

# £20.7<sub>m</sub>

Invested in community projects

# 99

Production sites

# 100

Diageo included in the Global 100 most sustainable companies

# 22,520

Employees worldwide

# £5.9<sub>bn</sub>

Cash value added

# 87%

Waste recycled

# DIAGEO

Corporate Citizenship Report 2007

# Our values

// We are **passionate about consumers** – our curiosity and consumer insights drive our growth. We cherish our brands; we are creative and courageous in pursuing their full potential. We are innovative, constantly searching for new ideas.

// We **value each other** – we seek and benefit from diverse people and perspectives. We strive to create mutually fulfilling relationships and partnerships

// We give ourselves the **freedom to succeed** – we trust each other, we are open and seek challenge, and we respond quickly to the opportunities this creates.

// We are **proud of what we do** and how we do it – we act responsibly with the highest standards of integrity.

// We strive to **be the best** – we are always learning, always improving. We set high standards, we stretch to exceed them and we celebrate success.

# Report highlights

// Included in the **Global 100** most sustainable companies

// In **top ten** in the Good Company Ranking 2007

// The growing importance of **Asia Pacific** reflected in creation of new Diageo region

// New Scottish facilities planned with **sustainable features** built in

// 1% operating profit invested in our **communities**

// **Responsible drinking** projects completed or underway in 45 markets

// Diageo Africa committed to provide water for **one million** people

// **Safety and environmental** programmes implemented at large offices

// Most electricity in Ireland and Scotland now from **zero- or low-carbon** sources

// Three out of five **environmental targets** met; new targets set

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# Priorities and progress

Key impact area	Priorities for action	Progress and plans	Benefit to society	Benefit to Diageo
<b>Society</b>				
Responsible drinking	<p>In all businesses, deliver a responsible drinking initiative and evaluate its effectiveness</p> <p>Engage employees in living our responsible drinking policy</p> <p>Participate in constructive industry consultations with WHO on alcohol abuse</p>	<p>Initiatives continuing, completed or underway in 45 markets</p> <p>Programmes delivered in Australia, Brazil, Ireland, UK and Venezuela</p> <p>Contributed to regional workshops on self-regulation in Asia Pacific and Africa</p>	<p>Discourages harmful patterns of behaviour</p> <p>Employees as ambassadors reinforce responsibility message</p> <p>Reduces negative health and social impacts of alcohol abuse</p>	<p>Builds relationships with a broad range of stakeholders</p> <p>Enhances reputation and employee engagement</p> <p>Provides balanced view of the role of alcohol in society</p>
Consumer choice	<p>Implement our consumer information policy</p> <p>Develop ways of measuring and reporting quality</p>	<p>Coverage now 37%. All relevant brands to comply by 2010</p> <p>Working on new measures of supplier and production quality</p>	<p>Facilitates informed consumer choices</p> <p>Enhances consumer choice</p>	<p>Builds brand reputation and loyalty</p> <p>Builds brand reputation and loyalty</p>
Community investment	<p>Invest 1% of operating profit in social and community programmes</p> <p>Focus on developing countries and disasters, engaging employees with initiatives</p>	<p>Invested £20.7 million, or 1.0% of operating profit</p> <p>Significant projects in Africa; strategy reviewed in other developing countries. Issued guidelines on local community programmes</p>	<p>Addresses pressing community issues</p> <p>Focuses resources on where they can be most effective</p>	<p>Strengthens relationships with communities</p> <p>Strengthens relationships with communities and employees</p>
Employee engagement and development	<p>Raise levels of employee engagement across all business areas as measured by values survey</p> <p>Embed health, safety and quality standards in all parts of the business</p>	<p>Survey showed engagement with all values 2-3% up on 2006. Super-engaged employees up 5% to 29% with a target for 2011 of 50%</p> <p>Following audits, improvement plans are being progressed and actions taken to address gaps</p>	<p>Maximises fulfilling employment opportunities</p> <p>Enhances health and safety of community members</p>	<p>Employee engagement drives business performance</p> <p>Leads to compliance and greater productivity</p>
<b>Environment</b>				
Climate change	<p>Implement our long-term energy strategy</p>	<p>Greenhouse gas emissions reduced by 9% in three years. Manager appointed to drive energy strategy</p>	<p>Reduces emissions of climate change agents</p>	<p>Leads to cost savings and greater sustainability</p>
Water management	<p>Minimise water use and emissions to water</p>	<p>Reduced water use by 11% in three years but BOD emissions have increased. Established water group to drive further improvements</p>	<p>Conserves natural resources</p>	<p>Leads to cost savings and protects water supplies</p>
Resources and waste	<p>Champion the adoption of sustainable packaging</p>	<p>Guidelines in use by brand teams</p>	<p>Conserves materials and habitats</p>	<p>Generates consumer support and cost savings</p>
<b>Economy</b>				
Financial contribution	<p>Build total shareholder return</p> <p>Promote high standards of governance, compliance and transparent reporting</p>	<p>Delivered accelerated financial growth and returned £2.3bn to shareholders</p> <p>Implemented Sarbanes-Oxley; management concluded that as at 31 June 2007 internal control over financial reporting was effective</p>	<p>Encourages investment, employment and business opportunity</p> <p>Supports integrity of business sector</p>	<p>A requirement for business success</p> <p>Strengthens relationships with all stakeholders</p>
Supply chain management	<p>Promote our standards throughout the supply chain</p> <p>Consider the social, environmental and economic impacts of major procurement decisions</p>	<p>Ethics and human rights management practices recorded by our suppliers via Sedex</p> <p>Suppliers' practice in human rights, business ethics and environment is included in all significant sourcing decisions</p>	<p>Encourages business sector integrity</p> <p>Responsibility encouraged in the value chain</p>	<p>Improves business relationships and reputation</p> <p>Improves business and community relationships</p>

# Diageo around the world in 2007



▲ Colleagues partnered with *Un Techo Para Mi Pais* ('A roof for my country') to provide accommodation for poor families in San Miguel Ajusco, 100km south of Mexico City. A grant of £22,000 from the business covered the materials for 30 houses, ten of which were erected in just one day by 140 Diageo volunteers from offices across Mexico.



◀ Thirty Diageo wine marketers in California, USA helped conserve the nearby Fagan Marsh Ecological Reserve on the Napa river by collecting half a tonne of rubbish, including nine tyres, two vacuum cleaners and a car back seat. Led by a former Diageo Earthwatch champion, the project aimed to promote biodiversity, cleaner water and ultimately healthier growing conditions for vines.

◀ Each year in Ireland we sponsor more than 1,000 festivals and other events, reflecting our significant involvement in the sporting and cultural life of the nation. Guinness was the main race sponsor at the 2007 Punchestown races, while Diageo sponsored the Charity Sweepstakes for the Punchestown Kidney Research Fund. Kate Harrington won the race riding Moscow Flyer.



▲ Hives Save Lives Africa uses apiculture to alleviate poverty and encourage conservation. In Mpigi, Uganda, we donated equipment including 40 beehives and trained 13 farmers as beekeepers. Now in full production, the farmers are selling honey and propolis – a medicinal resin collected by bees – in Uganda and the UK to supplement their income from other crops.



▲ An outbreak of malaria, not seen in Jamaica for over 40 years, affected over 200 people this year, mainly around Kingston. Receiving a donation of £7,500 from the managing director of our Jamaican business, the minister of health praised Red Stripe as 'the only company to come forward and offer help in the fight against the disease.'



▲ We've changed the way we dispose of waste beer in the UK to treatment by anaerobic digestion – a switch mediated by the National Industrial Symbiosis Programme. Burning the methane produced makes enough energy to run the treatment plant. The new arrangements save CO<sub>2</sub> emissions of 9,000 tonnes and divert 2,600 tonnes of waste from going down the drain.



▲ One issue raised by young people attending a debate on drinking and road safety in Spain was how to be responsible about car use when public transport is not available. As joint organisers of the debate with the road traffic department of the Ministry of the Interior, we plan to work with Spanish on-trade associations to address this important concern.



◀ Diageo Australia supported Earth Hour, an environmental awareness event launched by the city of Sydney, by turning off all non-essential lighting at our offices and production plants. More than two million Sydneysiders joined the initiative and power suppliers reported a 10.2% drop in energy usage across the usually glittering Sydney business district.

▲ Above middle During Christmas and the New Year, Guinness provided 70,000 party-goers in Singapore with a free ride home. Research afterwards found that four out of five consumers agreed that Guinness was a responsible brand and two out of three said the campaign had changed their attitude towards drink-driving.

# A decade to celebrate

We see our tenth anniversary as a time for looking forward, drawing on our decade of achievement as one business to provide the context for tackling the challenges ahead.

After Diageo's formation, we quickly established the structures our young company needed to develop not just as a business dedicated to delivering returns for shareholders, but as an industry-leading corporate citizen with an holistic approach to the long-term aims of sustainability. Within the first six months, we agreed our set of company values and adopted a code of business conduct, responsible marketing code and employee alcohol policy. The environmental working group was set up, the Diageo Foundation created and 1% of operating profit committed to community investment. Further achievements quickly followed.

When we address the range of sustainability issues, our aim is to achieve the continuing success of our business within healthy, prosperous communities and a stable environment. Our first priority, which developed strongly over the last decade, remains to ensure a sustainable place in society for alcohol beverages by taking strong and effective action to reduce the harm that occurs when alcohol is misused. The largest section of this report is rightly devoted to the work we have done to build on our notable track record on this central issue.

The other aspects of our corporate citizenship agenda are also vital to our continuing success. In this, our tenth anniversary year, we have advanced strongly in two such areas.

First, we have directed attention to community involvement. Diageo has long been celebrated for supporting projects that tackle social issues within our communities. This year our International division made its community programme a central part of business strategy. And within this region, Africa has been a particular focus. There, we have set ourselves the goal of providing access to clean water for one million people.

Second, the environment, too, has moved higher on the corporate citizenship agenda. Increasingly concerned about new estimates of the speed and gravity of human impacts on the climate, during the year we reconstituted our environmental working group to formulate an effective response to the

threats and opportunities presented by this issue. In our programme to invest £100 million in new and expanded distilling capacity in Scotland, announced this year, we hope to incorporate environmental features to significantly reduce our impacts there.

Where we can, we work to support external initiatives which share or extend our aims. Our One Million Challenge and HIV/Aids programmes in Africa are a significant contribution to achieving the UN's Millennium Development Goals. In July, we signed a high-level business declaration that calls on companies to use their resources to help achieve the Goals.

Our approach has earned much recognition. In an assessment of the 120 largest companies in Europe, Diageo was placed in the top ten of the *Good Company Ranking 2007* which selects businesses whose employee policies and forward-looking approaches to environmental and social issues have had a positive effect on their governance and profitability.

As befits the start of our second decade, we are continually looking to set stretching objectives for our employees in the areas of performance,

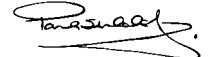
innovation, relationships, reputation, our role in society, our people, culture and values. A revised Diageo leadership standard is already being applied to equip our managers for their role in leading our business through the challenges of achieving our ambitious plans.

We can report progress this year on each of our priority areas and against the ten principles of the UN Global Compact. Our continuing commitment to these principles ensures that we advance on all aspects of sustainability for the continuing benefit of everyone with a stake in our business. We hope this report, which for the first time we have prepared by applying the new G3 guidelines of the Global Reporting Initiative, will provide all such stakeholders with a compelling picture of Diageo as a good corporate citizen.

We welcome your views on our report and its coverage of your concerns, our priorities and our development as a sustainable business.



**Lord Blyth of Rowington**  
Chairman



**Paul S Walsh**  
Chief executive





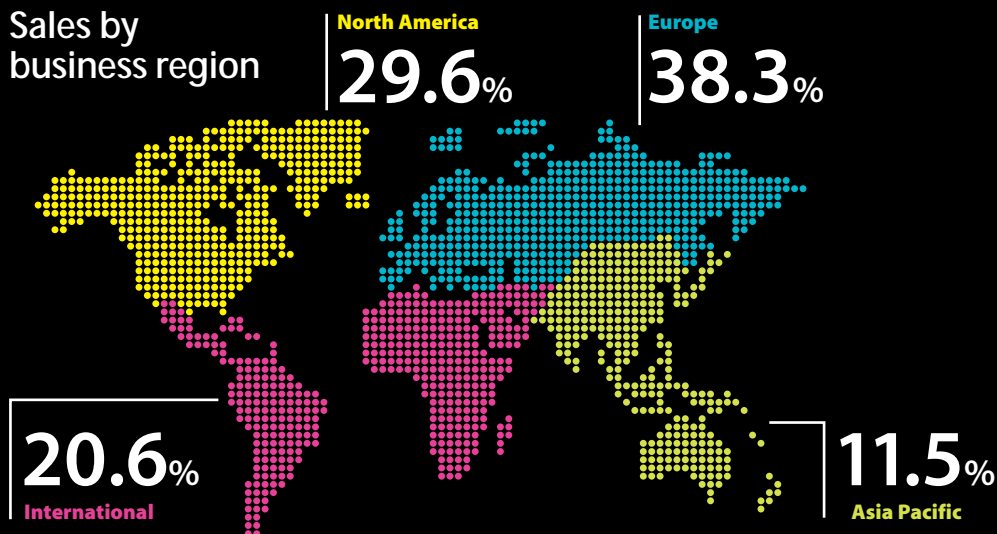
# Our business

## Global priority brands by volume millions of equivalent units<sup>†</sup>



<sup>†</sup>An equivalent unit is that volume of beverage which contains the same number of servings as a nine-litre case of spirits. Includes ready-to-drink beverages.

## Sales by business region



Sales* %	2007	2006
Europe	38.3	39.8
North America	29.6	30.8
Asia Pacific	11.5	10.8
International	20.6	18.6

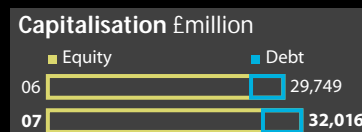
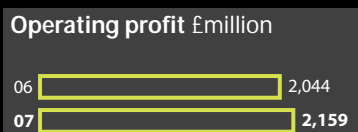
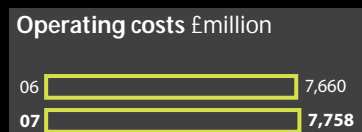
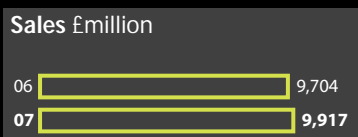
\*Excludes corporate sales of £75m.

North America	
Sales	£2,915m
Costs	£2,065m
Employees	3,719
Volume (equivalent units)	50.2m
Top three brands (volume)	Smirnoff, Captain Morgan, José Cuervo

International	
Sales	£2,031m
Costs	£1,532m
Employees	5,300
Volume (equivalent units)	37.3m
Top three brands (volume)	Johnnie Walker, Smirnoff, Guinness

Asia Pacific	
Sales	£1,131m
Costs	£935m
Employees	2,468
Volume (equivalent units)	12.9m
Top three brands (volume)	Johnnie Walker, Smirnoff, Bundaberg

## Key figures



# Getting to know Diageo

Our brands have unique consumer appeal, yet all have important features in common: quality ingredients, skill and care in manufacture and Diageo's reputation as a successful company and responsible corporate citizen.

## Overview of our business

The world's leading premium drinks business, Diageo's aim is to create value by producing, marketing and distributing alcohol beverages. The company was formed a decade ago through the merger of Grand Metropolitan and Guinness. Four years later, we acquired additional spirits and wine businesses from Seagram and, more recently, have added other brands by acquisition and innovation. Many of Diageo's forerunner businesses, and the brands at their heart, have a rich heritage of inventiveness, entrepreneurship and philanthropy. While J&B and Guinness can trace their origins to the 18th Century, the longest history belongs to Bushmills Irish whiskey, launched in 1784 under a royal licence to distil granted to County Antrim in 1608. Our collection of brands is not a static list. Through an active programme of research and development, we continue the tradition of introducing new products, some of which we hope will become the heritage brands of the future.

Measured by market capitalisation in 2006, Diageo was ranked by the *Financial Times* among the 150 largest companies in the world. The company's primary share listings are on the London and New York stock exchanges. Headquartered in London, Diageo trades in some 180 markets. Demand functions, comprising marketing and sales, are organised into four regions: North America, which in 2007 generated approximately 37% of operating profit, Europe (32%), International (22%) and Asia Pacific (9%). Our supply organisation controls the manufacturing, packaging and warehousing of our brands. About 80% of these are produced directly by Diageo businesses, some of them companies which are themselves quoted on local stock exchanges. We operate 35 distilleries, 15 breweries and 10 wineries, supported by 20 blending and packaging plants and

19 warehousing and other facilities. The most significant of these production centres are located in Australia, Canada, Cameroon, Ghana, Ireland, Jamaica, Kenya, Nigeria, Uganda, the UK (most importantly Scotland) and the USA. The remaining 20% of our brands are produced in many countries either by joint-venture businesses in which we have a non-controlling share or under contract with commercial partners.

Our strongest drivers of growth are our eight global priority brands, shown opposite, which accounted for around 59% of total volume in 2007 and five of which are world leaders in their categories. In addition to these is a range of over 150 further brands, many of them local market category leaders. More information about Diageo brands, and links to some dedicated websites, are available at [www.diageo.com](http://www.diageo.com). This year we sold a total of 141.3 million 'equivalent units' of product, an equivalent unit being 272 servings of each beverage, the same as the number of measures of spirits in a nine-litre case. Expressing the total in more familiar terms, each day around the world consumers enjoyed 80 million measures of Diageo spirits, 18 million glasses of beer, six million bottles of our ready-to-drink brands and two million glasses of wine.

## The alcohol beverage industry

Most recorded alcohol beverages consumed in the world fall into the broad categories of spirits, wine and beer, which account for roughly equal parts of the total alcohol consumed – an estimated average of 5.1 litres per adult annually across the globe. According to the World Health Organisation, this figure, and the consumption of the different beverage categories, have stayed more or less constant for the last two decades, though underlying this global stability are

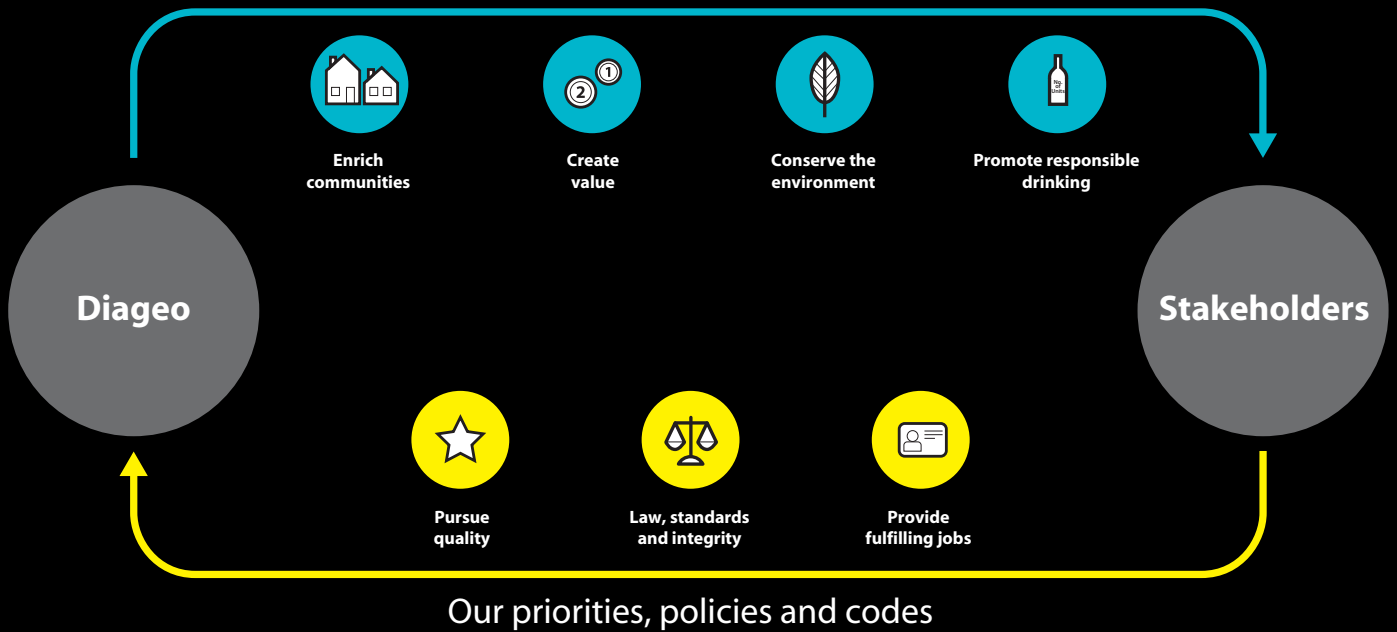
different trends in the various regions of the world. Over this time, there has been a small decline in consumption in the Americas and Africa and a larger fall from a higher level in Europe. There have been increases in the Western Pacific and, recently, South-East Asia, with little change in the area around the Eastern Mediterranean.

Diageo is the world's leading premium drinks business, accounting for some 55% of the volume of the world's top 10 premium spirits brands (according to Impact), and we are the leader in this business in many countries. This context provides us with both challenges and opportunities as we aspire to lead our industry in setting standards for responsible marketing and defining a sustainable place for alcohol beverages in the societies in which we operate.

