increasing regulation of carbon emissions and concerns about energy security, we have both a responsibility and a commercial imperative to reduce our carbon emissions.

### Performance against targets

Since 2007, we have reduced carbon emissions by 13.9%. This includes a 7.1% reduction in the past year from 744 ktCO<sub>2</sub>e last year to 691 ktCO<sub>2</sub>e against a backdrop of increased production during the same period.

This improvement includes reductions both in Scope 1 (direct emissions), which reduced

by 3% in the past year, and in Scope 2 (indirect emissions from purchased energy), which reduced by almost 26%. Performance was driven in part by our continuing investment in energy efficiency projects within our operations, including new brewing equipment in Ogba, Nigeria; utility plant optimisation at the Red Stripe brewery in Jamaica; installation of energy efficient compressors at Huntingwood, Australia; and, where available, greater use of low-carbon energy sources globally.

Target by  
2015

Reduce carbon dioxide emissions by 50%\*

This year's performance  
2010–2011

Reduction of 7.1%

Cumulative performance  
2007–2011

Reduction of 13.9%

Achievement

In progress

## Our programme and highlights of the year

We reduce our energy use, and therefore carbon emissions, in three main ways:

- Improving energy efficiency at our sites
- Generating renewable energy at our sites
- Buying electricity from renewable or low-carbon sources.

### 1. Improving energy efficiency at our sites

Our projects this year to reduce carbon emissions included:

- **Ogba, Nigeria:** a new brewhouse, which included a number of energy and carbon dioxide reduction initiatives, including heat recovery from the brewhouse.
- **Red Stripe, Jamaica:** we reduced generation plant running time to save 182,000 litres of fuel.
- **Huntingwood, Australia:** we replaced an air compressor which delivered a 45% reduction in the energy used compared with old systems. [Read more.](#)
- **St James Gate, Dublin:** Beer Packaging at Dundalk and Kilkenny was consolidated into St James Gate resulting in a more efficient packaging network in Ireland where energy ratios have been maintained while absolute greenhouse gas emissions have been reduced.
- **Illinois, USA:** we have reduced absolute carbon emissions by 62% between 2007 and 2011, despite an 18% increase in production by installing more efficient boilers, improving the compressed air system and making better use of natural light.
- **Offices:** In addition to our production sites, our offices have worked to improve efficiencies. For example this year, Diageo's Madrid and Chicago offices both received Gold LEED (Leadership in Energy and Environmental Design) certification.

### 2. Generating renewable energy at our sites

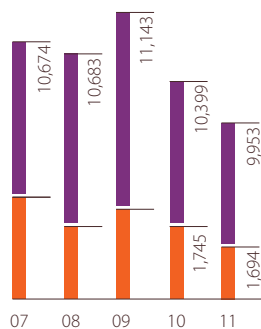
We introduced new sustainable production facilities such as bio-energy plants at our Roseisle distillery in Scotland and at our new St Croix rum distillery in the US Virgin Islands, which generate renewable energy from the by-products of production, and were constructed in accordance with leading energy and environmental design certification principles. Through the investment in renewable energy at St Croix we plan to avoid producing 15,000 tonnes of carbon per year, and at Roseisle, 13,000.

### 3. Buying electricity from renewable or low-carbon sources

This year we secured new supply arrangements so that now over 50% of all the electricity Diageo uses globally is guaranteed to come from low-carbon sources such as wind, hydro and nuclear. In the UK almost 100% of our electricity is now from low-carbon sources. Overall this will mean a reduction in Diageo's carbon emissions of 35,000 tonnes each year.

## Carbon emission data

### Sources of energy (TJ)^



■ Indirect energy use  
■ Direct energy use

2007 total: 12,590  
2008 total: 12,533  
2009 total: 12,875  
2010 total: 12,144  
2011 total: 11,647

### Direct and indirect carbon emission by weight



■ Indirect energy use  
■ Direct energy use

2007 total: 802  
2008 total: 840  
2009 total: 775  
2010 total: 744  
2011 total: 691

### Producing less carbon from transport

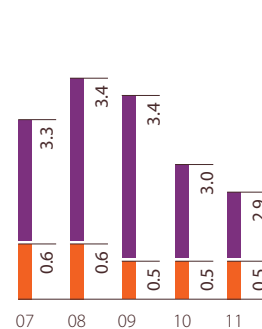
Although our carbon emissions target relates to production, we're also committed to reducing the carbon emissions associated with the distribution of our products. Our distribution footprint includes delivering raw materials and packaging to our sites, and delivering our products to market, by air, land and sea.

It is difficult to apply consistent best practice between regions, since much depends on the local infrastructure – for example good rail systems. So distribution has to be managed regionally, which makes measuring and monitoring our global distribution carbon footprint a challenging task.

We estimate that the carbon emissions from Diageo's worldwide distribution of finished goods is approximately 400,000 tonnes.

The following is a regional breakdown of these estimated emissions. Estimated CO<sub>2</sub> emissions from distribution of finished goods in 2011 by region (tonnes)

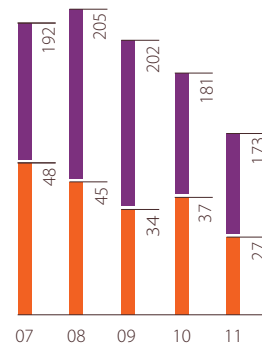
### Energy efficiency (MJ/litre packaged)^



■ Indirect energy use (MJ/L)  
■ Direct energy use (MJ/L)

2007 total: 3.9  
2008 total: 4.0  
2009 total: 3.9  
2010 total: 3.6  
2011 total: 3.4

### Direct and indirect carbon emission efficiency (CO<sub>2</sub>e g/litre)



■ Indirect energy use  
■ Direct energy use

2007 total: 240  
2008 total: 249  
2009 total: 236  
2010 total: 218  
2011 total: 201

The two most significant footprints within this total are emissions that result from finished goods distribution within North America and those from ocean freight travelling from the UK and Ireland to other markets around the world.

To date, our focus on reducing carbon emissions from distribution has been largely in North America where we have:

- Used rail rather than road where possible
- Used alternative fuels, such as compressed natural gas
- Stopped vehicles from 'idling' at our sites
- Encouraged innovation through our Johnnie Walker Green Award, which recognises environmental best practice by our distributors
- Required distributors to be SmartWay-certified. SmartWay is a scheme that identifies cleaner, more efficient methods of transport. In the three years we have been a member, we have demonstrated leadership in energy-efficient shipping in the US.

## Outlook

Over the course of the next year, we expect to launch or continue around 80 energy efficiency initiatives including projects on insulation on cookers and stills, bio-fuel mix optimisation and energy optimisations in brew houses in Nigeria. In the future, we expect capital investments at new sustainable sites such as Roseisle and St Croix to avoid producing up to 28,000 tonnes of carbon dioxide emissions a year, and we will start commissioning our new bioenergy plant at Cameronbridge distillery. But to halve our

emissions by 2015 we need to make more rapid progress, and apply the substantial knowledge and best practice insights we have gained to other parts of the business. With the majority of our impact coming from our operations in Europe and in Global Beer, we must pay particular attention to these areas in the coming years.

This cannot be a purely top-down effort. To make incremental energy saving changes in our daily global operations, which together add up to significant carbon reductions, we

are also engaging our employees through programmes like **GREENIQ**.

Currently, most of our energy comes from fossil fuels. Not only are these a non-renewable energy source, but their use produces greenhouse gases that are the main contributor to climate change. This has far-reaching consequences, not only threatening our supply of raw materials, but affecting the health and economic wellbeing of our communities.

Region	Emissions tonnes CO <sub>2</sub> (estimated)
Europe	21,000
Asia Pacific	27,000
Africa	70,000
Ocean freight from UK and Ireland	155,000
North America	127,000

## Compressed air at Huntingwood

Last year, Diageo's Huntingwood bottling plant in Australia accounted for nearly half of our greenhouse gas emissions in the Asia-Pacific region. Bottling requires compressed air, and compressed air requires energy-hungry air compressors, so the opportunities for improvements lay in both the demand side and the supply side. Could we use less compressed air, and could we compress that air more efficiently?

We developed a project to look into both sides of the issue, and the solution was found in a new kind of variable-power compressor that can adjust minutely to the plant's demands, thus avoiding wasting power. The new compressor is also oil-free, which is clearly a benefit.

Other ideas were also implemented. For example, by expanding the size of the refrigerated air dryers, our technicians found that they were able to increase efficiency due to the higher surface area that allowed for greater heat exchange.

In total the project reduced the air compression energy requirements by 45%, and generated an 'energy saving credit', which was sold to a local power station to help offset its carbon emissions. And it's still ongoing. A plan to use the excess heat generated from the compressor to warm water is just one of the ways that the Huntingwood plant can become yet more efficient, greener, and more profitable.



## Waste

Waste is produced throughout the lifecycle of our products. While this presents challenges, reducing or reusing waste can offer opportunities for commercial or cost-saving applications.

Landfills have a variety of negative impacts on the environment, ranging from groundwater and surface contamination to biodiversity impacts and the emission of methane, a greenhouse gas. Landfills also affect local communities and are a cost to our business, both directly and in terms of transport and tax.

For these reasons we are committed to eliminating the waste we send to landfill, partly by reducing and reusing our waste in the first place. We focus on reducing waste sent to

landfill from our operations, and on designing packaging that our customers can easily recycle. Our waste reduction effort is supported by our GREENIQ employee engagement programme.

### Performance against targets

While we are nearly halfway to our 2015 target, progress slowed considerably this year, with our waste to landfill actually increasing from 13.1kt to 25.1kt. In 2011 we found that certain agricultural by-products from brewing in Nigeria, such as brewer's yeast and kieselguhr, were being routed to landfill without being recorded, while in previous years this had been recorded. This accounted for over 95% of the increase this year. We have now improved local data management and have plans to reduce significantly the quantity of waste to landfill in

2012, in line with the improvements made at many other sites in 2011. In many regions our performance has improved and in 2011 there were 14 sites sending no waste to landfill.

### Types of non-hazardous waste

Our key waste streams include:

- **Organic matter** left over from the brewing and distillation process. This is our largest by-product. It consists mainly of draff – the husk residue left when grain has been mashed – and yeast. Generally this waste is converted into animal feed or compost, but it also offers opportunities as a renewable fuel source. Our Roseisle distillery in Scotland, for example, uses draff as a biomass fuel to produce steam for distillation.

- **Kieselguhr** is a naturally-occurring soft rock that is used for filtration and cannot be reused. In Nigeria we have invested in cross-filtration technology which would eliminate the need for kieselguhr. If successful, we will pursue this technology elsewhere.
- **Labels from returnable bottles.** While the glass gets reused, the labels are soaked off and create a heavy pulp that is difficult to dry and dispose of. We are exploring ways of reusing this pulp.

Other waste streams include:

- Damaged packaging
- Sludge from wastewater treatment
- Boiler ash
- Office waste.

We recycle this where possible and where facilities exist, and are looking for ways to reduce our overall waste generation. For materials that can't be recycled, we look for alternatives and opportunities for reuse.

### Performance against targets

Target by 2015	This year's performance 2010–2011	Cumulative performance 2007–2011	Achievement
Eliminate waste to landfill	Increase of 91.4%	Reduction of 44.7%	In progress

### Waste data

Total weight of waste by type and disposal (tonnes)

Waste by regions* (tonnes)	Reused or recycled	Waste sent to landfill	Total solid output
Europe	90,953	523	216,493
Asia Pacific	21,223	1	52,194
Global Beer	132,451	22,211	210,709
Americas	14,763	431	15,392
Corporate 'sites'	35,518	1,967	37,524
Total	294,909	25,133	532,312

\* all regions represent the waste from production sites, with the exception of 'corporate sites' which represent marketing, sales, and other areas of the business such as The Gleneagles Hotel.

### Types of hazardous waste

Some of our processes employ hazardous materials – such as oils, acids and bases – which are disposed of through the use of specialist contractors. Our use of these materials is subject to government regulations and environmental consents, and it is a top priority for us to act within the terms of these consents.

The majority of hazardous waste, 96%, is reused or recycled in our manufacturing and 4% this year was disposed into landfill. We are also reviewing our packaging to identify materials that potentially pose risk to the environment, such as inks and heavy metals, and removing them where viable alternatives exist. Please see the [sustainable packaging](#) section for more information.

### Highlights of the year

- **Plainfield, Illinois:** a particular success story is this packaging site, which now sends no waste to landfill. We expanded our already extensive recycling programme to include

sending spent seeds and berries from gin production to a local composting site, eliminating the final 200 tonnes per year to landfill.

- **Isipingo, South Africa:** this blending and packaging site in South Africa has reduced waste sent to landfill considerably from 7 tonnes of waste a month to 2.1 tonnes. To find out more, read the case study [Isipingo goes green](#).
- **'Lightweighting':** another way we are reducing waste is by lightening the weight of packaging, or removing materials from our packaging. We use a number of approaches to 'lightweight' our products, for example replacing glass with PET (plastic) or using less glass.

## Isipingo goes green

**Diageo's target is to reduce waste to landfill to zero by 2015. To help us achieve this ambitious goal, our GREENiQ awards that reward sites for environmental improvements included a category for waste. One of this year's gold award winners was Isipingo, a blending and packaging site in South Africa with over 200 employees.**

From producing 7 tonnes of waste per month, Isipingo now produces just 2.1, while its ratio of waste to litre of product went from 2.47 g/l in October 2008 to just 0.35 g/l in September 2010. The methods they employed were

simple, replicable and effective. The site worked closely with a new waste contractor and introduced the following:

- Colour-coded bins to help segregate waste
- A dedicated site operative to manage skips and segregation
- A capex project that reduced food waste, identified as a major source of landfill waste
- Encouragement of canteen suppliers to use recyclable materials
- Environmental key performance indicators built into every employee's objectives.

But this is only the beginning. Isipingo is continuing to look at the waste hierarchy and how to reduce, reuse and recycle where possible, as well as reviewing new technologies for reducing waste.

Commenting on Isipingo's gold medal, David Gosnell, President Global Supply & Procurement, said: 'This is a great achievement that should be an example to all our sites



globally. As Diageo continues its journey towards ever improving environmental performance, it is hugely encouraging to see the team at Isipingo achieve such great results and I'd like to congratulate everyone involved. But clearly we can't stop here – the team at Isipingo should continue their journey towards sustainable, low-carbon practices and their gold medal should inspire other sites and individuals to rise to the challenge.'

## Sustainable packaging

Packaging is vital in delivering and protecting our product, and is an important aspect of how our consumers experience our brands. Packaging has an environmental impact throughout its life – from supplier through to customer and consumer. Our vision is to manage and reduce the impact of our packaging at every stage.

### Performance against targets

We have developed our programme to 1) reduce the amount of material and energy we use, 2) evaluate how materials can be reused as part of our packaging and 3) help ensure our consumers can recycle our products later in their lifecycle.

The table below sets out these 2015 targets, against a 2009 baseline. As this is the first time we are reporting on them, only cumulative performance since the baseline year is available. Commentary on each target follows.

#### 1. Reduce average packaging weight by 10%

Since 2009 we have reduced packaging weight by 3.3%.

'Lightweighting', or reducing the weight of our packaging, saves valuable resources. Moreover, with lighter packaging we can improve fuel efficiency, reduce carbon emissions during transport and reduce waste.

The following are a number of examples of how we have lightweighted our products:

- Lightening the Smirnoff Ice bottle in Brazil by 17.5% saved 2,500 tonnes of glass
- Using less glass to bottle Harp in Nigeria is saving 2,400 tonnes of packaging per year
- Reducing the thickness of beer bottle caps in South Africa from 0.23 millimetres to 0.20 saves 100 tonnes of steel annually as well as reducing carbon emissions.

#### Read more.

By applying these approaches across our brands we aim to achieve our target and ultimately our vision of packaging all our products sustainably.

#### 2. Reuse: increase the average recycled content of our packaging to 42%

The average recycled content in our packaging currently stands at 35%, and our aim is to increase this by 20% over the period to 2015. Our focus is on North America, where only 26% of the glass in our bottles is made from recycled material. The challenge here is that we are limited by the availability of recycled materials such as cullet glass (glass that is crushed and ready to be re melted). We are working with major glass manufacturers and customers to encourage recycling.

In Africa, we use returnable bottles for 12 of our brands. Each bottle is cleaned and reused on average 12–15 times.

#### 3. Recycle: make all packaging 100% recyclable or reusable

Once our customers and consumers have bought our product, one of the most significant environmental impacts is the packaging going to landfill. To make it easier for consumers to dispose of the packaging responsibly, we aim to make it 100% recyclable. We aim to remove all materials that cannot be, or are difficult to recycle, including PVC, foil, mixed plastics, ceramics and some laminates.

In 2011 we removed 2,650 tonnes of packaging that are difficult to reuse, so 98% of all our packaging is now fully recyclable. This programme will continue in 2012, as we find viable alternatives for specific packaging components.

Where possible, we eliminate materials that are harmful to the environment. We are reviewing our packaging to identify, and where possible remove, such materials, for example PVC and mixed plastics. In each case we consider the amount of the harmful material used, its environmental impact and the alternatives available.

### Our approach

We define sustainable packaging as packaging designed with the lowest possible environmental footprint that retains its core functions of protecting, delivering and presenting our products and brands. Our Sustainable Packaging Guidelines help us to

create more sustainable packaging, with the support of our suppliers who design and produce it. We are focusing on where we can make the biggest difference – with our most popular brands. We sell more than 100 million bottles of some of our high-volume brands each year, so even a small change to this packaging can make a big difference.

To manage performance, we have established a sustainable packaging framework, implementation plan and targets and a sustainable packaging team is working to implement this across Diageo. Our approach is based on systematically assessing the impact our products have on the environment and applying our three design principles:

- We optimise packaging material use to derive the smallest possible environmental footprint where practical
- We design packaging with full consideration to the whole lifecycle – cradle to cradle
- We use leading-edge technologies and design techniques where practical to minimise packaging materials and optimise the use of recyclable materials.

### Meeting packaging challenges

Regulations and best practice around packaging are constantly evolving. To ensure we keep up with changes, we review regulatory change every quarter, benchmark ourselves against other similar companies, and monitor progress and initiatives across our business.

Another key challenge is to balance sustainability with maintaining our brand equity. Our brands are valuable – some have taken over a decade to produce. So while lightweighting packaging is often the right thing to do, we prefer to consider 'rightweighting'. This way we don't, for example, increase the number of breakages in transport because the packaging is too fragile. And we avoid disappointing customers and consumers with packaging that does not feel 'valuable' enough for a premium product. If our packaging can have a second life and be reused we may even consider 'heavyweighting'. Our vision is to have packaging that is both premium and sustainable.

Target by 2015	This year's performance 2010–2011	Cumulative performance 2007–2011	Achievement
1. Reduce: average packaging weight by 10%	Reduction of 3.3%		In progress
2. Reuse: increase average recycled content across all packaging to 42%	No change, at 35.0%		In progress
3. Reuse/recycle: make all packaging 100% recyclable or reusable	Increased by 0.3% to 98.0% recyclable or reusable		In progress

## Small change, big difference

The average consumer does not notice when the thickness of the metal cap on their bottle of beer is reduced by three hundredths of a millimetre. But to a company that produces millions of bottles every year, it makes a big difference. To Diageo, that tiny reduction represents 100 tonnes of steel annually – plus a reduction in carbon emissions as a result of reduced transportation.

Over the last six months, designers at Diageo have been perfecting a slightly lighter bottle cap for our beers. The reduction is miniscule from a consumer's perspective – the weight of the caps have gone from 2.1g to 2.0g and the thickness has been reduced from 0.23 millimetres to 0.20. Indeed, the main focus of the engineers involved was in making the new caps as effective as the old ones.

Tests were performed to check up on the freshness of the beer and the durability of the new caps before they were rolled out across several African markets. A lining was added and the result has proved remarkably successful.

As well as saving money on raw materials, it has been calculated that this will produce environmental benefits. When multiplied out across Diageo's whole business this unnoticeable reduction in the weight of an individual bottle will produce a noticeable reduction in the use of fuel in transportation, and thus emissions of greenhouse gases.



## Other environmental impacts

While we have reported on our most significant environmental impacts such as greenhouse gas emissions, water use and waste in other sections of this report, our operations do generate other potential environmental impacts. Here is a summary of them.

### Ozone-depleting emissions other than carbon dioxide

Besides carbon dioxide, our manufacturing sites emit certain ozone depleting substances that we track and aim to minimise. We have made progress in eliminating many of these and replacing them with less hazardous substances.

- **Halons:** this year we reached our goal of eliminating all ozone-depleting halons present in fire extinguishing equipment at our manufacturing sites
- **CFCs:** we have also successfully removed these ozone-depleting substances from our operations this year
- **HCFCs:** used as a replacement for CFCs, HCFCs are present in our air conditioning and refrigeration units; the total amount present this year was 15,635kg, of which 144kg were emitted.

### Other air emissions

Where appropriate we also measure other emissions that can have harmful impacts. Through the use of fuels at some of our sites, we emit nitrous oxides and sulphur dioxides which cause acid rain. In 2011, we emitted 0.9 kilotonnes (kt) (2010: 1.2kt) of nitrous oxides and 1.3kt (2010: 1.3kt) of sulphur dioxides. When spirits are maturing, some of the alcohol from the barrels evaporates, which is essential to create the desired flavour. However, alcohol is water-soluble and biodegradable, and much of the vapour is removed from the air by rain.

### Spills and other incidents

There were no incidents of non-compliance with environmental consents during the reporting year. However, we had one incident of non-compliance from the prior year which incurred a fine this year. This incident involved non-compliance with an air permit at one of our facilities in the US from 2010. We incurred a fine of US\$40,000 (£25,696) by the local regulatory body.

There were 16 (2010: 21) spills or other incidents during the reporting year, totalling approximately 219,000 litres of spilled material, primarily alcohol. All spills were dealt with swiftly and, as of 30 June, 2011, we had received no fines in relation to these incidents.

### Biodiversity

Diageo recognises that each species, no matter how small, has an important role to play in supporting the ecosystem we and our communities rely on. While we have no operations located within protected areas, 22 of our 106 production sites are located adjacent to areas designated as having biodiversity value by the United Nations or national conservation lists. This amounts to approximately 21.8 km<sup>2</sup> at, or near, areas that include:

- Pinnacles National Monument in San Benito County, California, USA located adjacent to our winery in the town of Paicines. This area is a release site for the Californian condor (*gymnogyps californianus* – [www.iucnredlist.org/apps/redlist/details/144771/0](http://www.iucnredlist.org/apps/redlist/details/144771/0)) which is listed on the International Union for Conservation of Nature's (IUCN) Red List of Threatened Species.
- St Croix, US Virgin Islands, is home to the St Croix ground lizard (*ameiva polops* – [www.iucnredlist.org/apps/redlist/details/1118/0](http://www.iucnredlist.org/apps/redlist/details/1118/0)), another IUCN critically endangered species. Our Captain Morgan distillery is located on St Croix.

- The Parkfoot Marsh Wildlife Site and the River Spey in Scotland are protected areas located adjacent to several of our malt distilleries.

We aim to protect local biodiversity through our environmental targets, most notably on the polluting power of our effluent.

Beyond our operations, we set out what we expect of suppliers in relation to biodiversity in our Sustainable Agricultural Sourcing Guidelines ([http://ccreport2010.diageoreports.com/media/3689/Agricultural\\_Sourcing\\_Guidelines\\_v0.13.pdf](http://ccreport2010.diageoreports.com/media/3689/Agricultural_Sourcing_Guidelines_v0.13.pdf)).

### Genetically modified organisms (GMOs)

Public acceptance of GMOs differs sharply between nations, and scientific knowledge and public opinion continue to evolve. We believe that scientific advances in this area must be guided by the government agencies responsible for public health and the environment.

Generally speaking we aim to use non-genetically modified materials. We have a strict non-genetically modified policy for the European domestic and duty-free markets, and we aim not to use modified materials in Asia Pacific or Africa. So all products imported from Europe, Africa and Asia Pacific will neither contain nor have GMOs. However, this policy cannot be applied in the US and Canada where over 85% of all crops are genetically modified. Diageo complies with all local labelling legislation, including any requirement for the labelling of products which contain GMO's. The consumer is at the heart of everything we do. We are therefore committed to ensuring our consumers have the information they need to make choices about our products. We will continue to monitor and respond to scientific and regulatory developments, as well as to consumer attitudes, and review our policy regularly.



## Community



In this section, we primarily discuss our direct investments in communities. Note however that our flagship programme, Water of Life, which aims to address water poverty in our local communities, is reported separately in the Water section. Also the wider economic and social impacts of our business operations – such as our work on alcohol in society, and partnerships with consumers, customers and suppliers – can be found in their various sections.

---

### In this section:

- Executive summary – page 41
- Economic impact – page 42
- Skills and capacity building – page 44
- Social entrepreneurship – page 45
- Disaster relief – page 45
- Employee-led activities – page 46

## Executive summary

We aim to contribute to sustainable development through our operations, community investment and collaboration with our stakeholders. We are proud of our role in enabling the development of local economies, and improving life for many people around the world.

### Performance against targets

Our results are summarised in the table below. Please see the relevant sections for the commentary on each result.

### Our approach

Our approach to community development isn't limited to our investment programmes, but is driven by the way we do business – from our local hiring practices and procurement relationships, to our environmental programmes, to how we approach the use and misuse of alcohol in society. This is because we recognise that our impact on sustainable development is greatest when we engage our entire value chain.

The key investment projects we take on aim to engage those in our value chain from suppliers to customers. For example, while we work to build local talent in our own company, and partner with local suppliers in our supply chain, our Learning for Life employment training programme separately helps contribute to job creation in our local communities. This combination of our operations and community investment helps us create the conditions necessary for our business, and our communities, to thrive.

At the heart of this work is our commitment to engage and involve our stakeholders to identify how best we can contribute. Certainly one important stakeholder group is our own employees, and we aim to involve them – whether helping them to organise volunteer events in their own communities or facilitating their charitable donations via our [Giving for Good](#) website.

### Community investment

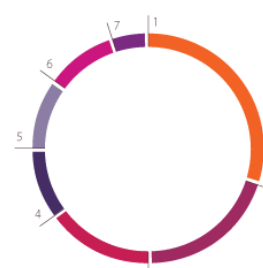
Our range of programmes has been established over many years, in response to pressing needs identified by our communities. They aim to continue to build on the legacy of the founders of our brands such as Guinness and Johnnie Walker who believed in building healthy local communities through active philanthropy that addressed local needs and sustained their businesses.

