



# DIAGEO

**Celebrating life, every day, everywhere**  
Corporate Citizenship Report 2006

## Corporate citizenship timeline, using financial years

### 1998

- Diageo created
- Values established as integral part of governing objective
- Code of business conduct adopted
- Marketing code developed
- Diageo Foundation established
- 1% of operating profit committed annually to community investment

### 1999

- Environmental policy in place
- Community investment focus areas defined
- Global citizenship guidelines published
- First economic, social and environmental report published – on Diageo in Poland

### 2000

- Community bartender programme launched
- First global environmental report published

### 2001

- Corporate citizenship committee formed
- Compliance programme established
- 150 community activities reported on website
- Water of Life helps half a million people gain access to clean drinking water

### 2002

- Seagram brands acquired
- Pillsbury sold
- Human rights policy adopted
- Standards set out for supply chain partners
- Spirit of Americas Fund established

### 2003

- Burger King sold
- UN Global Compact signed
- Earthwatch champions programme begun
- Environmental management system drawn up
- First global corporate citizenship report published

### 2004

- Anti drink-driving campaigns in 35 markets
- Tomorrow's People Trust 20-year evaluation
- Global employee alcohol policy implemented
- US airlift to flood victims in Dominican Republic and Haiti
- Diageo Africa Business Reporting Awards launched

### 2005

- Responsible drinking programmes in progress in 40 markets
- Consumer information policy formulated
- Occupational health and safety policy implemented globally
- Long-term energy strategy developed
- Aid and recovery projects follow hurricanes and tsunami

## Contents

Value versus values?

● **1 Background**

Get to know Diageo

Our priorities

● **2 Society**

Promoting responsible drinking

Understanding consumers

Investing in our communities

Releasing the potential of our people

● **3 Environment**

Conserving our environment

● **4 Economy**

Investment and creating value

● **5 Governance**

Policy and management

UNGC communication on progress

Reporting and assurance

External assurance statement

1

2

5

6

12

13

17

22

26

31

35

36

37

## Highlights

• Judged one of the world's 100 most sustainable corporations

• Groundbreaking motor-racing sponsorship centred on responsible drinking

• Responsible drinking initiatives run in 40 markets

• Improving trend in employee values survey results

• New community investment in all focus areas

• Historic thalidomide agreement achieved

• Consumer information website launched in 93 countries

• Four out of five environmental indicators show improvement

• Rated top of European alcohol beverage sector for wealth creation efficiency by UK department of trade and industry

# VALUE VERSUS VALUES?

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At Diageo, we don't measure success solely in terms of financial return. We take a holistic view of our company's performance, including our progress against social and environmental policy commitments. We don't believe we have to choose between financial success and being a good corporate citizen. Creating value and living our values are both essential requirements for the continuing prosperity of Diageo and its development as a truly sustainable business.

Our focus on quality, innovation, seeking out the best talent, driving down costs and beating the competition is behind our achievement of financial success. Equally, we take steps to address the pressing social, environmental and economic issues we face in the communities in which we trade.

Our approach has attracted much independent recognition this year. Diageo earned seventh place among the world's most admired UK companies, as published by *Fortune* magazine, and was rated fourth of the world's most admired UK innovators. For the second year, we were included as one of the world's 100 most sustainable corporations – those judged to have the best-developed ability to manage the environmental, social and governance risks and opportunities they face. And in a survey published in *Management Today*, Diageo headed the list of Britain's most admired consumer products companies and was ranked seventh overall. We were also judged to be at the top of the quality of goods and services category.

A key factor in our continued commercial success is the strength of our brands. In a recent study of 10,000 spirits and wine brands, Smirnoff, Johnnie Walker and Baileys were judged among the ten most powerful in the world for their ability to generate value. The study, conducted by *Intangible Business*, named Diageo as the world's number one brand owner overall.

Financial results are readily quantified and ours can be examined in our published accounts. Measuring progress in social responsibility is a less developed science, but one in which we have made advances. This year we have updated our table of priorities, refined our range of performance indicators and further developed our methods of data collection. As a result, we hope this report will provide all our stakeholders with a clear and complete picture of Diageo's performance as a corporate citizen. As in previous years, we have prepared the report in accordance with the 2002 Guidelines of the Global Reporting Initiative and believe it represents a balanced and reasonable presentation of Diageo's social, environmental and economic performance.

We were the first alcohol beverage company to sign the UN Global Compact and have a continuing commitment to the compact's ten principles. In our UNGC communication on progress on page 35, we give examples of actions we have taken to support that commitment. This year we contributed to the establishment of a new Foundation for the Global Compact to help further its aims.

This report contains many examples of how we bring our values to life – for example, through our employees volunteering time in their communities, and through choosing to do the right thing in our work even when it means going beyond what is required by legislation. A clear message to emerge from these examples is just how far we have come since we began reporting our progress in corporate citizenship four years ago. Our major policies are now embedded in the way we do business day to day. For example, responsible marketing practice is integral to promoting our brands; human rights standards are a regular part of our procurement process; and diversity is an essential theme of employee policy. In summary, our values are brought to bear throughout our value-creating processes.

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



**Paul S Walsh**  
Chief executive



**Lord Blyth of Rowington**  
Chairman



# Section 1: Background

# GET TO KNOW DIAGEO

## Global priority brands



### Priority brand volumes millions of equivalent units

	2006	2005
Smirnoff	26.9	25.2
Johnnie Walker	13.7	12.4
Guinness	11.1	11.2
Captain Morgan	7.2	6.6
Baileys	7.0	6.7
J&B	5.9	5.9
José Cuervo	5.1	4.6
Tanqueray	2.0	1.9

An equivalent unit is that beverage volume which contains the same number of servings as a nine-litre case of spirits.

### Sales £million



### Operating costs £million



### Operating profit £million



### Volume millions of equivalent units



### Total assets £million



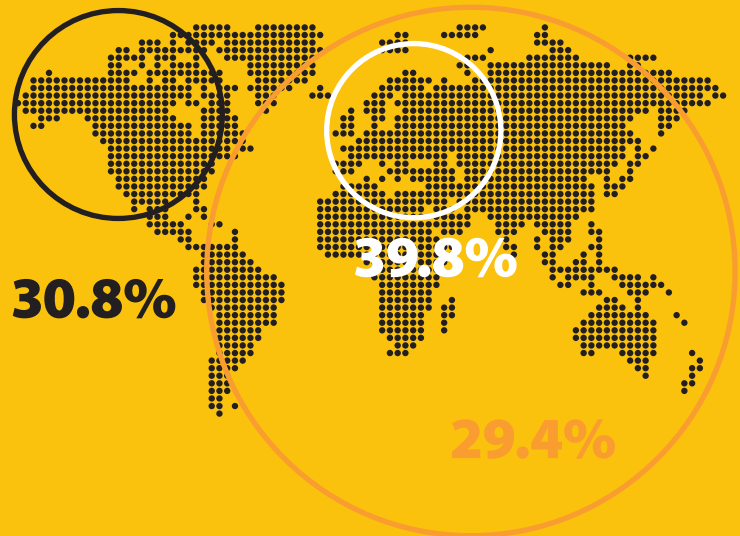
### Capitalisation £million



### Employees



## Sales by region



### Sales %

	2006	2005
● Europe	39.8	43.3
● North America	30.8	29.5
● International	29.4	27.2

### Europe

Sales*	£3,834m
Employees	10,694
Volume (equivalent units)	41.4m
Top three brands (volume)	Smirnoff, Guinness, J&B

### North America

Sales*	£2,968m
Employees	3,751
Volume (equivalent units)	48.8m
Top three brands (volume)	Smirnoff, Captain Morgan, Crown Royal

### International

Sales*	£2,826m
Employees	8,174
Volume (equivalent units)	43.6m
Top three brands (volume)	Johnnie Walker, Smirnoff, Guinness

\*Excludes corporate sales of £76 million.

# Adults choose to **celebrate life, every day, everywhere,** with our outstanding collection of spirits, wine and beer brands.

Diageo is the world's leading premium drinks business and was formed nine years ago through the merger of Grand Metropolitan and Guinness. Four years later, we acquired additional spirits and wine businesses from Seagram and, more recently, added other brands – through acquisition and innovation – resulting in an outstanding collection with a rich heritage. For example, Bushmills Irish whiskey, acquired during the year, is produced in the world's oldest licensed distillery, dating back to 1608; Justerini & Brooks, the creator of J&B Scotch whisky, was founded in 1749; and Arthur Guinness began brewing in 1759. Johnnie Walker Scotch whisky, Tanqueray gin and Smirnoff vodka were all first enjoyed in the 19th century.

Today, the basis of Diageo's business is the production, marketing and distribution of these and many other widely-recognised brands. Each has its own appeal for consumers, yet all have important characteristics in common: quality ingredients, skill and care in manufacture and Diageo's reputation as a successful and responsible business.