# 150

Measured by market capitalisation in 2006, Diageo was ranked by the *Financial Times* among the 150 largest companies in the world.

# The meaning of sustainability



It's not only the right thing to do, but also makes good commercial sense to contribute to the long-term development of the markets and regions in which we operate because sustainable communities in stable natural environments provide the most likely context for the enduring success of our business. Such success creates value for investors, employees, commercial partners and others with a stake in Diageo, and – in a virtuous circle – in turn presents us with greater opportunity to invest in social and environmental projects.

All this can be achieved only if our communities are themselves economically sound, societal problems are addressed and environmental resources are conserved. If issues that could compromise the needs of future generations are not effectively dealt with, sooner or later they will impact our consumers, our industry and our business. For example, without enterprise and opportunity, consumers will be less able to afford our brands; without clean water, our breweries and distilleries will suffer along with the communities in which they are located; if HIV/Aids goes unchecked, it is our employees, suppliers and consumers who are potentially affected; and if alcohol beverages are consumed irresponsibly, families and society are put at risk.

Our approach to such issues is to embrace good corporate citizenship, where the rights conferred by society to trade freely and be treated fairly are balanced by our responsibilities towards our stakeholders, communities and the environment. We cannot solve all of society's problems alone, but as a good corporate citizen we can make a meaningful contribution by enthusiastically living our values and committing to our comprehensive range of codes and policies. We attempt, as a minimum, to address the impacts that our own



activities and products have on society and the environment. Sometimes – for example, when investing in community enterprise or infrastructure projects or when responding to disasters – we go beyond this to try to tackle pressing social issues and make a real difference to people's lives.

Considering issues broadly, not just according to financial considerations, is a principle that's built into our policies and ways of working, showing how determined we are to progress apace towards sustainable positions in all of our activities. This commitment has been recognised in each of the last three years by Diageo's inclusion in the *Global 100* list of most sustainable companies, for which businesses are evaluated according to how effectively they manage environmental, social and governance risks and opportunities, relative to their industry peers ([www.global100.org](http://www.global100.org)).

## Our priorities

For a business as large and complex as Diageo, the variety of issues which face us dictates that we must focus our efforts on priority areas – those that engagement with stakeholders shows to be of concern, which present significant business risks, support our immediate communities or business partners, and underpin Diageo's values, policies or strategy. We also work where we can use our resources and expertise to make the most positive difference. The result is an emphasis on the following important sustainability issues:

- **Society** – responsible drinking, consumer choice, community investment, employee engagement and development
- **Environment** – climate change, water management, resources and waste
- **Economy** – financial contribution, value chain management.

Our priorities and progress in each of these areas during the year is shown in the table on the inside front cover of this report. These priorities are under continuous review – as actions are completed or incorporated into routine ways of working we take them off the list, adding issues for attention as they emerge.



# Promoting responsible drinking

Neither we nor society benefits when consumers misuse our products, so promoting responsible drinking is the right thing to do and is key to the sustainability of our business.



In many parts of the world, alcohol beverages have been a popular source of enjoyment and a common accompaniment to social interaction for centuries. Often a key ingredient in ceremony and celebration, drinking is deeply integrated into the values, cultures and economies of many societies. The industry that produces and distributes spirits, wine and beer delivers additional benefits for society, such as generating substantial tax revenues, providing employment and creating business opportunity. We are proud of the role that Diageo brands play in the lives of so many people. We also acknowledge that – like many other products – when misused, alcohol can lead to individual and social harm.

We believe that this potential for harm is preventable and that a valuable and sustainable place in society can be found for alcohol beverages. Defining this is a collective responsibility, involving not only producers like Diageo but also consumers, retailers, educators, researchers, non-governmental organisations (NGOs), law enforcers and governments. Our contribution is to maintain high standards of responsibility in our own activities, promote such standards strongly in our industry and, working with others, invest in awareness-raising campaigns and other practical initiatives that tackle misuse by aiming to change people's attitudes and behaviour.

Some people ask why a drinks company would put so much effort into responsible drinking initiatives. For Diageo the case for doing so is both rational and emotional. Rationally, there is an irrefutable business reason for promoting the sensible use of our products. We want consumers to enjoy our brands, which they cannot do if they drink to excess. And it is not in our interests if the bad behaviour of a few alienates the majority

of our brands' loyal consumers. Our unshakable commitment to these principles contributes to the sustainability of our business by strengthening relationships with consumers, governments and other stakeholders. At the emotional level, we are proud of our great brands and of working for a company that acts with integrity. Diageo employees are themselves members of families and we care about the safety of our own loved ones and communities. We're proud of the part our products play in celebrating life and sharing fantastic times and we want to do what we can to stop people putting themselves at risk by misusing alcohol.

by our marketing colleagues and external agencies are enshrined in the Diageo marketing code. We regularly review the code and update it as new issues emerge.

Training in the marketing code forms part of the induction programme for relevant new employees; and our marketing and innovation teams and agencies regularly attend refresher courses on its interpretation. Marketing code training took place in many countries and major sessions were held in Canada, China, Greece, India, Ireland, Nigeria and the UK. Workshops are complemented by an online e-learning course, which is available in French, English and Spanish to both Diageo employees and our agency partners.

This year we launched a new digital code of practice which sets standards for marketing through media such as the internet and mobile phones, with particular emphasis on limiting access and appeal to only those over the legal purchase age for alcohol. Around 450 marketers have been trained in the digital code and 50 more have been trained as trainers. An e-learning course is to be made available to all employees and marketing partners.

The development of digital media has opened new avenues for raising awareness of responsible drinking amongst consumers. In Britain, Smirnoff's mobile internet site incorporated 'proper partying' reminders of how to enjoy a night out and get home safely. In Greece, we used SMS and a mobile phone game to randomly designate a driver from groups of friends. Responsible drinking information was built into the online voting process as consumers chose their favourite responsible drinking scenario as part of Australia's Bundaberg Rum 'Fine Form' campaign.

## In summary, the three strands of our strategy are to:

- set world-class standards for responsible marketing and product innovation
- raise consumer awareness of responsible drinking behaviour
- combat alcohol misuse, working with others to reduce alcohol-related harm.



## Responsible marketing and innovation

We use advertising, promotion and other marketing techniques to inform consumers about the choices available to them and to compete for market share. Our aim is to beat our competitors by attracting adult consumers to our products and by encouraging those who enjoy alcohol beverages to trade up within our collection of premium brands. The strict standards of responsibility observed

# Promoting responsible drinking

continued



**a** We use advertising extensively in the USA to raise awareness of responsible drinking issues.

**b** As responsible drinking ambassador for Johnnie Walker's cricket world cup campaign, Sir Vivian Richards spread the message widely in the West Indies.



**c** This year over 4,000 employees were taken through our responsible drinking awareness programme.



**d** At the Canadian F1 Grand Prix, Mika Hakkinen presents a board of responsible drinking pledges to the head of the Montreal traffic police.

We operate a systematic review process to check that our code is followed at the key stages of a brand development or marketing project. If a potential breach is identified, action is taken to bring the project into compliance before it is allowed to proceed. Should some aspect of a project which presents a potential violation of the code slip through this process, we investigate it, take remedial action and seek to ensure that similar issues do not recur.

To improve the efficiency and accountability of the way we approve advertisements before release, we have developed 'SmartApprove', an on-line tool which co-ordinates approval by all the necessary functions within Diageo – marketing, legal, intellectual property and corporate relations. The system is in operation in Britain, America and Iberia and will be implemented in other markets in the coming year.

Our marketing code applies in addition to external regulations – for example, the Common Standards for Commercial Communications of the European Forum for Responsible Drinking (EFRD), designed to promote responsible spirits marketing among EFRD members. The standards, which we helped compile with other industry members, were updated this year with new guidance on sponsorship.

Bodies in many countries assess complaints from the public about alcohol beverage marketing, judging standards against their codes of practice. Important examples include: the Alcohol Beverages Advertising Code (ABAC) in Australia, the Advertising Standards Authority for Ireland (ASAI) and Mature Enjoyment of Alcohol in Society (MEAS) in Ireland; the Advertising Standards Authority (ASA) and the Portman Group in the UK; and, in the USA, the Distilled

Spirits Council of the United States (Discus) and the Wine Institute. We report complaints about Diageo marketing activities upheld by these bodies. No such complaints were upheld by MEAS or the Wine Institute.

## Complaints upheld

	2007	2006	2005	2004	2003
<b>By ABAC, Australia</b>					
All alcohol beverages	3	3	4		
Diageo brands	0	1	0		
<b>By ASAI, Ireland</b>					
All alcohol beverages	1	0			
Diageo brands	1	0			
<b>By ASA, non-broadcast*, UK</b>					
All alcohol beverages	5	5	7	7	9
Diageo brands	1	0	0	1	0
<b>By Portman Group, UK</b>					
All alcohol beverages	2	3	9	10	12
Diageo brands	0	0	0	0	0
<b>By Distilled Spirits Council, USA</b>					
All alcohol beverages <sup>1</sup>	15	7	17		
Diageo brands	2	1	1		

\*Broadcast advertisements are included from July 2006.

<sup>1</sup>All members' brands plus non-members' spirits brands.

Years are 1 July-30 June.

In April 2006 in Australia, a complaint that a Bundaberg rum commercial was aired during daytime sport programmes and might appeal to an underage audience was upheld by ABAC, and we withdrew the commercial immediately.

A TV commercial for Budweiser, which we distribute in Ireland, was found to breach the ASAI's code which states that advertisements should not portray drinking alcohol as a challenge nor should it be suggested that those who drink are brave, daring or tough. The commercial had previously

been approved for broadcast by the official Central Copy Clearance Ireland and was withdrawn.

In the UK, when the ASA raised concerns about parts of a Smirnoff Ice campaign potentially having appeal to people under the legal purchase age for alcohol beverages, we had already withdrawn the campaign.

In the USA in 2006, we immediately withdrew a Baileys TV advertisement following a Discus judgment that it created the impression of an excessively large pour of the liqueur, despite an on-screen caption that recommended a 50ml serving. This year, we removed a Baileys poster which had been placed by our media contractor within 500 feet of a school, in violation of the Discus code. And an actress in a TV commercial for Smirnoff Ice was judged to appear under the legal purchase age for alcohol due to her orthodontic headgear. Alerted to this interpretation, we had already withdrawn the ad.

The Seychelles Drug & Alcohol Council (DAC) raised a complaint about a promotion that offered prizes in exchange for Guinness bottle tops, claiming that the number of tops required for some prizes was excessive and might lead to irresponsible consumption. We promptly amended the promotion with DAC's support. We made changes to our compliance procedures and have planned refresher training in our marketing code, to which DAC personnel have been invited.

## Raising consumer awareness

While the vast majority of people who choose to drink alcohol beverages do so responsibly, others do not. Producers, retailers, the wider hospitality industry and others have a role in

# 14

Server training programmes are running in 14 markets

encouraging responsible attitudes and behaviour in this minority. Our approach is to use our communications skills to raise awareness about the potential for harm from alcohol misuse and provide information to help consumers make reasoned decisions about drinking or not drinking.

The responsible drinking TV ads we ran in the UK were the first nationwide campaign by an alcohol beverage producer. The message of the two 30-second ads was that 'social currency' among groups of friends is jeopardised by drinking too much – summarised by the tag lines 'Don't see a great night wasted' and 'Make sure you like what you see'. Evaluation showed that viewers considered the ads easy to understand, 96% saying it was good to see a drinks company promoting responsible drinking. Of those watching the two ads, 59% and 71% respectively said they would consider drinking more responsibly as a result.

The first pan-Caribbean responsible drinking programme, 'Know your boundaries', was the centerpiece of Johnnie Walker's sponsorship of the ICC Cricket World Cup. During the two-month campaign, Sir Vivian Richards, one of the game's greatest-ever players, toured the West Indies to raise awareness of the importance of responsible drinking. And Sir Vivian attracted further attention by issuing a challenge: Johnnie Walker would donate US\$1 million to charity if any batsman struck six sixes in an over during the tournament. Within days, South African Herschelle Gibbs became the first person in international cricket to achieve this feat, releasing the funds to housing charity Habitat for Humanity with whom we are working on construction projects for needy families in the Caribbean and South Africa.

Red Stripe, our business in Jamaica, this year launched a multi-media responsible drinking campaign. Dubbed 'Think responsibly, drink responsibly', the executions covered radio, TV and print media and were supported by public seminars at universities to educate and raise awareness. The Jamaican Ministry of Health and National Road Safety Council both endorsed the campaign.

As ambassadors for Diageo, it's important that our employees support our responsible drinking activities and themselves show a sensible attitude to drinking both in and out of the workplace. Responsible drinking forms part of the induction programme for new employees which introduces our employee alcohol policy and the standards of behaviour we expect from colleagues. We also run responsible drinking awareness sessions

# 45

Responsible drinking initiatives have been completed or are underway in 45 markets

for existing employees and this year over 4,000 colleagues completed this programme. In this year's global values survey (see page 19), 91% of responding employees said they thought Diageo was effective in promoting responsible drinking, up from 89% in 2006.

### Combating alcohol misuse

We work with others to help combat the misuse of alcohol and reduce the harm that can result from it in four important areas: **drink-driving**; **server training**; the behaviour of **young adults**; and **underage drinking**. The Diageo Responsible Drinking Fund, which had resources this year of £800,000 (included in the analysis of community investment on page 14), provides seed-corn funding and expertise to help Diageo businesses around the world establish initiatives in these four areas. In most cases, campaigns are further funded by the businesses themselves and are often managed in partnership with external bodies such as government agencies or other groups with specialist knowledge or expertise.

**Drink-driving** We believe governments should set legal limits for drivers' blood alcohol concentration, take tough measures to enforce the law and impose strict penalties on those guilty of drink-driving. We support such actions through campaigns to raise awareness of the risks of drink-driving and encourage people to change their habits to help reduce the number of drink-drivers on the road. Our projects are often run in partnership with organisations such as the police or road safety organisations.

When Diageo signed the European Road Safety Charter in July 2006, we made five commitments: to implement responsible drinking activities with our 8,000 EU employees; to initiate responsible drinking activities in all EU member states; to reach over one million adult consumers with anti-drink-driving messages; to support the European Transport Safety Council; and to encourage individual Diageo businesses in Europe to make their own commitments under the charter. In each of the five areas, we are close to achieving our three-year ambition in less than a year. As part of meeting one commitment, a new two-year partnership between Diageo and the European Transport Safety Council has established Europe's first dedicated Drink Driving Policy Network to promote road safety. A research programme aims to identify best practice for reducing alcohol-related accidents among repeat drink-drivers and novice drivers.

Since 2005, we have used Johnnie Walker's sponsorship of the Vodafone McLaren Mercedes

Formula One team as a platform from which to promote responsible drinking to a key audience. This year, Mika Hakkinen, twice Formula One champion, became Johnnie Walker's responsible drinking ambassador and has played a key role in raising awareness of alcohol issues – particularly in relation to driving – and emphasising the importance for groups of friends of designating a driver before a night out. As a role model for professionalism, precision and control, Mika is a worthy ambassador for promoting these messages among motor-racing fans.

During the 2007 racing season, Mika took the message 'Winners always stay in control – never drink and drive' to a number of Grand Prix meetings. At the Malaysian Grand Prix, he launched a designated driver programme. And a competition offered motorsport fans in Kuala Lumpur the chance to win Mika as their very own designated driver to drive them home following the Formula One event. At the Canadian Grand Prix, Mika and Vodafone McLaren Mercedes driver Lewis Hamilton challenged race goers and Montrealers generally to sign a pledge not to drink and drive. For every signature pledged, Diageo contributed \$1 to Educ'alcool, the Quebec-based social aspects organisation which promotes responsible drinking.

'Responsibility at heart, safety on the road' was the theme of our responsible drinking campaign in Shanghai for the 2006 Chinese Grand Prix. Working with the Shanghai traffic police, the campaign encouraged people to sign up to a commitment not to drink and drive, whilst raising awareness about alternative forms of transport for a night out. The campaign was run in conjunction with drivers from the Dazhong Taxi Company who themselves took the oath. There are indications that public awareness raised by the Diageo campaign contributed to a recorded 6% fall in traffic accidents in Shanghai while it was running.

The campaign was also taken to Europe. For example, in Italy, the Guida il tuo Team (Drive your Team) programme was run in partnership with Automobil Club d'Italia (ACI) as part of our contribution towards halving road deaths in Europe by 2010. A communication campaign through ACI branches and outlets was followed up by events in Rimini, Rome and Turin to encourage the idea of designated drivers among men in their twenties.

A 'Don't drink and drive' campaign was an important part of Diageo's sponsorship in Denmark of the Skanderborg Festival, the fourth largest in Europe, which attracted 35,000 music fans. The very visible campaign included posters

# Promoting responsible drinking

continued



**a** Once the party is over, take a back seat' was Johnnie Walker's free offer in Delhi and Mumbai, India during the festive season.



**b** Five well-known celebrities gave their endorsement freely to our 'Guardian angels' responsible drinking campaign in Venezuela.



**c** Johnnie Walker's designated driver campaign 'Piloto da vez' received wide publicity at the Brazilian Formula One Grand Prix.

and signs throughout the venue, articles in programmes, badges and strong PR. Of festival-goers polled, 86% said they'd seen the advertising. And 500 alcohol blood tests conducted by the police found only one driver over the limit, a record that the officer in charge credited to the effectiveness of the Diageo campaign.

Responsible drinking is also the focus of Crown Royal whisky's sponsorship of a Nascar motor racing team in the USA. Supporting the Safe Rides Home campaign, Nascar driver Jamie McMurray created interest at many race meetings when he and his team of drivers offered adult consumers a free lift in a taxi. We hope the event's message will be reinforced by a series of TV commercials, due to air this coming year, which use humour to make the serious point that consumers should act responsibly and always arrange a safe ride home. In support, public service announcements on TV and radio will promote the [www.b4udrink.org](http://www.b4udrink.org) website which aims to increase awareness of the effects of alcohol on the body.

In Latin America, our campaign, known as '*Piloto da vez*' in Brazil and '*Conductor designado*' in seven Spanish-speaking countries, encourages this same idea of designating a driver. This year 40 winners of a web-based responsible drinking quiz received a trip to the Brazilian Formula One Grand Prix where they participated in a driving-skills course, with a lucky few being escorted around the course by the Vodafone McLaren Mercedes test driver Pedro de la Rosa.

This year, we took the 'Guardian angels' project, developed in Venezuela, to Argentina, Costa Rica, Dominican Republic, Mexico, Nicaragua and Puerto Rico. In its home country, the campaign

has continued to grow. Diageo 'Guardian angels' have now reached 12,000 consumers with their advice to drink responsibly and to designate a driver after an evening out. The project has benefited from partnerships with several local NGOs and government ministries. Consumers polled about their reactions to the campaign welcomed the friendly approach to a serious issue by our guardian angels and accepted designating a driver as a solution.

In the run-up to the festive season in India we launched a TV campaign in partnership with broadcaster CNBC to raise awareness of the dangers of drinking and driving. As part of the campaign, Diageo working with a local taxi company ran a free taxi-ride home offer on Christmas and New Year's Eve to consumers who signed up to the campaign. The move generated wide publicity and further public awareness of the important message.

Our joint venture business in South Africa, brandhouse, ran a series of three hard-hitting radio advertisements in December which attempted to change traditional attitudes towards drink-driving. Across Africa, we have also run seasonal anti-drink-driving campaigns in Ghana, Kenya, Nigeria, Seychelles and Uganda.

**Server training** Bar staff are often in a good position to influence the attitudes and behaviour of their customers. We run courses in many countries to help bartenders acquire new skills, particularly in responsible serving, to help put this influence to good use. We currently have programmes in 14 countries.

In February we opened the Diageo Perfect Serve Centre in Singapore where we plan to deliver a bespoke bartending skills programme to

7,000 individuals over the next year. Our aim is to improve the quality of service and professionalism in the local hospitality industry and set a benchmark in responsible serving and bartending in Singapore. Similar aims were behind the establishment of the Johnnie Walker Bartending Academy in Mumbai. The first of its kind in India, the academy is working to introduce world-class standards of bartending, create a talent pool of professionals and promote bartending as a worthwhile and responsible job. Six-month courses are offered for classes of 20 students. As well as covering the essentials of running a successful bar and offering exceptional customer service, the curriculum includes modules on responsible serving. Alumni of both the Singapore and Mumbai schools are awarded certificates which we hope will become prized as a sign of professionalism and responsibility.

**Young adults** In many countries, an irresponsible attitude to alcohol by young adults just over the legal purchase age is a social and health concern which we have helped address with initiatives in many markets.

In partnership with the National Union of Students, we extended our 'Know what's in it' initiative to 53 UK universities. The campaign aimed to remind students of the number of units of alcohol present in particular drinks and the recommended limits for men and women. To assess the impact of the initiative, we surveyed students and found that all respondents understood the aims of the campaign, 67% found the messages easy to understand and 72% learnt something from it about responsible drinking. Following these positive results, we re-ran the programme in 20 universities in an attempt to achieve a cumulative effect. For the first time, we also





**a** Students of the new Johnnie Walker Bartending Academy in India learn the essentials of managing a responsible and successful bar.