This year we invested about £28 million, which amounts to 1.1% of our operating profit excluding exceptional items. The key areas our investment focused on included:

- **Responsible drinking:** our programmes and practices in place to address alcohol misuse. [Read more.](#)
- **Skills for life:** our programme in Latin America and the Caribbean that provides job preparation and skills training. [Read more.](#)
- **Water of Life:** our programme primarily in Africa that aims to enable local communities to gain access to water. [Read more.](#)
- **Brand-led initiatives:** cause-related activities which link a brand to a charity or cause.
- **Local citizens:** the contributions of our local businesses towards community projects in their area.

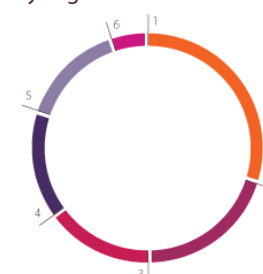
Of this investment, the Diageo Foundation contributed £1.1 million through 15 grants. The Foundation is a registered charity funded by, though independent of, Diageo. It focuses on areas of humanitarian need primarily in developing countries in Africa, Latin America, Asia and Eastern Europe. Since its inception in 1992, the Foundation has worked in partnership with our local businesses, employees and third parties to launch numerous community programmes.

### Community Investment by Focus Area<sup>20</sup>



- 1 Local citizens – 13,470,915
- 2 Responsible drinking – 6,360,297
- 3 Skills for Life – 3,370,732
- 4 Brand led initiatives – 1,828,127
- 5 Water for life – 1,289,871
- 6 Other – 1,107,305
- 7 Management costs – 563,200

### Community Investment by Region<sup>21</sup>



- 1 Europe – 13,676,602
- 2 Asia Pacific – 5,200,564
- 3 North America – 3,300,864
- 4 Latin America – 3,059,752
- 5 Africa – 2,559,275
- 6 Global Travel and Middle East – 193,390

### Target by 2011

Contribute 1% of operating profit<sup>19</sup> to charitable causes every year

### This year's performance 2010–2011

Contributed 1.1%. For more information [click here.](#)

### Achievement

Achieved

### by 2011

Train 50,000 people through the Learning for Life programme worldwide, against a 2009 baseline.

### 2010–2011

25,544 people trained. For more information [click here.](#)

### 2009–2011

50,999 people trained

### 2009–2011

Achieved

<sup>19</sup>After exceptional items.

<sup>20</sup>Note that investment shown for Local Citizens includes £7.7m (2010: £7.4m) to the Thalidomide Trust and £3.0m (2010: nil) to the Thalidomide Foundation Ltd in Australia in support of a legacy commitment. Thalidomide is a drug which was distributed in the UK, Australia, New Zealand by the pharmaceutical subsidiary of the Distillers Company Limited (DCL). It was withdrawn after side-effects of the drug on unborn children were discovered. In 1986, Guinness acquired DCL and in 1997 merged with Grand Metropolitan to become Diageo. We are working voluntarily with thalidomide organisations, including making contributions to The Thalidomide Trust in the UK and to The Thalidomide Australia Fixed Trust in Australia.

<sup>21</sup>Investment shown for Europe includes 7.7m (2010: £7.4m) to the Thalidomide Trust in the UK and investment shown for Asia Pacific includes £3.0m (2010: nil) to the Thalidomide Foundation Ltd in Australia.

## Highlights of the year

- **Tanzania partnership:** Diageo was one of a small number of leading companies to join the Southern Agricultural Growth Corridor of Tanzania initiative launched at the World Economic Forum in 2010. This partnership between the Tanzanian government and leading development organisations and businesses aims to catalyse private investment to support agricultural growth along an infrastructural 'backbone' between Malawi, Zambia and the Democratic Republic of the Congo, to the port of Dar Es Salaam.
- **Arthur Guinness Fund:** the Arthur Guinness Fund signed a three-year partnership with Ashoka, a leading association of social entrepreneurs, to help them deliver a €3 (£2.6) million project to identify, fund and support 30 innovative social entrepreneurs from around the world. Additionally, in Ireland, it awarded €650,000 (£568,000) to social entrepreneurs.
- **One Million Trees:** Diageo and the Diageo Foundation invested £450,000 in this two-year project to plant one million trees in Lebanon. [Read more.](#)
- **Learning for Life** won the Corporate Citizen of the Americas award, in the Education category, presented by the Organization of American States.

## Outlook

To further our aim of taking a more holistic approach to community development, we aim to measure more accurately the impact we have, not only through our community investments but also through our local talent development, sourcing, tax contributions, public policy and other local activities.

## Economic impact

Sustainable local development is good for business. It increases the likelihood that suppliers and customers will provide high quality goods and services, and that consumers worldwide will choose our products. This in turn builds a business that is both inherently inclusive and attractive to investors.

### Our approach

We have a commercial, strategic and ethical interest in contributing to sustainable local development. Our aspiration is to support our communities through our operations, investment, community projects and stakeholder partnerships. We do so by:

- Providing local jobs
- Building local talent and leadership
- Fostering an enterprise culture throughout our value chain
- Sourcing whenever possible from local businesses
- Maintaining high standards of governance
- Addressing local concerns through community investment programmes
- Paying local duties and taxes
- Creating wealth for shareholders on local stock exchanges.

While this impact is worldwide, it is particularly important in emerging markets<sup>22</sup> which now represent just over a third of our business. In these markets, we work to contribute to the UN's Millennium Development Goals to combat poverty and help build sustainable communities. We do this by engaging low-income segments where possible through employment and collaborating with local suppliers and service providers to help them increase their own business efficiencies. This is what we call an 'inclusive business model' – finding constructive ways to engage our local stakeholders in our value chain.

### Stakeholder engagement and collective action

Of course, governments and other stakeholders have a major influence on local social and economic stability. So a key piece of our strategy is to work collectively with local governments, businesses, industry groups and other organisations on issues of mutual concern, such as water and alcohol policy. For example, in February 2011, Guinness Cameroun led an initiative to establish the Business Coalition against Corruption in Cameroon. The group consists of private companies and public sector organisations, working in partnership with Transparency International (TI) and the Cameroon government, to create the stability necessary for enterprise growth. [Read more.](#)

### Our economic contribution

There are many ways in which our business adds economic value. The cash value added diagram below illustrates our total cash contribution to the global economy and how our revenue flows to many stakeholder groups in our value chain.

#### 1. Governments

Every year, our tax contribution accounts for a significant proportion of the value we contribute to economies around the world. Our tax footprint is made up of direct and indirect tax payments. Direct taxes include corporation tax, local business taxes and excise duties on our sales, as well as other sales taxes such as VAT. Indirect taxes include, for example the payment of income and corporate taxes by our employees and suppliers. [Read more.](#)

#### 2. Suppliers

We buy raw materials, packaging materials, logistics and transportation, marketing materials, advertising and information services and business support from approximately 30,000 suppliers. Where possible and economically appropriate, we source locally to support local farmers, communities and economies. In Africa, we aim to source 65% of our raw materials from the region by 2015. At the moment, we work with approximately 100,000 farmers across the continent and source 57% of our raw materials locally. [Read more.](#)

#### 3. Retained for growth

We are always looking for opportunities that fit with our business – whether new innovation, new partnerships or new acquisitions. These opportunities for growth not only benefit us as a company but also the economies in which we do business. This year we made a number of acquisitions of brands, distribution rights and equity interests in premium drinks businesses, particularly in emerging markets such as Tanzania, Vietnam, Guatemala, China, Kenya and Turkey. [Read more](#) about change to our business this year.

#### 4. Employees

Recruiting, developing and retaining local talent is one of the more direct ways in which we can help develop local communities. We are committed to reflecting the diversity of all our local populations in our leadership teams and consider the long-term welfare of our employees in structuring benefits packages. [Read more.](#)

#### 5. Investors

We work hard to add long-term value for shareholders and are pleased to report that our total shareholder return continues to outperform the FTSE 100. Diageo is committed to a sustainable and progressive dividend policy and this year recommended a further 6% increase in the annual dividend paid to shareholders. For more information see our 2011 Annual Report (<http://annualreport2011.diageoreports.com/>).

Diageo strongly believes in the value of its employees sharing in the company's success and actively encourages employees to become shareholders. As at 30 June 2011, 16,057 past and present employees held 1.17% (2010 – 0.74%) of Diageo's ordinary issued share capital.

In addition to being listed on both the London Stock Exchange and the New York Stock Exchange, Diageo owns stakes in companies in various parts of the world that are listed on local stock exchanges including Guinness Nigeria, East Africa Breweries, Guinness Ghana Breweries, Seychelles Breweries and Red Stripe Company in Jamaica. This is another important catalyst for wealth creation in emerging markets.

<sup>22</sup> Includes Africa, Russia & Eastern Europe, Turkey, Latin America & Caribbean, the Middle East and Asia Pacific (excluding Australia, Japan, Korea).

## 6. Lenders

Diageo is an active borrower in global debt capital markets. Investing in Diageo debt instruments allows investors to achieve attractive yields, while their capital is guaranteed by our strong cash flow generation and sound business model. For more information see our 2011 Annual Report.

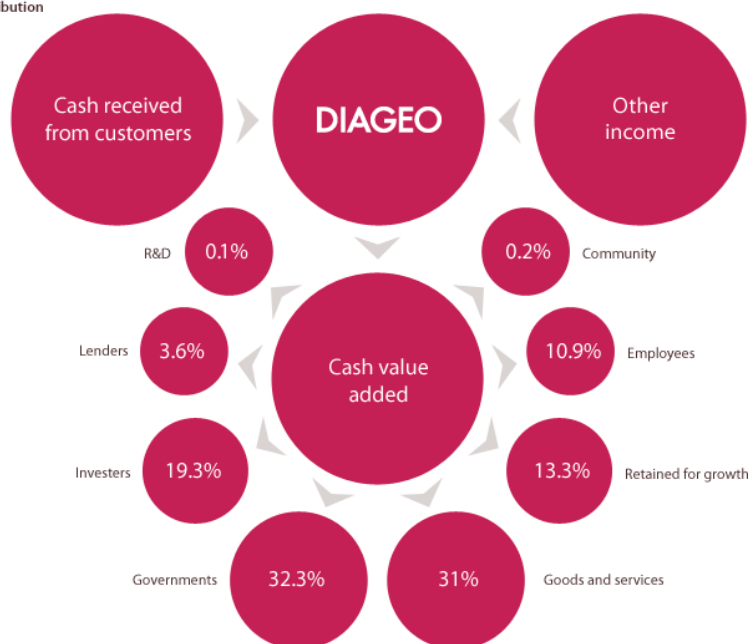
## 7. Community investment

We invested about £28 million this year in community development that aimed to address local interest and need. Of this, the Diageo Foundation contributed £1.1m. In total, this amounts to 1.1% of our operating profit excluding exceptional items. **Read more** about our approach to community investment, and what our areas of focus were this year.

## 8. Research and development

Regionally-focused innovation can also help create local jobs and support local communities. For example, this year Diageo unveiled its first locally-produced innovation in Russia – a super-premium vodka, Smirnov Titul. Smirnov Titul will be produced in Saint Petersburg at our Ladoga site in accordance with Diageo's highest quality standards.

### Cash distribution



### Cash value added statement (£m)

	F11	F10
<b>Cash going into Diageo</b>		
Cash received from customers	13,232	12,958
Other income	189	157
Total cash received	13,421	13,115
<b>Cash value added</b>		
1. Paid to governments	3,746	3,734
Alcohol taxes	3,296	3,178
Other taxes	450	556
2. Paid to suppliers <sup>23</sup>	3,600	3,500
3. (Retained)/Invested for growth	1,545	1,313
4. Paid to employees for their services	1,267	1,102
5. Paid to investors for providing capital	973	914
6. Paid to lenders as return on borrowings	423	412
7. Paid as community investment	28	25
8. Research and development	17	13

## Supporting budding entrepreneurs in South Africa

For Diageo, it makes good business sense to invest in people who will make a difference in the communities in which we operate. On a personal level, we enjoy sharing our skills and experience with people who share our entrepreneurial outlook.

Our South African joint venture, brandhouse, has invested in a grassroots national entrepreneurship competition called Pitch and Polish for the second year running.

Contestants undergo intensive enterprise development training that shows them how to turn a business idea into a business success. They are judged not only on the strength of their idea, but how they present it – their tone and clarity of voice, their ability to engage the audience, and numerous other nuances that 'polish' the pitch.

With an unemployment rate of almost 25%, South Africa has one of the highest jobless rates in the world. Job creation is therefore a priority for the government, and it has asked business leaders to help. Brandhouse Managing Director, Gerald Mahinda, believes job creation in South Africa will come from entrepreneurs who start up SMEs. 'This is why we are supporting the programme,' he says. 'Entrepreneurs are the economic future of this country!'

However, a lack of management, marketing and finance skills, and limited or no access to finance, can cut off this vital source of growth from the outset. So the Pitch and Polish



competition gives would-be entrepreneurs the access, support and mentorship they need to succeed.

The winner of Pitch and Polish 2010, Ntombenhle Khathwane, says: 'The business ideas presented in 2010 were so varied that it really shows what a great place South Africa is for entrepreneurs; there are so many opportunities. Every single contestant came out a better entrepreneur, and with a better idea of how to take their business aspirations forward. For more information, please visit [www.pitchandpolish.com](http://www.pitchandpolish.com).

<sup>23</sup> Represents procurement budget as explained in **Our suppliers**. Cost of goods sold, advertising and promotion and other operating expenses (excluding categories further broken out in the cash value added statement) totals £5,422m (2010 £5,602m).

## Skills and capacity building

Our flagship community investment programme in Latin America and the Caribbean (LA&C), Learning for Life, aims to equip its students with skills to help them enter the local workforce, either in our value chain or other local industries.

Learning for Life began as a programme to give life skills and training to people in the region's key areas of tourism, retailing, the arts, hospitality, entrepreneurship, and teaching. It's designed to give people a real chance of finding employment and becoming active contributors to their communities. Since its launch in 2008, Learning for Life has engaged over 50,999 students. In 2011, we ran 52 projects in 15 countries. This year we are proud to say that the Organisation of American States awarded Learning for Life the *Corporate Citizen of the America's* award in the Education category.

Following are some of the key projects we implemented, and their results this year.

### Argentina/Dominican Republic – Project Tourism

'Project Tourism' aims to inspire communities to identify their strengths and develop local, natural and cultural assets into sources of tourism income in a culturally and environmentally sensitive way. Towards this goal, its 'Learning for Life' core curriculum aims to empower students to organise local tourism strategies. Capitalising on our presence with Navarro Correas in Argentina's Mendoza wine region, a second class of 75 students is currently learning skills relevant to the wine tourism industry following a successful first class of 21 graduates. Project Tourism in the Dominican

Republic was recently the site of a large 'Learning for Life' graduation, with over 260 students completing a programme in culinary skills.

### Brazil – Project Retailer

'Project Retailer' develops young people for a career in the retail industry, providing them with the skills for customer relations, cash management and professional appearance. Project Retailer offers disadvantaged, unemployed individuals the opportunity to gain skills and hands-on experience in the packaged goods and food store retail sector. In São Paulo, 90 students recently graduated with their professional certificates, thanks to a partnership with a local university.

### Haiti – Project Entrepreneur

'Project Entrepreneur' trains community members with knowledge and practical tools to become productive and self-sustaining in the future. The programme is designed to promote institutional and organisational strengthening of community social structures, improving individual and collective capacities in management and entrepreneurship. A Project Entrepreneur programme focused on construction skills launched in nine sites within Haiti, just a month before the January 2010 earthquake. The construction sector is proving especially important in Haiti following the devastation of the earthquake. Project Entrepreneur in Haiti was recently the site of the largest 'Learning for Life' graduation, with 948 students completing a programme in construction skills.

### Jamaica – Project Artist

'Project Artist' teaches gifted individuals and groups to use their artistic abilities to generate income for themselves, their families and their communities. Participants follow the 'Learning

for Life' core curriculum in addition to acquiring specific skills such as entrepreneurship, business management, artisan skills or preparation for work in the art or music industry. Recently, three Project Artist graduates from Jamaica secured professional recording contracts with Solid Agency, one of Jamaica's leading entertainment companies.

### Mexico – Project Professor

'Project Professor' trains teachers in marginalised areas, and is currently focusing on Mexico. Following 32 weeks of training and online counselling, students receive a diploma, and the top 1% of students receive a 100% scholarship for a summer course in Spain. During 2011, 15,000 teachers trained through 'Learning for Life'.

### US Virgin Islands – Project Hospitality

Diageo US Virgin Islands jointly sponsors this programme with the St. Croix Hotel and Tourism Association. It provides full scholarships for 30 students a year to take 12-week bartending and culinary courses that include technical, life skills and customer service training. Students also participate in internships with local hotels and restaurants.

### Venezuela – Project Bartender

'Project Bartender' prepares individuals to enter a career in bartending or related fields with the skills and knowledge needed to serve customers responsibly and well. It offers underprivileged young adults of legal serving age the chance at getting their first job as a bartender, server or barista in the hospitality industry. In Venezuela, 76 students recently graduated from the programme, following a curriculum of both professional and bartending skills.

## Dominican Learning for Life students pay it forward

Learning for Life is a long-term programme with an inspiring aim: to give people in disadvantaged communities the opportunity to transform their lives through education. In the Dominican Republic, Learning for Life students are not only reaping personal rewards from their newfound skills and confidence. They're 'paying it forward' in their local communities.

Project Retailer, Project Bartender and Project Tourism programmes are all run in the Dominican Republic by our training school partners A&B Masters. In addition to their coursework, each group goes on team-building awaydays together and commit to taking part in a community volunteering project during their training period.

The first project was the refurbishment of a primary school that had fallen into disrepair. Next, a group planted much-needed trees, to help the Dominican Republic recover from a period of deforestation that saw the country lose up to 70% of its forest. Then at Christmas 2010, Learning for Life students, together with A&B Masters and local partner United Brands, bought toys and pyjamas for children in an orphanage in La Romana County.

Learning for Life gives its graduates in the Dominican Republic – who number 1,800 to date – access to jobs that will vastly improve their and their families' economic



circumstances. Now Diageo is partnering with the Government of the Dominican Republic, to provide life skills training for students on its young adult training programme.

## Social entrepreneurship

Social entrepreneurs are people who recognise social problems and use entrepreneurial thinking to create solutions designed to engender lasting, positive change. While businesses tend to measure their performance in terms of both profit and society, social entrepreneurs focus solely on creating social good.

### Our approach

Diageo supports and helps fund social entrepreneurs, with the aim of catalysing and driving systematic change in communities. Our main channel for supporting social entrepreneurs is the Arthur Guinness Fund™. The Fund, launched in 2009 to mark the 250th anniversary of the signing of the lease for the St. James's Gate Brewery in Dublin, was set up to further the legacy of Arthur Guinness and support social entrepreneurs around the world. Through the Fund, Diageo identifies and supports social entrepreneurs in order to make measurable, transformational changes to communities. In 2010, Diageo announced an increased investment in the Fund from €6.0 (£4.9) million to €7.4 (£6.0) million.

### Highlights of the year

- **Partnering with Ashoka:** in August 2010 the Arthur Guinness Fund signed a three-year partnership with Ashoka, the world's leading association of social entrepreneurs, to help them deliver a €3.0 (£2.6) million project to identify, fund and support innovative social entrepreneurs, projects and infrastructure-building around the world. We are now in the process of making the awards.
- **Supporting start-ups in Ireland:** this year also saw the launch of the Start-up Grants, which invite applications for €50,000 (£43,700) grants for start-up projects that offer innovative ways to drive positive change in support of sustainable development in Ireland. We also launched Take-off Grants, which support more advanced projects with grants of €100,000 (£87,883).

## Ten Irish social entrepreneurs split €650,000 for vital social projects

In July 2011, the Arthur Guinness Fund™ Awards invested €650,000 (£568,000) in ten social entrepreneur enterprise initiatives in Ireland. Projects ranged from job programmes for ex-prisoners and the disabled and the creation of environments in which the unemployed can re-build their self-esteem, to innovative rescue technology that has the potential to save lives.

One of these initiatives was Fumbally Exchange (FEx), a brand new design hub in Dublin's Liberties where entrepreneurs, the unemployed, and small businesses with an interest in design come together to share not just affordable office space but ideas, energy and innovation.

'Funding for FEx will help spread the concept to other cities and sectors in Ireland,' says founder George Boyle, whose research showed that creative clusters can act as a catalyst for change, renewal and social regeneration. 'We want it to act as a vehicle for reinvention, revolutionising the way professionals adjust to a new future in Irish society.'

The Fund helps social entrepreneurs deliver measurable, transformational change to communities, not only providing financial support but access to business mentoring, workshops and alumni networks through Diageo and its fund partner, Social Entrepreneurs Ireland.

'Social entrepreneurs use creative thinking to solve social problems, and we have encountered some amazing people who possess a business head and a social heart,' says



Tanya Clarke, Marketing Director, Diageo Ireland. 'The Fund helps to springboard innovative projects to the next level, sustain their effect, and bring about long-lasting social change in the community.'

Since the Fund was launched in 2009 to mark the 250th anniversary of Guinness, over €1.65 (£1.4) million has been committed to social entrepreneurship across Ireland, as well as the professional support programme. Additionally, 200 employees are involved in reviewing all applications that have added up to 450 for the past two years.

## Disaster relief

We have an established structure for responding rapidly to disasters affecting communities in our markets. We also work with local professional organisations to anticipate events and co-ordinate disaster relief effectively.

### Our approach

We aim to respond rapidly to disasters affecting communities in our markets and better engage our employees in our efforts through improved fundraising tools. Where possible, we build

on the work of our existing programmes in affected regions, otherwise we respond with emergency relief efforts.

### Report on 2011

This year was a particularly harrowing one, with major disasters affecting many of the regions in which we have operations.

- **Brazil:** more than 670 people died in a series of floods and mudslides in the Rio de Janeiro and São Paulo states, in the worst climatic disaster in Brazil's history. One of our supplier's farms, where the premium spirit brand Cachaça Nega Fulô is produced, was

damaged by the flood. Sadly, four people from a family living nearby died, and one was an employee of the farm. Diageo employees in Brazil donated goods and cash to support flood victims, and the Diageo Foundation matched cash donations that were donated by employees via our **Giving for Good** site.

- **Australia:** more than 35 people lost their lives in the devastating floods that affected the states of Queensland and Victoria. Diageo sites and employees in Bundaberg and Brisbane were affected. Diageo, the Diageo Foundation and the Bundaberg Distilling Company committed A\$750,000

(£490,000) to support the Queensland community recover from the disaster, which included a donation to the Premier's Disaster Relief Fund, a contribution to the local emergency services in the Bundaberg area, and a series of events to support the community and recognise the work of the emergency services.

- **New Zealand:** more than 200 people died when Christchurch was hit by an earthquake registering 6.3 on the Richter scale. Employees around Diageo, including many from New Zealand, launched fundraising activities and made donations to support those affected.
- **Japan:** fortunately all Diageo employees were accounted for during the earthquake that hit Japan this year, however, many in the country suffered hugely. After consulting with government authorities about the best way to respond, the Diageo Foundation made an

immediate donation to the Japanese Red Cross, while our business partners, Kirin, which had suffered damage to production facilities in the north-east, suspended marketing operations and handed out free bottled water to communities affected. Many Diageo employees made special tax-deductible donations to the Diageo North America Foundation, which were then directed to the relief efforts.

- **US:** the Diageo 'Spirit of the Americas' humanitarian aid programme provided special relief to flood victims in Mississippi and tornado victims in Alabama and Missouri. This included 225,000 bottles of water – equivalent to nearly 30,000 gallons – to provide much needed fresh drinking water to the victims and first responders in the aftermath of these natural disasters.

### Diageo Foundation Disaster Relief Fund

We contribute to disaster relief efforts through this fund run by the Diageo Foundation. This year, to make it easier for employees to contribute, we set up a temporary microsite within our **Giving for Good** site. The Foundation matched funds donated by employees towards the floods in Brazil and Australia. The Diageo Foundation also provided funding for emergency relief to specialist NGOs, such as the Japanese Red Cross. The Foundation also supports longer-term rehabilitation projects such as refitting a rescue boat in Australia to provide protection for the future.

## The Queensland floods

**At the beginning of 2011 the Queensland area of Australia was hit by the worst floods for a generation. At least 35 people were killed and a state of emergency was declared. The cost of the damage was estimated to be in the region of a billion Australian dollars.**

At times like these it is customary for people to come out and help to rebuild their communities, but it is equally important that companies and corporations contribute to the clean up. All over the world Diageo has tried to be at the forefront of such efforts, and Queensland was no exception.

Diageo's first response was an immediate contribution of \$A110,000 (£72,000) to the disaster. This was followed up by further donations to the emergency services. In total Diageo, the Diageo Foundation and the Bundaberg Distilling Company invested A\$750,000 (£492,500) to help put the community back together.

Often, though, it's the more mundane and less expensive things that are an immediate help in a time of crisis. Luckily, our offices in the Bundaberg area had shower facilities at a time when many people's homes had been destroyed by floods. Diageo employees were able to bring their families and loved ones for a much needed shower.



## Employee-led activities

Employees throughout our business lead and engage in a wide range of activities in our communities. We aim to facilitate their impact on local communities through employee involvement and investment programmes.

### Our approach

We encourage our local markets to engage our employees in the most appropriate way to support the local community. These include community challenges, fundraising, and providing support to regional programmes, such as participating in entrepreneur selection panels in Ireland and running training sessions

for Learning for Life students. Strategic advice and guidance is available to support their activity.

### Giving for Good

The Giving for Good programme is a web-based campaign that has been set up in collaboration with the Diageo Foundation so that each year employees can directly support a carefully-researched, sustainable community project in one of Diageo's developing markets. The website also provides advice and support for employees' fundraising activities. Giving for Good enables us to engage employees who are dispersed geographically but want to feel part of an employee-led community programme. Each year it focuses on a different community project. This year Diageo employees raised enough money to donate 3,500 water filter kits to schools and health clinics in Ghana.

### Highlights of the year

Every day, everywhere, Diageo employees engage in voluntary work, fundraising and other ways of giving back to their communities. Here are just some among innumerable examples of their efforts.

- **Starlight Children's Foundation fundraising in Australia:** a team of Diageo Australia employees took part in a gruelling marathon to raise funds for this charity for seriously ill children.
- **Supporting sustainable local farming in China:** through funding to a local charity, Diageo China is supporting training for farmers in the Dianshan Lake area on organic farming and water preservation. Employees have visited and worked on the farms as well, both learning themselves about sustainable farming and lending a hand with a hard day's work of loosening soil and sowing seeds.