Diageo's operations, which extend to some 180 markets, are organised into three regions: North America, which in 2006 generated approximately 38% of operating profit, Europe (33%) and International (29%). Within each region are supply functions (manufacturing, packaging and warehousing) as well as marketing and sales. About 80% of our brands are produced by Diageo businesses, some of which are locally quoted companies. These operate 35 distilleries, 15 breweries and 10 wineries supported by 20 blending and packaging plants and 20 warehousing and ancillary sites. The remaining 20% of our brands are produced either by joint ventures 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 left, which accounted for around 59% of total volume in 2006. In addition to these brands is a range of over 150 more, many of them local market leading brands in their categories. More information about Diageo brands, and links to some dedicated brand websites, are available at [www.diageo.com](http://www.diageo.com).

This year we sold a total of 134 million 'equivalent units' of product. Expressing this in more familiar terms, each day around the world consumers enjoyed 76 million measures of Diageo spirits, over 16 million glasses of beer, six million bottles of our ready-to-drink brands and two million glasses of wine.

Measured by market capitalisation, Diageo is ranked by the *Financial Times* among the 200 largest companies in the world. The company's primary share listings are on the London and New York stock exchanges.

## The alcohol beverage industry

Most recorded alcohol beverages consumed in the world fall into the broad categories of spirits, wine and beer. These 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 been 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 the last 20 years alcohol consumption has seen small declines 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 Eastern Mediterranean region.

Diageo is the world's leading premium drinks business. Six of the top ten premium spirits brands are managed by us (according to *Impact*) and we are the market leader in many countries. Yet, in total our brands account for no more than around 2% of the world's recorded alcohol consumption by volume. 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.

Our values, as communicated to our employees, capture our aspirational goals.

### 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 behave 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.

### Our vision for sustainability

It makes good commercial sense to contribute to the sustainable development of the communities in which we operate. If sustainability issues are not addressed, sooner or later they will impact our business. For example, without enterprise and opportunity, consumers will not be 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 at risk; and if alcohol beverages are consumed irresponsibly, calls for restriction on their availability are likely to be heard.

In this report we describe the actions we have taken to support the success of our business within sustainable communities. Such success generates benefits and creates value for investors, employees, commercial partners and others with a stake in our business. It can be achieved sustainably only if these communities are themselves economically sound, if their social problems are addressed and if their environmental resources are conserved.

# Section 1: Background – Get to know Diageo



## WORLD VISION

OUR POLICIES APPLY EQUALLY TO DIAGEO BUSINESSES THROUGHOUT THE WORLD.



## OUR PEOPLE

DIAGEO ARCHIVE TRACKS DOWN LOST GRANDFATHER – CHRISTINE JONES WITH WALTER COTTAM'S 1930S OBITUARY.

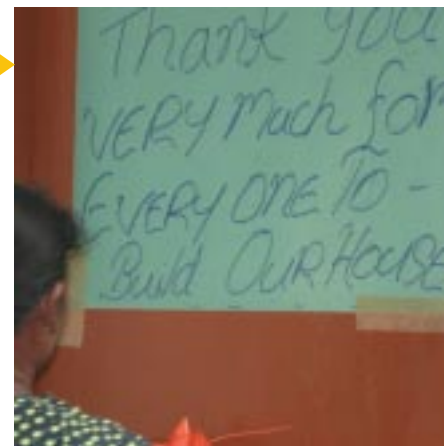


## WORKING WITH OTHERS

WANG BEI YING, A SENIOR OFFICIAL OF THE CHINESE MINISTRY OF COMMERCE, SPEAKING AT THE FIRST SEMINAR OF THE ALCOHOL & SOCIETY FORUM.

## TAKING ACTION

OUR EMPLOYEES WANTED TO MAKE A PRACTICAL DIFFERENCE FOR SRI LANKAN VILLAGERS WHO LOST THEIR HOMES TO THE TSUNAMI.



We cannot achieve these outcomes alone, but as a good corporate citizen we can make a contribution by living our values and working in our markets in compliance with our comprehensive range of codes and policies. We aim, as a minimum, to address the impacts that our activities and products have on society and the environment. In some situations – for example, in response to disasters – we take further action to try and make a real improvement to people's lives. In considering issues broadly, not just according to financial considerations, we support Diageo's strategic focus on our people, our brands and our holistic performance.

### The scope of this report

This report on Diageo plc, published in September 2006, covers the year ended 30 June 2006. Dates refer to financial years unless otherwise stated. Financial and employee information applies to the whole of Diageo on the same consolidated 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 manufacturing sites and large office locations (those at which more than 50 employees are based) within the same businesses and include the Gleneagles Hotel. Bushmills, acquired during the year, is excluded from the environmental and safety measures in this report.

### Diageo archive tracks down lost grandfather

Diageo is a young company, but steeped in history. Jeffrey Cottam, from Ontario, Canada, is keenly interested in his own genealogy. All he knew of his grandfather, Walter Cottam, was that he worked as a bookkeeper in a Liverpool distillery and died in 1932. Visiting Walter's house in Birkenhead, Jeffrey came across letters on Distillers Corporation paper. After a year of fruitless research, he contacted the Scotch Whisky Association who recognised the company as a precursor business of Diageo and passed the request on to us. At our archive, Christine Jones found an article in a 1930s staff magazine marking the death of Walter Cottam, the company secretary, after 23 years' service. Within 24 hours Christine had emailed Walter's photo to his grateful grandson in Canada who replied: 'That you keep an archive is worthy of praise. That this magazine remains intact speaks volumes about the stewardship of Diageo's records for the last 75 years. That you were willing to search for trivial information that is extremely important to me is priceless.'

# OUR PRIORITIES

We focus our efforts on areas of material concern to stakeholders, which present significant business risks, which support Diageo's values, policies or strategy and where we can use our resources to make the most positive difference. The result is a primary emphasis on the following important sustainability issues:

- **Social** – alcohol misuse, product quality, consumer information, community investment, employment
- **Environmental** – energy and climate change, water management, sustainable packaging
- **Economic** – returns for investors, the supply chain.

This year we carried out a review of our priorities for action in these areas. Actions included in previous reports that have been completed or incorporated into routine ways of working have been taken off the list while new areas of focus have been added.

Priorities for action	Progress report	Action for coming years
<b>Social</b>		
In all businesses, deliver an alcohol responsibility initiative and evaluate its effectiveness	Responsible drinking projects underway or completed in 40 significant markets.	Continue to implement programmes and evaluate impacts of selected projects to identify most effective activities.
Engage employees in living our responsible drinking policy	Globally consistent materials developed and key initiatives in Australia, Scotland and USA.	Set local action plans to enhance employees' understanding of our policy. Apply a consistent approach to implementing policy at all stages of the employment life-cycle.
Participate in constructive industry consultations with WHO on the harmful use of alcohol	Contributed to global industry consultation in Geneva.	Continue dialogue with WHO centrally and regionally in advance of the World Health Assembly in 2007.
Implement our consumer information policy	First year of five-year labelling plan implemented, with 10% coverage achieved. Information website launched in 93 countries.	Apply policy to all Diageo alcohol beverage brands by 2010 where permissible under local regulation.
Invest 1% of operating profit in social and community programmes	Invested £20.2 million, or 1.0% of operating profit.	Continuing commitment.
Focus new community investment on developing countries and response to disasters, engaging employees with initiatives	Diageo Foundation strategy reviewed and disaster relief policy drawn up; Local Communities programme established in Northern Europe.	Launch a new community water programme for Africa and extend our community bartender programme in Latin America and Asia, providing opportunities for employee involvement.
Implement our diversity action plan	Encouraging inclusive behaviour integrated into our P4G global performance review process.	Embed diversity principles into people processes including new leadership and line management development programmes.
Embed health, safety and quality standards in all parts of the business	Achieved through the implementation of our Licence to Operate (LTO) programme at all sites in scope except Bushmills, acquired this year.	Implement at Bushmills and work with commercial partners to extend the LTO programme to assure their operations.
Develop ways of measuring and reporting quality	Reviewed existing quality performance indicators.	Pilot-test revised set of quality performance indicators.
<b>Environmental</b>		
Embed our environmental programme in all parts of the business	Environmental management systems are in place and being implemented at established production sites.	Implement standards at newly-acquired sites. Establish environmental principles for the selection, renovation and operation of office sites.
Implement our long-term energy strategy	Defined approaches to reduction, regulation, renewables and carbon awareness.	Appoint an energy manager to drive the strategy within the business.
Champion the adoption of sustainable packaging	Guidance prepared for marketers on recyclability and minimisation. Made submission to government of Western Australia in support of drink container deposits.	Co-ordinate and monitor the effectiveness of the sustainable packaging guidelines.
<b>Economic</b>		
Promote our standards throughout the supply chain	Following pilot, compliance monitoring scheme established for high risk suppliers.	Audit and engage with non-compliant suppliers to raise standards.
Assess and consider the social, environmental and economic impacts of major procurement decisions	Included in the internal audit process for procurement activities.	Include as a formal selection criterion in contract approval processes.
<b>Governance</b>		
Benchmark industry leadership in corporate citizenship	As a member of the Global Leadership Network, contributed to a method of assessing the management of strategic corporate citizenship.	Apply the methodology and seek to enhance our citizenship by learning from others.
Embed stakeholder engagement plans in all markets	Put plans in place in Diageo's top 40 markets.	Develop a system to track effectiveness of engagement plans.
Publish further country-level corporate citizenship reports	Reports on Diageo in Canada and Seychelles and an Africa supplement bring the total to 12 in four years.	Reports on East Africa, Ireland, Nigeria and Thailand are in preparation.