**b** Mountaineers show Venezuelan students how responsibility and self control were needed to climb Patagonia's difficult Cerro Torre peak.



**c** Our 'Don't drink and drive' campaign at Denmark's Skanderborg Festival was recalled by 86% of music fans questioned.

**d** We use Johnnie Walker's support for the Vodafone McLaren Mercedes Formula One team to promote responsible drinking.

# 12,000

Diageo 'Guardian angels' have delivered responsible drinking advice to 12,000 consumers in Latin America.

promoted the point-of-sale items in three public bars in Glasgow to assess the message's resonance outside the student community. Evaluation showed that in bars where 'Know what's in it' materials were available, non-students' average recall of Department of Health recommended daily limits for alcohol consumption had improved.

In Venezuela, Diageo is leading the public debate on responsible drinking. This year, we sponsored the 'Responsible achievers' programme which promotes responsibility with alcohol among university students over the legal purchase age. In the programme, Venezuelan celebrities from the worlds of sport, the arts and entertainment share their stories of achievement with students, stressing the importance of responsibility, self control and determination. The first group of talents to feature were the 'Proyecto Cerro Torre' expedition team, mountaineers who conquered the summit of Cerro Torre in Patagonia, recognised by climbers as one of the most difficult in the world.

In 2007, for the first time, we took Diageo Australia's alcohol education programme DrinQ beyond its usual audience of employees and partners by teaming up with the Rugby League Players' Association to deliver DrinQ to 20 leading players from eight clubs. Historically, rugby league players have had a reputation for alcohol misuse. With the support of the RLP, these athletes will act as ambassadors for responsible drinking and help deliver the programme to others in their clubs, eventually hoping to reach everyone in the sport.

**Underage drinking** We share the concerns of many people about underage drinking. A number of factors are known to influence young people's attitudes and behaviour towards alcohol, with parents and peers being especially important.

Many young people experiment and encounter problems with alcohol. During the year we supported sensitively-designed initiatives in a number of countries to help address this issue.

In the UK, Spain and Poland we are working with researchers from Oxford Brookes University and other partners to support European pilots of the Strengthening Families Programme 10-14 (SFP), which aims to reduce the problems associated with alcohol misuse in adolescence. Following an original investment in SFP by the Home Office, the Alcohol Education Research Council and Diageo, the Department for Education and Skills has now provided funding for SFP training in local authorities throughout England. The first peer-reviewed research paper outlining progress in this was published during the year.

In September 2006, we co-hosted with Mentor UK the first ever Alcohol Misuse Prevention Awards which aimed to recognise and promote excellence in prevention activities among primary school children. Three winners in the categories of schools, communities and young people's involvement each received a cheque for £10,000 and a further £10,000 worth of mentoring and consultancy support. A handbook, using the winners as examples of best practice, has been produced.

### Working with others

We welcome open dialogue with public health authorities, the scientific community and others on responsible drinking and related issues. At a consultation with the World Health Organisation in 2006, representatives of the alcohol beverage industry – including Diageo – committed to holding a number of regional workshops on best practice in self-regulation of alcohol beverage marketing practices. The first of these, held in

Tokyo in June of that year, looked at self-regulation in the Asia-Pacific region, under the auspices of the International Center for Alcohol Policies (ICAP), in partnership with the Brewers Association of Japan and the Japan Spirits and Liquor Makers Association. The second workshop was held in Cape Town in October, with a regional focus on Africa. Participants at both workshops included industry representatives, policy makers, public health professionals and NGOs. The meeting reports and conference declarations are available on the ICAP website ([www.icap.org](http://www.icap.org)).

During a World Health Assembly debate in May on evidence-based strategies to reduce the harmful use of alcohol, several member states put forward a resolution proposing action. It is regrettable that the WHA was unable to agree to the resolution. We look forward now to working with the WHO and member states to find a way forward. The issue is expected to be discussed next at the forthcoming WHO Executive Board meeting in January 2008.

Around the world, Diageo has helped establish many social aspects organisations (SAOs) – industry-funded bodies that work to tackle alcohol misuse and promote responsible drinking. We often work with SAOs to develop consistent voluntary codes of responsible marketing or raise awareness in areas of alcohol misuse. The countries covered by SAOs in which we are involved accounted for 66% of Diageo's business by volume in 2007.

In some countries we have the opportunity to invest in responsible drinking initiatives as an industry, so marshalling greater resources to make a bigger impression on consumers' attitudes and drinking patterns. In Ireland and the USA,

# Promoting responsible drinking

continued

# 91%

In this year's global values survey, 91% of responding employees said they thought Diageo was effective in promoting responsible drinking, up from 89% in 2006.



**a** With Diageo's backing, the US Century Council launched the hard-hitting 'We don't serve teens' point-of-sale campaign.



**b** Crown Royal whisky's Safe Rides Home campaign featured Nascar driver Jamie McMurray in humorous situations to make a serious point.



**c** Part of Diageo's responsible drinking campaign in China was a ceremony in which taxi drivers publicly took an oath not to drink and drive.

## Diageo memberships of social aspects organisations

DrinkWise, Australia	<a href="http://www.drinkwise.com.au">www.drinkwise.com.au</a>
Educ'alcool, Canada	<a href="http://www.educalcoool.qc.ca">www.educalcoool.qc.ca</a>
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>
Entreprise & Prévention, France	<a href="http://www.ep.soifdevivre.com">www.ep.soifdevivre.com</a>
MEAS, Ireland	<a href="http://www.meas.ie">www.meas.ie</a>
HAFRAC, Hungary	<a href="http://www.hafrac.com">www.hafrac.com</a>
The Sense Group, Malta	<a href="http://www.thesensegroup.org">www.thesensegroup.org</a>
FISAC, Mexico	<a href="http://www.alcoholinformate.org.mx">www.alcoholinformate.org.mx</a>
STIVA, Netherlands	<a href="http://www.stiva.nl">www.stiva.nl</a>
ARA, South Africa	<a href="http://www.ara.co.za">www.ara.co.za</a>
FAyS, Spain	<a href="http://www.alcoholysociedad.org">www.alcoholysociedad.org</a>
TBAF, Taiwan	<a href="http://www.tbaf.org.tw">www.tbaf.org.tw</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>

these initiatives are co-ordinated by the social aspects organisations in those countries. Diageo Ireland is the leading contributor to the social aspects organisation MEAS (Mature Enjoyment of Alcohol in Society). As part of its Sustaining Progress agreement, the Irish government set out a number of commitments including one to establish a working group on alcohol abuse. The working group has been formed under the social partnership between government departments, industry and employers, trade unions, social inclusion groups and NGOs, which have come together to identify and implement actions to reduce alcohol misuse. The alcohol beverage industry turned to MEAS to develop a five-year responsible drinking programme, providing it with a budget of £13.5 million. Early initiatives include a website, [www.drinkaware.ie](http://www.drinkaware.ie), a communications campaign with the tag line 'Know the one that's one too

many' and a guide to responsible drinking for summer music festival goers.

In the USA, much of our investment in responsible drinking projects is through social aspects organisation the Century Council. Two initiatives, in which the Century Council partnered with others, serve as examples of the work we have supported. Responding to the finding that 65% of young people obtain alcohol from family or friends, 'We don't serve teens' engaged retailers in a campaign to remind adults at the point of sale that providing minors with alcohol is illegal and irresponsible. More than 250,000 campaign items have been distributed in 31 cities and a Spanish version – '*No le servimos a menores*' – has been launched. Although underage drinking has declined substantially over the past 20 years in America, this effect has been less pronounced among teenage girls. Partnering with others, the Century Council launched 'Girl talk', a website and booklet-based programme designed to educate mothers and their daughters about the health risks of alcohol for young girls.

Research shows that hazardous drinking patterns can often be identified and addressed by screening medical patients by means of a structured interview. A grant from Diageo is enabling the Medical Society of the State of New York to develop a training programme for 5,000 physicians in the use of this technique with patients.

The Drinkaware Trust was established in the UK last year with the objective of changing the country's drinking behaviour and tackling alcohol-related harm. Industry funded to the tune of £12 million over three years, the trust has support from the industry, government, doctors and independent stakeholders in the alcohol

debate, including Alcohol Concern. We were leading protagonists in the evolution of the DrinkAware Trust and are proud of the role it will play in promoting responsible drinking and targeting those most at risk.

At a ceremony hosted by the EU commissioner for health, Diageo became a founder member of the European Union Alcohol and Health Forum. The forum is the world's first government-backed multi-stakeholder partnership on alcohol and builds on the EU's 2006 strategy to support member states in tackling alcohol-related harm.

Diageo chairs the European Forum for Responsible Drinking (EFRD) which supports responsible drinking initiatives in the European spirits industry and promotes understanding of the scientific evidence from which alcohol policy is formulated ([www.eprd.org](http://www.eprd.org)).

Diageo was a founding sponsor of the International Centre for Alcohol Policies (ICAP) and chaired the board until October 2006. During the year, ICAP launched a book – 'Drinking in context – patterns, interventions and partnerships' – co-sponsored by the International Harm Reduction Association ([www.ihra.net](http://www.ihra.net); another organisation that Diageo supports), the World Federation for Mental Health, and the *Institut de Recherches Scientifiques sur les Boissons* (IREB). The book sets out a fresh approach to alcohol policy, based on collective responsibility. Diageo was represented on the book's editorial advisory group, along with representatives from the sponsoring organisations and the public health and research communities.



# Our products and consumers

We want our products to reach consumers in optimum condition and always tasting their best.

# 37%

Our consumer information project is now 37% complete



## High quality brands

This year, we reviewed and updated our quality policy to reflect the importance of quality for our brands and include new compliance monitoring processes. Each Diageo supply business has a quality management system which aims to ensure, among other things, that responsibilities are clear, personnel are properly trained, quality is monitored and suitable targets are set for improvement. We review and continuously improve the way we work. Our manufacturing sites are regularly monitored under our Licence to Operate programme (see page 30) to ensure compliance with legislation and with Diageo's quality management standards.

Issues raised about any of our brands are investigated and resolved wherever possible to the satisfaction of the consumer or customer and corrective action is taken to prevent recurrence. While we continue to monitor overall complaint levels, we now focus on high severity product quality complaints from our customers and report these in the table below. High severity complaints are those with potential to cause significant negative impact on Diageo's reputation, brand image or continuing customer relationships or to have significant cost implications.

### Complaints about quality upheld

	2007	2006	2005
High severity complaints per million equivalent units	0.45	0.53	0.46

## Information for consumers

Two years ago we began a project to provide consumers with more information about our brands, including nutritional values, allergen advice, macro-nutrients and responsible drinking reminders. Implementation has involved changing

labels and some packaging on thousands of stock items, a task which we are spreading over five years and which is now 37% complete (against a target of 25% complete by this year). We have also set up a website, [www.knowyourdiageodrink.com](http://www.knowyourdiageodrink.com), which summarises the information for consumers.

## Brand integrity

Counterfeiting is a problem for many businesses with highly sought-after brands. Illicit practices affecting our industry range from refilling genuine bottles with inferior brands to the commercial-scale manufacture of counterfeit products. Such practices cause loss of tax revenue for governments and, in the worst cases, present a health hazard to consumers. Our business suffers a loss from counterfeiting estimated at £100 million a year.

We use a range of measures to deter counterfeiters, such as covert pack markings and anti-refill fitments in bottles. We work to raise awareness among legislators and support law enforcement agencies by training their officers and helping them take action against criminals. We provide trading standards investigators with the Diageo-developed Authenticator – an instrument for identifying Scotch whiskies – and field testing kits for other spirits. These tools can help spot a forged brand quickly, making convictions more likely. And because counterfeiting is an issue for much of the spirits industry, we share intelligence with other companies on enforcement issues.

## Innovation

A company's success in transforming ideas into commercial value is essential to its sustainability. At Diageo we foster a culture of creativity, in which new brands are introduced and existing ones developed in response to consumers' changing tastes or to serve new market segments or new territories.

A brand with a long history and rich heritage, this year Guinness showed its continuing capacity for innovation by the UK test launch of Guinness Red – which uses lighter roasted barley than the regular stout – and the introduction of the ingenious Guinness Surger. This device sends an ultrasonic pulse through a pint glass of special Guinness, releasing the gas in the beer which settles into the familiar velvety pint with its creamy head.

The new Baileys Flavours – with a hint of caramel or mint chocolate – have proved very popular with consumers and we shipped more than a million cases during the year. We have extended the reach of the Baileys brand through licensing arrangements with premium dessert and chocolate manufacturers.

Smirnoff has extended the ready-to-serve segment in the USA with the launch of two new cocktails, Smirnoff Mojito and Smirnoff Grand Cosmo, and in South Africa with Smirnoff Storm and Smirnoff Vodka and Citrus. New lagers have been launched in Africa, including Golden Arrow in Ghana, and the market for super-premium spirits developed with the launch of Johnnie Walker Blue Label King George V in Asia, Buchanan's Red Seal in Latin America and Crown Royal XR whisky and Oronoco rum in the USA.

## Consumer privacy

The relationships we develop with consumers are based on trust. When contacting consumers by email, text or direct mail, we include a chance to opt out of future contacts. We take steps to ensure that we only contact people over the legal purchase age and we do not sell or trade personal data.

# Investing in our communities

## 50%

Our African businesses have committed half of their community investment to Water of Life projects.

We concentrate our skills, experience and financial resources on supporting long-term, sustainable initiatives that bring benefit to the communities in which we operate.



Diageo's businesses, based in many varied locations around the world, are often prominent local employers, a source of economic strength and an influential example of good business practice. The trading environment enjoyed by our businesses is further enhanced by the many ways in which we contribute to the health and welfare of our communities.

We are proud of our long record of community investment. Our approach is not simply to make charitable donations or provide sponsorships, though we and our employees do often give to worthy causes. We believe we can usually do more good by using our skills and experience, and our focused financial resources, to support long-term sustainable initiatives that bring benefit to our communities.

Assessed financially, our commitment to community investment is 1% of Diageo's operating profit. In 2007, the actual proportion was 1.0%, totalling £20.7 million. The majority of this was provided by local Diageo businesses in the form of cash contributions, in-kind donations and volunteer time. It also includes contributions from the Diageo Foundation and support from our Responsible Drinking Fund for the community aspects of responsible drinking projects.

### Community focus areas

We support projects that fall within the Foundation's four focus areas because these are where our efforts can have the greatest positive impact on our communities. Below we give some examples of projects in each area.

**Skills for Life** – projects that help unemployed or disadvantaged people start new business ventures or prepare for the world of work.

This year we established the Saigon Hospitality project in partnership with the Saigon Children's Charity. The project aims to recruit 70 over-18s each year from disadvantaged backgrounds, train them in English, health and the skills required for a career in the hospitality industry and, after graduation, help place them in worthwhile positions in prestigious hotels and restaurants in Vietnam. With funding of £50,000 from the Diageo Foundation to cover start-up and the first three years' running costs, the project recruited 30 students in its first year and has established valuable partnerships with a number of hotels in Ho Chi Minh City.

At our brewery in Ahinsan, Ghana we have established a new information technology college, the Institute for Advanced ICT Studies – the country's only such postgraduate institution. With funds, expertise, buildings and staff housing provided by our business in Ghana, the college will be administered by a board of governors and be open to postgraduate students from next year.

**Water of Life** – projects that improve access to drinking water in developing countries or that aid environmental conservation.

Of the one billion people in the world estimated to have restricted access to safe drinking water, 400 million live in Africa. The urgency of this problem in terms of health and economic progress is recognised by the UN in its Millennium Development Goal 7 which aims to halve these numbers by 2015. Through Water of Life projects going back many years, we have supported this aim by providing needy people with clean water – particularly in Africa – and these Diageo programmes have benefited over half a million people to date. This year we accelerated the

programme by launching our One Million Challenge – a commitment to provide water for another one million people. We have already made substantial progress. Our businesses in West and East Africa have begun a range of water projects. Determined by local need, the projects take a number of different practical approaches to the challenge and include sinking boreholes, harvesting rainwater, and providing filters and pumps.

So far, an estimated 526,800 people have benefited from completed One Million Challenge projects, shown in detail on the map opposite. Work in development is expected to bring this up to a million people by December 2007. Beyond that, we aim to provide continuing support to the achievement of Millennium Development Goal 7 by 2015.

The Nile Miles campaign was established for employees who wanted to support the One Million Challenge. Money raised went towards a project to provide water for 124,000 people in the Mkuranga district of Tanzania. With a target of £10 for each mile of the Nile, many creative ways were found to contribute. For example, colleagues in our Amsterdam office held an African-themed lunch to increase awareness and raised £2,750 from collections, an auction of items from Africa and a karaoke evening. With many similar contributions, the £41,184 target was quickly reached and extended to £100,000.

**Local Communities** – projects that support our employees as community volunteers.

Many Diageo employees took time off from work routines during the year to contribute to 'community days'. In the largest-ever such event, 168 employees from six European countries chose

# 526,800

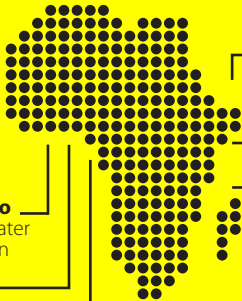
Diageo's One Million Challenge:  
526,800 people provided with  
clean water so far.



**Burkina Faso**  
Integrated water  
and sanitation

**Ghana**  
Water filters

**Nigeria**  
Boreholes



**Ethiopia**  
Integrated water  
and sanitation

**Kenya**  
Boreholes and tanks

**Uganda**  
Rainwater harvesting

**Tanzania**  
Integrated water  
and sanitation



a



b



c

**a** The Diageo sales team in Dubai spent a day volunteering at the Al Noor training centre for children with special needs.

**b** Employees from six European countries took time out from work to help disadvantaged groups on a single community day.

**c** On St Patrick's Day, employees hosted 200 elderly local people at the Guinness Storehouse, enabling them to participate in the day's events.

different ways to help vulnerable people in their communities. In Sweden, they talked and read to elderly people. The Danish, Norwegian and Benelux teams also spent the day with lonely elderly people, working with local organisations. In Germany, colleagues helped a group of 200 disabled people in their work and daily routine. The Swiss team took mentally and physically disabled people on an excursion. In recognition of their outstanding contribution to the community day, six employees had the chance to visit Diageo community projects in Uganda.

With even greater geographical spread, 128 employees from Diageo's Global Travel and Middle East sales team took a day out from office duties to join community activities in more than 20 countries. In Miami, USA, employees helped build and install houses for low-income, single-parent families; in Singapore, our team raised money, food and clothes for a centre for women in crisis; while in Athens, Greece, a small team of three prepared a meal for 50 in a charity home. While 23 employees were helping restore habitats in a nature reserve near Heathrow airport in the UK, and their colleagues in Dubai were finishing their day at a training centre for children with special needs, employees in Lebanon were entertaining children at the world-renowned St Jude paediatric cancer centre.

**Disaster Relief** – our response to major disasters, including emergency relief, long-term reparation projects and supporting employees' fundraising efforts.

In August 2005, Hurricane Katrina struck the Gulf Coast of the USA causing devastation in which over 1,800 people lost their lives. Anticipating the need, Diageo sent two large industrial generators and

## The Diageo Foundation

The Diageo Foundation provides central focus and support for Diageo's community investment programme. Its aim is to create positive, sustainable change in our communities, concentrating on projects which make the most difference. Targeting areas of humanitarian need in developing countries in Africa, Latin America, Asia and Eastern Europe, the Diageo Foundation acts as a catalyst for:

- encouraging contributions from Diageo businesses and external sources
- engaging Diageo employees in fundraising, giving and volunteering
- developing partnerships with NGOs and other external bodies
- providing expertise, support and case studies for establishing and managing effective projects.

In 2007, the Foundation received 619 new project funding proposals from within Diageo and externally and, following assessment against its funding criteria, approved 10 new projects for support. Altogether, it provided funds totalling £1.2 million, included in the analysis of community investment on page 14.

UK charity law requires that Foundation funds are not used to promote Diageo's direct commercial interests. Its independence is maintained by trustees, appointed by the Diageo board from our businesses and functions, who approve projects selected for support and work with external advisers and not-for-profit organisations with specialist expertise. The Foundation's four focus areas are widely adopted by Diageo businesses as the basis for their community investment programmes.

a truckload of water to Louisiana to be distributed after the hurricane's landfall. In the aftermath, Diageo was one of the first on the scene in Mississippi where generators were used to power an emergency operations centre to co-ordinate search and rescue missions. Just days later, Hurricane Rita was heading for Texas. We sent an advance team to Houston with generators and two more truckloads of water to supply shelters for evacuees from New Orleans. The delivery of 70,000 bottles of water and much needed power, which saved many lives, was made possible by generous contributions from our employees and distributors.

The relief effort was supported by fund-raising by our brand teams. The Crown Royal whisky team collected £35,000 for victims of Katrina in New Orleans, while their Captain Morgan rum colleagues raised £60,000 for the New Orleans Hospitality Workers Disaster Relief Fund, and in the process helped bring Mardi Gras, a festival vital to the New Orleans economy, back in February.