- **Painting a primary school in Nigeria:** employees in Guinness Nigeria helped paint a block of classrooms at a primary school opposite their headquarters in Lagos, as part of their local volunteering scheme, Friends of the Community.
- **Fundraising incentive to work safely in Ireland:** Diageo Bailey's Global Supply has donated €13,000 (£11,749) to a range of national and local charities in Ireland, generated by special incentive schemes that reward safe working. For every month that is 'lost-time accident free' at the Nangor Road facility, the company donates €1,000 (£903) to charities chosen by employees.
- **Do-Be skills training for young people in Scotland:** in a unique collaboration with a charity (Do-Be) and a small business (Fairbridge), Diageo is supporting a new learning programme designed to help young people develop fundamental skills such as IT, literacy and numeracy in three of Scotland's major cities. The programme makes use of fun learning tools such as Wii technology to engage young people who may not have had access to this type of learning.

## A million trees – every year

If you go up into the mountains outside Beirut in Lebanon and head to the little village of Ammatour, you'll find something extraordinary: one of the world's largest tree nurseries. It's only half-finished at the moment, but when it's complete it will be a place where a million trees can be grown at a time and then transported to areas at risk of desertification and other threats to our environment.

The nursery has been created through a partnership between Diageo and Lebanon's Association for Forest Development and Conservation, with support from many employees in the region who have raised in excess of £65,000 through sponsored bike rides and mountaineering, as well as other events and parties.

The nursery has three separate terraces, each of which will nurture around 335,000 seedlings, and was planted by around 40 workers employed through Diageo's donations. The trees will grow for a year to 18 months before being replanted in communities that have suffered from deforestation.





## Our people



Our employees also affect the role Diageo plays in society as members of their own local communities. While there are many dimensions to our work supporting and engaging our employees, here we set out those programmes that particularly help us leverage our sustainability and responsibility performance.

---

### In this section:

- Executive summary – page 49
- Safety – page 50
- Health and wellbeing – page 52
- Diversity and inclusion – page 53
- Developing our talent – page 54
- Reward and recognition – page 55
- Restructuring – page 56
- Employee engagement – page 53

## Executive summary

Our **company values** are at the heart of everything we do and they drive the way we manage, develop, protect and engage our employees. We have held to these values throughout many changes over the years, and will continue to do so as our business evolves to meet new challenges and opportunities.

### Employee profile

At 30 June 2011, Diageo employed 23,428 people, as set out in the table below. This represents growth of 2.1% compared to the prior year.

### Safety, health and wellbeing

Our first and foremost commitment is to employees' safety, health and wellbeing. Through our Zero Harm programme, we work towards our goal for everyone to go home safe every day. While we have made great progress, exceeding our target for lost-time accidents, we are deeply saddened and humbled that four people, one Diageo employee and three contractors, lost their lives at work this year. This is unacceptable, and our sympathies go out to the families and loved ones of those lost. In the coming year we will be implementing a new approach to the way we manage high severity safety risks in our business.

### Building an inclusive culture

We value diversity in the workplace, and aim to foster a truly inclusive culture. We also strongly believe that employees should have a fair share of the company's success, and in 2011 more than 9% of the revenue we made passed to our employees in salaries and benefits, in addition to the value received from share ownership.

To demonstrate how serious we are about our values we carry out an annual employee values survey. We ask every one of our people how they believe we are demonstrating our values – as an organisation, as leaders and as teams. This year 89% of our employees participated, often providing constructive feedback to help us maintain our culture as our business continues to grow.

### Performance against targets

#### Target by 2015

Reduce our lost-time accident frequency rate<sup>25</sup> by 50% against a 2007 baseline

Women in 30% of senior management positions

50% or more of employees 'super-engaged', highest measure in Values Survey

### Restructuring

This year we began a review of the way we operate to enable us to hit the stretching performance targets we have set ourselves, and become the fastest growing, highest margin drinks business. From the 2012 financial year, we will operate with a differentiated approach in our developed and developing markets, with greater local freedom and enhanced decision rights to accelerate performance. We have therefore reviewed how to best deploy our resources and adopt ways of working that better reflect the different roles individual markets will play in achieving our ambitions.

While we believe this shift will support Diageo and its stakeholders over the long term, we recognise that the changes we have made have had some significant and difficult consequences for a number of our people in Western Europe and North America. We are in the process of consulting with those employees to help them through this transition. Our employees are a priority for us and we are committed to treating everyone with dignity and respect through the change; communicating in a timely and transparent way; and providing internal career support and/or outplacement support as required to help people through the transition.

### Highlights of the year

- **Health and safety:** we completed phase one of our Zero Harm programme, which ran from 2007–2011. Phase two will take us up to 2015.
- **Employer of choice:** we aim to be an employer of choice wherever we operate. We are proud to report that this year Diageo was rated by the Great Place to Work Institute in the top employers in seven of our key markets.

### Total employees<sup>24</sup>

	Men	Women	Total
Africa	4332	1124	5456
Europe	5728	3801	9528
North America	2146	1512	3659
Latin America & Caribbean	948	601	1549
Asia Pacific	2176	1059	3235
Global	15331	8097	23,428

Ratings were as follows:

- Diageo Argentina: fifth
- Diageo Mexico: third
- Diageo Ireland: second
- Diageo Uruguay: top five
- Diageo Venezuela: seventh
- Diageo Ghana: fifth
- Diageo Canada: in the Top 100 Best Places to Work.

Diageo's South Africa venture, brandhouse also came fourth in Deloitte's Best Company to Work For.

- **Diversity and inclusion:** the Association of Diversity Councils placed Diageo North America on their Top 25 US list in 2009, 2010 and 2011. Also, for the fourth year in a row, the Human Rights Campaign Foundation gave Diageo North America a 100% score in its Corporate Equality Index rating the equality of lesbian, gay, bisexual and transgender (LGBT) employees in the workplace. Diageo is the only total beverage alcohol company on the list.

### Outlook

With the restructure of our business, we recognise this has been a challenging year, not least to those directly impacted. As we look to the future, however, we are optimistic of our ability to create the conditions necessary to help our employees meet their fullest potential and through them accelerate our sustainable growth. We will continue our unfailing investment in building capabilities. We will also continue to work to enable an inclusive and diverse workplace as well as creating a workforce and leadership that represents the diversity of our evolving marketplace.

<sup>24</sup> Employees in the Global Travel and Middle East group are allocated to the region in which they currently reside.

<sup>25</sup> Number of accidents per 1,000 employees resulting in time lost from work greater than one day.

## Safety

Our primary duty to employees is to ensure they work in a safe and healthy environment. This is enshrined in our culture and values and is essential to our licence to operate. Developed in 2007 to create a consistent, high-quality global safety culture, our Zero Harm programme states that everyone in Diageo should go home safe every day, everywhere.

### Performance against targets

We are pleased to report that we far exceeded our goal, reducing our lost-time accident frequency rate by 77.4% since 2007 and this year 66% of our manufacturing locations had no lost-time accidents. The cumulative benefit of our success over the Zero Harm 2011 programme period, is that over 500 fewer people had lost-time injuries and 6,726 lost days were prevented.

That said, we deeply regret that this year, four people, one Diageo employee and three contractors, died while at work due to accidents from construction, a contractor vehicle collision on site and a fall from height. One fatality in our business is too many and we are deeply saddened that the number of people who have died while working for us has risen over the last few years. This runs contrary to the 'Prevention' aspect of our Zero Harm Programme and we are doing everything we can to eliminate the risk of such serious injuries in the future. In each case this year we undertook a full root-cause analysis and accident investigation, and significant improvements have been made not only to the respective operations but to similar operations across Diageo. We have also developed a programme to raise our performance in and assurance around the higher risk parts of our business to do everything we can to reduce such severe accidents in the future.

### Performance against targets

Target by 2015	This year's performance 2010–2011	Cumulative performance 2007–2011	Achievement
Reduce our lost-time accident frequency rate* by 50% against a 2007 baseline	Reduced by 24.8%	Reduced by 77.4%	Achieved

### Our safety model

Our manufacturing environment, which includes working with machinery, chemicals, flammable vapours and high pressure steam; working at height; vehicle movements; offers a wide range of hazards to which our people can be exposed. However, within all our operations, we exercise strict health and safety risk controls, through robust risk assessment, best practice global risk management standards and business management processes that drive continuous improvement. Our systems must also be robust enough to ensure Zero Harm in some of our higher risk activities such as driving on public roads and the safe delivery of significant construction projects.

To deliver Zero Harm, we have developed a comprehensive model for measuring, understanding and improving the prevailing safety standards at every site, based on the four pillars of culture, prevention, compliance and capability.

### Culture

We use cultural assessment, leadership safety role modelling and engagement and behavioural tools to influence every employee's beliefs, attitudes and values, so that they are fully engaged in safety and in preventing harm to themselves and their colleagues. Our prevailing safety culture is assessed, at most sites, every two years using the Diageo Safety Culture Framework and consultation process. This involves all staff and is not a formal union/management process although in some markets trade unions would have been involved in the assessment and action planning phases.

Staff engagement and consultation is a key element of our safety cultural development. Therefore, as required by our global risk management standards, we have a safety committee for every operation/production site and most of our offices.

### Prevention

Diageo monitors lost-time accidents (an accident resulting in time lost from work greater than one day, beginning the day after the accident) and their severity, as global Key performance indicators. Annual reviews and performance improvement targets are key supports to our prevention strategy. Each site must have annual accident prevention plans in place to track trends and emerging issues, which helps site leadership teams to maintain steady improvements in performance.

To help ensure our employees are prepared to create a safe working environment, we provide guidance on how to be proactive in reducing risks – identifying hazards and controlling them before anyone gets hurt. These include risk assessment tools, detailed control guidance within our Global Standards and guidance that outlines the design and operation of site permit to work systems.

Our global hazard identification and control process, known as Safety Improvement Report Cards (SIRCs), gives anyone working at or visiting a location, the opportunity to raise a safety issue and have it resolved. The number of cards raised and close-out rates are monitored to ensure people's concerns are given appropriate priority within our systems. Over 34,000 SIRCs were raised in Diageo this year.

We also aim to prevent safety problems recurring, through our accident and near-miss reporting, investigation and root cause analysis structures; as well as post-incident safety alert and incident review processes, in which teams discuss lessons learned and share them across our sites.

In light of the fatalities that occurred in the past year, we are also currently piloting a 'Severe and fatal incident prevention' programme that targets the more significant hazards within our operations within the aim of providing global mandatory and robust controls around key risks.

## Compliance

Diageo maintains comprehensive best practice global risk management standards for occupational health and safety. Each location is:

- Required to audit compliance to these standards
- Subject to regular formal corporate independent assurance audits
- Required to maintain and assure a legal compliance assessment processes.

These processes are also assured within our independent assurance processes. Many locations across Diageo also maintain external accreditation such as ISO 18001 for their Safety management systems.

## Capability

We set global competency standards, supported by global safety training programmes, to ensure people have the skills they need to deliver Zero Harm. Locations are required to operate a contractor assessment to ensure contractor safety management systems and competencies are appropriate to the delivery of Zero Harm within any contract.

## Geographical breakdown

- **Europe:** despite being a region with one of the most mature safety regulatory environments in our business, we have

observed a performance plateau in recent years. With notable improvements in the physical environment and systems compliance, it is difficult to understand why. However, the proportion of incidents with a 'behavioural' aspect is significant and highlights the importance of our behavioural-based safety programmes for this region.

- **Africa:** our sites in Africa deliver some of our best lost-time accident performance, which we believe is due to the level of control we have in these locations. However, we have noticed that the accidents that do occur are often more serious and disproportionately involve contractors. As we pursue our strategy of growth in emerging markets, we must work with local stakeholders to help embed a safety-conscious culture.
- **North America:** thanks to the implementation of a major health and safety programme, our North American manufacturing operations have gone from having the highest accident rate to being one of our best performers. Through a combined focus on accountability, risk assessment and improvement programmes, they delivered a 55% reduction in lost-time accidents in 2010 and have sustained that improvement to deliver a further 58% reduction this year.

## Personal responsibility

All the tools and principles of our Zero Harm programme are embedded into our operational processes. We have made good progress, but the real breakthrough will come when each of us at Diageo commits to health and safety on a personal level – for example, by not speeding when driving – rather than just 'following the rules' in the workplace. We are looking at how we can engage our people at this level, and so achieve a truly global, values-based safety culture.

Our challenge, then, is not just to implement stringent health and safety programmes, but to engage our employees in accepting personal responsibility for safety 'every day, everywhere'.

## Outlook

In the coming year we will be implementing a new approach to the way we manage high severity safety risks in our business to help eliminate associated high-risk behaviours that could lead to the tragedies we faced this year.

We will also continue to benchmark our Zero Harm activities with external experts and peer organisations to identify new thinking and best practice programmes that can help our business to sustain our performance trajectory in lost-time accidents.

## Safety performance

Lost-time accident frequency <sup>26</sup>	2011	2010	2009	2008	2007
Europe	5.29	5	5.1	8.4	11.1
Africa	1.49	2.87	4.15	19.91	22.6
Latin America and Caribbean	3.42	2.78	3.47	4.87	8.53
North America	5.06	9.98	23.2	29.3	38
Asia Pacific	1.41	1.97	1.4	2	5
Total	3.73	4.96	7.4	12.4	16.5
Fatalities <sup>27</sup>	4	2	0	4	1

<sup>26</sup> Number of accidents per 1,000 employees resulting in time lost from work greater than one day, beginning the day after the accident.

<sup>27</sup> Data includes any employee work-related fatalities at our sites. 2011 data includes an incident at a 3rd party controlled and managed construction operation on Diageo owned land. As required by GRI indicator LA7, we report that all fatalities were men.

## Safer driving in Kenya

**At Diageo we want to make health and safety awareness second nature to every one of our employees, in every part of our operations. While we work to prevent accidents across our business, some of the most severe actually occur on the road.**

Moreover, according to the World Health Organisation\*, not only are road traffic injuries a major but neglected public health challenge, the problems are most acute in Africa. For this reason, we launched a training programme for our sales staff in Kenya.

Our Kenyan sales team is one of the largest in Africa, with 105 members of staff. They drive all over the country to work with our customers and deliver our product, on a road system that can sometimes feel chaotic. This year, Diageo brought in a group of instructors, Defensive Driving Systems, to help our salespeople improve their driving technique and minimise the risk of accidents. A running programme of two-day courses was held for two weeks at the end of January 2011, so that all Kenya sales staff could attend.

Defensive driving is statistically the best way to reduce accidents. Now the sales team is better equipped to cope with the difficult driving conditions they face every day.

\* WHO global status report on road safety, 2009.



## Health and wellbeing

Certainly, a person who feels happy, healthy and valued in their workplace is more likely to perform at his or her peak, and contribute to our company's long-term success. But also, we care about our colleagues' health and wellbeing simply because it's the right and rewarding thing to do.

### Our approach

In practical terms, this means providing a wide range of professional occupational health support, health education programmes and other initiatives to meet the different priorities of people in our operations around the world. Those priorities vary hugely. As a drinks company we believe it is important to promote responsible drinking to our own people. We provide support to employees in Africa affected directly or indirectly by HIV and AIDS. And we help employees in mature economies to maintain healthy fitness levels. Here are details of some of our ongoing programmes.

### Highlights of our programmes

Following are some of the key programmes through which we promote our employees' health and wellbeing.

- **DRINKiQ:** we engage with our employees on the issue of responsible drinking through our global resource, [www.DRINKiQ.com](http://www.DRINKiQ.com). Our

internal DRINKiQ initiative is designed both to help employees make responsible decisions for themselves, and to give them the confidence to be ambassadors for responsible drinking. It has proved hugely successful and DrinkiQ is now part of our employee induction programme in 21 countries.

- **Combating HIV and AIDS** is a core focus for Diageo in Africa. Since 2003, each of our operating companies in Africa has adopted HIV and AIDS workplace education programmes, and provided treatment for employees and their families, through the Live Life employee wellness programme. The programme includes:
  - HIV/AIDS education and awareness programmes
  - Training of peer educators, known as Life Coaches, in additional wellness topics
  - Access to free Voluntary Counselling and Testing (VCT)
  - Healthy living, fitness and nutrition advice
  - Promotion and distribution of condoms
  - Treatment and care programmes for opportunistic diseases
  - Free anti-retroviral drugs for the management of HIV infection
  - Occupational health practice at all operations and on-site medical clinics.

- **Occupational health programmes:** Diageo recognises the importance of exercise and relaxation and the benefits yielded for productivity and wellbeing in the workplace. That is why some of our larger facilities have on-site fitness centres which all employees and guests can enjoy. Across some other sites, employees can enjoy subsidised memberships to external fitness facilities and still others offer health and wellbeing programmes such as dedicated ambassadors that promote wellbeing in the office or team competitions encouraging exercise and healthy eating.

### Outlook

Above are just a few examples of the types of activities and initiatives available to Diageo employees globally. We are highly committed to the health and wellbeing of our employees and therefore we will continue to increase focus in this area and drive further programmes and initiatives at all of our locations.

## Walk for wellbeing

**Walking the whole way around the world thirty-two times is a tough call, but Diageo managed it in twelve weeks – with 1,500 employees across Europe and North America creating 253 teams to walk over 10,000 steps per day between them.**

Diageo launched this health initiative to raise fitness and improve health and wellbeing simply by encouraging employees to walk more as they go about their daily activities.

Using pedometers each team was able to measure the total number of steps that they took each day. The result was that at the end of the week they could see how far each team had walked in total.

The results were astonishing. Over twelve weeks the 253 teams taking part clocked up a colossal 808,254 miles between them – the distance to the moon and back and to the moon again, with some left over. The teams were helped by a bit of competition: at the end of each week, leader boards were published revealing which team had walked the farthest.

But it was the results for people's health that really mattered. Both medical reports and feedback from the participants showed that they felt better and more energised after the competition, and many have said that they're going to keep on walking, even without a competitive incentive.



## Diversity and inclusion

We believe a workforce composed of people from a wide variety of backgrounds, cultures and experiences is a competitive advantage. At Diageo, we have found that having a diverse workforce increases our scope, speed and effectiveness in seizing growth and performance opportunities, as well as providing a rewarding environment within which to work.

Increasing the diversity of our people at all levels, and creating an environment that is inclusive for all, are therefore critical priorities for us – especially as we continue to grow in emerging markets. Our commitment to fairness and equality is articulated in all our human resources policies, from the recruitment stage onwards.

### Employee resource groups

At Diageo we have well-established, cross-border employee resource groups that help drive our inclusion and diversity agenda forward as well as grow our business with our consumers. These include:

- **Spirited Women**, for North America, Latin America and UK/Ireland, comprises around 1,000 members (and growing) whose mission is that 'everyone in Diageo is celebrated for their uniqueness and the value that creates'.

% women	2011	2010	2009	2008
Board	33	27	30	20
Senior managers	27	26	27	25
Other employees	35	35	35	35
Total	35	34	34	34

From networking events, to supporting local charities and facilitating mentoring and coaching relationships, the group offers extensive opportunities to get involved in shaping our inclusion and diversity agenda, creating possibilities and the conditions for all people to succeed (not just women).

- **The Rainbow Network** in the US and UK advances awareness of lesbian, gay, bisexual and transgender (LGBT) issues. It not only fosters our culture of inclusiveness internally, but helps to identify ways to promote our brands to LGBT consumers.
- **Originate** in the UK is a local network that has focuses exclusively on cultural diversity, education, understanding and creating a sense of belonging to enable us to challenge stereotypes, inspire people and make Diageo the best place to be. Their aspiration is to make a difference to the business and all individuals in Diageo by driving awareness and understanding of cultural differences.
- **The Latin Connection** celebrates Latin heritage in North America
- **A.H.E.A.D (African Heritage Employees at Diageo)** celebrates African heritage in North America and the UK
- **The Pan-Asian Network** celebrates Asian Pacific heritage in North America.

### Women in senior management positions

Our target was to have 30% of senior management positions occupied by women by 2011. However we reached only 27%. We are disappointed not to have achieved our target, and will continue to focus on this goal in the coming year. Above is the breakdown by level.

As part of our approach to addressing this issue and our broader inclusion and diversity agenda, this year for the first time we engaged the whole company around International Women's Day on March 8th to recognise and celebrate the women who make up about one-third of our workforce and one-quarter of our senior teams. We shared a video showcasing several of our executive colleagues discussing our commitment to inclusion and diversity, and distributed posters, while our Spirited Women network orchestrated local events.

### Diversity in our talent pipeline

Despite falling short of our target for women in senior management, other signs point to progress in creating a diverse and inclusive environment. In this year's values survey, 87% of our people agreed that 'In my team, people can be themselves regardless of their ethnic background, gender or style'. While this score puts Diageo above external benchmarks, we aim to raise our positive response rate even further.

## Human Rights Campaign names Diageo "Best Place To Work" in the U.S.

A company as large as Diageo employs people from many different backgrounds, and we value enormously the strength such diversity brings to our business. In line with our values, we believe it's essential to make sure that all those people feel appreciated, at home and at ease. That's why Diageo was particularly pleased to be awarded a 100% perfect score by the Human Rights Campaign's Corporate Equality Index in relation to our treatment of lesbian, gay, bisexual and transsexual (LGBT) employees.

Each year large companies across the United States are rated by the Human Rights Campaign (HRC) for their actions in relation to the LGBT community. With a perfect score of 100 for the third year in a row, Diageo was again recognised as one of the 'Best Places to Work' and listed as one of the top companies that support equality for LGBT employees.

'Our mission to maintain a diverse and inclusive environment, and our recognition from the HRC for the third year running demonstrates that we have been successful in cultivating an environment in which employees feel free to be who they are,' said Ivan Menezes, President and CEO, Diageo North America. 'As a company, we strive to make employees feel comfortable, with any kind of background or lifestyle. We celebrate all of our people here at Diageo, and we continue to consciously aim to build a culture reflective of that intention.'

This prestigious award owes much to internal campaigning by Diageo. Our Senior Vice President of Innovation, Neil Tallantire, is also the head of Diageo's Rainbow Network for LGBT employees, which has active groups in



America, London and Amsterdam. 'I experience Diageo's commitment to diversity every day,' he explained, adding that he was 'very proud' to be a part of a company that grants him the opportunity to make a difference in the lives of his colleagues.

Diageo's high scores also earned spots for several of our brands in the highest 'buy' category within the annual HRC Buying Guide. Based on the company's support of its LGBT employees and community, the Guide recommends Diageo brands to LGBT consumers.

## Developing our talent

To meet our growth plans, we need highly motivated, skilled and ambitious people who will develop their careers with Diageo. This means investing in the right professional and personal development plans that are both rewarding and stretching.

During a period of restructuring and transition as we have had this year, when roles are changing and a number of people are leaving the company, it is more important than ever to focus our investment in talent, and to be clear with people about the opportunities available for them.

### Performance management

Partners for Growth (P4G) is our holistic approach to performance management. Open and honest coaching and development conversations between employees and managers that focus on employees' aspirations and growth, both in and out of the workplace, are central to P4G. This approach is based on our belief that holistic partnerships are more likely to release people's full potential, driving both personal and business growth.

P4G also involves an annual performance and career development review which includes personal objectives linked to overall company strategy. This year, all performance evaluations had to include personal commitments to our Code of Business Conduct and its associated policies, further embedding this element of our Sustainability & Responsibility Strategy.

Gateway is our recently-introduced Global Talent Management tool which facilitates our ability to understand and grow our talent pipeline, enabling us to fill roles faster, and provides a mechanism by which employees can play a more active role in realising their career aspirations and goals. Over time, Gateway will become the talent management tool leveraged globally within Diageo, serving the talent management needs of individual markets, functions, and regions, as well as our global talent management needs for the leadership population.

### Training

We are committed to developing our people through training and development opportunities. We have a number of programmes targeted at different needs, as follows.

- **Early career programmes:** each region has its own tailored programme for junior people to ensure that they get the best possible start to their time with Diageo. We believe this is particularly important to ensure we keep and nurture people to become the leaders of tomorrow.
- **The Diageo Academy,** re-designed and re-launched in 2010, is a global online e-learning and development resource which emphasises functional learning and allows the vast majority of our employees to access training material in their native language. It had 18,674 users during 2011.
- **Breakthrough Performance Coaching Programme:** coaching is a key lever for raising the performance levels of all our people. In particular, we expect all people managers

at Diageo to be great coaches and to accelerate the performance of their team. The Breakthrough Performance Coaching Programme is designed to raise coaching capability and all people managers will complete it. Piloted in 2010 the roll-out has continued over the course of the year, and the majority of people managers at Level 4 will have completed it by the end of this year.

- **People Manager Accelerator Tool:** we believe that everyone should work for a great manager. We know that becoming a manager can be a daunting experience, so we created a new 'People Manager Accelerator Tool' which lays out in an easy-to-navigate, month-by-month format how new managers can quickly build their knowledge and skills.

We also have many functional training programmes in place for sales, marketing, finance, manufacturing and IS teams.

### Focusing on new growth markets

Given the company's focus on the new growth markets - including Russia & Eastern Europe, Turkey, Africa, Latin America & Caribbean, Middle East & North Africa and much of Asia Pacific (excluding Australia, Japan, Korea) - recruiting and developing people in these areas, particularly leadership, is a top priority for us. It is essential that our employees in these markets reflect the diversity of the local populations, while having the global understanding of the business necessary to drive success. We are continuing to provide international development opportunities for an increasing number of employees from these areas.

## Fulfilling potential in Korea

### Diageo continues to nurture talent across its markets to power our future growth.

In Korea, for example, 287 selected employees were given extra training in how to communicate and collaborate more effectively with each other. Non-managers were given basic leadership skills training.

Meanwhile, managers and supervisors explored the theory and practice of growing

the business, through a two-day training course. This was delivered as part of the Asia Sales Accreditation Programme organised by the Korea HR and Sales Capability team. Using a range of training techniques and open discussion, participants were helped to enhance their skills as facilitators and functional managers.

It is also part of our ethos to extend our engagement beyond the workplace. At our Icheon, Korea plant, this took the form of a Children's Day for employees and their families and friends. Everyone enjoyed a wide range of activities, including a garden party and sports competition; while a jumble sale raised a sizable donation for a children's cancer charity.



## Reward and recognition

In line with our commitment to valuing each other, we work to recognise and celebrate our people's contribution to Diageo's performance and help ensure they feel motivated and satisfied.