# PROMOTING RESPONSIBLE DRINKING



### GUARDIAN ANGELS

IN VENEZUELA, DESIGNATED DRIVERS WERE REWARDED WITH A PHOTO OPPORTUNITY WITH A DIAGEO GUARDIAN ANGEL.



### GRAND PRIX CAMPAIGN

TEAM MCLAREN MERCEDES DRIVER JUAN PABLO MONTOYA LAUNCHES THE JOHNNIE WALKER RESPONSIBLE DRINKING CAMPAIGN AT THE MONACO GRAND PRIX.

### BEING IN CONTROL

OUR UK TV CAMPAIGN SHOWED THE NEGATIVE IMPACT OF IRRESPONSIBLE DRINKING AND THE BENEFIT OF BEING IN CONTROL.



### RAISING AWARENESS

THE BUNDABERG RUM BEAR LAUNCHES THE FINE FORM AWARDS FOR RESPONSIBLE DRINKING IN AUSTRALIA.



In many parts of the world and for many centuries, alcohol has been an important ingredient in occasions of enjoyment and celebration. The responsible drinking of spirits, wine and beer brings pleasure to many adults and the alcohol beverage industry creates benefits for society, including tax revenues, employment and business opportunity. We are proud of the role that Diageo brands have in the lives of so many people. We also acknowledge that, as with other products that can be abused, there are health and social problems associated with excessive or inappropriate patterns of alcohol consumption which can seriously impact individuals, families and society.

We believe that, working with others, the alcohol beverage industry has a part to play in reducing this harm. Our contribution is to invest in focused initiatives and awareness-raising campaigns, either as sponsor or working partner, which aim to bring about positive change.

There are two strands to our strategy:

- set world-class standards for responsible marketing and product innovation
- promote a shared understanding of what it means to drink responsibly in order to reduce alcohol-related harm.

### Responsible marketing and innovation

We use advertising and other marketing techniques to enhance consumer choice and compete for market share. Our aim is to beat the competition by attracting adult consumers to our products rather than others and encouraging them to trade up within our collection of premium brands. The Diageo marketing code, which we first developed in 1998, mandates strict standards for our marketing colleagues and external agencies and covers all aspects of marketing and promotion. It also governs market research as well as development work when we bring new brands to market. A systematic review process checks that the code is followed at the key stages of a campaign. The code and its review processes are regularly examined and updated as new issues emerge. The code was last updated in 2002.

We put our marketing and innovation teams and agencies through regular refresher courses on the application of the code. Training also forms part of the induction programme for new employees. In North America over 200 employees completed our marketing code e-course this year and 350 attended live seminars, while 180 employees were trained in Korea, China, Thailand and India. We ran workshops for our innovation teams in North America, Africa and the UK to provide enhanced guidance on the workings of the code.



# We use our **consumer understanding and marketing skills**, developed and proven in promoting our brands, to champion responsible drinking.

When potential breaches of the code are identified, we investigate them and seek to ensure that similar issues do not recur. This summer we withdrew a billboard poster in France to clarify a potential misunderstanding of the ad that had been brought to our attention. We achieved a satisfactory outcome by amending the advertisement and reposting it on billboards within a week.

Our marketing code applies in addition to local codes or regulations. For example, the Common Standards for Commercial Communications, a voluntary charter for members of the European Forum for Responsible Drinking, came into effect this year. The charter, which Diageo was instrumental in compiling with other industry members, is designed to reinforce standards of responsible spirits marketing – for example, signatories commit not to advertise in European media if more than 30% of the targeted audience is below 18.

Within the industry, we encourage self-regulating organisations to collect and publish information about public complaints. In the UK, the Advertising Standards Authority (ASA) provides a means for the public to register complaints about marketing campaigns. The ASA works to keep advertisements legal, decent, honest and truthful and can review and resolve complaints. Only one complaint about Diageo advertising has been upheld in the last four years, as described in our 2005 report.

The UK alcohol beverage industry-funded Portman Group considers complaints about any drinks brand thought to contravene its code of practice, which is similar in scope to the Diageo marketing code. No complaints against Diageo brands have been upheld by the Portman Group in the last four years.

	2006	2005	2004	2003
<b>UK complaints upheld</b>				
<i>By ASA, non-broadcast</i>				
All industries	<b>1,554</b>	1,705	1,855	2,536
Alcohol beverage industry	<b>8</b>	8	5	6
Diageo	-	1	-	-
<i>By Portman Group</i>				
Alcohol beverage producers	<b>6</b>	10	9	7
Diageo	-	-	-	-

In the USA, the Distilled Spirits Council (Discus) publishes six-monthly reports of complaints received by its code review board, including the board's recommendations and the advertisers' responses. In July 2005, a Diageo advertisement in Syracuse, New York was found to be in violation of a provision of the Discus code covering responsible placement. On receipt of the complaint, we contacted the company that had posted the billboard advertisement on our behalf and learned that it had been placed within 500 feet of a church – in breach of our agreement with the placement company. The company was fully aware of the provisions of the code and accepted responsibility for the error.

The advertisement was quickly removed and a review of all billboards in the area conducted. In 2005, also in the USA, the Beer Institute and the Wine Institute adopted independent reviews of advertising complaints. No complaints to these two bodies have concerned Diageo brands.

## **Promoting a shared understanding of responsible drinking**

While the vast majority of those who choose to consume alcohol do so responsibly, we believe that producers, retailers and the wider hospitality industry, along with others, have a role to play in fostering a sensible attitude towards drinking. As well as promoting our brands, we use our marketing expertise to research trends and present key audiences with information and reminders about responsible drinking.

For example, Bundaberg Rum, our iconic Australian brand, launched a new responsible drinking TV ad during the year. The result of extensive consumer research, the ad aimed to raise awareness among consumers about responsible drinking behaviour. The commercial connected to a website [www.bundyfineform.com.au](http://www.bundyfineform.com.au) which used humour to deliver serious reminders about responsible drinking and allowed consumers to vote for characters who best demonstrated 'fine form'. A follow-up ad announced the winner. The interactive nature of the campaign helped attract consumers to the website and draw attention to its important messages.

Consumer research in the UK among those from the legal purchase age for alcohol up to 24 showed the importance of 'social currency' – playing a positive role in a group of friends. Capitalising on this, we ran a TV campaign to show that alcohol is best enjoyed in moderation and that people who drink too much jeopardise their social currency. The £1.5 million campaign was aired regionally for two months and reached an estimated eight million viewers. It showed the negative impact that irresponsible drinking can have on young adults and the way others perceive them. Importantly, the ads also 'flipped the coin' and showed viewers the positive impact of being in control and at their social best. In audience research, 75% of consumers said the commercials were the kind that made them think and 57% said they would reconsider how they drank as a result of viewing the campaign.

Last year we announced the Johnnie Walker sponsorship of Team McLaren Mercedes Formula One, which we have used as a platform to promote responsible drinking to a key audience. We have taken advantage of Grand Prix meetings to introduce innovative presentations of responsibility – a feature that is fundamental to the sponsorship. At the Monaco event this year, the anti drink-driving campaign received wide press coverage when driver Juan Pablo Montoya launched the Johnnie Walker 'Pit Stop' programme by steering a train into Monaco. Throughout the Grand Prix weekend, bottles of water printed with responsible drinking tips and lanyards bearing campaign messages were given to over 10,000 race-goers and Johnnie Walker responsibility banners were displayed across the Principality.

## Section 2: Society – Promoting responsible drinking

At the Brazilian Grand Prix we launched *Piloto da vez* (Driver of the day), an initiative that encouraged groups of race-goers to designate someone to refrain from drinking alcohol and so be able to drive them home safely. A competition offered motorsport fans the chance to win Juan Pablo Montoya as their 'Piloto da vez' to drive them home after the event, adding celebrity endorsement to our responsibility message. An analysis of the campaign, based on the London Benchmarking Group (LBG) model, is given below.