## Working in partnership

We add value to community initiatives by implementing them in partnership with other organisations with local specialist knowledge and managing them with well-defined objectives:

- understanding our impacts on the community
- finding and working with partners to ensure that projects address local needs and respect cultural sensitivities
- balancing our objectives with those of our community partners
- avoiding over-dependence and making the project's benefits sustainable
- raising awareness of projects among opinion leaders, community audiences and our own employees.

# Investing in our communities

continued



a



b



c



d



e

**a** By switching to treadle pump irrigation, Nigerian farmers can grow vegetables in the dry season. See page 27 for the full story and below for an impact analysis.

**b** In Ghana we support a project that creates jobs in making and distributing affordable ceramic water filters in areas where clean water is not available.

**c** Colleagues in Lebanon entertained children for a day at the world-renowned St Jude paediatric cancer centre.

**d** Colleagues from our New York office collected more than 360 'gently used' coats for those in need of warmth in the city last winter.

**e** Diageo Brazil's 'Comunidade' programme integrates community, responsible drinking and environmental activities.

In Africa, progress in our community investment agenda depends on many partnerships. Membership of Business Action for Africa (BAA) and Private Investors for Africa (PIA) are particularly significant for Diageo. Business Action for Africa is a network of businesses and business organisations from Africa and around the world, created in 2005 to build on the momentum of the Commission for Africa and G8 summit. BAA works through advocacy, projects and knowledge sharing. Private Investors for Africa brings together seven international companies with interests in Africa. PIA aims to use its experience and staff in Africa to achieve a dialogue with the IMF, the World Bank and the European Commission and so contribute to economic and social development in the continent. Diageo is active in a PIA HIV/Aids working group which advocates a business response to the issue at international and local level.

The Diageo International and Asia Pacific regions, which include most developing countries, have made their community programme one of their three strategic areas of focus. This recognition of the importance of social and environmental issues to the business in these rapidly-changing parts of the world will ensure that they receive the continued attention they deserve. Areas covered include a shared understanding of responsible drinking, support for equitable and effective regulation and sustainable economic development, a commitment to environmental sustainability, and accountability for the impact of our brands along the value chain.

### Evaluating community investment

It's important that the money our businesses invest, and the funds the Diageo Foundation contributes, produce the best possible results

for the community and align with Diageo's wider strategy. We work closely with our project partners to assess the changing needs of communities and track project outcomes. We also commission independent research to evaluate some of the key programmes we support. For quantitative analysis of our community investment, we often use the London Benchmarking Group (LBG) model – which we helped pioneer in 1994 – to put a realistic, conservative value on our investment (inputs) and to measure not only the 'outputs' or direct benefits of our community involvement but also its 'impacts' in terms of the lasting benefits it brings to the community.

### Analysis of the Nigeria treadle pump project using the LBG model

Motivation	Inputs	Outputs	Impacts		
Social investment	Funding	Leverage	Community benefits	Business benefits	
Since 2005, Guinness Nigeria has distributed low-cost, locally-produced treadle pumps and installed hand-drilled wells, enabling farmers to better irrigate their land, increasing yields and income.	£93,000 from Guinness Nigeria for the pilot project.	A £15,000 grant from another charitable organisation allowed the pilot project to be extended.	The pilot showed the pump was practically and financially feasible. Local workers were trained to make and market the pump. Vegetable farmers' standard of living rose.	Local government, communities and the International Fund for Agricultural Development have acknowledged the value of the project.	The pumps last for six years and deliver water seven times faster than the traditional irrigation methods.
			An extension to the project is to introduce the farmers to cultivation of sorghum and maize which could be used in brewing, providing them with another source of income.	Goodwill generated by the project has facilitated market penetration of Malta Guinness in Northern Nigeria.	271 pumps are estimated to have increased farm income by £398,000 – a 400% return on the initial investment.

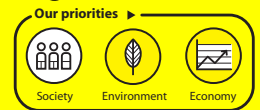
Community investment £000		
	2007	2006
<b>Total</b>	<b>20,697</b>	20,374
<b>Split by category</b>		
Philanthropy	1,717	1,653
Social investment*	9,169	12,558
Commercially-led initiatives	9,811	6,163
<b>Split by focus area</b>		
Skills for Life	535	2,351
Water of Life	1,032	738
Local Communities*	9,300	9,887
Disaster Relief	346	890
Community aspects of responsible drinking projects	9,484	6,508
<b>Split by type</b>		
Cash*	20,307	19,720
In kind	192	447
Volunteer time	198	207
<b>Split by region</b>		
Europe*	12,596	12,154
North America	3,124	4,106
Asia Pacific	2,516	1,696
International	2,461	2,418

\*Includes charitable donations of £6.8 million (2006: £6.5 million) to the Thalidomide Trust.



# Releasing the potential of our people

By increasing the knowledge and capability of our workforce, employment empowers people, creates value and provides opportunities for spreading wealth through the community.



Through employment, Diageo exerts one of its most significant impacts on the communities in which we operate, contributing to their economic development and prosperity. To achieve these benefits and our stretching ambitions for Diageo, we need to attract, retain and develop the best talent available.

The objective of a new Diageo toolkit for managers who hire new employees and manage internal transfers was to ensure that the best people are attracted to Diageo posts and that we have the skills to recruit the right people for our business. The toolkit includes guidelines for providing candidates with the best possible experience during selection, and for hirers to make the right choice of candidates. It is supported by a new interviewing skills workshop which we plan to roll out next year.

Employees	2007	2006
Europe	11,033	10,694
International	5,300	5,658
North America	3,719	3,751
Asia Pacific	2,468	2,516
<b>Total</b>	<b>22,520</b>	<b>22,619</b>

Following effective recruitment, it is our aim, wherever in the world they are located, to make Diageo a great place to work for all our employees, providing them with a working experience in which their full potential can be released. The achievement of this aim is demonstrated in a number of markets where we have been placed in 'Best company to work for' rankings and more specifically in Ireland where Diageo won the Graduate Ireland award for Most Popular Graduate Recruiter 2007 in the consumer goods category.

## Inclusion and diversity

We believe strongly in the value of diversity in the Diageo workforce and appreciate the unique contribution made to the success of the business by each employee. Including individuals with a variety of character traits, experiences and perspectives contributes to a stimulating workplace. A greater diversity of views also helps us gain deeper consumer insights and enhances our relationships with all stakeholders.

Our human resources policies outline how we strive to treat people fairly, both at recruitment and during their careers. They include commitments to advertise vacancies routinely, encourage suitable internal candidates, and assess people fairly and objectively. Opportunities for employment and career progression are determined solely on the basis of ability and performance, irrespective of gender, ethnic origin, nationality, age, religion, sexual orientation or disability. To enhance diversity, we aim to create opportunities that are attractive to a wide range of suitably qualified candidates and make working for Diageo as compatible as possible with a variety of lifestyles. Not all roles lend themselves to all flexible working options. Where they do, in many businesses we offer possibilities such as career breaks, flexible locations, school term-time working, compressed-time working, flexible retirement, job sharing, annualised hours contracts and flexible compensation.

Over the past four years, the proportion of women in senior management – a key diversity indicator – has risen from 20% in 2003 to 24% in 2007 – though missing our target for this year of 29%. While we have not seen the increase we wanted in female senior manager numbers, many areas of the business have established a pool of female successors for senior management roles.

Gender diversity by level % women	2007	2006	2005
Board	18	18	10
Senior managers	24	23	23
Other employees	35	35	32
<b>Total workforce</b>	<b>34</b>	<b>34</b>	<b>31</b>

In Nigeria the proportion of women in senior management positions has doubled over the last two years. A mentoring programme has been introduced in Nigeria to encourage women to develop their careers within Diageo and help continue this trend. The programme connects high performing female managers with role models from outside the business – successful women at the top of their industries who are willing to share their experiences. The relationships are mutually beneficial, giving both mentor and manager opportunities for personal development. For our women managers, mentoring helps prepare them for the challenges they may face in their careers and equips them with the skills and coping mechanisms to handle issues such as sexism, stereotyping, gender role expectations and family obligations.

In the USA, the Diageo Diversity Council worked with external organisations this year to better understand and improve recruitment to Diageo of multicultural employees. Our relationship with the National Black MBA Association (NBMBAA), which aims to increase intellectual and economic wealth in the black community, resulted in the co-sponsorship of a national study on employment retention. Cementing our relationship, more than 40 Diageo employees attended the NBMBAA's annual conference to introduce its members to Diageo, our brands and vision and to recruit from the diverse gathering.

# Releasing the potential of our people

continued



**a** In induction workshops, such as the one shown here in Korea, new managers learn from more experienced colleagues the skills of leadership, communication and people development.

**In Ontario, 80 people are injured every day in a fall at work.**

**b** The new Step Up on Safety campaign in North America complements improvements made in compliance, processes and the working environment.



**c** Healthy eating choices in the Shieldhall restaurant contributed to the site's gold award in the Scotland Health At Work programme

Employment by category %	2007	2006	2005
	Full time	98	97
Part time	2	3	3

Opportunities to work abroad are valued by many people and help attract the best candidates to Diageo. However, we also value local experience and perspectives on the needs of consumers and other stakeholders in each of our markets and so encourage local employees to progress to leadership positions where they are suitably qualified. The result is an exciting programme of international assignments – typically of three years' duration – in which 460 assignees were working away from home at 50 locations this year – a 22% increase over 2006. Ideally, assignees' backgrounds reflect Diageo's overall diversity. To keep the balance, we encourage employees from outside the UK to take up long-term secondments, with a target for this year of 50%. Although we missed this figure, the proportion has grown from 33% to 48% over the last four years as opportunities across the business have increased.

## Safety at work

The safety of everyone working at Diageo is a priority for all managers and employees. Our target is to reduce accidents resulting in lost time by 20% over the five years to 2010 – to a maximum of 7.4 accidents per million man-hours. The essentials of achieving this are set out in our occupational health and safety policy, supported by risk management standards that define the minimum requirements for controlling risks and reducing the likelihood and severity of accidents. Implementation is by means of a documented management system specific to each site. We audit our sites to provide assurance that safety policy and standards are met.

Safety	2007	2006	2005
	Accidents per million man-hours		
North America*	19.8		
Europe	5.8		
International	8.1		
Asia Pacific	2.6		
<b>Total</b>	<b>8.6</b>	10.6	9.2
Fatalities			
North America	-	-	-
Europe	-	-	-
International	-	1	-
Asia Pacific	-	-	-
<b>Total</b>	<b>-</b>	<b>1</b>	<b>-</b>

\*Accidents resulting in lost time of at least a day, beginning the day after the accident, reckoning 1,920 hours worked per year per employee. North America figure includes employees who returned to work on restricted or lighter duties following an accident; without these, the figure was 11.4.

At supply sites this year we concentrated our efforts on establishing common tools and processes, embedding a safety culture and improving the capabilities of key personnel to effect organisational change.

## Tools and processes

The new Step Up on Safety campaign in North America complements improvements made in safety compliance, processes and the working environment by promoting personal prevention. Led by a cross-functional team, the campaign employed leadership, employee awareness and training to encourage colleagues to identify and act on opportunities to 'step up' for the safety of themselves and others – specifically to help prevent strains and sprains, slips-trips-falls, and cuts. The improved safety awareness and behaviours engendered by the programme have helped improve safety performance across North America.

## Safety culture

Following a pilot at our logistics facility in Daventry, UK, we're introducing a methodology for improving the safety culture at our Guinness and Baileys sites in Ireland and the UK and our packaging plant in Italy. The Safety Culture Maturity Model, developed by the Kiel Centre in Scotland, assesses the development of a site's safety culture and, where needs are identified by employee workshops, improvement plans are put in place to address them. Workshops at our sites, involving 290 employees, led to a number of actions to improve the safety culture – for example, improved dialogue between managers and employees about safety; hazard and near-miss reporting and investigations to identify the underlying causes of accidents.

## Capability

At our Achimota brewery in Ghana, we have been working to raise the capability of our safety personnel and improve management systems following the death of a contractor, reported last year, which was caused by a gas explosion at the site. A full accident investigation was completed and corrective actions identified. A safety manager was seconded to the Ghana business and two additional professionals were recruited locally. The focus of the team has been to upgrade safety management systems and increase local safety capabilities.

We have reviewed the implementation of safety policy in the Demand side of our business – including office and wine-production sites. In each market, the programme identified safety champions who undertook a self-assessment which was followed by an audit by our central risk team. A site is considered compliant if it: maintains policies satisfying legislation and Diageo obligations; has an audit programme, with action plans progressed; tracks and reports



# P4G

The key to developing Diageo people is Partners for Growth (P4G), our performance review and goal-setting process.

safety measures; and can demonstrate the engagement of employees and managers. In the first year of these stretching standards, of the 158 sites involved, over 70% of locations were found to be at least 80% compliant and at all sites improvement action plans were in place.

## Occupational health

The activities involved in people's jobs at Diageo should not harm their health. To monitor any impact on employees' well-being and recommend corrective action, our Occupational Health (OH) Services carry out health surveillance programmes, which may be required by law or simply best practice. For example, these may cover colleagues working in designated noise areas, in laboratories or with grain dust in the breweries. Depending on the location, OH Services are also there to create health education programmes such as healthy heart advice, manual handling techniques, support to travellers and guidance on avoiding malaria. Our OH practitioners are qualified doctors or nurses with additional training in occupational health. Their expertise is called upon to support Diageo's risk management programme where health risks are being considered. This could include input to business continuity plans, such as plans to manage an outbreak of pandemic flu.

Scotland's Health at Work (Shaw) is a government-backed programme which rewards employers who demonstrate commitment to improving the occupational health of their workforce. A number of Diageo plants in Scotland hold Shaw awards, including gold for Shieldhall and silver for Kilmarnock and Leven. The awards are made on the basis of performance in such areas as awareness raising, the availability of health checks, promoting healthy eating and drinking, help in giving up smoking and encouraging exercise.

In Africa, HIV/Aids continues to pose a risk for our 3,400 colleagues and their families. Our goal is to reduce the impact of the disease on our employees, their families and our business partners through a workplace programme, community involvement and partnerships. Since the programmes launch in 2003, every Africa-based employee has attended an information session and received a copy of the Diageo HIV/Aids policy. HIV/Aids is also covered by our induction programme for new employees. We have trained peer educators to encourage people to take prevention measures, support those affected by HIV/Aids, and promote voluntary counselling and testing by an external healthcare organisation. Palliative care and treatment for opportunistic infections is provided along with access to anti-

## **Our workplace HIV/Aids programme, which is non-discriminatory, voluntary and confidential, has four elements, all of which are provided free:**

- we promote behavioural change to prevent the spread of HIV through educational programmes and by distributing condoms
- we encourage employees and their families to enroll for routine counselling and HIV testing
- we urge HIV-positive individuals to acknowledge their status and seek treatment
- we provide treatment and care, including counselling, clinical management of opportunistic infections, palliative care and access to anti-retroviral drugs for life.

retroviral drugs which can slow down and even reverse the progression of HIV infection, delaying the onset of Aids. Due to the prevalence of malaria and tuberculosis in some areas, many of our businesses also address these diseases in wider health programmes. In Cameroon, for example, a mosquito net was given to every one of the 83% of employees who participated in voluntary counselling and testing.

In June, our brewery in Nairobi, Kenya held a Ladies Day for female employees and wives of employees. Sara Lee, a neighbouring business, and the National Organisation of Peer Educators helped sponsor the event. Over 170 women were led by a group of 40 committed peer educators in talks on total wellness, health issues, HIV/Aids counselling, demonstrations, aerobics and dancing. Ten attendees volunteered for HIV testing and left knowing their status. The day was completed with a quiz and an awards presentation.

Community outreach programmes extend HIV/Aids education into our supply chain. In Kenya, we provide condoms to the barley farmers who supply our brewery. We chose 'Celebrating Life' as the theme for our activities on World Aids Day this year when, across Africa, our businesses held events to increase awareness in their communities and raise funds for Aids charities.

## Capability and development

The key to developing Diageo people is Partners for Growth (P4G), our performance review and goal-setting process, which is based on the philosophy that sustainable business performance comes from developing our people's capabilities and contributions. The aim of P4G is to build on employees' strengths and identify and overcome

any critical barriers, so that they may achieve their own aspirations and realise their potential. The emphasis is on the quality of the conversations employees have with their managers – open, honest, continuing discussions that support their progress towards achieving business and personal objectives. Conversations take place informally at any time, and more formally twice a year. Through the P4G process, employees identified as capable of more senior positions or of enhancing their skills in a different area can be suitably prepared. We nominate successors for senior positions to ensure business continuity, with open posting ensuring that the best candidates are available for selection.

The specific behaviours, skills, knowledge and expertise that we need to meet our ambitious objectives are set out in three documents. The Leadership Standard specifically describes the great leadership we expect in senior Diageo managers, while the Diageo Capabilities apply to all other employees. They both define the way our people should behave to be successful and to live the Diageo values. We plan to emphasise the importance of the Leadership Standard through a programme

## **Our people manager development programme in Europe transforms our leaders and ensures they are equipped to release the potential of every Diageo employee and so achieve sustained business success. The programme covers:**

- Learning about ourselves and how we manage others
- Translating our business strategy into our personal objectives
- Managing inclusively
- Coaching others for high performance
- Developing the capability for managing change
- Building team effectiveness
- Effective execution of policies and procedures.

By the end of the year 60% of people managers in Britain had experienced a two-day workshop and pilot programmes had been held throughout Europe. Workshops are just one element of the programme, which offers a varied mix of learning opportunities such as training programmes, e-learning, reading, insight tools, case studies and tips for managers. For easy access, the materials are available through our Diageo Academy intranet site. The plan for the next few years is to implement the programme across the Diageo world.

# Releasing the potential of our people

continued

# 88%

This year 88% of our employees took part in our values survey, which monitors employee opinion around the world.



**a** In America, members of the National Black MBA Association joined the Diageo Diversity Council in a study of employment retention trends among people of colour.



**b** In our first year of entering the Best Employers in Singapore competition, Diageo was awarded seventh place out of nearly 100 local businesses.



**c** Our sales conference in Brazil was enlivened by a group exercise which showed that, acting in partnership, we can break any barrier to reach our goals.

of leadership development. The programme, in which all senior managers will participate before December 2008, includes 40 hours of one-to-one coaching – 25 hours with an external coach and 15 hours with the line manager.

Opportunities to develop these capabilities are co-ordinated through the Diageo Academy, an intranet portal that gives access to courses and support. The most important opportunities available to appropriate employees are High Performance Coaching, People Manager Development and Career Development.

We want to give talented employees the chance to develop their careers within Diageo. Our on-line Career Shop allows people to submit their CVs, in five languages, to be considered when suitable roles become vacant. Over 61,000 resumés were submitted during the year, 84% of them from external candidates. 3,025 roles were filled during the year, 54% of them by internal candidates.

The opportunities afforded by large, strongly-growing economies like China require concerted action from our businesses to hire the new employees needed and put in place new ways of working. Diageo entered into the Chinese white spirit business by forming a joint venture with Quanxing, the local manufacturer of Shui Jing Fang, the third largest super premium Chinese white spirit brand. Colleagues had the task of establishing a human resources infrastructure for the joint venture – recruiting talent, defining their training requirements, establishing management information systems, communication and language support, defining reporting lines and setting performance measures and rewards that would encourage employees to achieve our business objectives.

The work has strengthened our relationship with our joint venture partner and laid the foundations for the growth we're aiming to achieve in China.

### Reward and recognition

Remuneration packages are benchmarked against those offered by comparable employers to keep our businesses competitive in every market. Diageo corporate citizenship reports on individual countries often contain more information about local comparability. In most cases an element of pay is performance-related to reward employees' contributions to the business. For some employees with specialist responsibilities, remuneration is linked to the achievement of social or environmental criteria.

There are a number of employee schemes to promote share ownership. These enable colleagues in 16 countries to benefit from the growth of the business by acquiring shares at a discount. Participation rates vary between countries, the highest this year being 90% in Korea and the lowest 9% in Belgium. In the UK, 43% of employees saved through Diageo's largest plan. At the year end, 14,714 past and present employees held a total of 31 million Diageo shares, around 1% of its issued ordinary share capital. In the coming year we plan to extend share ownership schemes to Brazil, Colombia, India, Singapore and Thailand.

Employee share ownership			
	2007	2006	2005
Countries operating schemes	16	16	16
Employees* holding shares	14,714	16,179	16,486
Employees* holding more than 1,000 shares	49%	54%	44%
Shares held by employees*	31m	34m	33m

\*Past and present

Most Diageo businesses have schemes that recognise and reward extraordinary individual and team contributions. Such schemes vary in detail and are designed to resonate with local cultures. The scheme in North America covers all salaried employees except the executive team. The rules are simple. An individual or team is nominated for an award by a manager and approved by a senior manager. Awards are reviewed monthly to ensure that they are consistent and fair.