### Approach

Our approach to reward is consistent with our values and Diageo's purpose of celebrating life every day, everywhere. Our reward frameworks:

- Are competitive and are designed to support our talent strategy enabling us to attract, retain and motivate our people
- Engage our people in the achievement of business goals through transparent links between performance and reward
- Recognise developments in capabilities and leadership skills
- Compliment the Partners for Growth process and support a culture of professional growth.

### Pay and benefits

To attract and retain the best talent, we must provide a competitive package that pays people fairly for what they do. Rewards are therefore performance-related, with salary increases and annual bonuses based on the achievement of individual and collective objectives that are linked to Diageo's overall performance targets. We regularly benchmark our packages within local markets to ensure our rewards match up to local expectations.

We aim to provide local benefits, based on what is customary in people's region, that support the needs of employees at different stages of their life and that, wherever possible, enable individual choice and flexibility. The long-term welfare of our employees is an important consideration in structuring benefits packages which may include:

- **Retirement benefits** that are sustainable, competitive and appropriate for the long term. In the UK, for example, in line with our broader commitment to sustainability, the Diageo pension scheme has a requirement for its investment managers to take social, ethical and environmental aspects into account when assessing investments.

- **Long-term incentive plans** that allow senior managers to choose how they want to receive their annual award, either through share options, restricted stock or a combination of both. When this scheme was piloted in the US last year, 97% of participants responding to the survey agreed that they valued the opportunity for choice.
- **Healthcare benefits** appropriate to local markets.
- **Other local benefits**, for example in the UK a voluntary benefits programme that provides employees with access to cash discounts at popular high-street retailers. The programme had a fantastic uptake with around 3,000 employees registering on the benefits website within the first two months of the scheme's launch.
- **Executive remuneration:** In addition to financial measures such as net sales and operating profit before exceptional items, executive directors are measured against a set of individual business objectives that are relevant to their specific area of accountability. These are determined with reference to a set of collective business priorities that support the long-term growth and sustainability of the business and can include non-financial measures including implementation of the policies set out in Diageo's Code of Business Conduct, which include Sustainability & Responsibility policies.

### Share ownership

We strongly believe in the value of our employees sharing in the company by becoming shareholders. We seek out opportunities to extend employee share ownership around the world, and in 2011, 31 countries operated an all-employee share plan. A further two countries will be invited to participate in Diageo's International Sharematch Plan later this year. This, combined with existing employee share plans, will further extend the opportunity to own shares to the vast majority of employees. As at 30 June 2011, 16,057 past and present employees held 1.17% (2010 – 0.74%) of Diageo's ordinary issued share capital.

Comparative figures are shown in the table below.

### Recognition programmes

We bring to life our goal of celebrating life every day, everywhere through local market recognition programmes that are designed to celebrate employees' achievements and to inspire our employees to strive for the best. We do this to:

- Help Diageo develop an even stronger performance culture with great leaders and great teamwork
- Promote the values and behaviour we need from people across the business
- Encourage continuous improvement, innovation, excellent customer service and profitable growth
- Help attract and retain more great people to our business.

There are many different schemes in operation around the world and within our functions. Here are just a couple of examples:

- **North America:** the 'Celebrating You' awards programme was created in 2010 to link recognition clearly to the performance we want people to achieve. Employees can nominate colleagues for outstanding performance above and beyond the 'day job' to win awards between \$100 and \$5,000.
- **Human Resources:** 'HR Heroes' is our recognition scheme that is open to all HR employees in Diageo. The criteria for receiving an award are linked to actions for which work towards the achievement of our business strategy and reinforces our values and behaviours. There are six awards in total that people can be nominated across three categories: Inspirational Leader; People Manager; and Brilliant Executions. We see this as an important part of recognising and valuing our people who do amazing things.

	2011	2010	2009	2008
Countries operating schemes	31	25	26	26
Employees <sup>28</sup> holding shares	16,057	15,785	15,964	17,974
Employees <sup>29</sup> holding more than 1,000 shares	48.9%	48%	50%	50%
Shares held by employees <sup>30</sup>	32m	33m	34m	33m



## Stocking up on shares

**Every large company and every large venture is faced with the same problem: how do you make each and every person involved care about its success? How do you make them feel that a profit for the company is a profit for them? For us, the answer was simple: encourage all our people to become shareholders in the company.**

Many businesses offer share options as part of their pay packages, but it's not always that simple. It's too easy to leave behind those who work in faraway places, or to ignore the

bureaucracy and red tape that would put off some employees who have never owned shares before. And that's before you take into account the fall in the number of small brokerages prepared to deal with small investments since the credit crunch of 2008.

So Diageo has been overhauling its whole Sharesave scheme to make it easier for everybody to join. The first step was to consult with advisors Clifford Chance and Deloitte on the differing share-ownership and tax laws that apply in different countries. We found that on occasion we had been offering deals that would work in the UK and US but that simply weren't viable in some other countries.

Given that Diageo is particularly keen to expand into growth markets like China, this was an important problem that needed to be set right. The new schemes were rolled out in 27 countries in 2010 and a further three in 2011. Restrictions on participation were relaxed and accounting made simpler and more flexible.



## Restructuring

Diageo has changed significantly in recent years, as we respond to economic pressures, and the need to ensure our long-term sustainability as a business. This has meant site closures in some regions as well as downsizing in others. We support employees affected by these closures in a number of ways, but whatever the outcome, we aim to act in line with our values – ensuring that people are treated with sensitivity and dignity, and get the help they need.

This year we completed our Operating Model Review, and we are now in the process of implementing a number of changes in our business so that:

- Diageo will be the fastest growing, highest margin drinks business
- We will operate with a differentiated approach in our developed and developing markets, with greater freedom and enhanced decision rights to accelerate performance
- As a global business, our speed of thought, decision making and bias for action will lead our industry.

As we implement this programme there will be changes in many teams across our business, particularly in North America and Western Europe. Some people have already left the business to pursue their careers elsewhere, and others are still in their consultation period. We take great care to adhere to, and in many cases go beyond, local minimum notice periods and work to ensure our colleagues affected by these changes are treated with great respect.

We aim to provide information, support and where possible, relocation, to help people facing the loss of their jobs. We offer a comprehensive package of support to all and make great efforts to find new roles for those who wish to stay with us. In communities where Diageo is a significant employer, we work with local agencies on regeneration programmes.

## Employee engagement

At Diageo, we want employees to feel highly connected to our goals, contributing as much as they can to the company's success.

Engaging our people, involving them fully in our planning and development is an essential part of how we live by our values.

Our approach starts with the belief that employees are engaged one by one, as individuals with different needs, talents, capabilities and aspirations. We want everyone to reach their potential, fostering a great environment in which to work. Highly engaged teams in Diageo deliver superior commercial results.

We have a good understanding about what drives engagement – helped by the valuable feedback gathered through our annual values survey. This knowledge is particularly important to us now, given the level of change our business is currently going through.

We know we can drive engagement, and great results, in Diageo by inspiring our people with a compelling strategy for the future, recognising and valuing their individual contribution, acting on their feedback, giving them opportunities to grow and develop and behaving with integrity, including demonstrating our commitment to sustainability and responsibility. Diageo people are very passionate about our brands, consumers and customers, and we want everyone in the business to be knowledgeable ambassadors for our brands. We stage regular 'brand passion' events in our business units, and focus on brands, customers and consumers in our internal communications.

### Measuring engagement: the values survey

The annual values survey is our most important measure of how well we are living the values. Through the survey, we also gather feedback on many aspects of people's experience of working at Diageo, from career development to work/life balance. The survey allows us to track progress, team by team. We can then review our plans and decide where we need to take action.

This year our response rate was broadly stable at 89%, compared with 90% in 2010. Overall the results were in line with last year, and we are proud of this high response rate which is among the best compared to leading companies.

Key areas of improvement were that more employees believe this year that Diageo is 'passionate about customers and consumers' and more employees said they were 'proud of what we do' including our sustainability and responsibility programmes. The survey also highlighted opportunities for improvement. For example, we know we can simplify what we do and the way we do it, and clarify accountability. The steps we are taking as a result of the Operating Model Review should help us improve our scores in future years.

An important measure for us is 'super engagement', which is an extremely exacting measure of the extent to which employees understand and believe in the company's goals and values, are proud of Diageo, and whether they will stay with, and recommend, Diageo. Our aspirational goal for 2011 was to achieve 50% super-engaged across Diageo. We saw very strong performances in many parts of the business this year, but overall our score dropped back somewhat from 41% in 2010 to 39% in 2011. However, 24 teams of 50 or more in our business did achieve 50% super-engaged in 2011 - so there is much to be proud of. We are examining how best to address this in the coming year.

### Engagement on sustainability and responsibility issues

We know that our work to engage employees also helps to leverage the impact the company has on sustainability and responsibility issues, given that many of our programmes rely on employee participation for their success.

To understand how employees feel about our sustainable impact, we include three questions in the values survey directly linked to our Sustainability and Responsibility Strategy. They are:

- **Leadership in the responsible drinking agenda:** this year 91% thought Diageo was effective in promoting responsible drinking, compared with 90% last year
- **Contribution to local communities:** in line with last year, 82% thought that Diageo makes a good contribution to our local communities
- **Contribution to environmental sustainability:** this question was asked for the first time this year, and 84% of employees agreed that we are environmentally responsible.

### Raising awareness

We are working to raise employees' awareness of and engagement with sustainability and responsibility issues. A great example is through our company-wide GREENIQ programme. By signing up to GREENIQ, employees can become environmental champions for their site, and join an online network with a forum and news portal.

We also hold a global competition to find the most sustainable Diageo sites, giving regions, sites and individuals the chance to win £15,000 to spend on an environmental improvement programme of their choice. The programme has proved both popular and effective, as shown by a recent survey by Yale students.

### 2011 Value survey results<sup>31</sup>

	% of favourable responses	movement from 2010
Passionate about customers and consumers	84%	+1%
Freedom to succeed	79%	79%
Proud of what we do	83%	+2%
Be the best	73%	=
Valuing each other	72%	=
Engagement	85%	=
Drivers	67%	=
Leadership index	73%	=
Super-engagement	39%	-2%

<sup>31</sup> Values survey is administered by Kenexa, one of the world's largest employee survey providers.

## Engaging hearts and minds across Northern Europe

Encompassing 10 markets, and around 350 colleagues, our business in Northern Europe was performing reasonably well according to feedback from our values survey. However, their good, 'middle of the road' scores were out of step with their desire to be a great place to work for all their people.

So last year, a cross-functional team of 15 colleagues from different countries got together to reflect carefully on all the feedback.

They then agreed on five priorities they believed would take Northern Europe from good to great:

- Managing workloads more effectively
- Remaining connected as a team across the geography of Northern Europe
- Improving P4G (Diageo's performance management process)
- Leadership
- Clearer and simpler processes - making it easier to get things done across the business.

The team worked hard to develop action plans for the five areas, each sponsored by a senior leader in the business. The approach taken to improve P4G is a great example. The team relaunched P4G, with the intention of making it 'the real thing' for colleagues across Northern Europe, focusing on great conversations about performance, development and careers. Workshops and 'lunch and learn' sessions encouraged line managers and employees to re-engage with P4G, and attendance was very



high. Regular communication and updates kept the team in touch with progress being made in all five priority areas, and with what challenges still needed to be addressed.

And the result? The 2011 values survey scores demonstrated progress across the board, with improvements in most, and a substantial improvement in super-engagement - up from 33% to 41%. There were also positive comments from the team who are now even more engaged in their work for Diageo - well worth all the hard work.

## Governance and ethics



Our reputation is critical to our commercial success and can only be created and upheld if we act with integrity in all our interactions with our stakeholders, from customers, consumers and suppliers to public officials and shareholders. Corporate governance – including our policies and procedures, and our regulatory environment – provide the framework within which we embed our compliance and ethics agenda. But acting with integrity goes beyond a framework, beyond compliance: it is about our culture, about how each of us behaves on behalf of Diageo, every day, in whatever situation we find ourselves. By establishing a culture that requires the very best from all of us, we will succeed in making Diageo one of the world's most respected and admired companies.

---

### In this section:

- Executive summary – page 60
- Regulatory environment – page 60
- Corporate governance – page 62
- Governance structure – page 63
- Our compliance and ethics programme – page 63
- Code of Business Conduct – page 64
- Other policies – page 64
- Performance – page 65

## Executive summary

Governance and ethics together is considered one of our key sustainability and responsibility impacts. Our compliance and ethics programme aims to ensure that everyone within Diageo understands what acting with integrity means, and that they carry this out in the course of doing business.

### Performance against targets

Last year we announced our target to roll out a comprehensive training programme to all employees in an effort to increase their competence and confidence in, and understanding of, our compliance and ethics programme. We are happy to say that we completed this goal ahead of schedule.

### Performance against targets

#### Target by 2015

All employees worldwide take part in the Compliance and Ethics Business Code of Conduct training

#### This year's performance 2010–2011

All employees completed training

#### Achievement

Achieved

### Our approach

Acting with integrity and upholding the highest standards of business ethics are essential to commercial success and can indeed create a competitive advantage.

To help our employees do business the right way, we have a comprehensive compliance and ethics programme, based on our Code of Business Conduct. The programme is organised into seven areas:

- Organisation and leadership
- Standards and procedures
- Training and communications
- Enforcement and incentives
- Due care in delegating authority
- Monitoring, auditing and reporting
- Response and continuous improvement.

Being open and transparent in our reporting is an important part of our approach, and this year we have expanded this section of our Sustainability & Responsibility Report to include a fuller discussion of governance and ethics.

### Highlights of the year

This year has seen a continued focus within Diageo on positioning compliance and ethics as a top business priority. Embedding an ethical culture has been core to our work, and has centred on regional and local engagement activities. This year we:

- **Included compliance and ethics objectives** in the performance reviews of employees from middle manager level upwards
- **Updated our Code of Business Conduct**
- **Implemented a global approach to training new employees** on the Code of Business Conduct and our compliance and ethics programme
- **Reviewed our approach to corporate governance** in light of changes in the UK regulatory environment, including the UK Bribery Act
- **Reviewed and updated many of our company policies**
- **Developed a set of key performance indicators and an action plan** for the coming year for our compliance and ethics programme.

## Regulatory environment

Alcohol is one of the most regulated industries in the world, with all aspects of the value chain subject to varying degrees of legislation or oversight by government authorities. Our ability to create a more valuable role for alcohol in society depends to a great extent on a balanced regulatory framework that provides a strong foundation for our programmes.

Virtually every aspect of our operations is regulated: production, product liability, distribution, importation, marketing, promotion, sales, pricing, labelling, packaging, advertising, labour, pensions, compliance and control systems and environmental issues. In some markets, such as the United States, much of this regulation is layered at multiple levels of government.

### An opportunity for ethical companies

A highly regulated environment can be an advantage for companies with good corporate governance and the right approach to business ethics. This regulation must be balanced to promote economic growth, and in the case of alcohol, allow the industry to play a positive role in society. It is towards these goals that we pursue our work with governments around the world to develop proportionate, effective regulation.

We believe that the most effective policies to reduce alcohol misuse are those based on the best evidence that account for drinking patterns, that target specific at-risk populations, that treat all forms of alcohol equitably, and that involve all stakeholders working toward a common goal. Therefore, Diageo actively supports effective and targeted alcohol policies at both global and local level.

### Public policy

Polymaking is a dynamic process which engages a wide range of stakeholders and interests. To be effective, policies should be based on evidence and be proportionate to

their objective. Alcohol is a highly regulated sector, and at any one time there is always a wide range of issues to do with alcohol consumption and misuse being debated around the world.

Diageo engages fully with policy makers and other stakeholders, either directly or through industry trade associations, on all these issues. We are committed to evidence-based, balanced policymaking and our engagement with governments and regulatory bodies is always professional, expert and ethical – and governed by our Code of Business Conduct. As well as our own experts, we retain external specialists as consultants or advisors to advise us on appropriate responses to and positions on policy issues. We are consistent in our views and positions wherever we operate around the world.

- You can read more about our work with different stakeholders on alcohol policy and regulation in the alcohol in society section
- See the corporate governance section for information on the more general regulatory environment of a UK-listed company.

## Public policy

Policy making is a dynamic process which engages a wide range of stakeholders and interests. To be effective, policies should be based on evidence and be proportionate to their objective. Alcohol is a highly regulated sector, and at any one time there is always a wide range of issues to do with alcohol consumption and misuse being debated around the world.

Diageo engages fully with policy makers and other stakeholders, either directly or through industry trade associations, on all these issues. We are committed to evidence-based, balanced policymaking and our engagement with governments and regulatory bodies is always professional, expert and ethical – and governed by our Code of Business Conduct. As well as our own experts, we retain external specialists as consultants or advisors to advise us on appropriate responses to and positions on policy issues. We are consistent in our views and positions wherever we operate around the world.

- You can read more about our work with different stakeholders on alcohol policy and regulation in the [alcohol in society](#) section.
- See the [corporate governance](#) section for information on the more general regulatory environment of a UK-listed company.

## Employees get together to fight corruption

**Corruption and bribery can be a significant challenge that impacts the ability of any company to contribute to sustainable development. Diageo is committed to operating with the highest ethical standards everywhere, something that is hugely important to our employees. In Cameroon, our staff decided to focus on engaging stakeholders on how best to address the issue more broadly.**

Following an internal Pathway of Pride event at Guinness Cameroon, which promoted Diageo's standards of ethics and integrity, employees in the business felt that stakeholders at large

## Tax affairs

Every year, our tax contribution accounts for a significant proportion of the value we contribute to economies around the world. Our approach to tax is based on three key principles:

- We are committed to paying tax in accordance with all relevant laws and regulations in the territories in which we operate.
- We are committed to the effective, sustainable and active management of our tax affairs in support of outstanding business performance in the territories in which we operate and, as with all other aspects of our business, to maximise shareholder value.
- We endeavour to develop and sustain good and honest working relationships with tax authorities and to encourage the representation of our views on the formulation of tax laws either directly or through trade associations or similar bodies.

Our tax footprint is made up of direct and indirect tax payments. Direct taxes include corporation tax, local business taxes and excise duties on our sales, as well as other sales taxes such as VAT. Indirect taxes include, for example, the payment of income and corporate taxes by our employees and suppliers.

should convene on the important topic of corruption. And so the idea for the Business Coalition against Corruption in Cameroon was born.

After gaining Government sponsorship for the Coalition, Diageo then came together with more than sixty other companies, NGOs and government bodies to discuss ways of tackling corruption, and to join the Coalition by signing up to an anti-corruption pact. The event, which included a presentation by Transparency International, the world's leading non-governmental anti-corruption organisation, made the front page of the main national newspaper, showing the importance and impact it had in Cameroon in sending out a clear message that bribery and corruption will not be tolerated.

Diageo is continuing to run workshops that train people in how to deal with corruption when they find it, how to avoid it, and how to report it, and we will be holding our second Pathway of Pride event across Africa in September 2011.

We make decisions on where to locate our operations based on a combination of market factors, commercial strategy, business implications, environmental impacts and taxation. Transactions between Diageo subsidiaries are priced on an arm's-length basis in accordance with the OECD Model Tax Convention.

## Looking ahead to emerging markets

Diageo's focus is increasingly shifting towards emerging markets, which represent the biggest growth opportunities for us in the future. Our challenge in new markets will be to develop the kind of relationships we have spent years building with governments and other industry stakeholders in our traditional markets. By doing so we will help to create a fair and competitive business environment in which value can be created for all stakeholders.



## Corporate governance

For Diageo, good governance is not merely a compliance exercise but something that supports the long-term success of the company. We also recognise that the quality of corporate governance ultimately depends on how people behave: there is a limit to the extent to which policies and frameworks can deliver good governance.

As a UK company listed on the London Stock Exchange and on the New York Stock Exchange, Diageo is subject to corporate governance rules in both the UK and the US. In general we follow UK corporate governance practice. More details of these can be found in the corporate governance section of our annual report (<http://annualreport2011.diageoreports.com/governance/corporate-governance-report.aspx>).

### Recent changes in corporate governance

Corporate governance and the general regulatory framework for business have undergone much scrutiny in the last few years, particularly due to the recent severe economic downturn. Following its 2009 review, in May 2010, the UK's Financial Reporting Council published a revised code of corporate governance, the UK Corporate Governance Code (the Code), which applies to Diageo from the current reporting year. This year also saw the passing of the new UK Bribery Act, which came into force on 1 July 2011.

### Our activity this year

This year we have done a lot of work around corporate governance to ensure that we are up to date if not ahead of changes in our regulatory environment and the expectations of us as a company.

- **Risk management:** the board carried out a review to determine the appropriate approach to risk for the business. This included evolving the role of our regional risk management committees to embed a more consolidated approach to risk throughout the company. You can find a separate section on risk factors and risk management in [our approach](#).

- **Company policies:** the audit and risk committees of the board reviewed Diageo's policies. We have simplified and rationalised our global policies, and have recently issued a revised set, along with guidance on the policies most relevant to particular parts of the business.
- **Further integrating compliance into mergers and acquisitions (M&A) work:** as we grow through acquisitions, ensuring that those acquisitions come up to the standards of governance we expect at Diageo becomes increasingly important. This year we integrated a more rigorous approach to compliance within our M&A process so that we can be confident of the standards of governance and ethics of our potential acquisitions.
- **Sustainability issues:** the board reviewed work on a number of our impact areas, including people and the environment, and our Code of Business Conduct.

## Maintaining our standards as we grow

Ensuring we have consistently high standards of ethics across our business gets more challenging as we acquire new businesses. This is particularly true in places that do not have the same standards and practices as we do.

'When entering a joint venture or acquiring a company, compliance standards are included at the very earliest stages of negotiation,' explains Sam Vijaya, Regional Compliance & Ethics Director, who works on integrating compliance into mergers and acquisitions in Asia-Pacific. 'Our counsel, David Harlock, and his

team assess compliance as part of due diligence, and there must be certain minimum values or the partner will need to agree to raise the compliance and ethics standards within a certain period of time.'

Once an agreement has been signed, it's Sam's job to work with the new company to ensure that Diageo's standards of compliance and ethics, embodied in our Code of Business Conduct (COBC), are adopted.

Sam has recently been working with new partners Shui Jing Fang, a Chinese distiller, and Halico, a Vietnamese brewer.

'The key to success is building a good relationship with the partner and getting them to understand the benefits of adopting a compliance programme, such as improving reputation,' he says. 'With both these companies, once the understanding was there, the enthusiasm followed'. Halico, for example, now aims to be a leader in Vietnam in this area.'



## Governance structure

Following is a summary of Diageo's governance structure. For full details, and further information on our board members, please see the governance section of our annual report (<http://annualreport2011.diageoreports.com/governance.aspx>).

### The board

The Diageo board consists of a chairman, chief executive, chief financial officer and eight independent non-executive directors drawn from a range of industries and countries. Of the two executive directors, one, our chief financial officer, is a woman, and women represent a third of our non-executive directors.

The board, in full session and through its committees (audit, nomination and remuneration), makes decisions, reviews and approves key policies and decisions of the company, in particular in relation to:

- Group strategy and operating plans
- Corporate governance
- Compliance with laws, regulations and the company's Code of Business Conduct
- Business development, including major investments and disposals
- Financing and treasury
- Appointment or removal of directors and the company secretary
- Risk management
- Financial reporting and audit
- Corporate citizenship, ethics and the environment
- Pensions.

In line with the Companies Act 2006, which sets out directors' general duties concerning conflicts of interest and related matters, the board has agreed an approach and adopted guidelines for dealing with conflicts of interest and has added responsibility for authorising conflicts of interest to the schedule of matters reserved to itself.

Each year, the board reviews its performance and that of its committees and the individual directors. This year the board commissioned a performance review by external consultants, which involved a written questionnaire followed by individual meetings with both executive and non-executive directors.

### Non-executive directors

The non-executive directors, all of whom the board has determined are independent, are experienced and influential individuals from a range of industries and countries. Their mix of skills and business experience is a major contribution to the proper functioning of the board and its committees, ensuring that matters are fully debated and that no individual or group dominates the board's decision-making processes. Through the nomination committee, the board ensures that plans are in place for the succession of both executive and non-executive directors.

There is a formal induction programme for new directors; they meet with the executive committee members individually and receive orientation training from the relevant senior executive in relation to the group and our business, for example in relation to our assurance processes, environmental policies and corporate responsibility policies and practices.

### Chief executive

As chief executive, Paul Walsh is responsible for implementing the strategy agreed by the board and for managing the group. He is supported in his role by the executive committee.

### Executive committee

The chief executive appoints and chairs the executive committee, which consists of the individuals responsible for the key components of the business: the regions where Diageo operates, global supply and other global functions.

The chief executive has also created other committees with ongoing remit to oversee certain areas and functions. They are:

- Audit and risk committee
- Corporate citizenship committee
- Finance committee
- Filings assurance committee.

## Our compliance and ethics programme

With this global programme we aim to create an exemplary compliance environment and embed a culture of integrity across the business. At its heart is our **Code of Business Conduct**, which sets out what we expect of our people, all of whom are trained on how to behave with integrity in business.

We are committed to conducting our business responsibly and in accordance with all laws and regulations wherever we operate. Our board of directors put in place the compliance and ethics programme to help us live up to this commitment. The programme is managed by our global compliance and ethics director who reports directly to the chief financial officer on all compliance and ethics matters.

We have a confidential independent whistleblowing service, 'SpeakUp', and we expect anyone who comes across a breach of our Code to report it immediately to his or her line manager, or to a member of the compliance and ethics, human resources or legal teams, or through the SpeakUp service.

### Programme summary and highlights of the year

Our programme is organised into seven areas, each of which has a plan of work for the year.

- **Organisation and leadership:** embedding the right culture across the business requires managers throughout the company to take it on board and implement it in their own areas.
- **Standards and procedures:** ensuring we have the right standards and procedures in place, and that they are clear to employees. This year we undertook a full review of our **global policies** to simplify them and make them easier to follow.

- **Training and communications:** employees must be given clear guidance on what is expected of them, and the messages must be reinforced frequently. This year we finished the roll-out of our global Code of Business Conduct training to all employees, and created a single induction programme on compliance and ethics for all new employees regardless of geography, role or grade. We have also sought to communicate more transparently with employees about Code breaches to enable continuous improvement.
- **Enforcement and incentives:** we take a positive approach to encouraging people to do business with integrity, although we also make clear that unethical behaviour is unacceptable and will be treated with the same seriousness wherever it occurs. This year we included compliance and ethics objectives in the performance objectives of all employees from middle manager level upwards. We also refreshed our disciplinary acquisitions.



framework which deals with compliance breaches, ensuring that it is clear and is operated consistently throughout the world.