Diageo employees and distributors in the USA demonstrated their community commitment during a series of more than 1,000 town-hall meetings sponsored by the federal government's Interagency Co-ordinating Committee on the Prevention of Underage Drinking. The meetings were part of a national effort to increase understanding of the behaviour and its consequences and to encourage individuals, families and communities to address the problem. As parents or adults concerned about young people, our colleagues expressed Diageo's dedication to preventing underage drinking. They shared with their communities the actions we have taken to make good on that commitment.

As Diageo ambassadors, it is important that our employees are convinced of the value of our efforts. In this year's global values survey (see pages 20-21), 89% of responding employees said they thought that Diageo was effective in promoting responsible drinking, up 6% since 2005. It is important also that our colleagues themselves have a responsible attitude to drinking both in and out of the workplace. Our employee alcohol policy sets the standards of behaviour we expect. Programmes to emphasise the importance of high standards to our business are established in many markets. For example, in Thailand all members of staff sign their agreement to the policy when they join the company and personal responsibility is constantly reinforced through induction training, on posters in the office and at monthly employee meetings.

In Australia, employees devised the drinQ programme which, in a four-hour session, raises new joiners' awareness about alcohol and provides

information to help them make responsible decisions about drinking. The programme has now gone external and drinQ sessions have been held for our marketing and public relations agencies. drinQ has been endorsed by the Australian Medical Association in New South Wales, and meetings have been attended by other stakeholders including the NSW Department of Health. A change in drinking attitudes demonstrates the success of drinQ within Diageo Australia. In a survey, 50% of employees polled acknowledged that the programme had impacted their attitudes towards drinking.

### Working with others to combat alcohol misuse

We work to combat alcohol misuse and reduce alcohol-related harm in four crucial areas: drink-driving, server training, the behaviour of young adults and underage drinking. In 2004 we established the Responsible Drinking Fund, with a budget this year of £840,000 (included in the analysis of community investment on page 16), to provide seed-corn funding and expertise to establish initiatives in these areas. Programmes are usually further funded and managed by our businesses in partnership with external bodies such as government agencies and special interest groups. Our commitment to these initiatives helps to build relationships with consumers, government and other stakeholders and the moderate behaviour it promotes contributes to the sustainability of our business.

**Campaigns against drink-driving** We believe governments should set legal limits for drivers' blood alcohol concentration, take tough measures to enforce them and impose strict penalties on those convicted of drink-driving. We support such actions through campaigns to raise awareness of the risks of drinking and driving and encourage alternative behaviours to help reduce the number of drink-drivers on the road. Our projects are often managed in partnership with organisations such as the police and road safety institutes.

Confirming our commitment to undertake practical action on road safety, Diageo has signed the European Road Safety Charter, the aim of which is to halve road deaths in Europe. We are also a sponsor of the



### Analysis of the Brazilian *Piloto da vez* campaign using the LBG model

Motivation	Inputs		Outputs	
	Funding	Leverage	Community benefits	Business benefits
<b>Social investment</b>	£200,000 from Diageo Responsible Drinking Fund	96% of the coverage in print, broadcast and internet carried responsible drinking message. Sites for 400 posters donated by São Paulo traffic authority.	Widespread awareness of road safety and responsible drinking.	Built trust with government and road safety agencies. Employee engagement and pride.
<b>Commercially-led initiatives</b>	£950,000 from Johnnie Walker	87.9 million consumer impressions of the brand. Safe driving courses from Mercedes Benz. Celebrity endorsement of responsible drinking.	Enhanced safe driving skills. Designating a driver of the day presented as attractive alternative behaviour.	Brand trust with consumers. Developed relationship with sponsorship partner. Positive benefits of motor-racing sponsorship made clear.

In this year's survey, **89% of employees agreed that Diageo is effective** in promoting responsible drinking.



### BARSTAFF TRAINING

IN GREECE OUR BARCODE PROGRAMME HELPS BAR OWNERS TRAIN THEIR STAFF IN RESPONSIBLE SERVING PRACTICES.

### STANDARD DRINKS

DIAGEO'S SYMBOLS HAVE BEEN ADOPTED BY THE BEVERAGE INDUSTRY IN AUSTRALIA AND ENDORSED BY THE GOVERNMENT.



### COOL DRINKER

OUR COOL DRINKER CAMPAIGN ADDRESSED PUBLIC CONCERN ABOUT DRINKING IN KOREA.



### 30 STOREYS HIGH

THE BIGGEST EVER JOHNNIE WALKER IMAGE SUPPORTED OUR ANTI-DRINK-DRIVING CAMPAIGN IN THAILAND.

European Transport Safety Council, an independent NGO which plays a key role in shaping EU road safety policy and acts as an impartial source of expert advice on transport safety to the European Commission, the European Parliament and member states.

The message of a Diageo campaign with wide coverage in Venezuela was 'Don't leave responsibility to your guardian angel'. Supported by billboard advertising and point-of-sale material during the Christmas and Easter holidays, the campaign took drink-drive reminders directly to consumers in bars, discos and restaurants. Top venues were visited by a team of Diageo guardian angels who persuaded groups of friends to designate a 'driver of the night'. Those selected were photographed with the guardian angel of their choice.

Also aiming at the festive periods of Christmas and Easter, in Nigeria we aired a national radio campaign against drink-driving. This was the first time an alcohol beverage company in Nigeria had carried out such a campaign.

During the Christmas season in Spain we ran a campaign with public transport operators and on-trade associations on the theme, 'Use your head and enjoy'. The J&B-themed advertising, events and promotions were taken to consumers in busy nightspots. In Italy the campaign became

'Mi chiamo Guido e stasera non bevo' (My name is Guido and tonight I'm not drinking). The objective was to encourage young adults to designate an abstemious driver, nick-named Guido ('I drive' in Italian), to become the 'hero of the evening', by protecting the safety of his friends.

We have wrapped Thailand's tallest building, the Baiyoke Tower in Bangkok, in the world's largest banner – 30 storeys high and covering an area of more than a hectare. The prominent image was to remind people: 'If you drink, don't drive'. Run in partnership with the Baiyoke Tower, the traffic police, probation department and Care4Friends student organisation, the awareness campaign included handing bottled water and brochures to motorists at traffic intersections and breathalyser checkpoints and donating tabards bearing the slogan to 2,000 police patrolmen.

In North America, a key focus of the Responsible Hospitality Institute (RHI) is to address drink-drive issues in American downtown dining and entertainment zones. RHI is a non-profit organisation that helps businesses and communities create safe and vibrant places for people to socialise. RHI is at work in 13 US and three Canadian cities and receives major funding from Diageo and the National Highway Traffic Safety Administration ([www.rhiweb.org](http://www.rhiweb.org)).

## Section 2: Society – Promoting responsible drinking

As part of our No. 1 Taxi Driver campaign in South Africa, commuters were asked to vote for their cab drivers according to the skills and responsible attitude they demonstrated to drinking and driving. Around 17,000 taxi drivers from 31 ranks across the country entered the competition and 6,000 commuters registered their choice. A common response from passengers asked to assess the programme was that drivers' behaviour – considered poor before the campaign – had improved as a result of the competition.

**Server training** When working with hospitality industry employees, we make a distinction between community bartender projects which have the main aim of helping people into employment in the profession (see page 14) and server training programmes which help existing bar staff acquire new skills, particularly in responsible serving. An example of the latter is the Barcode initiative in Greece. Developed with bar owners and their staff, and supported by a training manual, the half-day workshops teach stock-keeping, presentation and serving skills as well as the principles and practice of responsible serving. The Barcode manual is being adapted for use in Cyprus and Italy. Diageo server training programmes are active in many countries including Australia, Canada, France, Ghana, India, Ireland, Jamaica, Kenya, Korea, Nigeria, South Africa, Spain, Uganda and the UK.

In Germany our 18+ information toolkit helps retailers serving consumers in the off-trade and at petrol stations comply with the Youth Protection Law covering the sale of alcohol beverages and be aware of the different legal purchase ages in Germany for beer, wine, sparkling wine and spirits. Taking a strong approach – 'No proof of identity? No alcohol! No exceptions!' – the toolkit shows off-licence operators how to handle difficult situations with their customers. A supporting website ([www.initiative18plus.de](http://www.initiative18plus.de)) is a further aid to training.

**Drinking behaviour of young adults** In many countries, an irresponsible attitude to alcohol by young adults who have only recently passed the legal purchase age is a social and health concern.

During the year, Diageo Ireland announced a donation worth £1 million to University College Dublin's Geary Institute to part-fund a three-year study of hazardous drinking behaviour in young adults. The independent scientific research is a groundbreaking initiative to collect evidence on the motivations behind risky drinking patterns in 18-25-year-olds in Ireland. The findings will contribute to the public debate and help policymakers develop effective science-based interventions to reduce alcohol misuse.