### Engaging our employees

A vital part of valuing our employees is to keep them well informed and create opportunities for their views to be freely expressed. This close engagement with the business, which is essential if our people are to give of their best, is fostered through a variety of communications beginning with the induction of new colleagues and continuing through dialogue with line managers, team meetings, newsletters, intranet and posters. In many markets there are formal employee consultation arrangements. One of the largest representative groups is the Diageo European Forum which speaks for employees in 19 countries. Employees are free to join trades unions, though membership is not monitored.

Diageo acquired Bushmills Irish whiskey in 2005 and we have been working with employees at the distillery to introduce new ways of working. This year, after constructive negotiations between management, employees and trade union representatives, an agreement was made by all to work together in partnership, with open consultation, new flexible ways of working and the sharing of goals. We set up a consultative Partnership Forum as a platform to debate issues such as training and development, continuous improvement and the

# 91%

The highest-scored question supporting our values in our global survey was 'I am proud to work for Diageo'.

use of resources. Such active engagement, new for Bushmills employees, is essential to achieving our plans for growing this famous whiskey brand.

The existing joint consultation committee (JCC) in Scotland's spirits business, where managers work with employee representatives to identify and resolve issues and through which employees are kept up to date with business performance and challenges, was where a new development framework for employee representatives originated this year. The idea began as a request from the JCC representatives themselves that they have the chance to acquire the capabilities and confidence that will be needed in a time of substantial growth in Scotch whisky production. The framework consists of a set of functional and behavioural capabilities for the representatives to use as a standard and to help with their development.

When alterations are needed in the way we do business, we aim to treat employees facing change or redundancy with dignity and respect, consulting them as appropriate. For example, developments in the business this year required changes in information systems support. These inevitably affected IS employees – 130 of whom were located at 27 locations in 16 countries – and a number of posts became redundant. All were consulted on the proposed changes – for example, through collective bodies such as the Diageo European Forum, Global Functions Forum and the Guinness Staff Union, as well as through one-to-one discussions with their line managers.

We have in place grievance procedures for resolving issues that may arise between employees and their managers. In the UK and Ireland, an independently-run, confidential helpline called tik2 provides free counselling, legal and financial advice. In recent years, an average of 440 people have used the service annually, seeking advice on issues such as work-related stress and changes at work.

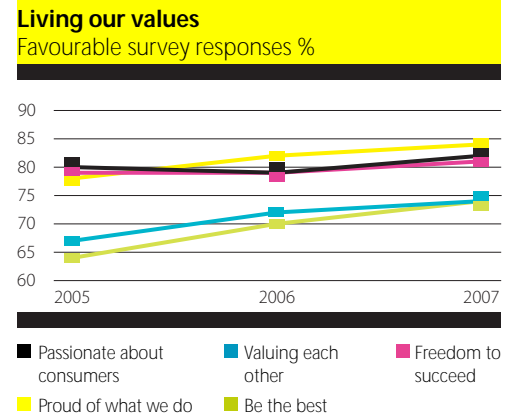
The importance to Diageo of effectively engaging our employees makes our annual values survey, which monitors employee opinion around the world, a key performance indicator for our business. Its results are crucial in shaping our strategy and designing ways of working. Each of the survey's 27 core questions refers to one of our five values, allowing us to assess the extent to which colleagues live the Diageo values in their work.

Some questions (shown in the table) are comparable with an external reference derived from a sample of 'high performing' companies whose financial results are typically among the top three in their sectors.

This year, a further series of questions to assess employees' engagement with Diageo's objectives were extended from partial coverage to the whole business. There was some overlap between the values-related questions and the questions assessing engagement.

This year, over 88% of employees took part in the survey, the highest response to date and up from 85% last year. The results showed improvements on most questions since 2006, support for each of our values achieving rises of 2-3%. Of particular note was the increase, from a low base, in the proportion of respondents affirming that Diageo leaders had acted as a result of previous surveys, reflecting the wealth of activity that has taken place across the business in response to last year's results. There was a 2% increase in the favourable response to the question about responsible drinking and 3% more respondents stated that they knew how to beat the competition and celebrate success – all key aspects of Diageo culture.

The newly-extended questions on overall engagement gave a result 2% up on last year. Employees giving the most favourable response to all five of these questions were dubbed 'super-engaged'. The number of super-engaged employees increased from 24% to 29% this year.



The results of the survey were communicated to teams throughout the business and a toolkit created to help line managers run 'results-to-action' sessions designed to ensure that lessons learnt from the survey are converted into improvements for employees in ways of working.

Global values survey Favourable responses %	2007 Diageo score	2007 High performing companies	2006 Diageo score
<b>Questions with external benchmark</b>			
<b>Passionate about consumers</b>	<b>82</b>		<b>79</b>
My team actively seeks to understand consumer needs	83	87	78
People in my team are encouraged to come up with innovative solutions for customers/consumers	74	76	72
<b>Valuing each other</b>	<b>74</b>		<b>72</b>
My manager inspires me to give my best	77	72	75
<b>Freedom to succeed</b>	<b>81</b>		<b>79</b>
People in my team can challenge existing ways of doing things	85	66	85
My manager generally understands the problems I face in my job	76	70	74
My manager trusts my judgment within my job	87	71	87
<b>Proud of what we do</b>	<b>84</b>		<b>82</b>
I am proud to work for Diageo	91	89	89
Diageo makes a real contribution to the communities in which it operates	80	83	76
<b>Be the best</b>	<b>74</b>		<b>71</b>
My manager gives me regular feedback on my performance	72	69	70
I feel significant actions have been taken as a result of previous surveys	54	52	50
I believe Diageo leadership acts on issues/opportunities identified in the survey	64	68	60
<b>Engagement*</b>	<b>87</b>		<b>85</b>
I believe strongly in the goals and objectives of Diageo	89	88	86
I would recommend Diageo as a good place to work	86	83	84
I am proud to work for Diageo	91	89	89
I fully support the values for which Diageo stands	91	92	89
I work beyond what is required in my job to help Diageo succeed	93	91	92

\*Not all regions answered these questions in 2006.



# Diageo around the world in 2007



▲ A hundred Diageo employees joined the Business Clean Up Australia Day in Adelaide, Bundaberg, Huntingwood, Melbourne and Sydney, collecting tonnes of rubbish from streets, rivers, parks and roadsides. As well as improving the environment, the project was a great opportunity to build relationships in neighbourhoods around our offices and production sites.



◀ World Environment Day was marked at many Diageo sites with awareness-raising displays and activities to encourage employees to be more environmentally friendly at home and also to contribute to programmes at work. Colleagues in Belfast, Northern Ireland marked the day by volunteering for maintenance and conservation duties at Colin Glen Forest Park.

◀ In support of the organisation *Un Techo Para Chile* ('A roof for Chile'), 26 Diageo colleagues from Santiago took just two days to assemble two new houses for needy people in the city. After settling the families into their new homes, our employees described their experience as hard to forget, enriching not only the community, but also our company.



▲ Endorsed by both the Jamaican Ministry of Health and the National Road Safety Council, Red Stripe's 'Think responsibly, drink responsibly' campaign to raise awareness and enable consumers to make informed choices began this year and will extend across radio, TV and print media for two years, supported by public seminars at the island's universities.



▲ The Guinness Community Spirit is a new initiative which aims to challenge perceptions of volunteering among over 18s and encourage them to get involved in their local community. Early activities included path clearing and beach tidying at the Giant's Causeway and White Park Bay on Northern Ireland's Antrim coast.



◀ At English rugby's Guinness Premiership Final, we sponsored the buses that took supporters to the Twickenham stadium. Responsible drinking messages on the outside of the vehicles were reinforced inside by posters with Diageo's responsible drinking hints and tips and thousands of bottles of free water were distributed following the match in which Leicester Tigers beat Gloucester 44-15.

▲ When the UK responsible drinking TV campaign aired in Northern Ireland, we raised awareness of the 'Many me' and 'Mirror' advertisements by showing what can happen when young people lose their 'social currency' by drinking too much. The publicity supported the campaign slogans 'Don't see a great night wasted' and 'Make sure you like what you see'.

▲ Above middle: In Central Scotland, we partnered with the police and a local radio station on a road safety campaign during the festive season – a first for an alcohol beverage company. Covering the issues of speeding, wearing seatbelts, using mobile phones and drinking and driving, the campaign contributed to a recorded drop in the number of accidents and fatalities.

▲ At this year's J&B 'Nightology' boat parties in Spain, live bands and DJs provided the music while a responsible drinking theme, 'A drink too many, a less fun night', was delivered on T-shirts and fans. Half of party-goers questioned recalled the slogan spontaneously (87% prompted), while 55% said that the event would change their attitude towards alcohol in the future.

# Conserving our environment

We aim to reduce the energy, water and materials we use and the waste we generate by improving efficiency and switching to renewable resources.



The environmental sustainability of our business is restricted by our planet's finite resources and its limited capacity to assimilate waste in land, water and air. Our aim is to reduce the energy, water and materials we use and the waste we generate, by improving efficiency and by switching to renewable resources and finding ways to re-use or recycle by-products and waste.

## Environmental management

The Diageo environmental policy makes clear our commitments to improvement. Its standards are an integral part of our risk management framework which sets out criteria for their implementation and provides a mechanism for monitoring compliance through our Licence to Operate process (see page 30). Our commitments do not depend on having full scientific proof of specific environmental damage, thus supporting the precautionary approach introduced with the Rio Principles.

Our policy requires all production sites to have an environmental management system (EMS) and 91% were assessed this year as fully or mostly implemented. EMSs at 17 sites are certified to the international standard ISO14001, representing 48% of production by volume, and four more plan to achieve this recognition within two years.

Our office sites have smaller environmental impacts, nevertheless they do use energy and water and create waste. This year we adopted a systematic approach to reducing impacts at each of our offices with more than 50 employees. At each location, we have established an environmental leadership team tasked with creating employee awareness of the policy, planning actions to reduce the office's environmental footprint and setting targets for improvement.

Measurements of our most significant impacts – the use of energy and water, and the production of solid waste, liquid effluent and greenhouse gases – are our primary indicators of performance. We collect data from all 99 production sites and 36 large offices and aggregate the results both as totals and as ratios relative to Diageo's production volume – a measure of our level of activity.

## Targets

In 2004, we set ourselves improvement targets for the five relative performance indicators, to be met this year, and the results are shown in the graphs. Increased production volumes, efficiency measures and sourcing electricity from renewables helped us achieve our energy and greenhouse gas targets. We also hit our target for water use through water-saving measures at many sites. We missed our target for reducing the polluting power of wastewater. A significant factor in this has been a large increase in Scotch whisky production which adds to our BOD total, but isn't counted as production until it is bottled, a minimum of three years later. We also didn't achieve our target for solid waste landfilled due to large one-off disposals of materials at two sites in Africa where recycling facilities were not available. We are working to improve performance in these areas.

This year is also the start of the next target period and we have also shown in the graphs the performance we want to be able to report by 2011. The increasing Scotch whisky production described in the last paragraph has been factored into these targets and makes some higher than would be expected from underlying improvements in efficiency. Progress towards these targets will be recorded monthly and reviewed quarterly by the supply function's environmental leadership team.

## Energy and climate change

It's widely accepted that greenhouse gases – most importantly CO<sub>2</sub> – generated by burning fossil fuels are a cause of climate change, the likely negative consequences of which could be mitigated if emissions were sufficiently reduced. Diageo's share of global CO<sub>2</sub> emissions from fuel use is around 0.003%. We are committed to reducing these emissions and can cite actions in two areas – reducing our energy consumption and switching to renewable or low-carbon-emitting sources of energy.

An example of reducing consumption comes from our Port Dundas distillery in Glasgow, Scotland, where hot wastewater from the boiler, which previously flowed to drain, has been diverted to pre-heat the water feeding the boiler. This improvement, the inspiration for which came from an employee through Scotland's 'Diageo Ideas' scheme, has saved 450 tonnes of CO<sub>2</sub> emissions annually (or 1% of the total from the site) and was awarded the Environmental Trophy at ideaUK's 'Idea of the Year' awards this year.

A recent project at St. James's Gate, Dublin reduced carbon emissions and had other environmental benefits. The mains water supply to the fermentation plant now flows through a new heat exchanger. The cooling effect of this incoming water has reduced the requirement for expensive traditional refrigeration and cut the site's annual demand for electricity by over 1,000 MWh. The water is warmed in the process, which saves energy when heating it before use. As the water now performs two functions, the amount we need to draw from the mains is less, as is the volume of effluent we send for treatment. The project has reduced CO<sub>2</sub> emissions by over 600 tonnes a year, and saved more than £100,000.



# Conserving our environment

continued

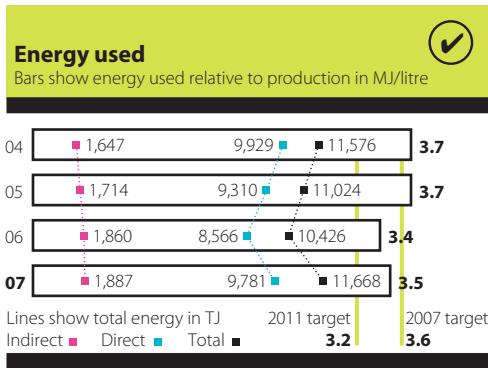


-  2007 target achieved
-  2007 target missed

**a** In Kilkenny, Ireland, willow saplings help filter organic materials from waste water and, as wood chips, are used as a renewable energy source.

**b** A reed bed breaks down sludge from our Blair Athol malt whisky distillery in Scotland, reducing its environmental impact.

**c** Diageo Australia's Bundaberg Bush Fund staged a star-studded rugby league match against New Zealand, raising £52,000 to restore grounds made unfit by drought.



This year in the Republic of Ireland we switched to electricity generated renewably at wind farms. This comes on top of similar changes in most of our sites in the UK where switching to electricity from a nuclear generator has significantly reduced our indirect greenhouse gas emissions. Together, these locations represent 28% of our total electricity usage and switching to zero- or low-carbon supplies has reduced our annual indirect CO<sub>2</sub> emissions by around 50,000 tonnes.

We see offsetting as a means of 'mopping up' greenhouse gas emissions that cannot be eliminated by other means – for example, from business travel. Working with travel agents and airlines, we have continued to improve reporting on business flights and car journeys. With the addition of data from major Asian markets, we recorded 25.1kt of greenhouse gas emissions from business travel during the year.

Our St James's Gate brewery in Dublin is one of the first businesses to be certificated to the new Irish energy management standard, IS 393. The standard requires that energy is managed strategically, and that the site puts in place

processes to yield significant savings in energy use, greenhouse gas emissions and cost. This year Guinness plants in Ireland as a whole have reduced their CO<sub>2</sub> emissions by over 8,000 tonnes, with financial savings set to exceed £2 million.

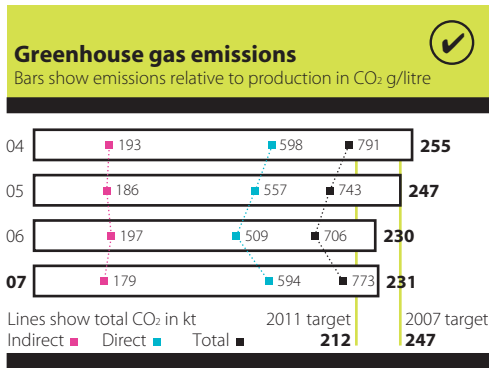
The regulation of greenhouse gas emissions, in particular through structures such as the Emissions Trading Scheme in Europe (EU-ETS), provides an additional financial incentive for companies to reduce their climate impacts. The EU-ETS has reinforced our drive to be increasingly efficient and to find low-carbon energy solutions. In 2006, the second year of phase one of the EU-ETS, our total emissions were well within our allocation, though one packaging plant purchased carbon allowances to cover a shortfall.

In Scotland, our distilleries and maltings are additionally subject to Climate Change Agreements with the government that aim to increase energy efficiency over the decade to 2010. To date, our plants have met every two-year target along the way. At the latest milestone in 2006, our performance above the targets represented a saving of 27,400 tonnes of CO<sub>2</sub> emissions. At this

### Sources of energy TJ

	2007	2006
<b>Direct</b>		
Gas	5,596	5,520
Fuel oil	3,292	2,538
Diesel	790	416
Other	104	92
<b>Indirect*</b>		
Standard electricity	1,423	1,407
Low-carbon electricity	463	453

\*Includes a small amount of steam. Low-carbon electricity is generated from renewable or low-carbon-emitting sources.



point, our distilleries were found to be 18% more energy efficient than the rest of the industry, while our maltings were 12% more efficient.

With the topic becoming of increasing interest to many Diageo stakeholders, this year we reviewed the risks and opportunities that human-induced climate change could present to our business. These may work through physical phenomena such as changing temperatures, increased frequency or severity of extreme weather events, water scarcity or rising sea levels, or indirectly through ecosystem changes or shifts in human populations. The risks include impacts on the agriculture that produces our raw materials, disruption of our own activities or those of our commercial partners, and changes to the distribution or nature of consumer demand. The prospect of climate change also presents us with opportunities, most particularly a competitive advantage if we respond to these issues more effectively than others in our industry.

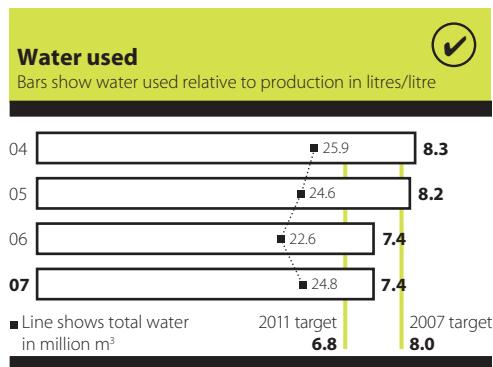
These issues are considered in more detail in our response to the Carbon Disclosure Project questionnaire, available on the website. A manager



# 0.003%

Diageo's total share of global human greenhouse gas emissions from fuel use is around 0.003%, using International Energy Agency estimates.

has been appointed to complete the analysis, survey the many climate-change initiatives in progress around our business and draw up plans for co-ordinated action.



## Water management

A good water supply is essential to our business – as an ingredient and for cooling and cleaning processes. Water resources are under pressure from development in many parts of the world and the threat of climate change may restrict availability still further in the future. Around 10% of Diageo production sites are located in countries where the UN forecasts water supplies will come under stress in the next 20 years, with a further 5% in areas predicted to suffer water scarcity. To drive water efficiency improvements in all production sites, a team was established this year, with its initial focus on sites in water stressed areas and high volume users. The challenge for the project team is to develop a way of identifying, sharing and implementing best practice in water management, covering culture, technology and ways of working. In support of this work, this year we joined a beverage industry group that is seeking to compare levels of water efficiency in different companies and share best practice in water stewardship, such as water management, conservation and coping with drought conditions.

We withdrew a total of 24.8 million cubic metres of water this year – 44% from mains supplies, 50% from wells or boreholes and 6% from rivers or lakes. Increasing our water efficiency, by using less and recycling more, is a priority.

After use, waste water from many of our processes has a high organic content, which may pollute waterways into which it is discharged. This year, the total volume of effluent was 16.9 million m<sup>3</sup>. Our sites took a variety of measures to minimise any environmental damage by this waste. We treated about 27% on site to remove most of the organic content before discharge, an increase on

18% last year due to new effluent treatment plants coming on-stream. About 42% was sent to municipal treatment plants and a further 4% was spread on agricultural land. Around 27% flowed untreated to water, mostly to the sea. Such outflows from our plants are subject to consent by environmental authorities and their impact on ecosystems is monitored. During the year we commissioned a new £2.7m effluent treatment plant at our brewery in Kumasi, Ghana and are currently working to bring it up to full capacity. A new treatment plant in Jamaica is nearly finished, while we are still at the planning stage with plants in Cameroon and Achimota, Ghana.

Part of the effluent from our Smithwick's brewery in Kilkenny, Ireland, is treated by spreading it on a willow plantation within which soil microbes extract the nutrients. This provides a rich growing environment for the fast-growing saplings. The willow crop is harvested as wood chips – around 1,300 tonnes this year – which are used as a renewable energy source.

Finding a sustainable way of treating effluent was behind developments at two Scottish malt distilleries. At our Dufftown site a reed bed is now used as a final cleaning stage for effluent before it's discharged into the River Dullan. This biological solution reduces the amount of copper, organic compounds and suspended solids in the wastewater. A similar system is in place at our Blair Athol distillery. Sludge which was previously transported away for spreading on agricultural land will be broken down by the reeds, minimising the environmental impact.

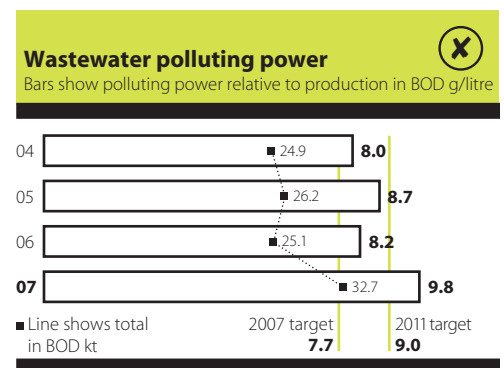
## Materials and recycling

Most of the materials we buy are ingredients from renewable sources, such as grain, grapes, hops and milk. Packaging, process and office materials such as glass, cardboard, plastics, paper and metals are mostly recyclable, and many materials come from recycled sources.