- **Due care in delegating authority:** doing business with integrity is also about those outside Diageo – our partners and suppliers – and we encourage them to adopt our standards as far as we can. This year we updated our standards for suppliers, and began training them on its application. We also integrated a more rigorous approach to compliance within our M&A process so that we can be confident of the standards of governance and ethics of our potential acquisitions.

- **Monitoring, auditing and reporting:** ensuring that the programme delivers its objectives is essential for promoting ethical standards throughout the business. The audit and risk committees of the board review the programme and its performance frequently during the year.
- **Response and continuous improvement:** in order to keep our programme current and consistent with any changes in external laws or regulation, we reviewed it this year in light of the new UK Bribery Act.

---

## Code of Business Conduct

Our Code of Business Conduct sets the standard for what is expected of everyone working for Diageo. It provides comprehensive guidance on our commitments, how to do business, and what is expected of each of us – it is our code of ethical behaviour.

A code of conduct is only as good as its implementation, which is why all Diageo employees are trained on the Code. We also give refresher training and updates as the Code evolves with changing regulation and best practice. The board again this year mandated that all senior employees complete an annual certification to confirm their compliance with the Code, and to identify any areas of possible non-compliance. Our audit committee and audit and risk committee together oversee the operation of our compliance and ethics programme.

### Applicable to all

The Code applies to everyone working for Diageo worldwide regardless of location, role or level of seniority. We expect temporary and contract employees, consultants, agents and any other third party who acts in Diageo's name to act in accordance with the principles of the Code.

### Comprehensive and clear

The Code provides clear guidance on a number of areas, including:

- **Our products:** marketing and innovation; quality; international trade and free zone sales
- **Personal integrity:** gifts and entertainment; conflicts of interest; insider trading
- **Commercial integrity:** bribery and improper payments; competition and anti-trust; money laundering; accurate reports and accounts; data privacy
- **Employment:** health, safety and security; discrimination and harassment; responsible drinking

- **Company assets:** brand protection; confidential information; information security; records management
- **External activity:** external communications; political activity; community and charitable giving; human rights; environment.

---

## Other policies

Our Code of Business Conduct is underpinned by a number of global policies covering specific areas of our activities in more detail.

Policies are written not to pay lip service to rules and regulations but to explain to people what to do and how to behave. To be effective, therefore, they should be clear and to the point.

### Revised global policies

This year, we instigated a review of all our global policies to simplify them and make clear to whom they apply and in what situations. This resulted in the following set of revised global policies.

Our policies cover the following areas:

- Marketing
- Quality
- Competition and anti-trust
- Anti-money laundering
- Tax
- Data privacy
- Occupational health and safety
- Corporate security
- Anti-discrimination and human rights
- Employee alcohol
- Brand assurance
- Information management and security
- External communications
- Environment.

For more information visit [www.diageo.com](http://www.diageo.com)

## Performance

To date we have measured performance in terms of how confident employees feel about implementing the **Code of Business Conduct** (the Code) and reporting breaches; the number of employees trained on the Code; and the levels of breach of the Code and how they are reported.

### Values survey – confidence in the Code

In our values survey we ask employees two questions about the Code. This year the results were:

- 85% of employees answer positively to “I would feel comfortable raising any concerns about compliance or ethics with my line manager, or through SpeakUp”, from 81% in the previous year.
- 79% of employees answer positively to “My manager helps me understand how the Diageo Code of Business Conduct applies to my role”, from 74% in the previous year.

### Training

Our Code of Business Conduct training is designed to reinforce the commitments within our Code and help employees apply its contents to their day-to-day activities. The training covers the key areas of the Code and brings these to life through the use of scenarios. In addition to outlining what is expected of all employees, the training covers details of how to report breaches of the Code and how to access help and advice on a particular subject.

Since the launch of the revised Code in 2009, we have provided face-to-face training for all management-level employees globally and e-learning or face-to-face training sessions for all other employees. Those using our e-learning course are required to discuss the content and its specific application to their role with their line manager.

This year we created a single induction programme on compliance and ethics for all new employees regardless of geography, role or grade. All new recruits must have a conversation with their line manager about the Code and the expectations of them within the first two weeks of joining the company. They must also complete the Code e-learning programme or have face-to-face training within 30 days.

### Breaches of the Code and legal proceedings

We look into every breach reported to us that requires investigation. This year we refreshed our breach disciplinary framework, ensuring that it is clear and is operated consistently throughout the world, and raised awareness among employees of the importance of reporting breaches.

This year we report on a number of pending legal proceedings in the Annual Report (<http://annualreport2011.diageoreports.com/>). Our most material matter this year was finalised on 27 July when we agreed settlement of the previously disclosed U.S. Securities and Exchange Commission (SEC) investigation into potential alleged violations of the US Foreign Corrupt Practices Act (FCPA). The investigation related to payments involving Diageo’s subsidiaries in India, South Korea and Thailand. Under the settlement we agreed, without admitting or denying the SEC’s allegations, to pay \$13,373,820 to the SEC in disgorgement of profits and pre-judgment interest, to pay a \$3 million penalty to the SEC, and to cease and desist from committing any further violations of the books and records and internal controls provisions of the FCPA. We regret this matter and take the SEC’s findings seriously. Systems and controls have been enhanced in an effort to prevent the future occurrence of such issues and to reinforce, everywhere the Company operates, a culture of compliance and commitment to the principles embodied in Diageo’s Code of Business Conduct.

### Reporting breaches: use of SpeakUp facilities

Making sure that everyone feels confident about reporting breaches is essential if we are to ensure that unethical behaviour does not go unchallenged and unpunished at Diageo. One part of that lies in people’s confidence in speaking to their managers, as reported in the values survey results above; the other is the use that is made of our whistleblowing service, SpeakUp. This year, 23% of breaches were reported through SpeakUp, down slightly from 26% in the previous year.

### Looking ahead: more rigorous reporting of performance

This year we have developed a set of key performance indicators for particular areas of our programme:

- Organisational leadership and culture
- Training and communications
- Enforcement and incentives
- Monitoring, auditing and reporting.

Overall, our key indicator remains the number of significant breaches of the Code that are reported and proven; our target is to reduce this number each year.

## Our suppliers



We aim to ensure that the goods and services we procure are produced and supplied in a way that has a positive impact on society and the environment while still satisfying our commercial needs for quality, reliability, innovation and value for money.

This definition of sustainable procurement and our expectations of suppliers are set out in our Partnering with Suppliers ([www.diageo.com/Lists/Resources/Attachments/773/Partnering%20with%20SuppliersApril2011.pdf](http://www.diageo.com/Lists/Resources/Attachments/773/Partnering%20with%20SuppliersApril2011.pdf)) standard that all suppliers are contractually obliged to follow. Achieving these standards presents unique challenges in different parts of the world, so our approach is to work in partnership with suppliers to improve performance together.

---

### In this section:

- Executive summary – page 67
- Our supply chain – page 68
- Managing sustainability risk – page 68
- Supporting sustainable agriculture – page 70

## Executive summary

Much of the effect of our environmental, social and ethical impacts is felt in our supply chain. In some cases these impacts are directly related to the security of our supply, making sustainable procurement not only the right thing to do, but a strategic imperative for our business. While we cannot directly control our supply chain, we can help our suppliers improve their sustainability.

### Our partnership approach

We aim to work in collaboration with our suppliers and other businesses in the industry to maximise their positive impacts on society and the environment. As part of our programme, we work towards three goals:

#### Optimise due diligence

Diageo is a member of groups such as the Suppliers Ethical Data Exchange (SEDEX) and AIM Progress that give us access to social and environmental performance information. This allows us to identify areas of improvement with other companies and relieves suppliers of the duplication of working with many global organisations like ours.

#### Build capacity

Where possible, we help suppliers meet our standards through capacity building and training. Thus far we have engaged suppliers in a number of capacity building projects targeted towards the areas where we feel we can have the most impact, such as carbon reduction, water efficiency and animal welfare. For example, in Ireland, we have helped launch a sustainable agriculture project along with our main cream supplier and other key Irish stakeholders. The focus has been on areas such as carbon reduction, water efficiency and animal welfare. Likewise in Nigeria, we have provided support to a packaging supplier to help reduce overtime for their workers and create a safer working environment.

#### Support local businesses

The purchase of goods and services represents Diageo's largest single item of expenditure. We therefore see working with local suppliers as a significant opportunity to contribute to local economies, particularly in developing markets. Towards this end, where possible we work with local businesses and farmers. In addition to bringing economic and social benefits, this approach also simplifies our supply chain, reducing our costs and minimising our environmental impact. Our challenge is to move towards local sourcing as far as possible while meeting our high standards of quality.

#### Highlights of the year

- **We made significant progress in working with the Irish dairy industry**, which supplies cream for our Baileys products, to establish a programme to improve its sustainability. We brought together our cream supplier, the farmers they source from, a well known

environmental NGO and other stakeholders to form a multi-agency programme to enable our cream supplier to apply the sustainability principles we developed together to all their suppliers and customers, not just Diageo.

[Read more.](#)

- **We refreshed our supplier code 'Partnering with Suppliers'**. Having benchmarked it against best practice, we believe this is now one of the best supplier codes in the consumer goods sector. This included extending the confidential 'SpeakUp' helpline for employees to our suppliers as well. This accords with a call for effective access to human rights remedies as highlighted in a series of reports by John Ruggie, United Nations Secretary-General on the issue of human rights and transnational corporations and other business enterprises.
- We have **taken over the chairmanship of AIM-PROGRESS**, a forum for leading consumer goods companies to promote responsible sourcing practices and sustainable supply chains.
- In Africa, we have a **goal to source 65% of the raw materials** used at local sites from the region and are proud that currently we are up to 57%.

#### Outlook

As commodity prices rise, the challenge for our procurement team is to safeguard our commercial interests while upholding our reputation for fairness and ethical behaviour and assuring the sustainability of our supply chain.

More specifically, we will look at taking a more strategic approach to local sourcing and improving our performance in packaging, energy and ethical sourcing. We will report on progress in these areas next year.

### Performance against targets

Following is a summary of our performance against the targets we set out last year:

Target by 2015	This year's performance 2010-2011	Achievement
Launch sustainable agriculture sourcing guidelines	Launched in August 2010. For more information <a href="#">click here</a> .	Achieved
Develop an initiative on cream with the Baileys brand team, as the first of our priority materials	Launched programme with main cream supplier in Ireland focused on promoting sustainable dairy farming. For more information <a href="#">click here</a> .	Achieved
Ensure all 700 'potentially highest risk suppliers' complete a self-assessment through SEDEX. <sup>32</sup>	519 suppliers completed. For more information <a href="#">click here</a> .	Not achieved
Audit 50 highest risk suppliers and work with them to improve performance.	64 suppliers audited either by Diageo or through AIM-PROGRESS. While no significant issues surfaced, corrective actions relating to identified issues are being addressed. For more information <a href="#">click here</a> .	Achieved
Ensure that 50% of electricity for supply sites is renewable	52% is now renewable or low carbon. For more information <a href="#">click here</a> .	Achieved
Engage 30 suppliers in projects to support sustainable packaging improvements	More than 30 engaged. For more information <a href="#">click here</a> .	Achieved
Include key suppliers' environmental performance in our sourcing and supplier management processes	We created a pilot scorecard and engaged key suppliers but have since decided to join the 2012 CDP Supply Chain Project. For more information <a href="#">click here</a> .	Not achieved

<sup>32</sup> The target we set out in the 2010 Corporate Citizenship Report said we aimed to 'assure' 700 high-risk suppliers. This has been redefined to align with the Sedex process.

## Our supply chain

We source materials, ingredients, energy and services from businesses worldwide, through a mix of global, regional and local supplier relationships.

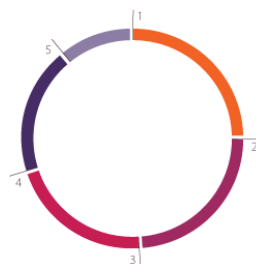
### What we buy

We spent around £3.6 billion on materials and services to support our global operations. They can be divided into the following categories, with relative spend shown in the chart:

- **Raw materials** – malting barley, sorghum, sugarcane, cream, grapes
- **Packaging materials** – glass, paper, board, plastic and aluminium
- **Logistics and transportation** – the services for distributing our materials and products around the world
- **Marketing materials** – the point of sale and other materials that promote our brands at retail customers' business sites and elsewhere

- **Information services and business support** – these are the businesses that for the most part support the activities of our offices around the world, including consultants, media services, travel, and so forth.

### Procurement spend by type



1. marketing materials – 25%
2. logistics and transportation – 24%
3. packaging materials – 21%
4. raw materials – 19%
5. information services and business support – 11%

### Where we buy

Our network of about 30,000 suppliers includes farmers, haulage firms, packaging manufacturers, and energy suppliers in over 100 countries. Currently the majority of our spend is in North America and Europe given that these are our largest sales markets. However, this balance is changing. For example, in Africa, we have a target to source 65% of our total materials locally, and currently source 57%. In Nigeria, Ghana and Cameroon, we are supporting the replacement of imported barley in brewing with locally-grown sorghum and maize, while in Uganda, we are working with close to 2,500 local farmers who produce barley exclusively for East African Breweries Ltd.

## Managing sustainability risks

Given that much of the effect of our environmental, social and ethical impact is felt in our supply chain, working with our suppliers is a crucial piece of our Sustainability & Responsibility strategy.

### Our standards and guidelines

We set out our system for managing the sustainability impacts of our supply chain in three main documents, Partnering with Suppliers, Sustainable Agriculture Sourcing Guidelines, and Sustainable Packaging Guidelines.

#### Partnering with suppliers

'Partnering with Suppliers' is the principal standard for our suppliers. It sets out the minimum social, ethical and environmental standards we expect, and suppliers must adhere to them as part of their contract with us. It also sets out additional standards that we encourage companies who wish to be our long-term partners to work towards, and provides the platform for building mutually rewarding relationships.

This year we refreshed this standard to ensure it is clear to suppliers what constitutes a minimum requirement as opposed to a standard to work towards. It covers the following key sustainability areas:

- **Ethical business practices** – we emphasise our **Code of Business Conduct** standards, and require suppliers both to comply with legislation and to commit to working against corruption, extortion and bribery.

- **Human rights** – we recognise International Labour Organisation standards for safe working conditions, fair pay and reasonable hours, and require our suppliers to maintain a safe working environment as a minimum condition, while encouraging them to endorse the Universal Declaration of Human Rights.
- **Health and safety standards** – we expect suppliers to maintain a safe working environment including providing access to safety equipment and trainings. We also encourage them to conduct routine risk assessments, to improve health and safety standards continually, and to adopt health and safety management systems that can be externally verified and certified.
- **Environmental impacts** – we expect suppliers to have an environmental policy and encourage them to set out our commitment to reduce energy, waste and water, and ask suppliers to demonstrate a similar commitment by monitoring and improving their performance.
- **Responsible drinking programmes:** we explain our commitment to responsible drinking, and encourage our partners to make use of our information and experience in creating a more positive role for alcohol in society.

We distributed the refreshed standard to our key suppliers and have received positive feedback from many of them that it is much clearer, particularly because of its clarity and comprehensive scope.

#### *Sustainable agriculture sourcing guidelines* ([http://ccreport2010.diageoreports.com/media/3689/Agricultural\\_Sourcing\\_Guidelines\\_v0.13.pdf](http://ccreport2010.diageoreports.com/media/3689/Agricultural_Sourcing_Guidelines_v0.13.pdf))

Given the particular social and environmental impacts of the agricultural side of our value chain, Diageo developed specific agricultural guidelines to expand on 'Partnering with Suppliers'. Directed at our raw material suppliers, and the farmers managing the land, these guidelines encourage commitment to good environmental practices, fairness to workers and wider economic benefits for grower communities. Since launching the guidelines we have received positive feedback from our stakeholders.

#### **"These [sustainable agriculture sourcing guidelines] represent a practical mix of minimum standards and aspirational direction"**

– Mercedes Tallo, Director, Sustainable Value Chains, Rainforest Alliance

#### *Sustainable packaging guidelines*

For us, sustainable packaging means packaging designed with the lowest possible environmental footprint while retaining its core functions of protecting, delivering and presenting our products and brands. We are examining our packaging to identify materials that pose a potential risk to the environment, such as inks and heavy metals, and to replace them with viable alternatives where they exist. We expect and encourage our suppliers to achieve high standards and consistent progress along these lines in the sustainable and ethical production of all our packaging.

This year we established sustainable packaging guidelines to help us towards this goal. We also discussed the guidelines with two sets of suppliers – a working group in Europe that we convened to talk through our guidelines to help identify realistic solutions, and a broader supply conference in the US.

### Social and ethical risk management

To embed our standards and guidelines into our supply chain, we have developed a four-stage process for managing social and ethical risks (including human rights):

1. **Initial screening:** a series of key risk-based questions which our procurement team applies to all current and potential suppliers. Criteria for identifying high risks include analysis of country of origin, type of goods or service, potential impact on a global brand and use of temporary or casual labour.
2. **Pre-qualification:** a questionnaire that focuses on any areas of concern raised in stage one.
3. **Qualification:** any potentially high-risk suppliers are required to register with the Suppliers Ethical Data Exchange (SEDEX) (see below), and to take the SEDEX self-assessment questionnaire.
4. **Audit:** suppliers who represent the highest potential risk are audited against SEDEX standards. We agree corrective actions to address any gaps, and work with suppliers to help raise their sustainability standards. These audits cover the following areas: forced labour, wages and benefits, hours of work, freedom of association, child labour, discrimination, abuse of labour and health and safety.

### Collaboration

In an effort to reduce audit fatigue for our business partners, we work collaboratively with SEDEX, a not-for-profit organisation that enables global suppliers to share assessments and audits on ethical and responsible practices with their customers. Suppliers pay for their participation as this allows them to own their data and share their reports with many customers.

We are also an active member of AIM-PROGRESS, a forum for leading consumer goods companies to promote responsible sourcing practices and sustainable supply chains. This year we took over the chair of this initiative for a three-year period. With over 20 companies and 8,000 suppliers involved, AIM-PROGRESS aims to develop and promote the use of common evaluation methods, and drive efficiencies for all companies by collecting, assessing and sharing non-competitive information on supply chain sustainability performance. By doing so:

- Suppliers avoid the cost and confusion of undertaking a new audit with every major customer.
- Customers can assess suppliers, and improve their supply chain efficiency, using a set of internationally-recognised standards.

### Performance

Our target has been, through our collaboration with Sedex, to ensure all 700 'potentially highest risk suppliers' complete a self-assessment through SEDEX1. Highest risk is based on industry type, location, or association with our brand. This year, 734 supplier sites were linked to Diageo via SEDEX. Of these, 519 suppliers completed the self-assessment module. While some small areas for improvement have been identified so far, no major issues have been found. For those suppliers that did not complete the self-assessment, we will work to have them complete it and support suppliers to close off any corrective actions.

For additional due diligence, we obtained audit information for 64 of the highest risk suppliers either through audits we commissioned directly or that we obtained through the collaborative work of AIM PROGRESS. While we did not come across significant issues, corrective actions relating to identified issues are being addressed. The most common areas of concern were around excessive working hours, migrant labour and use of casual labour. In general, risks were found to be highest in the merchandising materials and agricultural goods categories. We will be looking at how we can improve our management of these areas in the coming year.

### Environmental risk management

Unlike our work to manage social and ethical risks, we do not have a formal system for managing environmental sustainability in our supply chain. This year, we drafted an environmental scorecard that was meant to be a self-assessment tool, however we decided that such a proprietary system wasn't necessarily the best approach for our partners, who are already burdened with many requests. In the coming year, we aim to collaborate with others, such as the Carbon Disclosure Project, on certain environmental measures in an effort to leverage internationally-recognised standards, and avoid duplicating work for our suppliers.

That said, we have made large gains in addressing what environmental sustainability means for the procurement of our raw materials. This year we launched our Sustainable Agriculture Sourcing Guidelines. We recognise that sustainable farming methods vary by industry, and have begun to examine what additional programming would be necessary to help our suppliers adopt and customise these guidelines to their model, starting first with one of our largest suppliers of cream.

Additionally, we have begun to set up systems in our procurement strategy for improving performance against our operational environmental targets – particularly our goal to reduce carbon emissions by 50%. This year we made progress in a project to switch our procurement of electricity to low-carbon sources, negotiating new supply arrangements that will bring us much closer to our target. In 2011, 52% of all Diageo's electricity came from low-carbon sources such as wind, hydro and nuclear. In the UK and Northern Ireland, 100% of our electricity now comes from low-carbon sources. Overall this means we have reduced our carbon emissions by 35,000 tonnes per year – the equivalent of taking around 24,000 cars off the road.

## Upholding our standards in all circumstances

Holding suppliers to our high standards can be challenging – both for them and for us – but it is essential if we are to live up to our values. Sometimes an audit finds breaches of our Partnering with Suppliers Policy – and we have to act. We always try to work with our suppliers to bring them up to our standards, but if they can't or won't, then we have to end the relationship.

In 2009, our Africa procurement team commissioned several independent ethical audits of Nigerian suppliers who had been classified as 'highest risk' following their Sedex self-assessments.

The audit of one of our label producers found particularly concerning instances of bad practice in the company, including compulsory and unpaid overtime, lack of workers' representation and some serious health and safety issues. All these practices contravened the Policy.

We met with the supplier and using the audit report, developed a corrective action plan to address the issues. Our aim was to work with them to help make necessary improvements, which could then be assessed through a follow-up audit. This included using our health and safety experts to advise them on essential improvements in the factory and meetings with our human resources team to help them understand how a transition to three-shift working would actually improve productivity, as well as reducing the overtime. However, the company's management were slow in addressing the issues and giving us any of the assurances we needed. As a result, we progressively moved the business to other suppliers.

## Partnering with Suppliers

In 2011, to confirm the position, we requested, a follow-up independent audit. This showed that, while many issues had been addressed and improvements made, there were still major areas of non-compliance, especially in excessive compulsory overtime, so at that point we finally terminated their contract with us.

With all our suppliers we do our best to help them comply with our standards. But ultimately our responsibilities are to all our stakeholders, and it's only by upholding our standards in all circumstances that we can fulfil those responsibilities properly.

## Supporting sustainable agriculture

Agricultural inputs account for about 15% of our overall procurement spend, however they have a disproportionate impact on social and environmental issues. For example, we believe as much as 90% of our impact on water in certain areas could come from our sourcing of raw materials.

Our approach to managing these particular suppliers is set out in our Sustainable Agricultural Sourcing Guidelines ([http://ccreport2010.diageoreports.com/media/3689/Agricultural\\_Sourcing\\_Guidelines\\_v0.13.pdf](http://ccreport2010.diageoreports.com/media/3689/Agricultural_Sourcing_Guidelines_v0.13.pdf)). In addition to managing environmental impacts, we also aim to contribute to the social and economic sustainability of local communities by sourcing ingredients from local farmers wherever possible.

### Our agricultural supply chain

We source agricultural products such as cereals, sugar, cream and grapes from about 150 first-tier suppliers worldwide, with whom we have direct relationships, and thousands of second and third-tier suppliers, with whom we have indirect relationships. These suppliers range from large agri-businesses to smallholder farmers. We believe it is our responsibility to work with every link in these supply chains to bring about more sustainable agricultural practices.

### Priority raw materials

We have identified four agricultural ingredients where we can make a significant contribution towards supporting local production. In identifying these materials, we assessed the size and nature of our spend and the risks and opportunities involved.

- **Malting barley** – one of our largest ingredients by spend, used for a range of Diageo brands including Guinness and Johnnie Walker. We mainly source our barley from Scotland, Ireland and Kenya, where it is processed locally.
- **Sorghum** – an ingredient in our African beer brands sourced mainly from Nigeria, Ghana and Tanzania. As a drought-tolerant crop, sorghum offers opportunities for supporting the local market while securing a sustainable supply for our products in water-stressed regions.
- **Sugarcane/spirit** – used in a wide range of Diageo brands, including Smirnoff, Baileys and Captain Morgan, and sourced from the main sugarcane growing countries of the world.
- **Cream** – the single largest ingredient for Baileys, with a very strong supply base in Ireland. Dairy farming is prompting some environmental and social concerns, and we are committed to engaging relevant stakeholders on improving sustainable cream production in Ireland. [Read more.](#)

### Environmental impacts

Tackling environmental impacts in our agricultural supply chain is integral to achieving our broader environmental ambitions. We expect our agricultural suppliers to demonstrate their own commitment to the environment, and, in our guidelines, set out what we expect of them in terms of:

- Environmental management systems
- Reducing water use and pollution, and improving efficiency, especially in water-stressed areas
- Preventing soil erosion
- Protecting biodiversity
- Reducing energy use and carbon emissions
- Ensuring animal welfare.

### Social impacts

Some of our agricultural inputs are sourced from countries where living standards and incomes are low and working conditions variable or poor. Through our suppliers, we can play a positive role in supporting local economies and livelihoods in these countries. Our guidelines set out our minimum requirements in the areas of fair working conditions, health and safety, and child labour as well as our targets for improving performance through our supply chain.

## Baileys Cream

As one of our priority raw materials, supplied mainly by one key supplier in Ireland, cream seemed a manageable starting point to test our new sustainable agriculture guidelines. When we first approached our main cream supplier, Glanbia, to understand what sustainable agriculture means for them and the dairy industry, they were initially cautious. Believing their own operations were well managed, they questioned the value that such a programme could add.

Fast forward to today, and our supplier now sees our work together on sustainable cream to be a key differentiator in the dairy industry. Glanbia has already begun to develop their own farm quality assurance scheme to evaluate their suppliers' performance, and are using this scheme to identify areas for continuous improvement in sustainable agriculture.

Over the course of the year, we have been working with Glanbia to:

- Help develop their farm programme, which now includes sustainable criteria
- Establish an awards scheme that rewards farms for continuous improvements
- Develop 'best practice guidance' material.

To start the project, we engaged a consulting firm to benchmark the inherent competitiveness of the Irish dairy industry against global peers, and identify its potential value. The feedback was that there is an inherently positive story. Rain-fed temperate grassland dairy farming, such as is found in Ireland, ranks among the most sustainable forms of dairy farming in the world. The firm outlined the indicative value for both Glanbia and Diageo in terms of risk mitigation, cost savings and brand growth opportunities.