Our Cool Drinker campaign in Korea was aimed at young adults and intended to address public concern about drinking. Run in partnership with the *JoongAng Daily News* and the Coalition for Citizens' Safety – a traffic safety NGO – the programme had many lines of attack: a website ([www.cooldrinker.org](http://www.cooldrinker.org)) with information on standard drinks, a campaign for the introduction of an eight-gram standard drink measure in Korea, responsible drinking reminders in bars, teaching materials and celebrity support. The programme enjoyed substantial media coverage.

The What's In It? campaign piloted in 2005 by Diageo and the UK National Union of Students was extended to 53 universities. Running for four weeks in the autumn term, the programme delivered alcohol unit guidance and responsible drinking reminders in a creative way in student bars and clubs. The advice to students highlighted the importance of having a bite to eat on a night out to slow alcohol absorption; taking soft drink 'spacers' to pace their evening; drinking water to stay hydrated; and, before going out, planning how they were going to get home.

**Underage drinking** We share the concerns of many people about underage drinking. Many factors are known to influence young people's attitudes and behaviour towards alcohol, with parents and peers being especially important. Many young people experiment with alcohol and can encounter problems if not given guidance or set a good example by adult role models.

US research found that 65-70% of the underage drinkers studied obtained alcohol from an adult rather than through a commercial transaction. We helped initiate state legislation to suspend the driving licences of adults who knowingly provide alcohol to minors, as well as of underage drinkers themselves. To date, legislation has been enacted in seven states and adopted as a model for new laws by the American Legislative Exchange Council.

The Strengthening Families Programme 10-14 (SFP) was developed in the USA with the aim of reducing alcohol and drug use and behaviour problems in adolescence. The programme helps mothers and fathers improve their parenting skills and develops interpersonal competencies in young people. SFP consists of seven two-hour sessions and uses printed and video materials. The programme has been evaluated by the Institute for Social and Behavioural Research at Iowa State University. The Institute found that young people participating in SFP consumed less alcohol and had fewer behavioural problems in school than those in a control group. Working with researchers from Oxford Brookes University and in partnership with the Alcohol Education Research Council and the Home Office, Diageo helped fund a project to adapt and pilot the programme for use in the UK. We have also financed a similar pilot project in Spain, with the involvement of the Spanish Institute of Psychologists and the University of Oviedo. In 2006, we sponsored a training workshop in London for SFP researchers from eight countries and funded the development of a website to extend interest in the programme across Europe and further afield ([www.mystrongfamily.org](http://www.mystrongfamily.org)).

# Through use of our marketing code, we maintain stringent standards of responsibility.

## Partnerships for responsible drinking

We welcome open dialogue with public health authorities, the academic community and others on responsible drinking and related issues. Responding to a resolution of the World Health Assembly, 'Public Health Problems Caused by the Harmful Use of Alcohol', the World Health Organisation (WHO) held open consultations with representatives of the beverage alcohol industry in March 2006. Diageo participated in this process, chaired by the WHO's assistant director-general for non-communicable diseases and mental health. The consultation involved a valuable exchange of views on a wide range of issues, including our industry's concern about alcohol misuse and the role we see for ourselves in promoting responsible consumption and contributing to reducing the 'harmful use' of alcohol. Consultations with industry representatives are expected at regional level and Diageo will take part in these meetings alongside other industry representatives.

In Europe, we have launched Diageo City Partnership projects in Brussels and Copenhagen. These partnerships bring together representatives of the alcohol beverage industry, government and civil society to develop projects that address local issues of alcohol-related harm. As well as providing financial resources, our contribution includes using our marketing skills to support harm reduction interventions that tackle risky drinking behaviour.

The Drinkaware Trust was formed in the UK in June as an independent, charitable body charged with positively changing the country's drinking culture and tackling alcohol-related harm. With £12 million funding from the alcohol beverage industry over three years, and with trustees from a broad base, the Drinkaware Trust will bring together, for the first time, the industry, charities, lobby groups, medical professionals and experts in the field to address alcohol misuse and promote responsible drinking. Its work will include awareness campaigns to promote sensible drinking to the public, project aid for local and national initiatives, and the running and evaluation of pilot programmes to tackle alcohol-related harm.

In May the first-ever nationwide alcohol beverage industry platform in China – the Alcohol & Society Forum – was formed by the Ministry of Commerce, supported by Diageo. The forum aims to stimulate dialogue between government, the alcohol beverage industry and academics on how best to approach such issues as responsible marketing, responsible drinking and counterfeit brands in China. We consider that taking a proactive, transparent and responsible approach to these issues in this rapidly-developing market is not only the right thing to do, but is also key to our own long-term business growth.

Diageo was a founding sponsor of the International Centre for Alcohol Policies (ICAP) and currently chairs the organisation. We are a signatory to the Dublin Principles ([www.icap.org](http://www.icap.org)), which set out the ethical basis for co-operation between governments and the scientific and public health communities. Diageo also chairs the newly-established European Forum for Responsible Drinking (EFRD) – previously the Amsterdam Group – which supports responsible drinking initiatives

in the European spirits industry and promotes understanding of the scientific evidence from which alcohol policy is formulated ([www.efrd.org](http://www.efrd.org)). Diageo also supports the International Harm Reduction Association ([www.ihra.net](http://www.ihra.net)) in its programme of alcohol-related activities.

## Diageo memberships of social aspects organisations

DrinkWise, Australia	–
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>
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>
FAY5, 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>

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. The countries covered by SAOs in which we are involved accounted for over 60% of Diageo's business by volume in 2006. We often co-ordinate with SAOs on work to develop consistent voluntary codes or raise awareness in areas of alcohol misuse.

# UNDERSTANDING CONSUMERS

### High quality brands

Our aim is that our products reach consumers in optimum condition, tasting their best. Our brands often win quality awards; at the 2006 San Francisco World Spirits Competition, we came away with 63 medals – more than last year and around 10% of all prizes awarded.

Each Diageo business has a quality management system which covers specifying incoming ingredients and materials, and manufacturing, warehousing and distribution processes to the point of sale. We review, challenge and continuously improve the way we work across our markets. Our manufacturing sites are regularly checked to ensure compliance with legislation and with Diageo's quality and risk management standards. Our internet-based 'track and trace' system makes Diageo products fully traceable along the supply chain and the source of any problem easier to identify. During the year there were no significant reported breaches of food safety regulations.

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. Overall, the number of complaints has remained static in 2006 compared with 2005 due to increased sales in key markets in the Asia Pacific region where the highest levels of quality are demanded. Plans are in place to respond to this challenge and raise our quality standards even further across all of our brands.

### Complaints about quality upheld

	2006	2005	2004	2003	2002	2001
Per million equivalent units	19	19	22	36	46	88

### Information for consumers

Our brands are subject to a variety of labelling regulations in our many markets, and we are not aware of any material breaches of these rules during the year. We aim to give consumers the relevant facts by the most appropriate means, including labels and secondary packaging, telephone carelines and a website ([www.knowyourdiageodrink.com](http://www.knowyourdiageodrink.com)), launched this year. At the time of publication, this website covered 93 countries. Our consumer information policy is to provide information on nutrition, serving size and allergen and alcohol content as well as giving responsible drinking reminders. New and redesigned products have included this information since July 2005, while other labels will be changed over the next four years. By the end of this year 10% of packaging variants had been changed in line with our policy.

### Brand integrity

Counterfeiting is a problem for many businesses with highly sought-after brands. Illicit practices range from refilling genuine bottles with inferior brands or spurious liquids to the commercial-scale manufacture of counterfeit goods. Brand forgery represents a significant loss of revenue for governments and, in the worst cases, presents a serious health hazard to consumers, particularly from methanol contamination. Our business suffers a loss of an estimated £100 million a year due to counterfeiting.

To deter counterfeiters we use covert pack markings, anti-refill fitments in bottles and other measures. 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 field testing kits for white spirits and the Diageo-developed Authenticator for Scotch whiskies. These tools can help spot a forged brand in moments, making convictions more likely. Because counterfeiting is an issue for much of the spirits industry, we share intelligence with other companies on enforcement issues.

### Innovation

A company's ability to transform ideas into commercial value is essential to sustained success. Our culture of creative innovation, in which new brands are introduced and existing ones developed, was recognised during the year when Diageo was placed fourth in a survey of the UK's most admired innovators, as judged by business peers globally.

The introduction of Quinn's provides a good example of how consumers and customers are involved in the development of new Diageo brands. Research told us that some people say RTDs taste artificial. Working with groups of consumers, we developed a new drink made from 100% premium quality fruit and containing no artificial colours, flavours or preservatives and no added sugar or spirit. Consumers were also involved in the packaging design. Following consultation with key customers, Quinn's was launched in Britain during the year in three flavour variants.

The development of Guinness Mid-Strength, test-launched during the year, followed research that identified an opportunity for drinks with a lower alcohol content that do not sacrifice taste or quality. With more than two years of development going into bringing the new product to market, this was a substantial investment in the lower alcohol category.