The largest category of our waste is what's left of beverage ingredients after processing. These residues are usually converted into animal feed or composted for use as mulch on farmland. Most other waste – such as rejected packaging from bottling sites and office wastepaper – is also recyclable and is reprocessed where local facilities exist. Overall, 87% of solid waste from our sites was reused or recycled this year. The remainder was sent to landfill.

Many byproducts of our processes have a value and disposing of them as waste has economic

as well as environmental costs. Since 2005 our St James's Gate brewery in Dublin has reported zero landfill by managing materials efficiently and reusing or recycling those that are not wanted. The task of a new waste reduction team, established this year, is to exploit this opportunity by cataloguing the various materials landfilled by our sites, identifying alternative uses for them and spreading best practice in waste management to all locations. Some sites create much more waste than others, often because of a lack of local recycling capacity. One focus of the team is to seek strategic partnerships in these areas to create the necessary facilities. This work is an important step towards achieving our new reduction target and eventually eliminating landfill altogether.



BOD is biological oxygen demand, a measure of the oxygen used by micro-organisms in wastewater and hence an indication of its organic content.

Our solid waste landfilled figures include 'one-off' disposals, such as building materials from redevelopments – which may not yet be practicably recyclable in some parts of the world – explaining why our waste totals are more erratic than other impacts. At some sites, we have moved from an estimation of outgoing waste to direct measurement and have restated the 2006 results in the light of this.

A secondary environmental impact from waste occurs when consumers dispose of our bottles, cans and other containers. Our marketing teams and agencies work to Diageo guidelines on sustainable packaging which aim to balance its functionality with a need to minimise its environmental impact. For example, while refillable glass bottles may be environmentally the best solution for beer which is consumed near where it's brewed, they may not be economically sustainable for spirits shipped between countries or at risk from counterfeiters. In Africa over 90% of our beer bottles are returned for refilling. In the domestic beer market in Jamaica the

# Conserving our environment

continued

# 90%

In Africa more than 90% of our beer bottles are returned for refilling.



**a** Events were held in our London office on World Environment Day to show what actions employees could take at work and at home.



**b** Installing a new heat-exchanger at St James's Gate in Dublin has reduced annual greenhouse gas emissions by over 600 tonnes.



**c** The new effluent treatment plant at our brewery in Kumasi, Ghana removes organic matter from wastewater that previously flowed to a river.

same system is used, and bottles have a life of around 20 fillings before recycling. For beer exported from the island, it is environmentally preferable for bottles to be recycled in the country of use rather than returned long distances for refilling. We therefore make export bottles with less glass than domestic ones to minimise the energy required to manufacture, transport and recycle them.

The sustainable packaging guidelines specifically aim to minimise the amount of material used. When products are developed or redesigned, making their containers just a few grammes lighter can save tonnes from entering the waste stream. For example, in the last few years, the Guinness Foreign Extra Stout bottle has been lightweighted by 113g, the Smirnoff Ice bottle shaved by 10g and the Piat d'Or wine bottle reduced by 79g. Together, these three redesigns have saved nearly 3,000 tonnes of glass a year leaving our plants. Most of the materials we use – glass, aluminium, steel, paper and plastics – are recyclable and our guidelines show how materials can be used to enhance this – for example, by not combining materials which waste contractors find difficult to separate.

### Other emissions

Over the last two years, we have reduced the amount of ozone-depleting halons present at our manufacturing sites in fire-extinguishing equipment by 80% and CFCs, used as refrigerants, by 67%.

Through the use of fuels, our activities resulted in the emission of 1.2kt of nitrogen oxides, which are a precursor to ozone formation, acid rainfall and oxygen depletion in water habitats, and 1.3kt of sulphur dioxide, a precursor to acid rainfall.

When spirits are maturing in barrels, some of the alcohol evaporates – a process essential to create the desired flavour. The vapour can, in some circumstances, contribute to air quality impacts, though alcohol is biodegradable and water-soluble, so much is removed from the air by rainfall. We estimate that, this year, 32,000t of alcohol evaporated from the millions of barrels of our brands maturing in Scotland, the USA and Australia.

### Hazardous substances and spills

Some of our processes employ hazardous materials – such as caustic soda used for cleaning – which are disposed of after use by specialist contractors. In the year, we disposed of 854 tonnes, more than double last year's figure.

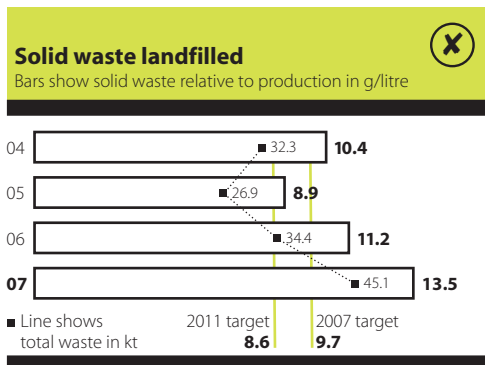
A number of temporary non-compliances with emission consent levels were recorded and notified to the environmental authorities. Two resulted in official notices. The effluent treatment plant at our distillery in the Philippines let through water with more than the permitted level of suspended solids and the plant was fined the equivalent of £100. Limits were also exceeded at our Glen Ord distillery in Scotland and measures

put in place to improve the performance of the effluent treatment plant. There were 34 incidents with potential environmental consequences – mostly spills of fuel or partially processed product – but none was significant enough to warrant an official notice. Action was taken in each case to check arrangements for containing spillages and minimising future risk.

### Biodiversity

As a significant user of agricultural raw materials, our activities have an indirect impact on the biological diversity of the ecosystems in which our suppliers grow their crops. Last year we carried out a review of the biodiversity impacts of species or habitats known to be affected by our activities which concluded that, although no systematic detrimental effect at global level could be identified, further steps should be taken to engage biodiversity issues locally.

Some of our sites include or are close to rare habitats or conservation areas and particular care is taken not to disrupt species or ecosystems in such cases. For example, in Ireland, our brewery at Kilkenny is close to the River Nore, a Special Area of Conservation, designated for its priority alluvial woodland and petrifying spring habitats, as well as for its populations of salmon, lamprey and freshwater pearl mussels. Our Speyside malt distilleries in Scotland also fall within protected areas, noted for similar species to those in Kilkenny as well as for otters. In Uganda, our brewing and distilling sites are sited on Lake Victoria, close to an area used for recreation and fishing and as a source of water, so our wastewater outfall to the lake is closely monitored.



# Environmental impacts in the value chain

A consumer in Japan relaxes with a glass of Scotch whisky – a common enough occurrence, repeated millions of times a day in bars and homes across the world. It's part of a chain of events which began in a Scottish barley field some years before and which, ideally, will end when the empty bottle is collected for recycling. The environment is affected by the activities that take place at all the stages along this chain – all the cereal farms, bottle and box factories, distilleries, maturation warehouses, bottling and packing plants, ships, trains and trucks, and finally bars and stores. We work to reduce such impacts, by continuously refining our own operations and by aiming to influence the activities of other businesses in the chain.

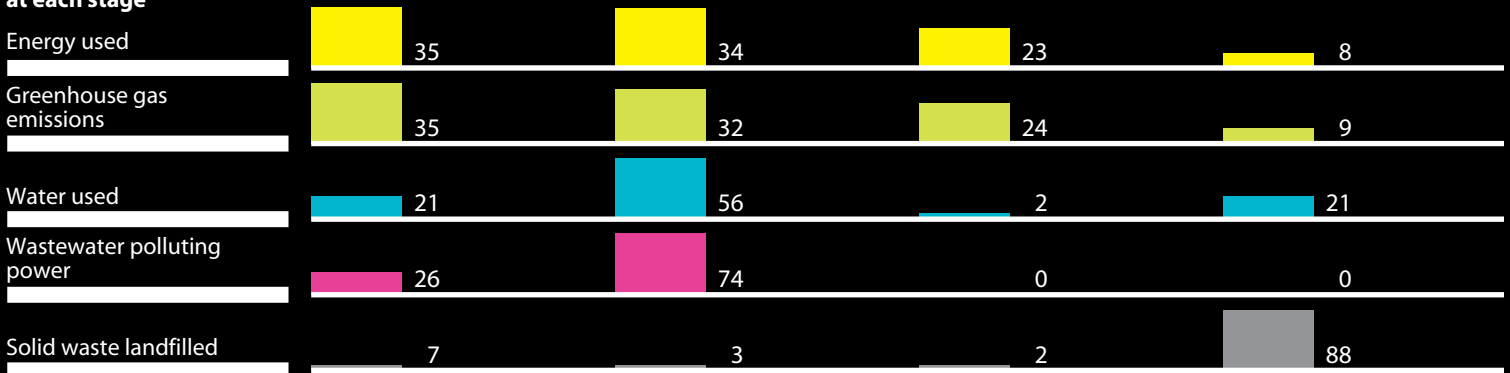
An important part of this is to characterise the impacts. So, this year we quantified the 'environmental footprint' of our most successful Scotch whisky brand, Johnnie Walker, assessing its impacts and finding where they occur in the chain 'from barley field to bottle bank'. Findings such as these on our operations as a whole may be used in future to help us inform our engagement with suppliers and customers and to prioritise environmental improvements.

Johnnie Walker is the world's leading Scotch whisky and comes in a number of variants – most importantly Red, Black, Green, Gold and Blue Label – all of them covered by the study. Each variant is a blend of matured whiskies

which are fermented and distilled from predominantly Scottish cereals. After blending, the finished product is bottled and cased – in 2006, output was 13.7 million equivalent units (equal to a nine-litre case) – and shipped to more than 180 countries. The Johnnie Walker brand represented around 10% of total Diageo sales by volume in the year under study.

For simplicity, we split the Johnnie Walker value chain into four stages. The bar charts quantify major environmental impacts at the four stages.

## Percentage impact at each stage



### Suppliers

Produce ingredients, production materials and packaging and deliver to Diageo sites



Producing the ingredients, manufacturing the packaging and delivering these to our sites emerged as the stage with the greatest demand for energy and the largest greenhouse gas emissions.

### Manufacturing

Malt, ferment, distil, mature, blend, bottle and package at Diageo sites



Our own operations used the most water – most importantly, as an ingredient, for fermentation, cooling and cleaning – and had the greatest emissions of organic material in effluent. Manufacturing was also a significant user of energy and source of greenhouse gases.

### Distribution

Transport to on-trade and off-trade customers and retail to consumers



Despite the huge task of delivering 164 million bottles of whisky to nearly every country of the world and then to millions of stores and bars, this stage was found to be responsible for less than a quarter of energy use and total greenhouse gas emissions and a very small cause of other impacts.

### Use and disposal

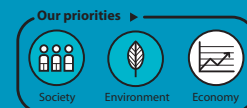
Consumption in bars, other outlets and at home



Consumers were responsible for the smallest greenhouse gas impact, which occur when they travel – often by car – to the point of purchase, make ice to add to their whisky and wash up the glasses afterwards. This was the stage at which most waste in the value chain is created, due to low recycling rates for glass, paper and plastics in some countries. Despite nearly all elements of whisky packaging being recyclable, we estimate that less than half are in fact recycled.

# Investment and creating value

Diageo's primary aim is to create value for investors by providing consumers with our range of great brands. The success of our businesses creates a powerful engine for economic growth.



In some markets, notably in Africa, Diageo companies are large enterprises by local comparison, with a particularly significant impact on local and national economies. Around the world, we provide jobs and develop the skills of our people, create opportunity for other businesses in the value chain, generate revenue for governments and invest in capital projects. It is by doing all this in a responsible and accountable way that we make our most significant contribution to the sustainable development of the communities in which we operate.

A cash value added statement provides a way of quantifying the value we add to the raw materials and services we buy in the course of creating our brands. The statement also shows how this value is distributed to various groups of Diageo stakeholders in exchange for their contribution to the business. In this section we examine the three most significant recipients of cash value added – governments, investors and employees. In addition, value flows to banks and other lenders as well as to the community through sustainable projects, many of which aim to tackle economic disadvantage and promote entrepreneurship. We invest the remaining cash value added for the benefit of Diageo's stakeholders in the future – either in research and development (a source of innovation and technological advance) or by retaining it in our business for growth, including the purchase of new companies or brands and capital spending on plant and buildings.

## Investing for sustained growth

In its 2007 Value Added Scoreboard, the UK Department of Trade and Industry ranked Europe's top 700 companies according to the wealth they created, as measured by value added (using a measure slightly different from ours).

## Cash value added statement

	2007 £ million	2006 £ million
Cash received from customers	9,917	9,704
Other income	131	892
<b>Subtotal – cash received</b>	<b>10,048</b>	10,596
Cost of goods and services	(4,123)	(3,999)
<b>Cash value added</b>	<b>5,925</b>	6,597
Alcohol taxes	2,436	2,444
Other taxes	436	450
<b>Subtotal – paid to governments as tax</b>	<b>2,872</b>	2,894
Paid to investors for providing capital	2,263	2,271
Paid to employees for their services	999	924
(Retained)/Invested for growth	(805)	259
Paid to lenders as return on borrowings	278	211
Community investment	21	20
Research and development	17	18
<b>Distribution of cash value added</b>	<b>5,925</b>	6,597

Wealth creation is important since providing real value that consumers want and will pay for is one of the best ways of competing in a global economy. This year, Diageo remained top of the alcohol beverage sector. Diageo was also ranked top for wealth creation efficiency (value added divided by the cost of labour and equipment).

This year, Diageo announced a £100m investment – one of the biggest ever in the industry – to expand our whisky operations in Scotland to meet anticipated long-term demand for our brands in growing overseas markets. Part of the investment, which will create up to 200 jobs over the next few years, is in the construction of a new malt whisky distillery in the north of Scotland, from which the first mature spirit will be available in around 2012.

## DTI Value added scoreboard

European alcohol beverage sector ranking	Value added £ million	Growth %	Wealth creation efficiency %
1 Diageo	3,494	10	307
2 InBev	3,349	48	178
3 Heineken	2,812	5	147
4 SABMiller	2,646	20	222
5 Carlsberg	1,173	9	127
6 Pernod Ricard	1,114	21	201
7 Scottish & Newcastle	1,059	6	148

Source: DTI 2007 Value added scoreboard, based on 2006 accounts. DTI definitions: value added = sales less the cost of bought-in goods and services; wealth creation efficiency = value added as a percentage of the cost of labour and equipment used to create it; growth = increase in value added compared with previous year. Website [www.innovation.gov.uk](http://www.innovation.gov.uk).

## Revenue for governments

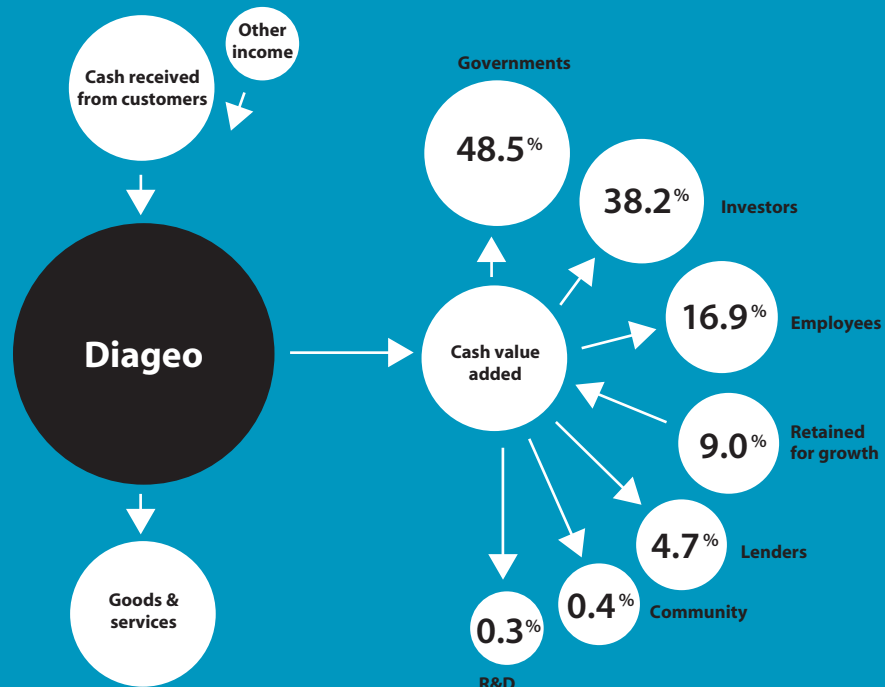
The largest slice of the added value we generated went to governments. Taxation accounted for 48.5% of the total, amounting to £2.9 billion. In some countries, the tax Diageo pays represents a significant proportion of the government's income.

In addition to this direct contribution to the public purses of countries around the world, our businesses pay other taxes such as local and property taxes; our consumers pay sales taxes such as VAT; our employees and investors pay income taxes; and our suppliers and customers pay corporate taxes as a result of the business we generate in these companies. In aggregate, these direct and indirect contributions, which we have not quantified, represent the total tax footprint of our business.

## Distribution of cash value added 2007

# £5.9bn

Total cash value added in 2007



With responsibilities to many stakeholders, including investors and governments, we strive to organise our tax affairs efficiently within the law. As part of this, we consider the options available to us for where Diageo's profits and hence tax liabilities are located geographically. Such decisions are based on a combination of commercial strategy, cost and the levels of taxation in different countries. However, we have a strong preference for locating our tax liabilities in territories where we also have significant commercial operations.

Transactions between Diageo subsidiaries in different countries are priced on an arms length basis as if the subsidiaries were unrelated companies, in compliance with the OECD Model Tax Convention. Consequently, the tax administrations in the two countries receive a fair allocation of tax from the profits involved in the transaction and the same profit is not taxed twice.

### Returns for investors

The second largest slice of cash value added by our business goes to our shareholders. Over 90% of Diageo is owned by institutional investors, the remainder being held by private shareholders including thousands of current and former employees. As a return on the capital they provide, shareholders received £2.3 billion during the year through dividends and share buybacks, representing 38.2% of the total distribution of cash value added. In 2007, we paid £858 million in the form of dividends and £1.4 billion via Diageo's share buyback programme, the balance between the two being determined to make returns to investors as efficiently as possible. A total of £10.5 billion has been returned to shareholders in buybacks since Diageo was formed ten years ago.

The excellence of Diageo's relationships with investors was recognised by a number of awards this year. *IR* magazine, an international publication for investor professionals, declared Diageo 'Best in Sector', based on votes cast by over 600 UK equity investors. And *Institutional Investor* magazine made Diageo a double winner in its 2007 European investor relations study, which polled the opinions of international analysts and portfolio managers. Catherine James, Diageo head of investor relations, was voted 'Best IR Professional' in the beverage sector while Diageo won 'Best IR' in the same category. Diageo has topped the votes in both these areas for three years running.

Some Diageo companies offer a proportion of their shares on local stock markets, providing access to their equity to local investors, including employees. We value the participation of these shareholders as they bring local knowledge to the business and strengthen direct contacts with the community.

### Sustaining employment

Successful economic development depends on enhancing the skills of a nation's workforce as much as on financial flows. Globally, 16.9% of cash value added by Diageo was passed to our employees this year, underlining the important role our business performs in sustaining jobs in the economies in which we operate.

### The value chain

Demand for our brands creates business for other companies in the value chain – in agriculture, manufacturing, services, distribution, wholesaling and retailing. Our aim is that these companies are able to derive adequate business benefit from their relationship with us and that the terms and conditions of our business together are fair.

These terms include the timing of payments, the detail of which is agreed by individual businesses with each of their suppliers.

In some markets, we work with suppliers to help them develop their businesses and thus improve the sustainability of the supplies we need. For example, since the 1980s when Guinness Nigeria pioneered the use of locally-grown sorghum and maize in brewing to replace more expensive imported grains, we have continued to invest in locally grown cereals and new technologies in West and East Africa to help local farmers increase their output and secure long-term income. More recently, in Ghana and Sierra Leone we have supported the development of soghum in areas where poverty is high. We also provide skills training and access to farming products to help local farmers improve their productivity.

Northern Nigeria has a long tradition of irrigated agriculture using slow and labour-intensive methods such as the *shadoof*, a counterbalanced bucket on a rope. During the growing season, labour for lifting water is in short supply and most farmers cannot afford the alternative petrol-powered pumps. Because of these constraints, farmers cultivate very small plots and earn little. For nearly two years, in partnership with NGO Enterprise Works, we have been introducing vegetable farmers to low-cost, high capacity, human-powered treadle pumps. These deliver irrigation water seven times faster than a shadoof, allowing farmers to water more land and double their household income. A full analysis of the project is given on page 14.

An important 'indirect' effect of such economic activity in our value chain is to sustain jobs. Diageo's overall impact on employment is measured by adding these jobs to our own employee numbers,



# Investment and creating value

continued



**a** Promoting treadle pumps as a more efficient way of irrigating vegetable crops in northern Nigeria has improved yields and increased farm incomes.



**b** Diageo Ireland's customer contact centre was judged first for best customer services delivery by the Call Centre Management Association.