Given that confidence, we then worked with our supplier to define what a sustainability



programme should look like. Part of the initiative was to help develop an advisory committee, on which Diageo sits along with members of the private, independent and public sectors. Among the topics this committee plans to address are greenhouse gases, water and animal welfare. Through this work, we see great potential both for the ongoing sustainable credentials of the Baileys brand and for making a real contribution to the sustainability of the Irish dairy sector.

'Having worked with Diageo over the past year, we are very excited with potential wins for all stakeholders (Diageo, Glanbia and milk suppliers) that can be achieved by driving for excellence in the area of sustainable dairy farming,' said Jim Bergin, CEO Glanbia Dairy Ingredients Ireland.



## Our customers and consumers



A note on definitions: for Diageo, our customers are the retail and hospitality groups through which we sell our products. Shoppers buy our products, especially in stores, and consumers are the individuals who ultimately drink our products.

---

**In this section:**

- Executive summary – page 73
- Making an impact with consumers through our brands – page 73
- Working with customers to maximise our positive impact – page 75
- Food safety and quality – page 77

## Executive summary

People today are far more concerned than they have ever been about sustainability issues. Shoppers and consumers are showing greater interest in sustainability issues. Additionally, our customers are starting to look for suppliers who meet their stringent sustainability criteria, which in turn are driven by regulatory, commercial and consumer demands.

Sustainability issues are not new to our brand and sales teams. The distinctive square shape of the Johnnie Walker bottle, introduced in 1870, for example, not only saved glass, but took up less space when packed for export, giving us a competitive advantage. We have also used our brands to reach shoppers and consumers with responsible drinking messages.

### Highlights of the year

- **Smirnoff** launched an exciting partnership with **Carrefour** in Brazil to encourage glass recycling in branded bins, and awarding consumers with a promotion on their next purchase. **Read about** how the programme benefited stakeholders all along our value chain.
- **Diageo partnered with Real**, part of the Metro Group, in a responsibility campaign that engaged 500,000 consumers and was evaluated positively by 80% of its participants. **Read more.**
- In its latest engagement campaign, **Johnnie Walker** promoted Diageo's consumer information site DRINKiQ at the Turkish Grand Prix through its partnership with the Vodafone McLaren Mercedes F1 Team.
- In November, **Captain Morgan** launched the One Million Poses campaign, an innovative consumer campaign to raise money for the First Mate Fund which finances responsible drinking initiatives and community support.
- In response to the terrible floods in Queensland, Australia, Diageo launched a limited edition collectors' rum called '**Watermark**' to raise money for relief efforts.

### Outlook

We aim to focus on integrating sustainability considerations further into our commercial strategies, working closely with our customers to identify and meet their needs, while engaging shoppers and consumers on issues of interest to them. Programmes with customers will range from working with Metro to help their professional shoppers be more responsible servers and sellers of alcohol, to supporting Tesco's aspirations to reduce carbon. As we refine our **stakeholder engagement programme**, we will get a deeper understanding of what initiatives are of mutual interest to our customers, consumers and our own business.

## Making an impact with consumers through our brands

Many people's opinions of a company and its products are increasingly shaped by their track record in being a sustainable business. And because technology now allows consumers to share their opinions with millions of others at the click of a button, brands and companies have to be authentic as well as being as transparent as possible.

We believe that when sustainability activities are done well, they engage consumers to become partners, which is a great way to build a brand. When we held a series of celebrations for Guinness's 250th anniversary, we launched The Arthur Guinness Fund to continue the philanthropic legacy of the brand's founder, and we succeeded in driving further participation in, engagement with and affinity for the Guinness brand.

But beyond the commercial impact, we recognise that reaching consumers through our brands can help to change attitudes and behaviour – whether on responsible drinking or on other social and environmental issues. In this way, our brands ultimately have the ability to leverage the impact of our sustainability and responsibility programme.

### Responsible marketing practices

For us, world class marketing means not just responsible marketing, but also marketing responsible drinking. For this reason, we established a code of marketing practice to mandate minimum global standards for all of our marketing activity. This goes beyond existing regulations and industry codes, which all our marketing must comply with in any case. Our local businesses may strengthen the code to address specific local issues, but may never weaken it. Rather than hampering great marketing, we believe that such constraints challenge our marketers to come up with more creative and ingenious marketing ideas. Following are some examples of our brands' responsible drinking campaigns this year.

- **Johnnie Walker – Formula 1:** this brand is a corporate partner of the Vodafone McLaren Mercedes F1 Team, and we have used this relationship to promote responsible drinking for six years now. At the **2011 Turkish Grand Prix**, Johnnie Walker replaced its name branding on drivers' helmets, racesuits and cars with the 'DRINKiQ' logo. **www.DRINKiQ.com** is Diageo's global resource to help people make responsible choices about alcohol consumption. Grand Prix champions Mika Hakkinen and Lewis Hamilton are ambassadors for a campaign called **Join the Pact**, which encourages consumers not to drink and drive, and to appoint a non-drinking

'designated driver' to transport people who have been drinking.

- **Johnnie Walker – World Cup cricket:** we promoted responsible drinking in Trinidad and Barbados through a media campaign around the ICC Twenty20 World cup using iconic cricketer Sir Vivian Richards as an ambassador for the message: "Be a Giant. Don't Drink and Drive". Our research showed that the campaign message is understood and relevant for consumers, and that Johnnie Walker stands out as a brand that cares about its consumers drinking responsibly.
- **Captain Morgan:** in November 2010, Captain Morgan launched the One Million Poses campaign, a coast-to-coast pursuit in the US to inspire one million people to strike his iconic 'Captain's Pose'. For each Pose collected, the Captain donates \$1 to the First Mate Fund, which was established to support responsible drinking initiatives and other programmes that benefit the community. First Mate Marisa Miller is the face of the fund, and has been travelling the country encouraging fans to 'Pose with Purpose'. To date, Captain Morgan has raised \$276,000 (£168,000) for good causes across the country.

### Brands addressing broader sustainability issues

Increasingly our brand teams are finding ways to connect with consumers through campaigns that address social and environmental issues. In some cases this work supports charitable causes and in others it seeks to change consumer attitudes and behaviour. Below are a few of the largest examples of such activity:

- **Smirnoff's Glass is Good Campaign:** in a win-win-win relationship, Smirnoff partnered with its glass supplier and customers in a recycling project geared towards keeping bottles out of landfill. [Read more.](#)
- **The Arthur Guinness Fund:** The Arthur Guinness Fund (AGF) aims to continue the philanthropic legacy of founder Arthur

Guinness by investing in social entrepreneurs of the future. Diageo announced an increased investment in the Fund in 2010, which saw the total investment committed to global projects rise from €6.0 (£4.9) million to €7.4 (£6.0) million.

- **Watermark:** In response to the terrible floods in Queensland, Australia, the Bundaberg Distilling Company helped mark the resilience and courage of local communities in the face of natural disaster through Watermark, a series of special events that raised funds for recovery efforts. Coinciding with the day of celebration, Bundaberg Distilling Company launched a limited edition collectors' rum entitled 'Watermark' that provided another opportunity to raise further money for natural disaster relief.

## Glass is Good

**Glass is indeed good when it's recovered and recycled; not so good when it's discarded to become litter or landfill. We are finding ways to recover glass that not only improve the environment, but offer training, jobs and opportunities in economically disadvantaged communities.**

Through our Glass is Good campaign in Brazil, we offer vouchers worth half a Brazilian dollar for bottles returned to the Carrefour chain of supermarkets. In the first month of the programme we collected 21,000 empty bottles, which were returned to our glass supplier, Owens-Illinois, and recycled.

Building on this success, we have extended the programme to bars, restaurants and events organisers. After eight months of raising awareness in the Brazilian catering industry, we collected 484 tonnes of glass.

We are also supporting the Brazilian Government in its commitment to developing recycling co-operatives among communities, by partnering with the Vira-Lata Co-operative. Its members collect empty bottles in bars, supermarkets and apartment blocks. We supply training, safety equipment and other kit, and have sponsored a collection van.

The campaign not only brings economic opportunities to local communities, but enables Diageo and our supplier to make cost savings, and reduces volumes of waste to landfill. Moreover, as melting down broken glass to make new bottles is a more energy-efficient process than manufacturing new containers from scratch, we are able to reduce greenhouse gas emissions in our supply chain.



## Working with customers to maximise our positive impact

We see our customers as a key resource in our work to change consumer attitudes and behaviour, particularly around responsible drinking. Likewise our customers are increasingly seeing their suppliers, including Diageo, as resources to improve their own sustainability performance. While we already partner with many customers, we look forward to further collaboration on our broader sustainability and responsibility programme.

Our customers range from global retailers to convenience stores, bars and restaurants to governments ('control states' in the US). We collaborate with our customers to help promote issues of sustainability and responsibility with their shoppers and drinkers. Our work this year has been primarily with large global retailers on programmes addressing responsible drinking and, in some cases, environmental sustainability.

### Responsible drinking

Following are some of the customer partnerships we have worked on this year in an effort to reach consumers on issues of responsible drinking:

- **Real:** In Poland we partnered with Real, part of the Metro Group, to spread the message 'Alcohol is responsibility'. The campaign won approval from consumers and was described by Metro Group as an example of best practice in corporate social responsibility. [Read more.](#)
- **Retailer 18+**, a project implemented in partnership with major off-trade retailers throughout Latin America and the Caribbean, designed to restrict underage drinkers' access to alcohol products.
- **Walmart:** we partnered with Walmart Brazil to launch a programme to prevent alcohol sales to minors and to train staff on the importance of checking identification.
- **US alcoholic beverage control states:** certain US states have a monopoly on selling some or all categories of alcoholic beverages. In this way, these 'control states' are main customers for Diageo. This year Diageo worked within control states to implement a variety of local social responsibility projects aimed at combating underage drinking and over-consumption.

### Environmental sustainability

We have also been working with customers on environmental sustainability issues. Following are some examples of our work this year.

- **Carrefour:** Smirnoff worked with Carrefour to promote recycling by putting a branded recycling machine into stores, rewarding consumers for returning bottles.
- **Walmart** is working with Diageo and other key suppliers to ensure that the products they buy are manufactured to high environmental standards and that brand containers and outer packaging are both efficient and sustainable. This is being reinforced by Walmart's introduction of a sustainability scorecard that assesses each product line for its environmental impacts.

Also, last year, Diageo's brand teams worked to develop sustainable packaging guidelines that, in addition to reducing our own environmental impact, aim to help our customers reduce theirs as well. [Read more.](#)

## State partnerships support responsible drinking

As well as being one of our wider stakeholders, some government bodies are also customers of Diageo – namely those US states which have a monopoly on selling some or all categories of alcoholic beverages. We view these 'control states' the same as we view our private sector customers – as partners to work with to promote responsible drinking.

This year we worked with Oregon, Mississippi and Virginia on a variety of local responsible drinking projects.

### Safe holidays in Oregon

We worked with the Oregon Liquor Control Commission (OLCC) on a campaign to promote responsible drinking during the holidays, including public service announcements to remind Oregonians that holiday drinking and

party planning can be handled in a responsible and sensible manner. 'We want folks to have a fun, memorable holiday season. And we want them to remember it for all the right reasons,' says Rudy Williams, OLCC Deputy Director of the Public Safety Services Program. 'We're proud to say this is the third year we've partnered with local industry representatives to provide important messages about drinking responsibly during the holidays.'

### Students celebrate safely in Mississippi

This year students in Mississippi benefited from the life-saving lesson we've been bringing through the Century Council to high schools in the US around prom and graduation seasons. For the last 14 years we have worked with Brandon Silveria and his father Tony, who go to schools to speak to students about the importance of 'making the right choice' about alcohol. Brandon was involved in an alcohol-related crash when he was 17, just before his high school prom.

'We want to make sure that our products stay out of the hands of youth under 21 and we know that educating them about the dangers of underage drinking can help,' says Guy Smith, Executive Vice President of Diageo North America. 'Prom season is a critical time for Brandon to share his powerful message, and our aim is to raise awareness about the serious problem of underage drinking and drunk driving and assist our youth to make the right choice about alcohol.'



### Helping the elderly in Virginia

We worked with the Virginia Department of Alcoholic Beverage Control to broadcast a series of public service announcements in the Northern Virginia/ DC media market. These were designed to educate customers and carers about alcohol misuse among Virginia's ageing population, and hope this initiative at the Turkish Grand Prix will further increase awareness of DRINKiQ."

## Promoting responsible drinking in Poland

Our customer Real is a major hypermarket chain in Poland, and part of the Metro Group a strategic global customer. In March 2011, in partnership with Real, we ran our second annual 'Alcohol is Responsibility. Drink Responsibly' campaign – marking an evolution in the way we communicate about this important issue directly to shoppers.

The campaign is based on '4 party rules', designed to encourage adults to consume alcohol responsibly. The rules are:

1. Have a glass of water between every drink.
2. Remember to eat when you drink.
3. Don't drink if you're under age.
4. Don't drink and drive.

These rules were prominently displayed on in-store promotional stands and other materials, with hostesses on hand to explain the campaign. Shoppers who signed the declaration 'I don't drink and drive' received a car sticker. On the internet, people could sign up on our Facebook 'drunk driving' page. Professor Iwona Wawer of the Warsaw Medical School represented the campaign in the media, adding to its credibility and impact.

### Positive results

The campaign, which ran from March-May 2011, received a very positive response.

- Consumers evaluated it as believable, informative and useful
- 36,127 people signed the 'I don't drink and drive' declaration in store
- 6,200 people signed the Facebook declaration.



Research among Real shoppers found that the most effective messages are quite nuanced, and need to be reinforced in different ways. Consumers presented only with the campaign message, without exposure to the full programme, understood that it was warning against drinking and driving (43%). After seeing the 2011 campaign material, they also understood the more subtle messages of responsible drinking (27%) and the rules of having good fun with alcohol (21%).

We were delighted to work with Real for a second year, cementing our relationship not only as partners in business but also helping their shoppers enjoy our brands responsibly.

## A responsible drink is a good one

Diageo is the world's leading supplier of alcoholic drinks, but we also aim to be the world's leading proponent of responsible drinking. We want our consumers to have a good time tonight, a safe journey home, and a clear head in the morning. That's our idea of good business. Wherever Diageo products are sold our labels, logos, signs or campaigns encourage people to drink responsibly.

In Brazil Diageo partnered with Walmart, one of our biggest outlets, to give staff special training on why alcohol should not be sold to those under 18. In the USA we promoted the federal 'We don't serve teens' campaign. And in Poland we've really stepped up our efforts with the 'Alcohol is responsibility' campaign.

In partnership with the Real chain of supermarkets Diageo has been putting up posters and raising awareness of the responsibilities of a responsible drinker. Sometimes, it's the small things like making sure that you eat on a night out or alternating alcoholic and soft drinks. Sometimes it's the big things, like not drinking and driving. So we've been promoting a campaign where customers actually sign a pledge never to drink and drive. You can join up yourself on Facebook.

We never want people to regret enjoying our products. That's why we work to make sure responsible drinking is on all our labels.



## Food safety and quality

Quality is a key part of our relationship with our customers, shoppers and consumers, who trust our brands to be safe and high quality, with great packaging design. Our purpose of 'celebrating life every day, everywhere' is underpinned by a rigorous global quality policy.

### Global quality policy

Our **global quality policy**, which applies to all our businesses and joint ventures, covers quality requirements from design, through production and sales. This includes the necessity for accurate labelling which must comply with regulations in both the country of manufacture and the intended markets. We also require our suppliers to comply with the policy.

As set out in the policy, our quality objectives are to design and produce brands in a way that:

- Ensures they are always safe for consumption and meet all applicable regulations

- Meets the needs of our customers and expectations of consumers (safe, defect-free, fully functional and with a consistent taste)

- Protects our brands and reputation.

Our aim is to deliver the brand promises we make to every consumer on every occasion. Additionally, the premium status of many of our products means that we often exceed market requirements and quality norms. To deliver on this promise and fulfil consumer expectations, our standards are designed to address even the smallest 'defects' such as a tiny label tear or glue smear.

### Performance this year

We measure quality standards internally (defects) and externally (customer and consumer complaints).

- **Defects:** Our liquids are stringently tested before packaging such that the safety and quality of our liquids is assured. Our complex and highly automated packaging processes can sometimes give rise to aesthetic defects. To deliver the highest level of customer satisfaction packaging quality was made a bigger strategic priority this year, resulting

in a 27% reduction in aesthetic defects leaving our manufacturing sites.

- **Customer and consumer complaints:**

We gather customer and consumer complaints through our consumer care lines and customer networks. All complaints are investigated and the information is used to eliminate future problems. We aggregate complaints data regionally and globally, and have a target to reduce the number of complaints we receive each year. This year our global rate of complaint was just 39 concerns\* per million units sold.

\*Note all concerns are recorded even if there is no evidence or proof of fault on Diageo's behalf.

## About this report

Diageo has published an annual global Sustainability & Responsibility Report since 2003. The report has become an integral part of our corporate disclosure and reporting practice, and every year we publish it alongside our Annual Report.

Last year we decided to move our reporting online to make our content more accessible to a wider audience. Alongside the website, we publish a summary report which we make available to our employees and investors as well as distributing selectively to other stakeholders. A pdf is available by download from this website, and a hard copy is available on request.

This year we changed the report's name to the 'Sustainability & Responsibility Report' to reflect how our programme and accordingly this report have evolved over the years. 'Sustainability' reflects how we take into account our wider economic, social and environmental impacts throughout the value chain, and how our non-financial performance supports the long-term success of the company. 'Responsibility' reflects our particular role as a beverage alcohol company in promoting responsible drinking.

We welcome stakeholders' views on our report and on our approach to sustainability and responsibility in general. To give your comments on this report please contact us at [CSR@diageo.com](mailto:CSR@diageo.com). We hope that you enjoy this report and we encourage you to give us your feedback.

---

### In this section:

- **Scope and boundaries** – page 79
- **Principles of management and reporting** – page 80
- **Reporting methodologies** – page 81
- **Assurance** – page 84
- **GRI Index** – page 87

## Scope and boundaries

This report is intended for all of Diageo's stakeholders, as defined in 'Our approach'. It explains our key social and environmental impacts, setting out our goals and strategy, and what we have done in the past year through our various programmes in pursuit of those goals.

The report outlines our programmes, describing our goals to:

- Create a positive role for **alcohol in society**
- Address the global **water** challenge at a local level in our operations and the communities in which we operate
- Contribute to broader **environmental sustainability**
- Contribute to the social and economic development of **our communities**
- Create a great place to work for **our people**
- Hold ourselves to the highest standards of **governance and ethics**
- Partner with **our suppliers** to increase the positive impacts of our supply chain
- Work with our **customers and consumers** to ensure we have a positive impact outside our operations

The report refers back to targets set out in our 2010 Corporate Citizenship Report and assesses our progress in meeting them. We continue to refine our strategies, programmes, and reporting areas using feedback we get from our stakeholders through our engagement programme.

### Reporting boundaries

This report covers the global operations of Diageo plc in the financial year ended 30 June 2011. Dates refer to financial years unless otherwise stated. The following are boundaries for the various figures found throughout the report:

- **Financial data** include the results of the company and its subsidiaries together with Diageo's attributable share of the results of associates and joint ventures. The results of subsidiaries sold or acquired are included up to, or from, the date that control passes. A subsidiary is an entity controlled, directly or indirectly, by Diageo plc. Control is the power to govern the operating and financial policies of the subsidiary so as to obtain benefits from its activities. On the acquisition of a business, or of an interest in an associate or joint venture, fair values, reflecting conditions at the date of acquisition, are attributed to the net assets including identifiable intangible assets and contingent liabilities acquired. Adjustments to fair values include those made to bring accounting policies into line with those of the group.
- **Environmental data** is collected and

reported for all sites where Diageo has full operational control, and as defined by the World Resources Institute/World Business Council for Sustainable Development (WRI/WBCSD) Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, Revised Edition. We believe that by including 100% of environmental data from all offices and production sites under our operational control, our environmental reporting will be consistent with reporting on other operational activities. Environmental data from joint ventures and associates (where Diageo does not have full operational control) have not been included within the reported figures.

- **Community data**, include charitable giving on behalf of the company, its subsidiaries, and the independent Diageo Foundation as defined by the London Benchmarking Group.
- **Supplier data** include all business contracts, short- or long-term, which Diageo upholds for the purchase of raw materials, packaging, logistics and transportation, marketing materials, and information services and business support.
- **All other data** (including alcohol in society, governance, and people) is reported for all sites (office and production) where Diageo has operational control.

### Uncertainty and estimates

While we make every effort to capture all information as accurately as possible, it is neither feasible nor practical to measure all data with absolute certainty. Where we have made estimates or exercised judgment this is highlighted within these reporting guidelines.

### Significant changes

Diageo has made a number of acquisitions of brands, distribution rights and equity interests in premium drinks businesses over the past three years. These include:

- On 17 December 2008 Diageo purchased the remaining 25% equity stake in the company that owns the Smirnov brand in Russia for £35 million.
- On 16 June 2009, Diageo acquired the remaining 80% of equity in Stirrings LLC for £6 million and provided £7 million as deferred consideration payable in 2014.
- On 29 June 2010, Diageo acquired an additional 28.75% equity stake in the London Group, owner of the Nuvo brand, an ultra-premium vodka-based sparkling liqueur, for a consideration of \$45 million (£29 million).
- On 30 September 2010, Diageo acquired a 20% equity stake in LNJ Group, LLC, owner of the 22 Marquis brand, a sparkling liqueur, for a consideration of \$10 million (£6 million).
- On 22 October 2010, Diageo completed the acquisition of a 51% equity stake in Serengeti Breweries Limited (SBL), a beer business based in Tanzania.

- On 13 May 2011, Diageo acquired an 18.67% equity stake in Halico, the largest domestic branded spirits producer in Vietnam, for a consideration of VND 798 billion (£24 million). The purchase of a further 6.26% equity stake in Halico was completed on 26 May 2011 for a consideration of VND 268 billion (£8 million).

- On 5 July 2011, Diageo completed the acquisition of a 50% equity controlling stake in Rum Creations Products Inc (RCP), the owner of the Zacapa rum brand, from Industrias Licoreras de Guatemala (ILG), for a consideration of \$225 million (£140 million) (including \$35 million of deferred compensation).

- On 14 July 2011, Diageo acquired an additional 4% equity stake in Sichuan Chengdu Quanxing Group Company Ltd. (Quanxing) from Chengdu Yingsheng Investment Holding Co., Ltd. The consideration for the additional 4% equity stake was RMB 140 million (£13 million).

- On 6 June 2011 Diageo agreed to purchase SABMiller Africa BV's 20% equity stake in Kenya Breweries Limited (KBL) through its 50.03% subsidiary, EABL, for cash consideration of the US dollar equivalent of 19.5 billion Kenyan shillings at completion (£136 million).

- On 23 August 2011, having received the necessary regulatory clearances, Diageo completed the acquisition of Mey İçki Sanayi VE Ticaret A.S. (Mey İçki) from TPG Capital and the Actera group.

- During the year ended 30 June 2011 a number of non-strategic wine businesses were sold in the United States and France as part of the restructuring of the US wine operations.

### Rebaselining

Diageo will 'rebaseline' data to reflect changes in the company that would otherwise compromise the consistency and relevance of the reported information. Rebaselining is done in line with the recommendations made by the World Resources Institute/World Business Council for Sustainable Development (WRI/WBCSD) Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, Revised Edition, and the Beverage Industry Sector Guidance for Greenhouse Gas Emissions Reporting version 2.0.

In rebaselining, the baseline is adjusted to reflect acquisitions and divestments that result in a change to the baseline of more than 1% and for any significant changes in reporting policy as advised by independent sources. Unless otherwise specified, we will report acquisitions data from the date of purchase as soon as practical and no later than after we collate one full year's financial data. Disposals are included until the date of sale. We will also rebaseline where we can show that structural changes regarding outsourcing and insourcing have an impact of more than 1%.



## Principles of management and reporting

In managing our sustainability programme, and describing it in this report, we aim to adopt the principles of the Global Reporting Initiative (GRI) and the AA1000APS Framework.

This table sets out how our report responds to each element of the frameworks.

Principle	Reporting standard	What it means	Our response
Stakeholder inclusiveness <sup>^</sup>	GRI & AA1000APS	The report should identify stakeholders and explain how the reporting organisation has responded to their reasonable expectations and interests.	<p>We set out who our key stakeholders are, explain how we have engaged them this year and identify key areas of the report that address their areas of interest. (see '<a href="#">Engaging stakeholders</a>' in 'Our approach').</p> <p>We aim to formalise our reporting process in future years to capture and respond better to the views of our stakeholders around the world.</p>
Materiality <sup>^</sup>	GRI & AA1000APS	<p>The report should cover topics and indicators:</p> <ul style="list-style-type: none"> <li>• that reflect the organisation's significant economic, environmental, and social impacts or</li> <li>• that would substantively influence the assessments and decisions of stakeholders.</li> </ul>	<p>We have recently begun to develop a formal materiality process for our strategy and reporting (see our section on Materiality). Currently, where possible, we incorporate the views of a representative group of internal and external stakeholders as well as other trend analysis.</p> <p>We believe our report addresses the issues that are considered most material to our stakeholders as we currently understand them. To learn more <a href="#">click here</a>.</p> <p>Our aim is to report fully on issues deemed highly material; to explain our approach to those deemed of medium materiality.</p>
Sustainability context	GRI	The report should present the organisation's performance in the wider context of sustainability.	Where appropriate, we give the context for each impact area in the executive summary of that section, and, where possible, explain the local impact of our operations, for example highlighting our impact on water in water-stressed areas.
Completeness	GRI	Coverage of the material topics and indicators and definition of the report boundary should be sufficient to reflect significant economic, environmental, and social impacts and enable stakeholders to assess the reporting organisation's performance in the reporting period.	<p>Our coverage of material topics is explained in the 'scope and boundaries' section. In general:</p> <ul style="list-style-type: none"> <li>• Financial data represent the results of wholly-owned operations, subsidiaries and the attributable share of associates and joint ventures</li> <li>• Social data for the most part represent wholly-owned businesses and joint ventures in which Diageo has a controlling share</li> <li>• Environmental data represent all sites over which Diageo has full operational control, including offices.</li> </ul>
Balance	GRI	The report should reflect positive and negative aspects of the organisation's performance to enable a reasoned assessment of overall performance.	We report against stretching targets and against GRI indicators, whether or not our performance is good. This gives a balanced view of our impacts, which have been defined taking into account the views of a range of stakeholders.

<sup>^</sup>Covered by KPMG's limited assurance scope.