Last year we reported on the launch in Kenya of Senator Keg, a low-cost beer aimed at people who may previously have favoured unregulated drinks with their well-documented potential health risks. We have continued to work with the Kenyan government and have received further support from them this year for our initiatives. Demand for the brand has been high, indicating that consumers have been switching from risky illicit brews – a trend we hope will continue. Following this success, the Kenyan government requested that we invest in tackling further unregulated markets.

### Consumer privacy

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

# INVESTING IN OUR COMMUNITIES



**COMMUNITY BARTENDERS**

MORE THAN 85% OF THE STUDENTS OF OUR BRAZILIAN COMMUNITY BARTENDER PROGRAMME HAVE FOUND EMPLOYMENT.



**WATER TO DRINK**

ONE OF 110 FAMILIES BENEFITING FROM A NEW DIAGEO-SUPPORTED RAINWATER HARVESTING PROGRAMME IN KABALE, UGANDA.



**RAISING OUR GAME**

THE 'LEGENDS OF RUGBY LEAGUE' MATCH WAS STAGED AS A FUNDRAISER FOR VICTIMS OF CYCLONE LARRY IN AUSTRALIA.

Diageo's businesses are based in many varied locations around the world. We are often a major local employer and source of business, and seen as an important part of the community. Since the local population provides our businesses with its employees, consumers and commercial partners, it is clear that the long-term health and welfare of the community is vital to Diageo's future.

We are proud of the contribution we make to our communities. This is not simply a matter of making charitable donations or providing sponsorships, though we and our employees do give to philanthropic causes. We believe we can do more good by using our human and other resources, often in partnership with other organisations, to support long-term, sustainable initiatives that bring benefit to the communities in which we operate.

Assessed financially, our commitment to community investment is 1% of operating profit. In 2006, the actual proportion was 1.0%, totalling £20.2 million. This includes contributions from the Diageo Foundation and support from our Responsible Drinking Fund for the community aspects of responsible drinking projects as well as cash, in-kind donations and volunteer time directly provided by Diageo businesses.

## The Diageo Foundation

The Diageo Foundation is the body that drives Diageo's community investment programme. Its aim is to create positive, sustainable change in communities in which Diageo operates, concentrating on projects through which it can 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:

- leveraging funds from Diageo businesses and external sources
- engaging Diageo employees across the world in fundraising, giving and volunteering
- maintaining partnerships with NGOs and other external bodies
- providing expertise, support and case studies for establishing and managing effective community projects.

In 2006, the Foundation approved expenditure of £1.8 million, and this is included in the analysis of community investment on page 16. Seven hundred new project funding proposals came from within Diageo and externally. Following assessment according to the Foundation's funding criteria, nine new projects were approved for support.

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

## Section 2: Society – Investing in our communities

external advisers and not-for-profit organisations with specialist expertise. The Foundation's four programme focus areas – Skills for Life, Water of Life, Local Communities and Disaster Relief – are adopted by Diageo businesses around the world as the basis for their community involvement.

### Our community focus areas

We direct our investment to the Foundation's four focus areas because they reflect where our business can have the greatest positive impact on society and where our efforts may be most effective. An evaluation of the example projects described below, using the London Benchmarking Group (LBG) model, is given on [www.diageo.com](http://www.diageo.com); three selected projects are also evaluated below.

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

The Diageo community bartender programme was established in 2000 in São Paulo, Brazil to prepare unemployed 18 to 24-year-olds from low-income families for skilled jobs in the hospitality industry. The six-month course includes classes, presentations by experts and on-the-job experience for 50 students chosen from around 500 applicants. Diageo employees, customers, industry experts, doctors and lawyers volunteer to teach. One course unit is dedicated to responsible drinking. At a cost of around £100,000 each, courses are run in 5-6 Brazilian cities per year. Funding of £300,000 was provided by the Diageo Foundation; contributions made by potential employers ensure that the programme becomes self-sustaining. Around 85% of students have found jobs after each course, a high rate in programmes for unemployed young people. This year Diageo Brazil celebrated placing its 1,000th student into employment. The community bartender programme has now been extended to Mexico and Venezuela and is being piloted in Uruguay.

McSence is a social enterprise formed in 1988 as a response to the devastating effects of pit and factory closures in Midlothian, Scotland.

In 2004 the organisation established a contact centre – providing services to local charities and social enterprises – which itself offers employment to people with moderate to severe physical disabilities. With the support of the Diageo Foundation, and in partnership with the Thalidomide Trust and Leonard Cheshire, McSence developed a contact centre training programme for disabled participants which can result in an SVQ qualification. The support from Diageo has enabled McSence to attract additional funding from other sources and a £1 million purpose-built training and contact centre is now under construction ([www.mcsence.co.uk](http://www.mcsence.co.uk)).

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

In Burkina Faso, West Africa, drought and desertification have severely affected the lives of subsistence farmers and damaged the economy. Over three years, we have partnered with WaterAid and local organisations in Ouagadougou, the capital, to provide water and sanitation to 10,000 destitute people. Funding from the Diageo Foundation and our local licensed Guinness brewer has exceeded £100,000. To build the infrastructure and establish services, we have trained local people as bricklayers, project managers and water hygiene educators. Women have been particularly encouraged in the planning, management and evaluation of the project. Newly-acquired skills and community control of the project help ensure that the work provides a sustainable contribution to the city's health and economy.

In the district of Kabale, Diageo's Uganda Breweries has supported the Two Wings Agro-forestry Network in providing 110 households with the means to collect and store rainwater in 4,000-litre tanks next to their homes. Women were trained to build the tanks and pass their knowledge on to others, so enhancing the skills and confidence of women in the area. Promoting health and hygiene were also part of the project. All but ten families made their own small contribution to the cost of equipment. With all the tanks up and running, we commissioned an impact assessment of the project. Interviews with families now harvesting rainwater revealed considerable benefits –



### Analysis of focus area example projects using the LBG model

Motivation	Inputs	Leverage	Outputs	
	Funding		Community benefits	Business benefits
<b>Philanthropy</b> Cyclone Larry response, Innisfail, Australia (Disaster Relief)	£446,000 from the Diageo Foundation to the Bundy Bush Fund over four years.	Employee volunteering. Other organisations also involved in raising over £170,000.	Help for farmers in re-establishing their crops.	Diageo builds trust with consumers and employees. Enhanced employee morale.
<b>Social investment</b> Access to clean water, Burkina Faso, West Africa (Water of Life)	More than £82,000 from the Diageo Foundation.	Contributions from local Guinness brewer brought the total to more than £100,000.	Provided water and sanitation to 10,000 people. Training for artisans, with particular encouragement of women.	Engagement with ministers, local authority, local and international media and major strategic partners.
<b>Commercially-led initiatives</b> Celebrate a Cleaner Seychelles (Local Communities)	£10,000 from the Diageo Foundation.	Employee volunteering. Government support.	Plastic bottles and other litter cleared from major islands and litter bins provided.	Involvement in the government-backed scheme builds Diageo's local reputation.



Using our resources to address some of the **pressing issues faced by our communities** contributes to their sustainability and that of our own business.



**LIFE AFTER TSUNAMI**  
 PETER WRIGHT FROM SHIELDHALL, SCOTLAND, WITH CHILDREN WHO SURVIVED THE TSUNAMI IN SOUTHERN INDIA.



**NEW HOMES**  
 VOLUNTEERS FROM DIAGEO IN THE UK HELP REBUILD HOUSES IN TSUNAMI-DAMAGED SRI LANKA.

**CARE AND HOPE**  
 RED STRIPE VOLUNTEERS RETURN THE LOCAL COMMUNITY POLICE STATION TO WORKING ORDER IN JAMAICA.



time saved climbing hills to collect water, hygiene improved by having water readily available, health risks reduced by not having to drink contaminated water, and social benefits from families with tanks sharing their water with others.

**Local Communities** – projects that support our employees when volunteering in community activities. Encouraging employee volunteering will be a particular focus for our corporate citizenship programme in the coming years and we would like to see an increase in this year’s figure of 16,020 employee hours spent volunteering.

In Jamaica, colleagues have established their own group, the Red Stripe Employees’ Advocates of Care and Hope, or Reach, to co-ordinate volunteering projects. This year, 30 Reach members spent a day refurbishing the dilapidated Seaview Gardens community police station in St Andrew. Officers at the station had been forced to carry out their duties in a building which leaked when it rained, had major plumbing and electrical problems and inadequate furnishing. The Reach team reported for duty to clean, paint the building inside and out, repair the roof and install new plumbing and electrics. Our company supported the project by providing new furniture for the station.

In Seychelles, where, as well as brewing beer, Diageo also produces soft drinks and distributes about half the plastic bottles in the country, we have contributed £10,000 to a government-backed scheme to clear litter,

particularly plastic bottles, from three major islands. Litter bins have been distributed and employee volunteers helped in the ‘Celebrate a cleaner Seychelles’ project with support from media and school awareness campaigns.