**c** Consumers questioned about the responsible drinking campaign we ran with Tesco in the UK welcomed the advice as realistic and practical.

or by applying an appropriate 'employment multiplier' to our own workforce total. Employment multipliers vary with industry and market and tend to be higher in developing countries (where there have been estimates as high as 25 or 30 for the beverage sector) than in industrialised regions where they can be in single figures. The Scotch Whisky Association publishes an employment multiplier of 6.2 for the spirits industry in Scotland in 2000. Using figures like these, the people whose livelihoods depend on the economic value created by Diageo's business are likely to number in the hundreds of thousands.

## Supplier relationships

With a long list of supplies needed to make and market our brands, procuring them is a complex process. With international reach, we source some supplies globally or regionally – for example, grains for fermentation – while we can obtain others more economically from local suppliers. For example, last year our East African Breweries business bought 76% of its supplies within East Africa.

We aim to develop strong relationships with our suppliers to help ensure that the goods and services we need are sustainable and that we can continue to obtain the best value in terms of cost, quality, service and innovation.

Strong relationships go beyond commercial aspects. They allow us to work with suppliers to encourage them to maintain standards similar to our own in labour standards, health and safety, environmental management and business integrity. We drew up the standards we expect of suppliers by referring to external codes such as the International Labour Organisation core conventions on human rights.

Satisfying ourselves that our suppliers consistently maintain these standards is a substantial task. Last year we joined the independent Suppliers Ethical Data Exchange, or Sedex. Through Sedex, participating suppliers post self-assessments on-line, and these can be accessed by any of their customers signed up to the scheme, eliminating the duplication of reporting separately to each. Currently, 300 Diageo suppliers are in the process of registration or self-assessment. The assessments are to be independently audited against Ethical Trading Initiative standards of human rights, labour conditions and health and safety and gaps identified for improvement. Forthcoming developments to the Sedex tool will include sections on anti-corruption, bribery and environmental management.

Diageo is a member of a group of food and drink manufacturers which recognise the importance of ensuring that their supply chains operate to high standards of responsibility. The group is working to achieve this by developing a common approach to evaluating the corporate citizenship performance of suppliers.

Responding appropriately to any shortcomings revealed by such assessments presents a number of dilemmas. Simply withdrawing custom from a non-compliant supplier could displace the problem rather than solving it. If it led to layoffs, our action could cause hardship to the supplier's employees as much as to its owners. In a small community, the supplier's loss of business could have wider economic implications. Our aim is to balance these possible outcomes and, building on strong relationships, work with suppliers assessed as non-compliant to help them improve. In cases where the supplier fails to move towards compliance, we retain the sanction of seeking alternative sources of supply.

## Purchases by category

£ million

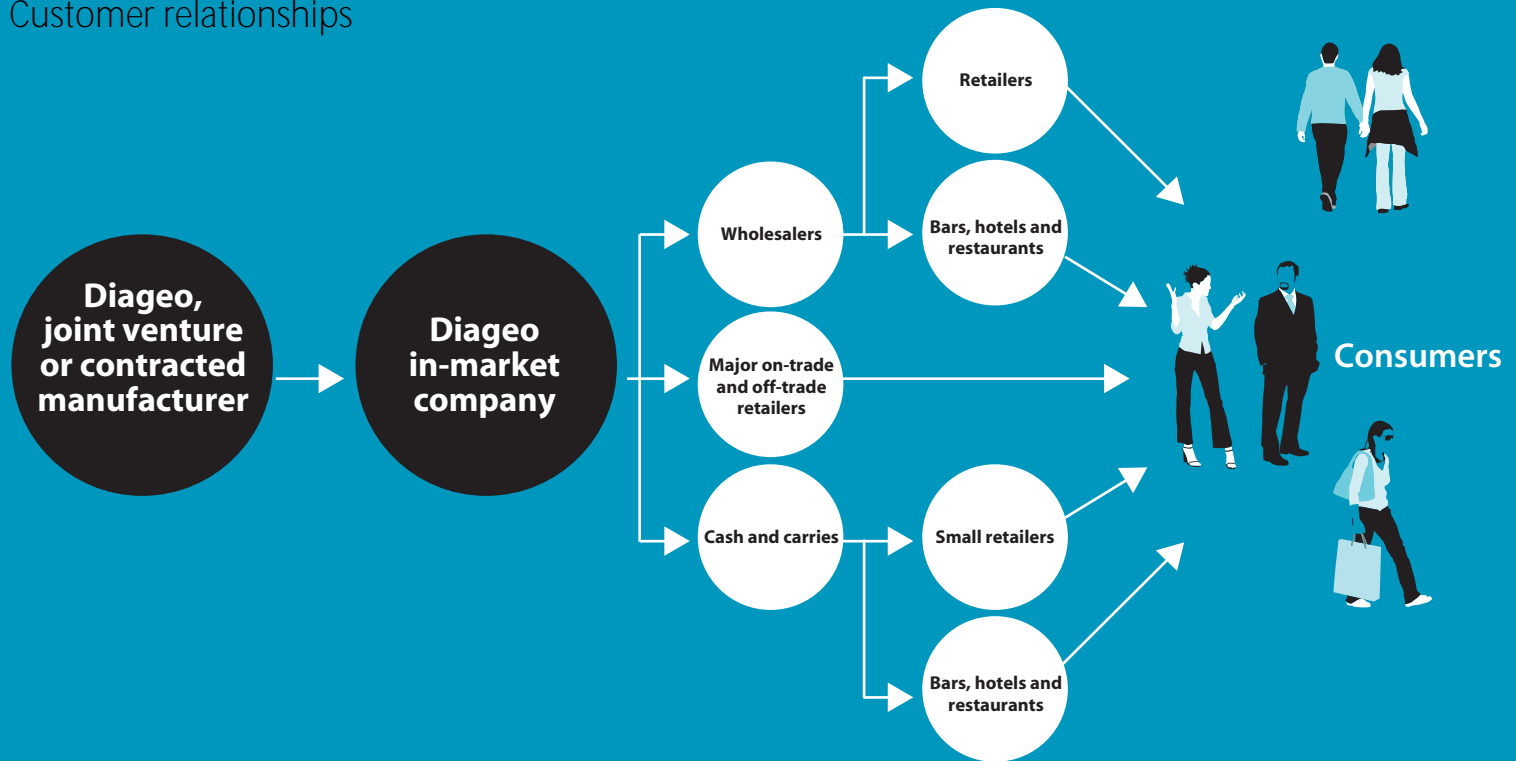
Raw materials	1,692
Marketing	1,162
Lease payments	65
Maintenance	53
Other	1,151
<b>Total</b>	<b>4,123</b>

## Customer relationships

Our customers are the businesses responsible for distributing and retailing our brands. Although each market has its own unique structure, our customers typically comprise major retailers which sell direct to consumers through the on trade (bars, restaurants and clubs) or off trade (supermarkets and stores), and wholesalers and cash-and-carries which supply off-trade retailers of different sizes and the on trade. We create business for our customers by providing them with our brands and by offering commercial skills and resources to encourage demand and maximise customers' returns. Our aim is to provide our customers with the best overall service in every market. This means working closely with them to maximise mutual commercial advantage from our brands. We continually review our products and seek to meet consumers' needs through innovation, investing £17 million in research and development during the year. We want to see high standards of corporate citizenship throughout our value chain and look particularly to our strategic relationships with major customers to co-ordinate our efforts.



## Customer relationships



In the UK, we worked with supermarket operator Tesco to develop a responsible drinking programme during Christmas and the New Year, the first example of such an initiative in the grocery sector. The on-shelf notices in Tesco stores bore a 'drink responsibly' message and tips on enjoying alcohol responsibly which were reinforced through TV screens in the stores and on the Tesco website. Research showed that while consumers polled did not believe the campaign would change their drinking behaviour, they did welcome the advice as realistic, practical and appropriate reinforcement of messages they had seen elsewhere.

We are working with Wal-Mart retail businesses around the world to develop new responsible drinking campaigns and have launched or expanded initiatives in Brazil and the UK to raise awareness of the legal purchase age for alcohol beverages. This year we also began working with Wal-Mart on quantifying the carbon footprints of our beer and ready-to-drink brands.

We have adopted a standard survey to monitor major customer relationships and make the voice of our customers stronger in our business decision-making. Used in our top 29 markets – covering the majority of the business – customers, distributors and our own employees are surveyed on the important aspects of our work with customers – leadership, expertise, performance and partnership.

The survey provides insights that have enabled us to focus on what really matters to our distributors and retail customers and so build our capability to a higher level. We have specifically concentrated on delivery channels

and markets where we saw opportunities to grow business, and consequently improvements in service have resulted in notable improvements in our performance.

### The Millennium Development Goals

Seven years ago, the member countries of the UN agreed a vision for the world in 2015 in which there would be less poverty, hunger and disease, improved survival of mothers and infants, better education, equal opportunities for women and a healthier environment. They pledged to meet eight Millennium Development Goals (MDGs) to help achieve these aims. The UN's 2006 MDG report shows that progress has been made but that the pace of change will need to pick up if the goals are to be achieved, particularly in sub-Saharan Africa.

Companies have an important part to play in supporting the development goals. Diageo's primary contribution comes from the economic value-creating activity of our businesses, which are particularly significant in the economies of a number of developing countries. Nearly one-fifth of Diageo's production sites are in such countries, accounting for more than half of our global brewery output and providing more than 5,000 jobs. Local sourcing of many raw materials and services reinforces the positive economic impact of these operations through the activities of businesses in our value chain.

Our impact is extended through the production of our brands by many licensees and joint ventures. Including these, our brands are manufactured in 22 African countries. A further contribution comes through the taxes levied on our products and businesses which support national governments. In addition to these benefits from our core business activities,

through being a good citizen we promote equal opportunities and minimise our environmental impacts, and our community investments in developing countries often contribute towards particular MDGs or targets – for example, by providing access to clean drinking water (see pages 12-13) or working against HIV/Aids (see page 17). A summary of the MDGs and how our actions have supported them is given on our website.

# Governance, engagement and commitments

## Engagement gives us early warning of stakeholder concerns and allows us to make better business decisions.

### Governance

The work of the Diageo board and its committees is described in detail in the annual report. In summary, the board consists of a non-executive chairman, chief executive, chief financial officer and eight 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.

There is a formal induction programme for new directors through which they receive orientation training in relation to the business – for example, its assurance processes, and environmental and social responsibility policies and practices. The board makes decisions and reviews and approves key policies and decisions of the company, including corporate governance; compliance with laws, regulations and the company's code of business conduct; risk management; corporate citizenship, ethics and the environment. The board reviews and approves the corporate citizenship report.

The executive committee, appointed and chaired by the chief executive, consists of the individuals responsible for the key components of the business: North America, International, Asia Pacific and Europe markets, global supply and the global functions. The chief executive has established committees with a continuing remit, including the corporate citizenship committee. Chaired by the chief executive, this committee is responsible for making decisions or, where appropriate, recommendations to the board or executive committee concerning corporate citizenship strategy, policy and issues. This includes such

matters as community investment, environmental matters, measurement and reporting. Progress in these areas is reported periodically to the board and publicly through this report.

The alcohol and responsibility executive working group complements the work of the corporate citizenship committee by bringing together key executives and functional representatives to co-ordinate and realise Diageo's commitment to responsible drinking. The Diageo environmental working group shares best practice between business units and develops strategies for compliance with our environmental policy – with a particular focus on the impacts of packaging, transport, other value chain issues and business travel. It is supported by the supply function's environmental leadership team, established this year to develop approaches to environmental management and performance improvement at our production sites, where the bulk of our direct environmental impacts occur. There is an HIV/Aids taskforce in each of our African markets. Other ad hoc task groups are brought together as required to formulate responses to particular issues.

Compliance with policy and achievement of citizenship performance improvement targets are included in the personal objectives of individuals directly responsible for the underlying issues.

### Managing risk

Our aim is to manage risk to avoid or reduce occurrences that could cause loss, reputational damage or business failure, and to exploit business opportunities, enhance operational effectiveness and maximise our resilience to external events. To achieve this, we have a common process for identifying, evaluating and managing the risks we face. The audit and risk

committee, chaired by the chief executive and made up of executive managers, is responsible for overseeing the company's approach to securing effective internal control and risk management, reviewing assurance, and promoting the culture and processes that support effective compliance.

Our approach to internal control and risk management complies with UK and US governance requirements. The Diageo executive committee and significant business units are required to maintain a process to ensure key risks are identified and managed appropriately. Business unit risk assessments and the activities planned to manage identified risks are reviewed by executives regularly during the year. These processes are also applied to major business initiatives such as systems implementations, organisational change or innovation projects.

Our Licence to Operate (LTO) programme, which covers Diageo supply sites across the world, aims to reduce risk by assessing compliance with legislation and with our own policies and standards in the areas of quality, environment and occupational health and safety.

### Engaging our stakeholders

Our stakeholders are those who can significantly affect, or be affected by, our business. Our corporate relations function identifies stakeholders through risk and opportunity analysis – currently our investors, employees, commercial partners (including suppliers, customers, distributors and joint venture partners), government, community, the media and consumers – and co-ordinates the implementation of stakeholder engagement plans in each business to earn the trust of these stakeholder groups. The top 40 Diageo markets, representing the vast majority of our business,



have engagement plans that set out how we communicate to stakeholders who we are and what we stand for, how we listen to views, exchange ideas and gather early warning of stakeholder concerns to make better-informed business decisions. These plans are designed to meet the specific needs of each business within its market, and include such methods as:

- **Investors** Directors can be questioned by shareholders at the annual general meetings of Diageo and its quoted subsidiaries; presentations are given to the investment community; the website has a section for investors; and we respond to key questionnaires on our corporate citizenship submitted by, or on behalf of, investors.
- **Employees** are kept informed by a variety of means about changes that affect them; their opinions are polled through the annual values survey and other means; they are consulted through team meetings and employee forums; and they have opportunities to learn the context of decisions in management briefings as well as to challenge them.
- **Commercial partners** are encouraged to maintain close relationships which help us identify opportunities for mutual commercial benefit and maintain high standards of citizenship in the value chain.
- **Government and other policymakers** are kept informed through briefings and we request meetings on relevant policy areas. When governments seek our views as part of policy consultations we aim to respond constructively; representations on our behalf are also made through trade associations.
- **Community representatives** are consulted to ensure that social investment is targeted where it can do most good; projects are developed in partnership with NGOs and monitored by

Diageo representatives; best practice is shared with other companies, governments and NGOs through membership of network organisations; before finalising a project, pilot schemes provide community input to the design.

- **Media relations** are fostered through briefings, meetings and press releases; our chief executive and business managing directors maintain contacts with senior journalists; key employees are trained in media skills and we have a global network of media professionals. The media are regularly surveyed to assess how we meet their needs for fair reporting and analysis of our business.
- **Consumers** are the subject of market research to gain insight into their changing needs; they are kept informed through brand and corporate websites; we provide product information on packaging and through our website [www.knowyourdiageodrink.com](http://www.knowyourdiageodrink.com); and they can voice their concerns via consumer carelines.

#### Public policy

Around the world, we work with governments on issues that influence, protect or promote our business objectives or have an impact on our stakeholders. This engagement may be direct or through one of the numerous trade associations in which we participate around the world. These memberships include the Scotch Whisky Association (SWA), Gin & Vodka Association (GVA), British Beer & Pub Association (BBPA), Drinks Manufacturers of Ireland (DMI), Distilled Spirits Council of the United States (Discus), European Spirits Organisation (CEPS), Distilled Spirits Industry Council of Australia (DSICA), Association of Canadian Distillers (ACD) and many others. These associations provide us and other members with a platform to engage with governments on industry-wide issues such as barriers to free

market access, responsible drinking and fair systems and levels of taxation. Our commitment to maintain or create the conditions for our business to thrive has led to a number of public policy successes during the year, generating opportunities for the company and our industry. For example, a dispute settlement panel is currently being established by the World Trade Organisation to dismantle tax structures in India which discriminate against imported spirits and wines.

#### Diageo policies

The understanding we gain from engaging with stakeholders is a powerful directing influence in the formulation of our policies, priorities and actions and many examples of this are given in this report. Policies and codes of conduct support the Diageo values and form the framework within which we act on corporate citizenship issues. They apply to businesses in which we have a controlling share as well as to some joint ventures, and operate in addition to compliance with local law and regulation. Policies are developed and revised by reference to external codes and best business practice and after consulting both outside and within the company.

The code of business conduct acts as an overarching compliance instrument by including a requirement to comply with the company's other main policies. All Diageo managers throughout the world – around 3,000 people – are required each year to complete a compliance certificate, which signifies adherence to the code of business conduct and thus to other Diageo policies, not only by themselves but also by people reporting to them. This year, the process brought 143 potential issues to light, including possible employee conflicts

# Diageo around the world in 2007



▲ In Jamaica, Red Stripe's employee involvement body, known as Reach, has long been a significant contributor to social improvement projects in Seaview Gardens, the brewery's neighbouring community in Kingston. The latest evidence of this commitment was to build a world-class basketball court to help bring peace and unity to the area.



◀ In Uruguay's central province of Durazno, record-breaking floods in May 2007 made 12,000 people homeless. Funded by their colleagues and partnered by the distributor of our brands in the area, Diageo employees travelled from Montevideo to the province to offer support and recreational activities to 500 primary school children affected by the disaster.

◀ Nigeria has seen the most activity in support of Diageo's One Million Challenge to change the lives of people in Africa by providing them with access to clean water. Boreholes, such as the one being drilled here in Port Harcourt, bring not only health benefits but economic advantage as time previously spent collecting water can be used more profitably.



▲ Improving water resources in our communities, particularly in developing countries, has many aspects – providing clean drinking water and sanitation for needy families, improving water efficiency in production and ensuring our own sites' effluent doesn't degrade rivers or lakes. Here a Diageo technician in Ghana tests levels of organic matter in brewery wastewater.



▲ The Guinness Scholarship Awards, now in their 18th year, support secondary school pupils in Ireland as they advance to college or university and also, each year, offer assistance to one mature student returning to education. This year the award, which took the form of a laptop computer, was presented to seven local students.



◀ Run with the Institute of Road Safety, our Pit Stop Here exhibition aimed to shift attitudes in Greece towards making responsible choices about drinking and driving. The stand appeared at two events in Athens and attracted visitors with a scaled replica of a F1 racing car, leaflets on safe driving and details of a safe-driving competition.

▲ Floods in Jakarta, Indonesia this year left 50 people dead and 500,000 homeless. Normal education was badly disrupted. With £20,000 from the Diageo Foundation, colleagues were able to help 3,142 students from flooded areas get back to school and begin to rebuild their lives by providing them with books, stationery, uniforms and new school bags.

▲ Above middle: Working in partnership has helped make Diageo's Cool Drinker responsibility programme in Korea a success. Partner organisations on particular projects have included the Citizen's Coalition for Safety, Bacchus, the college students' association of responsible drinking, universities in Seoul and Kyungki and local government and health authorities in Seocho-gu.

▲ To promote safety during the Songkran celebrations held around the Thai new year, we partnered with the Care4Friends students' club, Chiangmai Province and the SAO, Federation on Alcohol Control in Thailand, on a campaign at Pratu Thaprae, Chiangmai with the messages 'Children Don't Drink' and 'If You Drink Don't Drive'.



of interest and potential issues concerning our entertaining and expenses policies. These were assessed and investigated, and where appropriate referred to the audit and risk committee for resolution.

Compliance is further supported by an independently-run phonenumber, known as the SpeakUp Helpline, a confidential service that allows employees to become 'whistleblowers' and report their concerns anonymously without fear of reprisal. Issues that colleagues are encouraged to report include knowledge or suspicion of violation of legal, accounting or regulatory requirements, breaches of our code, or any other questionable conduct.

Employees – predominantly managers – receive training in the code through workshops or internet-based programmes. For example, Project Integrity is a programme of half-day workshops on governance, business conduct and other policies and includes case studies on corruption, money laundering and 'typical' compliance dilemmas. More than 100 workshops were held across all regions during the year.

Diageo policies have been implemented in all parts of the business and are regularly reviewed to ensure that they continue to achieve their objectives. The main policies, the full texts of which are available on our website, are:

- **Marketing code** – guidance on responsible advertising, promotion and innovation for marketing practitioners
- **Code of ethics** – standards of reporting, disclosure and honest and ethical conduct of specified senior officers of Diageo
- **Human rights policy** – respect for national sovereignty, community, working environment, dignity at work, life balance, employee engagement, releasing potential and rewarding and valuing people
- **Environmental policy** – the policy defines systems of management and standards in the main areas of environmental impact
- **Supplier standards** – encompass Ethical Trading Initiative principles; form the basis for conversations on ethics and human rights with suppliers; and are a key element of sourcing decisions
- **Employee alcohol policy** – guidance for employees on alcohol issues and the expectations Diageo has for their behaviour
- **Consumer information policy** – information standards concerning our brands: macro nutrients, allergens and responsible drinking reminders

- **Occupational health and safety policy** – standards for occupational health, hazardous materials, first aid, noise, ergonomics, protective equipment, emergency evacuation, work permits, visitors and contractors, and accident reporting
- **Quality policy** – a framework for quality management systems and commitment to continuous improvement in performance.