Principle	Reporting standard	What it means	Our response
Comparability	GRI	Issues and information should be selected, compiled, and reported consistently.	We continue to report against GRI as well as targets disclosed in prior years to ensure that readers can compare this year's performance with that of previous years.
Accuracy	GRI	The reported information should be sufficiently accurate and detailed for stakeholders to assess the reporting organisation's performance.	We explain our methodology for calculating performance against targets (see ' <a href="#">Reporting methodologies</a> ' in this section). KPMG has provided limited assurance for the water and carbon data disclosed in this report.
Timeliness	GRI	Reporting should occur on a regular schedule and information made available in time for stakeholders to make informed decisions.	This report is published with our Annual Report every year. The data in both reports reflect performance in the year ended 30 June 2011.
Clarity	GRI	Information should be made available in a manner that is understandable and accessible to stakeholders using the report.	We aim to make our report easy to understand for a wide audience. Wherever possible, we define terminology and use visuals to make our messages clear.
Reliability	GRI & AA1000APS	Information and processes used in the preparation of the report should be gathered, recorded, compiled, analysed, and disclosed in a way that could be subject to examination and that establishes the quality and materiality of the information.	KPMG has externally assured this report according to the AA1000APS principles, and has provided limited Type 2 assurance.
Responsiveness <sup>^</sup>	AA1000APS	The report should explain how the organisation responds to its stakeholders and is accountable to them. The principle covers two things: responsiveness in terms of material issues, and responsiveness in terms of communication (reporting).	We aim to respond to the concerns that surface through our stakeholder engagement activities. We have set up programmes, policies and targets for areas which we have determined to be material, however we recognise that the quality of our performance metrics and monitoring tools are not consistent across our agenda. This was a theme we heard from stakeholders this year, and we aim to address it in future. See the section ' <a href="#">How we respond to stakeholders</a> ' for more information on how we comply with this principle.

## Reporting methodologies

For each of our impact areas we have analysed the best way of measuring performance, and put in place a system of measurement appropriate to the subject.

Here you will find an explanation of our methodology for calculating our targets and other key information for each impact area.

### Alcohol in society

Here we detail the basis of calculation for the following metrics:

- Baseline and target setting
- Compliance with the Diageo Marketing Code
- Responsible drinking reminders on above-the-line marketing material
- Responsible drinking initiatives
- Effective industry codes in place.

### Baseline and target setting

Diageo's alcohol in society targets were set in the financial year ended 30 June 2010. Progress against baseline data is not relevant as each target measures a point in time, ending 30 June 2011.

### Compliance with the Diageo Marketing Code

Breaches are reported as an estimated percentage of total marketing executions. The calculation considers the number of internally-reported breaches of the Diageo Marketing Code as a percentage of the total number of marketing projects submitted through SmartApprove in the year ended 30 June 2011.

### Responsible drinking reminders on above-the-line marketing material

Estimates for total Diageo PLC are based on internally-reported omissions of responsible drinking reminders on advertising as a percentage of above-the-line advertising activity submitted through SmartApprove.

### Responsible drinking initiatives

Performance is based on internally-reported initiatives through a network of Corporate Relations leaders in each of our markets.

### Effective industry codes in place

Performance is based on internally-reported initiatives through a network of Corporate Relations leaders in each of our markets.

### Water (Water of Life programme)

Here we explain the basis of calculation for:

- Baseline and target setting
- Water of Life beneficiaries data.

All environmental performance, including water, is explained in the next section.

### Baseline and target setting

Diageo's Water of Life targets were set in the year ended 30 June 2007. Cumulative performance counts activity between 1 July 2006 and 30 June 2011.

<sup>^</sup>Covered by KPMG's limited assurance scope.

### **Water of Life beneficiaries data**

Our implementation partners provide us with beneficiary data for each project. We are aware that each partner has its own methodology and we are conducting a review in an effort to improve the quality of our data.

### **Environmental data (including water)**

Here we detail the basis of calculation for the following:

- Baseline data and target setting
- Greenhouse gas (GHG) emissions
- Water consumption
- Wastewater pollution power as measured by biological oxygen demand (BOD)
- Waste to landfill
- Production of packaged product
- Sustainable packaging

### **Baseline data and target setting**

Environmental data is reported on the basis of our financial reporting year, running from 1 July to 30 June. This document is reviewed and updated on an annual basis by Diageo's Environmental Leadership Team and ratified by Diageo's Environmental Executive Working Group chaired by the President of Diageo Global Supply and Procurement.

#### *Baseline*

Diageo's baseline year was set as financial year ended 30 June 2007, applies to all environmental data and has been prepared in accordance with internal reporting guidelines and calculation methodologies set out here. The baseline data is used as the basis for calculating progress against Diageo's targets for greenhouse gas emissions, water consumption, BOD and waste to landfill, first announced in September 2008.

The continued relevance of 2007 as the baseline year is reviewed on an annual basis.

The basis, on which baseline data is adjusted to reflect 'rebaselining', is described in Scope and boundaries.

#### *Prior year restatements*

Environmental data is restated where more accurate information has become available, errors in methodology or calculations have been identified, or policy changes have been implemented, which have a material impact (greater than 1%) on the environmental data reported in previous years. Any restatements are highlighted within the Sustainability and Responsibility Report.

#### *Target setting*

Diageo has set environmental targets based on a baseline year of financial year end 30 June 2007. The year by which time Diageo aims to achieve these targets is defined as the end of the calendar year 2015.

### **Greenhouse gas (GHG) emissions**

GHG emissions data has been prepared in accordance with the WRI/WBCSD Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, Revised Edition (WRI/

WBCSD GHG Protocol). A summary of the key elements of this standard and their application to Diageo's business is outlined below.

#### *Scope*

Scope 1 emissions (i.e., direct GHG emissions) from on-site energy consumption of fuel sources, such as gas, fuel oil and diesel, are reported for all sites where we have operational control. Scope 2 emissions (i.e., indirect GHG emissions) from purchased electricity and heat is also reported for these sites. Diageo at present does not report on its Scope 3 emissions. Carbon dioxide emissions from the fermentation process are not included within our reported environmental data as these emissions are from a biological short cycle carbon source.

#### *Calculation methodology for GHG emissions*

The GHG emissions data is reported in tonnes of carbon dioxide equivalents (CO<sub>2</sub>e). CO<sub>2</sub>e is the measure used to compare the emissions from various greenhouse gases based on their global warming potential (GWP). The CO<sub>2</sub>e for a gas is derived by multiplying the tonnes of the gas by the associated GWP. The GHG emissions data has been calculated on the basis of measured or estimated energy and fuel use, multiplied by the relevant CO<sub>2</sub>e conversion factors. Where possible fuel or energy use is based on direct measurement verified through purchase invoices. In a minority of cases it has been necessary to make estimations, for example where invoices or meter readings have not been available. All CO<sub>2</sub>e is reported in metric tonnes.

The most reliable and up-to-date emissions factors have been used to convert energy use to CO<sub>2</sub>e using:

- the kWh/CO<sub>2</sub>e factor provided by energy suppliers where a contract is in place with respect to the energy supplied to the relevant site;
- the relevant conversion factors to the country of operation (for example, national conversion factors supplied by the relevant government); or
- the International Energy Agency (2010) conversion factors.

For the CO<sub>2</sub>e emissions associated with electricity exported to a national grid, the proportion of fuel used to generate the electricity has been identified and converted to the relevant CO<sub>2</sub>e data.

#### *Low carbon electricity*

A number of sites have entered into contracts for 'green tariffs' or low carbon tariffs for their electricity supply. The CO<sub>2</sub>e emissions from these tariffs have been zero-rated where the contract specifies that the supply onto site is from a 100% renewable source otherwise we use the supplier's CO<sub>2</sub> emission factor.

### **Water consumption**

Diageo collects water consumption data from across the production sites over which it has operational control, using internally developed

reporting guidelines with expert external advice. In addition to tracking total water usage, Diageo also collects information to calculate 'water efficiency', meaning the ratio of the amount of water required to produce one litre of product packaged. As part of its continuing journey, using the WBCSD Global Water Tool and data from the United Nations' definition of 'water stressed', Diageo has designated nine of its production sites as being located in areas which are 'stressed', identifying them as higher risk in terms of sustainable water supply.

#### *Calculation methodology for water consumption*

Diageo uses internally developed reporting guidelines, which defines the total quantity of water used in production obtained from groundwater, surface water and mains supply less any clean water provided back to local communities directly from a site and water returned for agricultural irrigation. Uncontaminated water abstracted and returned to the same source under local consent is excluded from water consumption data reported so long as there is no chemical change to the water. All water consumption data is reported in cubic meters.

The data has been calculated on the basis of measured water use at the point of abstraction for all but three sites which account for 4.06% of group water consumption. Estimates for two sites have used industry standard estimates and for a third site using an estimate based on the process water used.

### **Wastewater pollution power as measured by biological oxygen demand (BOD)**

Diageo collects BOD data from across all production sites over which it has operational control, using internally developed reporting guidelines with expert external advice. Diageo measures or estimates the total BOD load discharged from its production sites into open water or which is subsequently treated by third party treatment works. The BOD load of wastewater discharged to land, for the purposes of irrigation or benefit to agriculture made under license or permit, are not included.

#### *Calculation methodology for BOD Load*

Diageo uses internally developed reporting guidelines, based on published data and methods for BOD calculation, using estimates of discharged effluent flows and the laboratory determination of effluent BOD concentrations. All BOD loads are reported in metric tonnes.

### **Waste to landfill**

Diageo records the type and quantity of all waste to landfill data from across the production sites over which it has operational control using internally developed reporting guidelines with expert external advice. Waste to landfill includes hazardous and non-hazardous materials.

#### *Calculation methodology for waste to landfill*

The definition of waste to landfill includes all hazardous waste, all unwanted or discarded material in solid, sludges or liquid form produced. This includes all refuse, garbage,

construction debris, treatment and process sludges and materials that a site has been unable to reclaim, reuse or recover. All waste to landfill is reported in metric tonnes.

#### **Production of packaged product**

To calculate efficiency ratios, Diageo uses litres of product packaged as the standard measure for comparison as this highlights the environmental impact associated with production of our products. This information is collected, as other environmental data, through a common database from all sites over which Diageo has operational control.

#### *Calculation methodology for production figures*

Litres of product packaged includes the number of total litres of product packaged as the product enters a finished goods warehouse at operationally controlled sites together with any product sent to a third party for packaging (i.e., a non-controlled site).

Damaged product is not included in these production figures.

#### **Sustainable packaging**

We do not define and calculate our sustainable packaging targets with the same methodology as our other environmental performance metrics. Therefore the introductory notes above do not apply to this statement about sustainable packaging.

We describe our sustainable packaging methodology as follows: having set targets against a 2009 baseline, we input regional packaging data on each of our three metrics (weight, recycled content and recyclability) on a monthly basis. They are then consolidated and internally verified. We have established a sustainable packaging framework, implementation plan and targets to ensure, where practical, that our packaging has the smallest possible environmental footprint. Our sustainable packaging team is working to implement this across Diageo.

Our approach is based on systematically assessing the impact our products has on the environment and applying our design principles consistently. Using sophisticated computer design software, we have commissioned and created a sustainable packaging life cycle assessment tool – SPOT (Sustainable Packaging Optimisation Tool) – to enable us to assess rapidly the environmental impact of new and existing pack designs. This tool will provide us with data early in the product development cycle and enable us to make effective interventions in designing packaging with the least environmental impact.

#### **Community**

Here we explain the basis of calculation for:

- Baseline data and target setting
- Learning for Life beneficiaries
- Community investment figures.

#### **Baseline data and target setting**

Baselines differ for each metric. Our Learning for Life target was set in the year ended 30 June 2009, and beneficiaries counted from 1 July 2008 to 30 June 2011. Our community investment target is set each financial year as a percentage of operating profit before exceptionals.

#### **Learning for Life beneficiaries**

Beneficiaries are defined as direct participants in Diageo-funded Learning for Life programmes from 1 July 2008 to 30 June 2011.

#### **Community investment figures**

Community investment includes contributions (in the form of cash, in-kind donations or employee time) from Diageo PLC, the Arthur Guinness Fund and the Diageo Foundation. It includes contributions to charitable entities, non-branded responsible drinking programmes and management costs associated with the Diageo Foundation. We use the principals of the London Benchmarking Group (LBG) model, which we helped pioneer in 1994, to measure our community investment.

Cash, in-kind donations and employee time contributions are recorded through an annual survey to local markets around the world.

#### **Our people**

Here we explain the basis of calculation for:

- Baseline and target setting
- Employee profile data
- Lost-time accident frequency rate
- Women in senior management positions
- Super-engagement results.

#### **Baseline and target setting**

Baseline information differs between each metric. Employee profile information and super-engagement results are calculated annually, and for this year at the year end 30 June 2011. Lost-time accident frequency has a baseline of 30 June 2007, and targets were set for the end of this financial year.

#### **Employee profile data**

While the total number of employees is captured globally via financial information systems, gender data is collected selectively by region. To estimate global gender data, we extrapolated using self-provided results on the values survey as a base. In the year ended 30 June 2011, the values survey recorded an 89% participation rate. Our estimates assume that the remaining 11% of the business has a gender ratio comparable to the 89% recorded.

#### **Lost-time accident frequency rate**

Data includes any employee work-related fatalities and any contractor fatalities at our sites. 2011 data includes an incident at a 3rd party controlled and managed construction operation on Diageo owned land.

#### **Women in senior management positions**

Estimates are based on self-reported profile information in the 2011 values survey. Leaders are considered as level 3 positions and above

on a scale of six levels. Estimates were scaled up based on the assumption that the 11% of employees who did not participate in the survey had a similar ratio to the 89% of employees who did.

#### **Super-engagement results**

Data is collected from an annual survey sent to all employees and administered by Kenexa, one of the world's largest employee survey providers. This year the data represents 89% of Diageo's employee base, compared with 90% in 2010.

#### **Governance and ethics**

Here we explain the basis of calculation for:

- Baseline and target setting
- Code of Business Conduct training.

#### **Baseline and target setting**

The target that all employees would complete a Code of Business Conduct training was set originally in 2009 with a completion year of 2011.

#### **Code of Business Conduct training**

Records were maintained of all attendees at training undertaken following the launch of the revised Code of Business Conduct in 2009. Both face-to-face and e-learning completions were recorded in the Diageo Academy system. Accuracy of recording for face-to-face sessions is ensured through the completion of attendance registers at each session.

#### **Our suppliers**

Here we explain the basis of calculation for:

- Baseline and target setting
- Sedex self-assurance
- Audits of highest risk suppliers
- Supplier engagement for packaging guidelines

#### **Baseline and target setting**

All performance figures against targets are for the period between 1 July 2010 and 30 June 2011.

#### **Sedex self-assurance**

Self-assessment data is provided to us as part of a report from SEDEX which includes the number of suppliers who have registered with Diageo, linked their operating sites and then completed the self-assessment or any other performance-related data. We compare these results to the total number of suppliers we have identified as potentially high risk (considering industry type, location, or association with our brand).

#### **Audits of highest risk suppliers**

Audits are conducted by independent third-party auditing companies, trained to SEDEX protocols. Of total audits, approximately 38 were initially requested by Diageo and 26 were initially requested by others, but are still valid through the AIM-PROGRESS mutual recognition process. All were accessed via the Sedex platform on which the supplier owns the audit data.

**Supplier engagement for packaging guidelines**

Results include suppliers who attended a working group meeting in Europe that we convened to talk through our guidelines to help identify realistic solutions, and those who attended a broader supply conference in the US where our guidelines were discussed.

**Our customers and consumers**

Here we detail the basis of calculation for:

- Baseline data and target setting
- Packaging defects (ppm)
- Total concerns (complaints).

**Baseline data and target setting**

Baselines for each metric are always based on the final actual performance in the previous year. Incremental improvement targets are set based on the trajectory required to hit our medium term strategic goals (2015). Some adjustment may be made to the targets for each business depending on their actual level of performance and strategic priorities.

**Packaging defects (ppm)**

Packaging defects data is based on a 1% sampling of every production run (order). Individual packs are inspected against a Global Finished Product Standard. The number of defects is recorded and reported monthly against the number of units (containers) produced. Figures are aggregated globally and are weighted based on volume of production.

**Total concerns (complaints)**

Packaging defect complaints are based on all complaints/concerns recorded (validated or not) in part through consumer care lines. The complaint rate is calculated based on the volume produced at the site in the same period as the complaint was received. Figures are aggregated globally and are weighted based on volume of production.

---

## Assurance

Here we set out an assurance statement by KPMG Audit Plc, who provided limited assurance over Diageo's adherence to AA1000APS, Diageo's Global Reporting application level as well as environmental performance data. Below this statement is one from the London Benchmarking Group, who examined our community investment data and methodology.

We aim to align our reporting with what we believe to be the most well recognised standards for non-financial reporting. We also strongly believe in reporting against reliable data and strive to improve the quality of our non-financial disclosures.

Towards these aims, Diageo engaged KPMG in the year ended 30 June 2011 to provide limited type 2 assurance that covered three aspects, determined as being highly material for the success of our business and Sustainability & Responsibility Strategy:

- Diageo's alignment with AA1000APS (2008) principles in our 2011 Sustainability & Responsibility Report
- Diageo's self-declared Global Reporting Initiative (GRI) application level in our 2011 Sustainability & Responsibility Report
- The reliability of global carbon emissions and water usage data included in both Diageo's 2011 Annual Report and Sustainability & Responsibility Report as defined by the following environmental guidelines.

As in previous years, we also engaged the London Benchmarking Group to assure our community investment data and methodology.

**Independent Assurance Report of KPMG Audit plc to Diageo plc**

KPMG Audit plc was engaged by Diageo plc ('Diageo') to provide limited assurance over selected aspects of the Diageo Sustainability & Responsibility Report for the year ended 30 June 2011 ('the Report').

This independent assurance report is made solely to Diageo in accordance with the terms of our engagement. Our work has been undertaken so that we might state to Diageo those matters that we have been engaged to state in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than Diageo for our work, for this independent assurance report, or for the conclusions we have reached.

**Responsibilities**

The Directors of Diageo are responsible for preparing the Report and the information and statements within it. They are responsible for identification of stakeholders and material issues, for defining objectives with respect to sustainability performance, and for establishing and maintaining appropriate performance management and internal control systems from which reported information is derived.

Our responsibility is to express our conclusions in relation to the assurance scope.

The scope of assurance was determined by Diageo in accordance with the materiality principles as defined by the GRI. As Diageo's reporting processes mature, the scope of assurance will expand over time. In the UK, assurance of sustainability-related information is not mandated. The organisation is able to select the scope and level of assurance to be performed by a practitioner.

The extent of evidence-gathering procedures for a limited assurance engagement is less than for a reasonable assurance engagement, and therefore a lower level of assurance is provided.

Our conclusions are based on the appropriate application of the criteria outlined in the table on the following page.

**Inherent limitations**

Non-financial performance information is subject to more inherent limitations than financial information, given the characteristics of the subject matter and the methods used for determining such information. The absence of a significant body of established practice on which to draw allows for the selection of different but acceptable measurement techniques which can result in materially different measurements and can impact comparability. The precision of different measurement techniques may also vary. Furthermore, the nature and methods used to determine such information, as well as the measurement criteria and the precision thereof, may change over time. It is important to read the selected sustainability information contained within the Sustainability & Responsibility Report in the context of Diageo's Environmental Reporting Guidelines available on the Diageo website [www.diageoreports.com](http://www.diageoreports.com).

In particular, inherent limitations affect the conversion of electricity and fuel used to carbon emissions. Conversion of electricity and fuel used to carbon emissions is based upon, inter alia, information and factors derived by independent third parties as explained in Diageo's Environmental Reporting Guidelines. Our assurance work has not included examination of the derivation of those factors and other third-party information. Our assurance work has not included challenging the scientific work undertaken by independent third parties when calculating these emissions factors.

## Assurance scope

Selected sustainability information	Level of assurance	Reporting and assurance criteria
1. Reliability of selected environmental performance data for years ended 30 June 2009, 30 June 2010 and 30 June 2011 marked with the symbol ^ in the sections entitled 'Environment' and 'Water' within the Report.	Limited assurance	Diageo's Environmental Reporting Guidelines for the selected sustainability information available on the Diageo website <a href="http://www.diageoreports.com">www.diageoreports.com</a> . Diageo's Environmental Reporting Guidelines for greenhouse gases are based on the World Resources Institute/World Business Council for Sustainable Development Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, Revised Edition (otherwise referred as the WRI GHG protocol); the guidelines for water consumption are based on the Global Reporting Initiative (GRI) G3 Reporting Guidelines.
2. Diageo's alignment with the AA1000APS (2008) <sup>1</sup> principles marked with the symbol ^ as described in the section of the Report entitled 'About this report and GRI'.	Limited assurance	The criteria set out in AA1000APS (2008) for each of the principles of inclusiveness, materiality and responsiveness.
3. Diageo self-declared Global Reporting Initiative (GRI) application level, marked with the symbol ^ in the section of the Report entitled 'About this report and GRI'.	Limited assurance	GRI G3 Sustainability Reporting Guidelines and application level requirements.

<sup>1</sup> AA1000 Principles Standard (2008) issues by AccountAbility

### Basis of our work

We conducted our work in accordance with ISAE 30002 and the requirements for a Type 2 assurance engagement under AA1000AS (2008). A Type 2 assurance engagement covers not only the nature and extent of the organisation's adherence to the AA1000APS (2008), but also evaluates the reliability of selected sustainability performance information.

We conducted our engagement with a multidisciplinary qualified and experienced team in non-financial assurance. The team included specialists in auditing environmental and financial information and with experience in similar engagements.

### Our independence

ISAE 3000 requires the practitioner complies with the requirements of Parts A and B of the *Code of Ethics for Professional Accountants*, issued by the International Ethics Standards Board for Accountants (the IESBA Code) which requires, among other requirements, that the members of the assurance team (practitioners) as well as the assurance firm (assurance provider) be independent of the assurance client, including not being involved in writing the Annual Report, and plan and perform the engagements to obtain limited assurance about whether data is free from material misstatement. The Code also includes detailed requirements for practitioners regarding integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. KPMG Audit plc has systems and processes in place to monitor compliance with the Code and to prevent conflicts regarding independence. Our independence with the client is reviewed on an annual basis.

### Work performed

We planned and performed our work to obtain all the evidence, information and explanations that we considered necessary in relation to the above scope. Our work included, but was not

limited to, the following evidence-based procedures which are further explained below:

Assurance Scope 1 – Reliability of performance data for years ended 30 June 2009, 30 June 2010 and 30 June 2011 marked with the symbol ^ in the sections entitled 'Environment' and 'Water' within the Report:

- At Group level we:
  - Evaluated the suitability of reporting systems against the WRI GHG Protocol, the GRI Reporting Guidelines and Diageo Internal Reporting requirements;
  - Conducted interviews with management and other personnel at Diageo to obtain an understanding of the data collection process, information flows and the systems and controls used to generate, aggregate and report the environmental data;
  - Reviewed measurements, calculations, supporting information, quality controls systems, and procedures which support the environmental data for the years ended 30 June 2009, 30 June 2010 and 30 June 2011. This included the application of the right CO<sub>2</sub> emission factors for all sites;
- At site level:
  - We tested data from fourteen different sites covering between 39% and 63% of the data for each data set over the three-year period 1 July 2008 to 30 June 2011.
  - Our testing was undertaken over a period of two financial years (year ended 30 June 2010 and year ended 30 June 2011). In the year ended 30 June 2010 we visited twelve sites in: the United Kingdom (Cameronbridge and Port Dundas), Cameroon (Douala), Ghana (Achimota and Kaase), Canada (Gimli), Nigeria (Ogba and Benin), Republic of Ireland (St. James's Gate), Jamaica (Kingston), Kenya (EABL) and Uganda (UBL).
  - In the year ended 30 June 2011 we visited seven sites in: the United Kingdom (Burghead), Ghana (Achimota and Kaase),

Canada (Valleyfield), Nigeria (Ogba and Benin) and Kenya (EABL). We also undertook three desk-based reviews of the data sets for sites in: Republic of Ireland (St James's Gate), Jamaica (Kingston) and Cameroon (Douala).

- The sites were selected based on their risk factors and levels of materiality, e.g. contribution to Group CO<sub>2</sub> emissions, size, and location.

Assurance Scope 2 – Diageo's alignment with AA1000APS (2008) principles marked with the symbol ^ as described in the section of the Report entitled 'About this report and GRI':

- Conducted our own materiality assessment, which included: media analysis and internet searches for references to Diageo during the reporting period and reviews of investor analysis reports;
- Evaluated the results of Diageo's stakeholder mapping at global level and the methodology for determining materiality. This included interviews with the Corporate Relations, Community, Human Resources and Investor Relations functions across the US, the UK, Ghana, Nigeria and Brazil.
- Reviewed the coverage of material issues within the Report against our own risk analysis, Diageo's own assessment, the issues discussed by Diageo's Corporate Citizenship Committee, the environmental and social reports of Diageo's peers and the results of the stakeholder engagement at local level;
- Interviewed senior management including a selection of the members from the Diageo Corporate Citizenship Committee, CSR Leadership Team and the Environmental and Alcohol in Society Working Groups;
- Reviewed selected group-level documents relating to risk identification, stakeholder engagement and business strategy
- Reviewed drafts of the Report and relevant web text to ensure there are no disclosures that are misrepresented or inconsistent with our findings.

Assurance Scope 3 – Diageo self-declared Global Reporting Initiative (GRI) application level marked with the symbol ^ in the section of the Report entitled 'About this report and GRI':

- Checked the GRI index included in the section of the Report entitled 'About this report and GRI' to ensure consistency with the GRI application level requirements of B+;
- Reviewed Diageo's self assessment against GRI Application Level B+ including their description of the 'extent' of reporting per disclosure.

#### **Observations arising from our work**

As required by the AA1000AS we have included observations and recommendations on Diageo's adherence to the AA1000APS principles. They can be found in the Appendix.

#### **Conclusion**

The following conclusions should be read in conjunction with the work performed and scope of our assurance engagement described above.

Assurance Scope 1 – Reliability of performance data for years ended 30 June 2009, 30 June 2010 and 30 June 2011:

Nothing has come to our attention to suggest that the performance data, marked with the symbol ^ in the sections entitled 'Environment' and 'Water' within the Report, are not fairly stated, in all material respects in accordance with the Environmental Reporting Guidelines.

Assurance Scope 2 – Diageo's alignment with AA1000APS (2008) principles:

Nothing has come to our attention to suggest that Diageo's description of their alignment with the AA1000APS (2008) principles marked with the symbol ^ as described in the section of the Report entitled 'About this report and GRI' is not fairly stated.