Many Diageo employees are generous with their own time and money and are supported and recognised for their voluntary contributions to company initiatives. In Venezuela, more than half of our employees chose to give 1% from their salaries every month to improve the living conditions of the local Silsa-La Moran community. The donations support the reconstruction of houses, and help maintain community needs such as access to drinkable water and other resources.

**Disaster Relief** – our response to major disasters in our communities which includes providing emergency relief, supporting longer-term reparation projects and assisting employees’ fundraising efforts.

A team of 25 UK employees went to an area in south-west Sri Lanka, which was badly hit by the tsunami in December 2004, to help restore the community by rebuilding homes. They raised over £75,000, including £35,000 direct from our employees through our tsunami Champion a Charity fund. In Hikkadua the team found people living in appalling conditions, often in sheds made of wood, tin and plastic bags. Working on a week-long project organised by Habitat for Humanity, our colleagues completed houses and laid

## Section 2: Society – Investing in our communities

foundations for new homes. Money left over at the end of the trip, plus further fundraising, will enable 40 more employees to join another building project in a tsunami-damaged area of Pondicherry in south-east India in September 2006.

Peter Wright, a colleague from Shieldhall, Scotland, had already travelled to Muttom, near Colachel on the southern tip of India, to help build a fishermen's shelter soon after the tsunami. Subsequently, his co-workers raised £1,600 for foundation work on a new centre which will be used for the care and support of those traumatised by the disaster and for teaching new skills in tailoring, computing and crafts to village people.

When Cyclone Larry – a category four tropical storm – hit Innisfail in northern Queensland, Australia, it caused £600 million worth of damage and, by wiping out banana and cane crops, struck at the livelihoods of many residents. Shocked by the TV images and wondering how farming in the area could recover, a group of employees, working with Diageo Australia's Bundy Bush Fund, led a number of organisations to set up a 'Legends of Rugby League' charity game in Townsville, which attracted 8,000 spectators. Through donations, ticket sales and fund-raising events surrounding the game, we helped raise over £170,000 for the farmers of the area to help them re-establish their crops.

### Working in partnership

Diageo community projects are carefully planned with well-defined objectives and professional management. There is a toolkit for each focus area to help our businesses and community partners create and manage projects effectively, including guidance on:

- understanding our impacts on the community
- finding partners and working with them so that projects address local needs and respect cultural sensitivities
- balancing mutual benefit for Diageo and its community partners
- including an exit strategy to avoid over-dependence so that the project's benefits are sustainable
- raising awareness of projects with external opinion leaders, community audiences and our own employees.

### Evaluating community investment

We want to ensure that the money our businesses invest in community activities, and the grants contributed by the Diageo Foundation, provide the best possible benefits for the community and, in the longer term, for our business. 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 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 the benefits (outputs) of our community involvement. An LBG analysis of community projects highlighted in this section is given on [www.diageo.com](http://www.diageo.com); a summarised analysis of selected projects is on page 14.

### Community investment £000

	2006	2005
<b>Total</b>	<b>20,217</b>	22,624
<b>Split by category</b>		
Philanthropy	<b>1,593</b>	1,915
Social investment*	<b>12,558</b>	14,667
Commercially-led initiatives	<b>6,066</b>	6,042
<b>Split by focus area</b>		
Skills for Life	<b>2,351</b>	2,051
Water of Life	<b>738</b>	1,101
Local Communities*	<b>9,730</b>	12,038
Disaster Relief	<b>890</b>	3
Community aspects of responsible drinking initiatives	<b>6,508</b>	7,431
<b>Split by type</b>		
Cash*	<b>19,564</b>	21,119
In kind	<b>447</b>	1,273
Volunteer time	<b>206</b>	232
<b>Split by region</b>		
Europe*	<b>12,154</b>	15,940
North America	<b>4,106</b>	4,173
International	<b>3,957</b>	2,511

\*Includes charitable donations of £6.5 million (2005: £7.2 million) to the Thalidomide Trust.

### Historic thalidomide agreement

Thalidomide was originally distributed under licence in the UK by the pharmaceutical subsidiary of the Distillers Company (DCL). It was withdrawn in 1961 when the side-effects for pregnant women were discovered. Following a 1973 settlement, DCL paid money to those affected by the drug and to the independent Thalidomide Trust set up to provide support to the survivors of UK thalidomide. In 1986 Guinness acquired DCL and, in December 1997, merged with Grand Metropolitan to form Diageo. In 2004, the Trust reviewed the well-being of the Trust's beneficiaries and found that many were facing new challenges due to ageing and changing needs. Diageo was approached for additional funds and, in December 2005, agreed a new financial settlement for the Trust's beneficiaries.

This historic agreement was reached between Diageo, the Thalidomide Trust's National Advisory Council, and Thalidomide UK, all of which recognised that existing resources supporting survivors of UK thalidomide were unlikely to be sufficient to meet their continuing needs. All parties believe that this agreement is full and final. Under the terms of the agreement, Diageo's annual payments to the Thalidomide Trust have been increased to around £6.5 million per annum under a covenant payable over the period to 2037. This amount will be index-linked. This will enable the Thalidomide Trust to gradually and significantly increase its annual payments to its beneficiaries and help ensure that they will have financial security for the rest of their lives. In conjunction with this settlement, Diageo gave notice that no further direct individual claims against DCL or Diageo would be considered after 31 December 2006.

# RELEASING THE POTENTIAL OF OUR PEOPLE

## ASIAN HEROES

KENNETH MACPHERSON, MD FOR GREATER CHINA (SECOND RIGHT), AND THE THREE 2006 ASIA HEROES RONALD CHEUNG, GLENN MANLAPAZ AND JOE YOON.



## HEALTH AND SAFETY DAY

MEMBERS OF THE BAILEYS TEAM IN BELFAST, NORTHERN IRELAND, CELEBRATING A YEAR WITHOUT ACCIDENTS.



## GROWING TALENT

GROUNDBREAKING DEVELOPMENT FOR MIDDLE MANAGERS, SEEN HERE IN THE PHILIPPINES, WILL BE EXTENDED TO OTHER ASIAN MARKETS.



## BUILDING TRUST

QUARTERLY LEADERSHIP CONFERENCES IN KOREA BUILD TRUST, RESPECT AND COMMITMENT.



Through employment, Diageo exerts one of its most significant impacts on the economies in which we operate. By providing opportunities for creating value, spreading wealth, empowering people and increasing the skills and knowledge of a community's workforce, we contribute to its development and prosperity. To achieve these benefits and our stretching ambitions for Diageo, we need to attract and retain the best talent and develop our people's capabilities. While the details of employment terms and conditions necessarily vary to reflect norms prevailing in our markets, wherever in the world our employees are based, our fundamental approach is based on the same values and our aim is to provide them with a working environment in which their full potential can be released.

### Employees

	2006	2005	2004
Europe	10,694	11,150	11,373
International	8,174	8,360	8,605
North America	3,751	3,456	3,742
<b>Total</b>	<b>22,619</b>	22,966	23,720

### Employer awards and rankings

A number of our businesses have been recognised as good employers by independent bodies this year. The Diageo service centre in Budapest, Hungary, was voted Shared Services Employer of the Year 2006. The award – which had a positive impact on staff motivation – came after the office's placement in the 'Top Ten Most Admired Shared Services Organisations' for three years running, based on industry feedback. Other examples of awards and rankings during the year include:

- In top ten Best Companies to Work for in Latin America, based on results in Brazil, Argentina (individually 27th), Colombia (20th) and Mexico (6th)
- Diageo Ireland in top 100 Best Workplaces in Europe\*
- 15th in Best Workplaces in Greece
- In top ten of Best Companies to Work for in Ireland\*
- 25th in Best Workplaces in Italy\*
- In top ten of Employers of Choice in Jamaica
- 18th in Best Workplaces in Portugal
- In top 25 in Best Workplaces in Spain

\*Awards covered only demand functions in these markets

# Section 2: Society – Releasing the potential of our people

## Inclusion and diversity

Inherent in our employment policies is our belief in the value of diversity in the Diageo workforce and appreciation of the unique contribution made to our success by each individual. An inclusive culture creates a stimulating workplace that aims to energise our people and help them feel proud of where they work. It also helps us gain deeper consumer insights and enhances stakeholder relationships. To capitalise on these advantages throughout our business, we aim to maintain a diverse workforce of individuals with a wide variety of characteristics, experiences and perspectives.

Our human rights policy outlines how we strive to ensure that current and potential employees are treated fairly. This year we have implemented a supporting global resourcing policy which includes provisions that vacancies are routinely advertised, suitable internal candidates for vacant roles are encouraged, assessments are conducted fairly and objectively and, to satisfy security and risk considerations, candidates are screened and references checked where appropriate.