#### External codes and charters

Diageo is a signatory to certain external codes that define corporate citizenship principles and standards of conduct:

- **Business Charter for Sustainable Development** – drawn up by the International Chamber of Commerce and supported by Diageo since 1997, the charter sets out 16 principles of environmental management which influenced the drafting of the Diageo environmental policy
- **Dublin Principles** – the principles set out the basis of ethical co-operation between the beverage alcohol industry, governments, scientific researchers and the public health community
- **UN Global Compact** – signed by Diageo in 2002, the ten principles of the UNGC provided valuable input to the formulation of our own policies. Through membership of the Global Compact UK Network of signatory companies, we contributed during the year to the development and promotion of the UNGC, including a procedure for maintaining the integrity of the Compact through peer-reviewing members' communications

on progress'. In our own communication on progress (see page 35), we have reported examples of actions and outcomes for each of the ten principles of the Compact. We support principles 1-6 by compliance with our human rights policy; our environmental policy supports principles 7-9; and our code of business conduct covers principle 10.

#### Diageo's global context

The scale, complexity and geographical reach of many of the sustainability issues covered in this report are a reminder that real progress will only be made if businesses, individuals, governments and others act in concert to address them. In an attempt to assess the size of our potential contribution, we've compared some of our direct impacts with independent estimates of global totals. Although Diageo is only one company among many, the table below shows that our activities do register on a global scale, if only (in some cases) as thousandths of a percent. Even at his level, if we achieve significant performance improvements, we are assured that they will make a measurable difference at the global level, and make at least some contribution to advancing the cause of sustainability in the world.

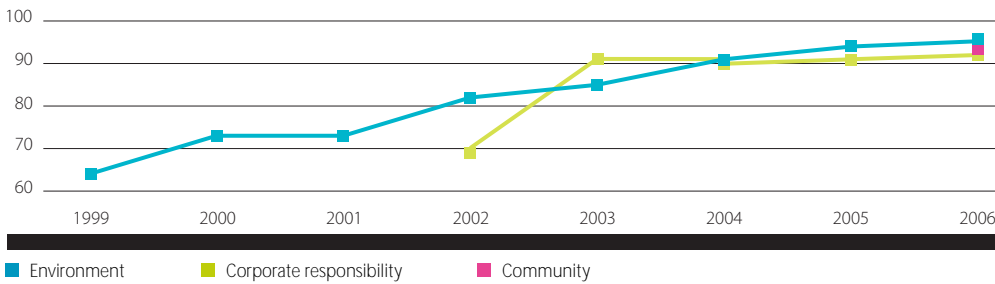
Diageo in the world		The world	Diageo	Diageo %
<b>1. Sales</b>	Sales as a proportion of world gross domestic product: £ million	26,270,000	9,917	0.038
<b>2. Tax</b>	Tax paid as a proportion of total world budget revenues: £ million	7,507,000	2,872	0.038
<b>3. Employees</b>	People employed as a proportion of world employed labour force	2,100,700,000	22,520	0.001
<b>4. Alcohol (recorded)</b>	Alcohol sold as a proportion of all recorded alcohol consumed: million litres	20,830	542	2.604
<b>5. Alcohol (all)</b>	Alcohol sold as a proportion of all alcohol consumed: million litres	29,334	542	1.849
<b>6. Energy</b>	Energy used as a proportion of world energy used from all sources: TJ	442,617,000	11,668	0.003
<b>7. Greenhouse gases</b>	Greenhouse gas emissions as a proportion of total world emissions from fossil fuel use: kt	25,576,000	773	0.003
<b>8. Water</b>	Water used as a proportion of total water withdrawn by industry: million m <sup>3</sup>	765,692	24.8	0.003

References: 1. World Factbook 2006; 2. The World Factbook 2007; 3. World Factbook 2007; 4. World Health Organisation 2005. 'Recorded' alcohol excludes alcohol that is homemade, smuggled or imported duty-free; 5. World Health Organisation 2005; 6. International Energy Agency 2006; 7. International Energy Agency 2006; 8. Food & Agriculture Organisation of the UN 2005.

# Governance, engagement and commitments

continued

**BITC indices: Diageo scores %**



**Performance measures**

To track our progress and provide stakeholders with a meaningful picture of our performance as a corporate citizen, we maintain an extensive range of indicators and additionally seek opportunities, through independent assessments, to benchmark Diageo's performance against that of comparable companies.

We consulted widely before determining the measures we use to track and report our performance. Major inputs to this process were the indicators of the Global Reporting Initiative, measures used by socially-responsible investors and others, results published by peer companies and consultations with senior Diageo people responsible for our engagement with particular stakeholder groups. A list of the resulting performance indicators, and where they are addressed in this report, is given in the form of a GRI content index, available on the website.

We routinely compare our performance as a corporate citizen with that of our peers. We have participated in a number of benchmarking projects – for example, the Global Leadership Network, a strategic corporate citizenship research and benchmarking initiative of Boston College and AccountAbility; and a beverage industry roundtable on water stewardship which aims to share best practice in water management.

Investors and others send us questionnaires which seek to evaluate our management systems and performance for the benefit of particular audiences, including many of our stakeholders. We aim to complete these and use the results, often in the form of indices or rankings, to keep our strategy in tune with best practice and stakeholder concerns. We prioritise three assessment indices – those organised by FTSE4Good, Dow Jones and Business in the Community.

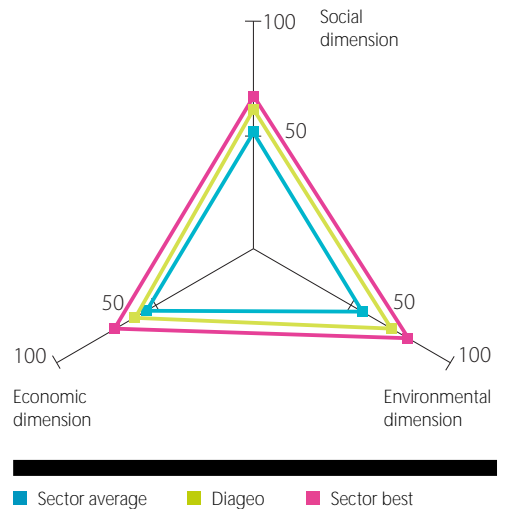


This year Diageo was again included in the FTSE4Good and Dow Jones sustainability indices, listings which help investors select companies with good records of corporate responsibility. The corporate sustainability assessment carried out in 2006 for Dow Jones rated companies in three dimensions: The graph (above right) shows Diageo scores compared with the average and best scores in our industry sector. Diageo's total score was 63%, compared with a sector average of 54% and best score of 66%. The full benchmarking report is available on the Diageo website.



The Business in the Community (BITC) corporate responsibility index ranks companies' social and environmental management and performance. BITC also publishes an environmental index which assesses how organisations integrate environmental responsibility into their business, and – from this year – a community index which compares performance with sector peers. Our progress over the life of these indices is shown in the graph (above left). In comparison with our peers, Diageo was placed in the 'Gold' performance band (the second of four) in all three indices. BITC's feedback report is available on our website.

**Dow Jones Sustainability Index 2006 %**



# UNGC communication on progress

## Principles

### Examples of practical actions and outcomes

### See page

## Human rights

Businesses should:

1. Support and respect the protection of internationally proclaimed human rights

Safety policy was implemented at offices in the demand side of the business, 70% of offices were found to be compliant and improvement plans were put in place. Every Africa-based employee has attended an HIV/Aids information session; counselling and testing from peer educators is available to all.

16-17

2. Make sure they are not complicit in human rights abuses

Diageo suppliers are encouraged to join the Sedex data exchange system, to record ethics and human rights management practices and share the results with customers of their choice. Currently, 300 suppliers are in the process of registration.

28-29

## Labour standards

Businesses should uphold:

3. The freedom of association and the effective recognition of the right to collective bargaining

At Bushmills, an agreement was reached with employees on working in partnership, open consultation, flexible ways of working and goal-sharing. In Scotland, a new development framework was implemented to help employee representatives succeed in a time of substantial growth.

18-19

4. The elimination of all forms of forced and compulsory labour

We make no use of forced or compulsory labour. Labour conditions are included in our Partnering with Suppliers standard which encompasses the nine principles of the Ethical Trading Initiative base code and is a key element in sourcing decisions. Participation in Sedex further supports this principle.

28-29

5. The effective abolition of child labour

We make no use of child labour. Labour conditions are included in our Partnering with Suppliers standard which encompasses the nine principles of the Ethical Trading Initiative base code and is a key element in sourcing decisions. Participation in Sedex further supports this principle.

28-29

6. The elimination of discrimination in respect of employment and occupation

This year we launched a new toolkit on recruitment to help candidates and hirers make the right decision. A mentoring programme for women was begun in Nigeria. The proportion of women in senior management increased from 23% to 24%.

15-16

## Environment

Businesses should:

7. Support a precautionary approach to environmental challenges

During the last two years, 98% of supply sites were subject to environmental audit to identify risk and set action plans for improvement. In Britain and the Republic of Ireland we switched to zero- or low-carbon electricity, saving 50,000t of carbon emissions. At many sites, projects were completed to reduce energy use and greenhouse gas emissions – in Ireland, strategic management of energy has saved 8,000t and in Scotland efficiency measures have saved 27,400t. In Korea, making seasonal adjustments to boiler capacity saved 32,770t and in Kenya, installing new refrigeration equipment saved 278t greenhouse gas emissions.

21-25

8. Undertake initiatives to promote greater environmental responsibility

Six supply sites had their environmental management system certified to ISO14001, bringing the total to 17. In Douala, Cameroon, following a spill of 60,000 litres of water at the packaging line, an Ecocentre was established to remind employees of the environmental impacts of their work. Environmental leadership teams were established at all large office sites to raise awareness among employees, plan actions and set targets for improvement. Opportunities to reduce or recycle waste were taken at many sites. At Amhurstberg, Ontario a new recycling centre was established. Alternative means of disposing of used filter sheets by composting were adopted at Shieldhall and Kilmarnock, Scotland, saving 240t waste a year from landfill. At Kilkenny, Ireland, new waste management measures have cut landfill by half, saving 45t. In Australia in 2005 we signed a packaging covenant with government to find ways to reduce packaging and packaging waste.

21-25

9. Encourage the development and diffusion of environmentally friendly technologies

Developments have been implemented at many sites to reduce the environmental impacts of their operations. At Dorval, Quebec changes to tank cleaning procedures resulted in a 20% energy saving and 14% less water required by the process. At Leven, Scotland, we changed the way steam is generated, reducing CO<sub>2</sub> emissions by 1,330t. At Waterford, Ireland, new production controls were installed, producing a 7% reduction in electricity consumption. At Kumasi, Ghana, a new effluent treatment plant was opened.

21-25

## Corruption

Businesses should:

10. Work against all forms of corruption, including extortion and bribery

The standards of integrity expected of Diageo employees are set out in our code of business conduct, the working of which is tested each year when all managers are required to complete a certificate of compliance. To embed the code into our ways of working, more than 100 training workshops were held across all regions during the year.

32-33

# About this report

## Report scope

This report on the global operations of Diageo plc, published in September 2007, covers the financial year ended 30 June 2007. Dates refer to financial years unless otherwise stated. Financial and employee information applies to the whole of Diageo on the same basis as in Diageo's annual report. Community data cover wholly-owned Diageo businesses as well as locally-quoted companies and joint ventures in which Diageo has a controlling share; environmental data cover production and distribution sites and large office locations (those at which more than 50 employees are based) within the same businesses and include the Gleneagles Hotel.

The report is intended for all of the company's stakeholders. Copies are to be sent to all employees, made available to shareholders and distributed more selectively to other stakeholder groups. It is available to all through the website. We have published corporate citizenship reports annually since 2003, the last being in September 2006. While we strive always to improve our coverage and methods of measurement, no fundamental changes have been made to the business or our reporting this year that would invalidate comparison with the 2006 report.

## Report content

When compiling the report, our aim was to cover all significant topics of common concern to our stakeholders. In determining these, we have been guided by the GRI principles of defining report content – materiality (including what's important), stakeholder inclusiveness (responding to the reasonable interests of all groups), sustainability context (presenting performance against a background of sustainability) and completeness (including sufficient information). With these principles in mind, areas to be included in the report were determined by designated senior 'issue owners' within Diageo, whose task was to interpret Diageo's values, policies and strategy, stakeholder views – for example, from the types of engagement described on page 31 – and broader societal expectations in terms of what topics merited inclusion and what emphasis they should be given. A small number of errors in reporting or calculation have made it necessary to restate some data from previous years. The effect of these changes was minimal. Some numbers on the cover of this report have been rounded for design purposes.

## Reporting programme

The corporate citizenship report is one element of Diageo's regular reporting. Further information,

which may help in understanding the sustainability of Diageo's business, is given in other documents including the annual report, annual review and material published on the website [www.diageo.com](http://www.diageo.com).

For a full picture of Diageo's approach to citizenship it is useful to consider the business not only from a global perspective but also at country level. In the last three years we have published – or are now preparing – reports on Diageo in Canada, East Africa, Ghana, Greece, Ireland, Jamaica, Korea, Nigeria, Seychelles, Spain and Thailand. We have also prepared a report supplement on our business in Africa. All reports are available on the website and in print, often in a choice of languages.

## Reporting standards



We aspire to best practice in reporting and aim to provide an account of Diageo which allows stakeholders to track our performance over time and make comparisons with other companies. We have prepared this report with reference to the third version of the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines, known as G3 ([www.globalreporting.org](http://www.globalreporting.org)). A GRI content index, which locates information within the report with reference to GRI requirements, is available on [www.diageo.com](http://www.diageo.com). G3 defines a number of application levels for reports. We have assessed our report as A+.

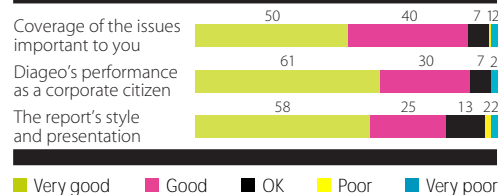
## External assurance

For a full understanding of Diageo's performance as a corporate citizen, readers need confidence in the quality of reported information, including its proper presentation. In preparing the report, we have been guided by the GRI quality principles of balance, comparability, accuracy, timeliness, clarity and reliability. We commissioned The Corporate Citizenship Company to give an external assurance opinion as to whether these principles have been followed and thus whether Diageo's performance and progress during the year have been accurately portrayed. In addition, we have asked our assurers to comment on what they consider to be the strengths and weaknesses of the document in order to improve our reports in the future. This assessment is given in summary on page 37 and in full on the website.

## We welcome your views

We welcome stakeholders' views on our approach to corporate citizenship and on our reporting. Following publication of our 2006 report we

## Stakeholders' ratings of the Diageo Corporate Citizenship Report 2006 %



received 130 responses via the website or reply card. The stakeholder groups with the highest response rates were shareholders (58%), consumers (28%) and former employees (8%). Respondants may have belonged to more than one group. In preparing the 2007 report, we have endeavoured to respond to the views expressed in the survey.

To give your comments on this report, email them to [corporatcitizenship@diageo.com](mailto:corporatcitizenship@diageo.com), use the reply card provided (which can be returned from any country without a stamp) or write to Will Peskett, Corporate Citizenship, Diageo plc, 8 Henrietta Place, London W1G 0NB, United Kingdom.

## Forward-looking statements

This document contains certain forward-looking statements within the meaning of Section 27A of the US Securities Act of 1933 and Section 21E of the US Securities Exchange Act of 1934. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. In particular, all statements that express forecasts, expectations and projections with respect to future matters, including trends in results of operations, margins, growth rates, overall market trends, the impact of interest or exchange rates, the availability of financing to Diageo, anticipated cost savings or synergies and the completion of Diageo's strategic transactions, are forward-looking statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including factors that are outside Diageo's control.

All oral and written forward-looking statements made on or after the date of this document and attributable to Diageo are expressly qualified in their entirety by the 'risk factors' contained in Diageo's annual report on Form 20-F for the year ended 30 June 2007 filed with the US Securities and Exchange Commission (SEC). Any forward-looking statements made by or on behalf of Diageo speak only as of the date they are made. Diageo does not undertake to update forward-looking statements to reflect any changes in Diageo's expectations or any changes in events, conditions or circumstances on which any such statement is based. The reader should, however, consult any additional disclosures that Diageo may make in documents it files with the SEC. All readers, wherever based, should take note of these disclosures.



# External assurance statement

## Summary assurance and commentary

Diageo has commissioned The Corporate Citizenship Company to provide it with external assurance and commentary on its Corporate Citizenship Report 2007. Diageo's management has prepared the report and is responsible for its contents. Our objectives were to review its contents and presentation, to conduct selected checks to underlying records and other evidence, and to provide this statement for which we have sole responsibility. A full version of our assurance statement is available at [www.diageo.com](http://www.diageo.com), including information about The Corporate Citizenship Company, our relationship with Diageo and the assurance process we have adopted. This statement summarises our principal findings.

## Our opinion

In our opinion, the report provides a fair and balanced representation of the material aspects of Diageo performance for 2007. We have examined the processes Diageo has in place for identifying, understanding and managing corporate citizenship issues. Where we believe material gaps in performance data and stakeholder views on significant issues exist, they are identified below.

In forming our opinion and making our comments, we have based our work on the international assurance standard AA1000 ([www.accountability21.net](http://www.accountability21.net)), notably considering materiality, completeness and responsiveness. We have also had regard to the reporting guidance for content and the principles for defining quality contained in GRI's G3 sustainability reporting guidelines ([www.globalreporting.org](http://www.globalreporting.org)).

## Commentary

This report provides readers with a clear understanding of Diageo's activities and impacts worldwide, reflecting key issues as identified by Diageo and its stakeholders. The introduction highlights both the benefits to Diageo and to society of action on these key issues. Targets are referenced throughout although we believe consolidation of these would help readers' understanding of Diageo's progress and plans.

Diageo has implemented a consistent approach to management across its businesses globally. High levels of employee engagement and empowerment are reported. As systems are embedded and strengthened, Diageo is further

improving performance by sharing information, data and best practice across the organisation. The roll-out of initiatives such as the Safety Culture Maturity Model and high levels of investment in occupational health and safety reflect Diageo's commitment to employee welfare and embedding responsible corporate behaviour.

The inclusion of the environmental life cycle impact analysis of its Johnnie Walker brand is a significant step forward in Diageo's understanding of its environmental impacts. It reflects the rigour Diageo is applying to environmental management. It is also in keeping with the emerging trend to drive corporate citizenship into brands, which is how most consumers relate to multi-brand corporations like Diageo.

## Looking ahead

This report represents a further advance in Diageo's approach to corporate citizenship and reporting though future reports would be strengthened if they addressed more fully those risks, beyond climate change, identified by the company as significant – for example those connected with business expansion in emerging economies where sufficient resource will need to be invested to ensure adherence to Diageo's global standards.

The 'Diageo in the world' chart provides useful context to the information presented and we believe that future reports would be enhanced by providing more information that is material to understanding Diageo's operations, notably how the alcohol industry as a whole functions and Diageo's role in it. We continue to recommend the inclusion of content on both the culture and demographics of consumption around the world because such information is relevant to Diageo's reporting of its responsible drinking efforts. Information about Diageo's principal shareholders and how they influence its policy and decision making would also be welcomed.

Diageo's work with the Suppliers Ethical Data Exchange (Sedex) and other initiatives has helped to make some progress on its commitment to encourage responsibility in its supply chain. Last year we said that reporting should include information on the procurement of raw materials, in particular regarding Diageo's relations with small farms that feed into the supply chain. There remains

scope to report more fully on impacts in these areas. There is more work needed to assess a greater proportion of Diageo's supplier base through Sedex and to move Diageo's Licence to Operate for Third Parties beyond pilot phase.

Despite Diageo's high levels of employee engagement and its stated commitment to promoting a diverse workplace, we believe that Diageo's reporting of employee profiles, demographics and related concerns should be strengthened to include further diversity issues. For an international company like Diageo there are complexities to this. Nonetheless, we believe that more information about how it manages and promotes diversity and the inclusion of targets would better meet the expectations of a number of key stakeholders and initiatives.



## LBG assurance statement

Diageo is an active member of the LBG (London Benchmarking Group). 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 ([www.lbg-online.net](http://www.lbg-online.net)). As managers of the Group, 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 to 30 June 2007. Having conducted an assessment, we are satisfied that this has been achieved. Our work has not extended to an independent audit of the data.

## The Corporate Citizenship Company

[www.corporate-citizenship.com](http://www.corporate-citizenship.com)  
29 August 2007



Printed on Forest Stewardship Council-certified, elemental chlorine-free paper. Fully recyclable.

Designed and produced by  
35 Communications. Printed by CTD.

88%

Employees took part in our  
global values survey

92%

Diageo score in BITC  
Corporate Responsibility Index

12,000

In Venezuela, the Guardian Angels projects has  
reached 12,000 consumers

0.003%

Diageo's share of global greenhouse gas emissions

**Diageo plc**

8 Henrietta Place

London W1G 0NB

United Kingdom

Tel +44 (0) 20 7927 5200

Fax +44 (0) 20 7927 4600

[www.diageo.com](http://www.diageo.com)

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Zero waste landfilled by  
our Dublin brewery

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526,800

People in Africa provided with clean water