Assurance Scope 3 – Diageo self-declared Global Reporting Initiative (GRI) application level:

Nothing has come to our attention to suggest that Diageo's self-declaration of GRI application level B+ marked with the symbol ^ in the section of the Report entitled 'About this report and GRI' is not fairly stated.

Ian Starkey for and on behalf of KPMG Audit Plc  
Chartered Accountants  
London  
8 September 2011

#### **Appendix – Observations arising from our work**

In this Appendix we have set out certain matters that came to our attention during the course of this engagement. Our objective is to use our knowledge of the group gained during our limited assurance engagement to make useful comments and suggestions for you to consider. Without prejudice to our conclusions presented above, we present some of the key observations and areas for improvement below:

#### **On Assurance Scope 2:**

Our Observations:

We make the following observations in relation to the AA1000 Accountability Principles (AA1000APS), i.e. Inclusiveness, Materiality and Responsiveness:

- In relation to the principle of inclusiveness: the approach to stakeholder engagement and the level of formalisation of activities varies across the different regions and functions. Whilst recognising the need for flexibility in the planning and execution of stakeholder engagement to ensure local needs are met, we recommend that Diageo develops a principles-based global stakeholder engagement framework to ensure a more consistent and robust approach.
- In relation to the principle of materiality: we recognise that Diageo's materiality assessment process is relatively new and not yet fully formalised. Diageo would benefit from documenting materiality assessment criteria and establishing regular management reporting mechanisms from local to global levels. Local operations should report on the current and emerging issues identified, as well as their materiality at a local level, on a periodic basis, so that these issues can be effectively consolidated to form a view of materiality at a global level and feed into Diageo's sustainability strategy.
- In relation to the principle of responsiveness: we have seen evidence of Diageo responding to stakeholder concerns, especially at a local level. As Diageo increases its presence in emerging markets, we recommend that Diageo increases the level of integration of oversight of sustainability issues at the global level in order to share knowledge effectively across the Group.

#### **Independent Assurance Statement of London Benchmarking Group** **LBG Assurance Statement – Diageo**

Diageo is an active member of the London Benchmarking Group (LBG). The LBG model helps businesses to improve the management, measurement and reporting of their corporate community involvement programmes. It moves beyond charitable donations to include the full range of contributions (in time, in kind and in cash) made to community causes, and assesses the actual results for the community and for the business. (See [www.lbg-online.net](http://www.lbg-online.net) for more information).

As managers of LBG, we have worked with Diageo to ensure that it understands the LBG model and has applied its principles to the measurement of community involvement programmes during the year ended 30 June 2011. Having conducted an assessment, we are satisfied that this has been achieved. Our work has not extended to an independent audit of the data.

Corporate Citizenship  
[www.corporate-citizenship.co.uk](http://www.corporate-citizenship.co.uk)  
August 2011

## GRI Index

This index provides an overview of our reporting against the GRI G3 Sustainability Reporting Guidelines. Our self-assessment of our Sustainability & Responsibility Report indicates that we are a B+ reporter. ^

### STANDARD DISCLOSURES PART I: Profile Disclosures

Description	Reported	Cross-reference/Direct answer
<b>1. Strategy and Analysis</b>		
1.1 Statement from the most senior decision-maker of the organisation.	Fully	<b>CEO statement</b> (pg 3)
1.2 Description of key impacts, risks, and opportunities.	Fully	<b>Sustainability &amp; Responsibility Strategy</b> (pg 10) <b>How we manage sustainability</b> (pg 12) <b>Engaging stakeholders</b> (pg 13)
<b>2. Organisational Profile</b>		
2.1 Name of the organisation.	Fully	Diageo PLC ( <a href="http://www.diageo.com/">www.diageo.com/</a> )
2.2 Primary brands, products, and/or services.	Fully	<b>About our business</b> (pg 5) <b>Our supply chain</b> (pg 68) See our Annual Report ( <a href="http://www.annualreport2011.diageoreports.com/">www.annualreport2011.diageoreports.com/</a> ): 14 strategic brands (pg 12–13) Business description - Strategy (pg 23–24) Business description - Premium drinks (pg 24) Business description - Business services (pg 33)
2.3 Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures.	Fully	See our Annual Report ( <a href="http://www.annualreport2011.diageoreports.com/">www.annualreport2011.diageoreports.com/</a> ): Business description - Business analysis (pg 27–29)
2.4 Location of organisation's headquarters.	Fully	Diageo plc Lakeside Drive Park Royal London NW10 7HQ United Kingdom
2.5 Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	Fully	<b>About our business</b> (pg 5) <b>Water</b> (pg 27) See our Annual Report ( <a href="http://www.annualreport2011.diageoreports.com/">www.annualreport2011.diageoreports.com/</a> ): Business description - Production (pg 25)
2.6 Nature of ownership and legal form.	Fully	Full name: Diageo plc Registered Number: 23307 Registered office: Lakeside Drive, London, NW10 7HQ Place of Registration: England and Wales
2.7 Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	Fully	<b>About our business</b> (pg 5) <b>Working with our customers to maximise our impact</b> (pg 75)
2.8 Scale of the reporting organisation.	Fully	<b>About our business</b> (pg 5) See our Annual Report ( <a href="http://www.annualreport2011.diageoreports.com/">www.annualreport2011.diageoreports.com/</a> ): Business description - Financial statements (pg 112–116)
2.9 Significant changes during the reporting period regarding size, structure, or ownership.	Fully	<b>Scope and boundaries</b> (pg 79) See our Annual Report ( <a href="http://www.annualreport2011.diageoreports.com/">www.annualreport2011.diageoreports.com/</a> ): Business description - Acquisitions and disposals (pg 34)
2.10 Awards received in the reporting period.	Fully	<b>External credentials</b> (pg 14)



Description	Reported	Cross-reference/Direct answer
<b>3. Report Parameters</b>		
3.1 Reporting period (e.g., fiscal/calendar year) for information provided.	Fully	<b>Scope and boundaries</b> (pg 79)
3.2 Date of most recent previous report (if any).	Fully	12-Sep-2010
3.3 Reporting cycle (annual, biennial, etc.)	Fully	Annual
3.4 Contact point for questions regarding the report or its contents.	Fully	Contact us
3.5 Reporting principles	Fully	<b>Principles of reporting</b> (pg 80)
3.6 Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance.	Fully	<b>Scope and boundaries</b> (pg 79)
3.7 State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope).	Fully	<b>Scope and boundaries</b> (pg 79)
3.8 Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations.	Fully	<b>Scope and boundaries</b> (pg 79)
3.9 Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report. Explain any decisions not to apply, or to substantially diverge from, the GRI Indicator Protocols.	Fully	<b>Reporting methodology</b> (pg 81)
3.10 Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g. mergers/acquisitions, change of base years/periods, nature of business, measurement methods).	Fully	<b>Reporting methodology</b> (pg 81)
3.11 Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	Fully	<b>Scope and boundaries</b> (pg 79)
3.12 Table identifying the location of the Standard Disclosures in the report.	Fully	<b>GRI Index</b> (pg 87)
3.13 Policy and current practice with regard to seeking external assurance for the report.	Fully	<b>Assurance</b> (pg 84)
<b>4. Governance, Commitments, and Engagement</b>		
4.1 Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight.	Partially	<b>Governance structure</b> (pg 63) See our Annual Report ( <a href="http://www.annualreport2011.diageoreports.com">www.annualreport2011.diageoreports.com</a> ): Board of directors and executive committee (pg 81–82) Corporate governance report (pg 100–103)
4.2 Indicate whether the Chair of the highest governance body is also an executive officer.	Fully	The Chairman is not counted as a non executive director and is not independent by virtue of being the Chairman, in accordance with section A31 of the UK Corporate Governance Code.
4.3 For organisations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members.	Fully	<b>Governance structure</b> (pg 63)
4.4 Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	Fully	See our Annual Report ( <a href="http://www.annualreport2011.diageoreports.com">www.annualreport2011.diageoreports.com</a> ): Articles of association (pg 187)
4.5 Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organisation's performance (including social and environmental performance).	Partially	<b>Reward and recognition</b> (pg 55) See our Annual Report ( <a href="http://www.annualreport2011.diageoreports.com">www.annualreport2011.diageoreports.com</a> ): Directors' remuneration report (pg 84–98)

Description	Reported	Cross-reference/Direct answer
4.6 Processes in place for the highest governance body to ensure conflicts of interest are avoided.	Fully	<b>Governance structure</b> (pg 63) See our Annual Report ( <a href="http://www.annualreport2011.diageoreports.com">www.annualreport2011.diageoreports.com</a> ): Governance (pg 81–110)
4.7 Process for determining the composition, qualifications, and expertise of the members of the highest governance body and its committees, including any consideration of gender and other indicators of diversity.	Fully	<b>Governance structure</b> (pg 63) See our Annual Report ( <a href="http://www.annualreport2011.diageoreports.com">www.annualreport2011.diageoreports.com</a> ): Governance – Board of directors (pg 100–101)
4.8 Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	Fully	<b>Code of Business Conduct</b> (pg 64)
4.9 Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	Fully	<b>How we manage sustainability and responsibility</b> (pg 12) <b>Compliance and ethics programme</b> (pg 63)
4.10 Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	Partially	<b>Governance structure</b> (pg 63) See our Annual Report ( <a href="http://www.annualreport2011.diageoreports.com">www.annualreport2011.diageoreports.com</a> ): Governance - Board of directors (pg 101)
4.11 Explanation of whether and how the precautionary approach or principle is addressed by the organisation.	Fully	See our Annual Report ( <a href="http://www.annualreport2011.diageoreports.com">www.annualreport2011.diageoreports.com</a> ): Business description - Sustainability and responsibility (pg 31)
4.12 Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses.	Fully	<b>External credentials</b> (pg 14)
4.13 Memberships in associations (such as industry associations) and/or national/international advocacy organisations in which the organisation: * Has positions in governance bodies; * Participates in projects or committees; * Provides substantive funding beyond routine membership dues; or * Views membership as strategic.	Partially	<b>Stakeholder dialogue and alcohol policies</b> (pg 23) <b>Executive summary (Environment)</b> (pg 33) <b>Managing sustainable impacts</b> (pg 69)
4.14 List of stakeholder groups engaged by the organisation.	Fully	<b>Engaging stakeholders</b> (pg 13)
4.15 Basis for identification and selection of stakeholders with whom to engage.	Fully	<b>Engaging stakeholders</b> (pg 13)
4.16 Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	Fully	<b>Our stakeholders</b> (pg 13)
4.17 Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting.	Fully	<b>Engaging stakeholders</b> (pg 14) <b>Employee engagement</b> (pg 13)

#### STANDARD DISCLOSURES PART II: Disclosures on Management Approach (DMAs)

Description	Reported	Cross-reference/Direct answer
<b>Economic</b>		
DMA EC 1 Economic performance	Fully	<b>About our business</b> (pg 5) <b>Economic impact</b> (pg 42) See our Annual Report ( <a href="http://www.annualreport2011.diageoreports.com">www.annualreport2011.diageoreports.com</a> ): Business description - Strategy (pg 23–24)

Description	Reported	Cross-reference/Direct answer
DMA EC 2 Market presence	Fully	<b>About our business</b> (pg 5) See our Annual Report ( <a href="http://www.annualreport2011.diageoreports.com">www.annualreport2011.diageoreports.com</a> ): Business description - Strategy (pg 23–24) Business description - Premium drinks (pg 25–34)
DMA EC 3 Indirect economic impacts	Fully	<b>Economic Impact</b> (pg 42)
<b>Environmental</b>		
DMA EN 1 Materials	Fully	<b>Environmental Policy</b>
DMA EN 2 Energy	Fully	<b>Environmental Policy</b>
DMA EN 3 Water	Fully	<b>Environmental Policy</b>
DMA EN 4 Biodiversity	Fully	<b>Environmental Policy</b>
DMA EN 5 Emissions, effluents and waste	Fully	<b>Environmental Policy</b>
DMA EN 6 Products and services	Fully	<b>Environmental Policy</b>
DMA EN 7 Compliance	Fully	<b>Environmental Policy</b>
DMA EN 8 Transport	Fully	<b>Environmental Policy</b>
DMA EN 9 Overall	Fully	<b>Environmental Policy</b>
<b>Labour</b>		
DMA LA 1 Employment	Fully	<b>Human Rights Policy</b>
DMA LA 2 Labour/management relations	Fully	<b>Human Rights Policy</b>
DMA LA 3 Occupational health and safety	Fully	<b>Occupational Health and Safety Policy</b>
DMA LA 4 Training and education	Fully	<b>Human Rights Policy</b>
DMA LA 5 Diversity and equal opportunity	Fully	<b>Human Rights Policy</b>
DMA LA 6 Equal remuneration for women and men	Not disclosed	
<b>Human rights</b>		
DMA HR 1 Investment and procurement practices	Fully	<b>Partnering with Suppliers Standards</b>
DMA HR 2 Non-discrimination	Fully	<b>Human Rights Policy</b>
DMA HR 3 Freedom of association and collective bargaining	Fully	<b>Human Rights Policy</b>
DMA HR 4 Child labour	Fully	<b>Human Rights Policy</b>
DMA HR 5 Prevention of forced and compulsory labour	Fully	<b>Human Rights Policy</b>
DMA HR 6 Security practices	Fully	<b>Code of Business Conduct</b> (pg 64)
DMA HR 7 Indigenous rights	Not disclosed – We do not believe this indicator is material to our business.	
DMA HR 8 Assessment	Fully	<b>Code of Business Conduct</b> (pg 64)
DMA HR 9 Remediation	Fully	<b>Code of Business Conduct</b> (pg 64)
<b>Society</b>		
DMA SO 1 Local communities	Fully	<b>Code of Business Conduct</b> (pg 64)
DMA SO 2 Corruption	Fully	<b>Code of Business Conduct</b> (pg 64)
DMA SO 3 Public policy	Fully	<b>Code of Business Conduct</b> (pg 64)
DMA SO 4 Anti-competitive behaviour	Fully	<b>Code of Business Conduct</b> (pg 64)
DMA SO 5 Compliance	Fully	<b>Code of Business Conduct</b> (pg 64)
<b>Product responsibility</b>		
DMA PR 1 Customer health and safety	Fully	<b>Diageo Marketing Code</b> <b>Partnerships and Programs to Address Alcohol Misuse</b> (pg 20) <b>Food Safety and Quality</b> (pg 77)
DMA PR 2 Product and service labelling	Fully	<b>Responsible marketing and consumer information</b> (pg 19)
DMA PR 3 Marketing communications	Fully	<b>Diageo Marketing Code</b>
DMA PR 4 Customer privacy	Fully	<b>Code of Business Conduct</b> (pg 64)
DMA PR 5 Compliance	Fully	<b>Code of Business Conduct</b> (pg 64)

## STANDARD DISCLOSURES PART III: Performance Indicators

Description	Reported	Cross-reference/Direct answer
<b>Economic</b>		
Economic performance		
EC1 Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	Fully	<b>Economic impact</b> (pg 42)
EC2 Financial implications and other risks and opportunities for the organisation's activities due to climate change.	Fully	<b>Risk Factors</b> (pg 12) <b>Carbon emissions</b> (pg 34) See our Annual Report ( <a href="http://www.annualreport2011.diageoreports.com">www.annualreport2011.diageoreports.com</a> ): Business descriptions - Risk factors (pg 37)
EC3 Coverage of the organisation's defined benefit plan obligations.	Partially	See our Annual Report ( <a href="http://www.annualreport2011.diageoreports.com">www.annualreport2011.diageoreports.com</a> ): Governance - Summary of current remuneration policy for executive directors (pg 89) Governance - Additional information (pg 98) Financial statements - employees (pg 127-128)
EC4 Significant financial assistance received from government.	Fully	See our Annual Report ( <a href="http://www.annualreport2011.diageoreports.com">www.annualreport2011.diageoreports.com</a> ): Financial statements - Property, plant and equipment (pg 143)
<b>Market presence</b>		
EC5 Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation.	Not disclosed	
EC6 Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	Fully	<b>Our supply chain</b> (pg 68)
EC7 Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	Partially	<b>Developing our talent</b> (pg 54)
<b>Indirect economic impacts</b>		
EC8 Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	Fully	<b>Community – entire section</b> (pg 40) <b>Water – community involvement</b> (pg 30) <b>Water – collective action</b> (pg 31)
EC9 Understanding and describing significant indirect economic impacts, including the extent of impacts.	Partially	<b>Economic impact</b> (pg 42)
<b>Environmental</b>		
<b>Materials</b>		
EN1 Materials used by weight or volume.	Partially	<b>Our supply chain</b> (pg 68)
EN2 Percentage of materials used that are recycled input materials.	Fully	<b>Sustainable packaging</b> (pg 38)
<b>Energy</b>		
EN3 Direct energy consumption by primary energy source.	Fully	<b>Carbon emissions</b> (pg 35)
EN4 Indirect energy consumption by primary source.	Fully	<b>Carbon emissions</b> (pg 35)
EN5 Energy saved due to conservation and efficiency improvements.	Fully	<b>Carbon emissions</b> (pg 35)
EN6 Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	Fully	<b>Carbon emissions</b> (pg 35)
EN7 Initiatives to reduce indirect energy consumption and reductions achieved.	Fully	<b>Carbon emissions</b> (pg 35)

Description	Reported	Cross-reference/Direct answer
<b>Water</b>		
EN8 Total water withdrawal by source.	Fully	<a href="#">Operations</a> (pg 27)
EN9 Water sources significantly affected by withdrawal of water.	Fully	<a href="#">Operations</a> (pg 27)
EN10 Percentage and total volume of water recycled and reused.	Fully	<a href="#">Operations</a> (pg 27)
<b>Biodiversity</b>		
EN11 Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	Fully	<a href="#">Other environmental impacts</a> (pg 39)
EN12 Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	Fully	<a href="#">Other environmental impacts</a> (pg 39)
EN13 Habitats protected or restored.	Not disclosed	
EN14 Strategies, current actions, and future plans for managing impacts on biodiversity.	Partially	<a href="#">Other environmental impacts</a> (pg 39)
EN15 Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	Fully	<a href="#">Other environmental impacts</a> (pg 39)
<b>Emissions, effluents and waste</b>		
EN16 Total direct and indirect greenhouse gas emissions by weight.	Fully	<a href="#">Carbon emissions</a> (pg 34)
EN17 Other relevant indirect greenhouse gas emissions by weight.	Fully	<a href="#">Other environmental impacts</a> (pg 39)
EN18 Initiatives to reduce greenhouse gas emissions and reductions achieved.	Fully	<a href="#">Carbon emissions</a> (pg 34)
EN19 Emissions of ozone-depleting substances by weight.	Fully	<a href="#">Other environmental impacts</a> (pg 39)
EN20 NO <sub>x</sub> , SO <sub>x</sub> , and other significant air emissions by type and weight.	Fully	<a href="#">Other environmental impacts</a> (pg 39)
EN21 Total water discharge by quality and destination.	Fully	<a href="#">Operations</a> (pg 28)
EN22 Total weight of waste by type and disposal method.	Fully	<a href="#">Waste</a> (pg 37)
EN23 Total number and volume of significant spills.	Fully	<a href="#">Other environmental impacts</a> (pg 39)
EN24 Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	Partially	<a href="#">Waste</a> (pg 37)
EN25 Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff.	Partially	<a href="#">Other environmental impacts</a> (pg 39)
<b>Products and services</b>		
EN26 Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	Fully	<a href="#">Sustainable packaging</a> (pg 38)
EN27 Percentage of products sold and their packaging materials that are reclaimed by category.	Partially	<a href="#">Sustainable packaging</a> (pg 38) <a href="#">Glass is good</a> (pg 74)
<b>Compliance</b>		
EN28 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	Fully	<a href="#">Other environmental impacts</a> (pg 39)
<b>Transport</b>		
EN29 Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce.	Partially	<a href="#">Carbon emissions</a> (pg 35)

Description	Reported	Cross-reference/Direct answer
<b>Overall</b>		
EN30 Total environmental protection expenditures and investments by type.	Partially	<a href="#">Executive summary (Environment)</a> (pg 33)
<b>Social: Labour Practices and Decent Work</b>		
<b>Employment</b>		
LA1 Total workforce by employment type, employment contract, and region, broken down by gender.	Partially	<a href="#">Executive summary (Our people)</a> (pg 49)
LA2 Total number and rate of new employee hires and employee turnover by age group, gender, and region.	Not disclosed	
LA3 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	Not disclosed	
LA15 Return to work and retention rates after parental leave, by gender.	Not disclosed	
<b>Labour/management relations</b>		
LA4 Percentage of employees covered by collective bargaining agreements.	Not disclosed	
LA5 Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.	Not disclosed	
<b>Occupational health and safety</b>		
LA6 Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.	Partially	<a href="#">Safety</a> (pg 50)
LA7 Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and by gender.	Partially	<a href="#">Safety</a> (pg 51)
LA8 Education, training, counselling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	Fully	<a href="#">Water</a> (pg 25) <a href="#">Safety</a> (pg 50) <a href="#">Health and wellbeing</a> (pg 52)
LA9 Health and safety topics covered in formal agreements with trade unions.	Not disclosed	
<b>Training and education</b>		
LA10 Average hours of training per year per employee by gender, and by employee category.	Partially	<a href="#">Developing our talent</a> (pg 54)
LA11 Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	Partially	<a href="#">Restructuring</a> (pg 56)
LA12 Percentage of employees receiving regular performance and career development reviews, by gender.	Partially	<a href="#">Developing our talent</a> (pg 54)
<b>Diversity and equal opportunity</b>		
LA13 Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.	Partially	<a href="#">Diversity and inclusion</a> (pg 53)
<b>Equal remuneration for women and men</b>		
LA14 Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation.	Not disclosed	
<b>Social: Human Rights</b>		

Description	Reported	Cross-reference/Direct answer
<b>Investment and procurement practices</b>		
HR1 Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening.	Partially	Diageo takes human rights issues seriously and our Code of Business Conduct (CoBC) includes our Human Rights Policy addressing labor standards including minimum age, freedom of association, sexual harassment, discrimination, bullying and national sovereignty. Where we acquire a company outright or hold a controlling stake, we implement our CoBC principles as quickly as possible as the new business is integrated into our current operations. All investment decisions consider a variety of qualitative screenings on issues such as standards of health and safety, history of employment litigations, and the culture of compliance.
HR2 Percentage of significant suppliers, contractors and other business partners that have undergone human rights screening, and actions taken.	Partially	<a href="#">Managing sustainability risks</a> (pg 68)
HR3 Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	Partially	<a href="#">Performance (Governance and ethics)</a> (pg 65)
<b>Non-discrimination</b>		
HR4 Total number of incidents of discrimination and corrective actions taken.	Not disclosed	
<b>Freedom of association and collective bargaining</b>		
HR5 Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights.	Partially	<a href="#">Managing sustainability risks</a> (pg 68)
<b>Child labour</b>		
HR6 Operations and significant suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour.	Partially	<a href="#">Managing sustainability risks</a> (pg 69)
<b>Forced and compulsory labour</b>		
HR7 Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour.	Partially	<a href="#">Managing sustainability risks</a> (pg 69)
<b>Security practices</b>		
HR8 Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations.	Not disclosed	
<b>Indigenous rights</b>		
HR9 Total number of incidents of violations involving rights of indigenous people and actions taken.	Not disclosed	
<b>Assessment</b>		
HR10 Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments.	Partially	<a href="#">Our compliance and ethics programme</a> (pg 63)
<b>Remediation</b>		
HR11 Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms.	Not disclosed	
<b>Social: Society</b>		
<b>Local communities</b>		
SO1 Percentage of operations with implemented local community engagement, impact assessments, and development programs.	Partially	<a href="#">Executive summary (Community)</a> (pg 41)

Description	Reported	Cross-reference/Direct answer
SO9 Operations with significant potential or actual negative impacts on local communities.	Partially	<a href="#">Operations</a> (pg 27)
SO10 Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities.	Partially	<a href="#">Operations</a> (pg 27)
<b>Corruption</b>		
SO2 Percentage and total number of business units analyzed for risks related to corruption.	Partially	<a href="#">Our compliance and ethics programme</a> (pg 63)
SO3 Percentage of employees trained in organisation's anti-corruption policies and procedures.	Fully	<a href="#">Our compliance and ethics programme</a> (pg 63)
SO4 Actions taken in response to incidents of corruption.	Partially	<a href="#">Managing sustainability risks</a> (pg 68) <a href="#">Upholding our standards in all circumstances</a> (pg 70)
<b>Public policy</b>		
SO5 Public policy positions and participation in public policy development and lobbying.	Partially	<a href="#">Stakeholder dialog and alcohol policies</a> (pg 22) <a href="#">Regulatory environment</a> (pg 60)
SO6 Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	Fully	See our Annual Report ( <a href="http://www.annualreport2011.diageoreports.com">www.annualreport2011.diageoreports.com</a> ): Governance - Additional information (pg 105)
<b>Anti-competitive behaviour</b>		
SO7 Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes.	Partially	<a href="#">Performance (Governance and ethics)</a> (pg 65) See our Annual Report ( <a href="http://www.annualreport2011.diageoreports.com">www.annualreport2011.diageoreports.com</a> ): Financial statements - Contingent liabilities and legal proceedings (pg 166)
<b>Compliance</b>		
SO8 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	Fully	<a href="#">Performance (Governance and ethics)</a> (pg 65) <a href="#">Other environmental impacts</a> See our Annual Report ( <a href="http://www.annualreport2011.diageoreports.com">www.annualreport2011.diageoreports.com</a> ): Financial statements - Contingent liabilities and legal proceedings (pg 166)
<b>Social: Product Responsibility</b>		
<b>Customer health and safety</b>		
PR1 Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	Fully	<a href="#">Responsible marketing and consumer information</a> (pg 18) <a href="#">Food safety and quality</a> (pg 77)
PR2 Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	Partially	<a href="#">Responsible marketing and consumer information</a> (pg 18)
<b>Product and service labelling</b>		
PR3 Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	Partially	<a href="#">Responsible marketing and consumer information</a> (pg 18) <a href="#">Food safety and quality</a> (pg 77)
PR4 Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes.	Partially	<a href="#">Responsible marketing and consumer information</a> (pg 18)
PR5 Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	Fully	<a href="#">Responsible marketing and consumer information</a> (pg 18) <a href="#">Our stakeholders</a> (pg 13) <a href="#">Food safety and quality</a> (pg 77)
<b>Marketing communications</b>		
PR6 Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	Fully	<a href="#">Responsible marketing and consumer information</a> (pg 18)