Opportunities for employment and career progression are determined on the basis of an individual's ability and performance, irrespective of their gender, ethnic origin, nationality, age, religion, sexual orientation or disability. Last year our executive committee agreed an inclusion and diversity action plan and we have worked to achieve the targets we set ourselves for increasing diversity in our employee population.

### Diversity by gender %

	2006		2005	
	Men	Women	Men	Women
Board	82	18	90	10
Senior managers	77	23	77	23
Other employees	65	35	67	33
Total workforce	66	34	67	33

The proportion of women in senior management – a key diversity indicator – has risen from 20% in 2003 to 23% in 2006. Our target is that this will reach 29% by 2007. The gains have been achieved by examining aspects of the working experience to make our practices and conditions more compatible with a wide range of lifestyles and create opportunities that are attractive to suitably qualified candidates. Not all roles lend themselves to all flexible working options. Where they do, 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.

In the USA, shifts in our consumer base make diversity in our workforce particularly important. Nearly 50% of Americans passing their 21st birthday are now of Latin, African or Asian descent and we must be able to understand and respond to these new consumers. We have set up the Diageo Diversity Council to help find practical ways to advance our diversity objectives. For example, the council has established the Diageo Women's Leadership Network to help foster an environment where our women leaders can build a successful career.

The network aims to:

- help women leaders identify and develop the skills to become stronger leaders
- provide opportunities to discuss the issues facing female executives
- make Diageo an employer of choice for women and a better place to work for both women and men.

Diageo in Spain received an Optima Award for encouraging female employees by introducing employment conditions such as flexible hours, sabbaticals, secondments and reduced hours on Fridays and in August.

In Ireland Diageo won a 2006 O<sub>2</sub> Ability Award for disability awareness in the workplace. Presented by the Aisling Foundation, the awards encourage employers to recognise the potential of people with emotional, mental or physical disabilities. Our Dublin location won for our approach in the categories of the 'learning and development' and 'retention and wellbeing' of employees with disabilities, as judged by independent assessors who carried out interviews and inspected our facilities.

### Employment by category %

	2006	2005
Full time	97	97
Part time	3	3

In each of our major markets we encourage local talent to progress to the highest positions. This creates career prospects which help attract the best people to Diageo and gives us local perspectives on the needs of consumers. There is also a strong requirement for mobility in our workforce and for the backgrounds of senior people on assignments abroad to reflect the diverse perspectives of the company. Last year we had 288 employees on international secondment of two years or more, 37% of whom were from outside the UK. Our target is that by 2007 this proportion will reach 50%.

The development centres we established in Asia during the year show how Diageo works to develop local talent. The programmes, which were held in Korea, the Philippines and Singapore, helped high-performing middle managers explore their own capabilities and learn to make informed career choices. Through psychometric testing and coaching sessions, participants devised actionable development plans to promote their personal growth and team commitment. Following the success of the two-day sessions, the programme is being extended to middle managers throughout Asia.

### Enhancing capability

Our performance review process, Partners for Growth (P4G), has been implemented across all Diageo businesses. P4G aims to create strong relationships, founded on mutual trust, between employees and their managers. By encouraging better and more regular conversations between them, the process focuses colleagues on their strategic priorities and emphasises the value of each person's unique contribution. This aims to generate strong performance from individuals and consequently from the business. We launched an on-line version of P4G for use next year in the UK and Ireland.

# We want our people to feel **both able and inspired to contribute** directly to business performance, while also achieving personal growth.

Among its objectives, P4G aims to ensure that employees are appropriately trained for their roles and encourage them to take up opportunities for development. Through this process, employees identified as capable of more senior positions or of expanding their skill set in a different area can be suitably prepared. Senior positions have nominated successors to ensure business continuity, with open posting ensuring the best candidates are available for selection. Across the business, formal training in core capabilities is provided. Skills required for particular roles are developed through tailored programmes or on-the-job coaching in many countries.

In recent years, Angola has seen rapid growth in demand for quality brands. We made Guinness available there this year for the first time and achieved market leadership in spirits. This increased activity required advanced marketing and sales skills in our local team. To provide these, three of our colleagues from Brazil travelled to the Angolan capital, Luanda, to facilitate a course in Portuguese on the Diageo Way of Brand-Building with Customers. Being able to develop their skills to world-class levels boosted the pride of the Angolan team and gave them the confidence to take on the competition in this quickly changing market.

This year we introduced English language training for employees in Portugal and Spain. The course comprises two 90-minute lessons a week, held during working hours. Provided employees keep up an 80% attendance record, the cost is fully funded by Diageo. The training not only enables employees to be more effective in their roles but, with English proficiency increasingly an advantage, enhances their future career opportunities.

We want talented employees to have the opportunity to develop their careers within Diageo. Our on-line Career Shop allows people in more than 50 countries to post their CVs on the Diageo website, in one of four languages, to be considered when suitable roles become vacant. Nearly 30,000 resumés were submitted to the site during the year, 88% of them from external candidates. Career Shop carried around 200-250 vacancies at any one time and more than 2,300 were filled during the year, over half by internal applicants.

## Employee health and safety

The Diageo occupational health and safety policy is now embedded into ways of working at all sites including office locations. This year, offices have implemented systems for managing health and safety which include setting clear responsibilities, identifying risks, monitoring legislation, training, and adopting key health and safety performance indicators with stretching targets. At large offices there are processes for employee consultation – for example, health and safety committees that seek opportunities for safer ways of working. In addition to these developments, we have also improved data collection systems to give a more accurate picture of safety performance at our sites. This, together with the acquisition of new sites where safety management needed to be brought up to Diageo standards, has resulted in a small increase in the accident rate this year.

Compliance with Diageo health and safety risk management standards at supply locations is assured through the Licence to Operate programme described on page 32. At the primary office site in each market and at other large office locations, independent reviews were conducted this year to assess compliance with health and safety policy requirements. The results of these will be used as the basis for setting targets for improvement in relevant markets.

<b>Safety</b>				
	2010 target	2006	2005	2004
Accidents per million man-hours*	7.4	<b>10.6</b>	9.2	16.1
Fatalities	–	<b>1</b>	–	–
Regulatory notices received	–	<b>10</b>	9	10
Fines imposed	–	<b>1</b>	2	1

\*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.

An unfortunate accident during the year caused the death of a contractor at one of our production sites. The incident is a reminder of the hazards involved in our day-to-day operations and highlights the need to maintain robust systems to minimise them. We will continue to take action on safety and reinforce standards to protect our employees. The sections which follow show some examples of the work we have done to embed an effective culture in our business. To maintain the momentum of these efforts in our supply sites we have set a target of reducing lost-time accidents by 20% in the five years from 2005.

For a day in October, our Baileys plant in Dublin stopped production to risk-assess the site and raise awareness among the 270 employees of health and safety issues in their workplace. With a busy agenda of safety training – including fire fighting and emergency first aid – the workforce set out ‘to prevent 1,000 possible accidents’. Part of the safety day was to introduce our ‘behaviour-based safety’ programme – implemented in both Baileys facilities in Belfast and Dublin – which aims to reduce the activities that cause workplace accidents. A year of record production at Baileys Belfast coincided with a full 12 months without a single accident resulting in lost time. As long as this continues, Baileys will make donations totalling £1,250 a month to employee-nominated charities.

A major safety programme has resulted in a 27% reduction in lost-time accidents at our large manufacturing sites in Scotland. Communications via new plasma screens, safety awareness sessions, the formation of risk assessment teams, a safety fayre at Kilmarnock and a crisis enactment at Shieldhall reinforced the message. A project in which best practice is shared between the Leven, Shieldhall and Kilmarnock sites has been favourably commented on as a benchmark for the whisky industry. A National General Certificate in health and safety management is now an integral part of capability building for line managers in our spirits supply business in Scotland. More than 100 managers have gained the qualification in the past six years.

## Section 2: Society – Releasing the potential of our people

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An outstanding safety record at six sites earned recognition from Liberty Mutual, Diageo North America's insurer. Gold awards went to distilleries in Tullahoma, Tennessee, and Gimli, Manitoba, and silver to our Plainfield, Illinois plant. Three sites – Lehigh Valley in Pennsylvania, Chalone Vineyard in California and Sagelands Vineyard in Washington – received safety commendations. A gold award indicated an accident rate at least 80% better, silver at least 60% better, and a commendation at least 50% better, than the industry average.

Solving occupational health issues often requires careful analysis of the problem and the close involvement of the employees concerned. At our Gimli distillery, workers removing the bungs from barrels and preparing the bung hole often complained of shoulder and back pain. Observing the task and talking to the operators showed a key cause: holding up a heavy tool while leaning over the barrel. The procedure was redesigned around a new lightweight drill on a retractable arm. This reduced forces on the shoulders and backs of operators and has not only prevented lost-time injuries but has also speeded up the task.

In our African businesses we run comprehensive programmes that aim to prevent the spread of HIV/Aids and support and treat colleagues and their families should they contract the syndrome. The programme is free of charge. Workplace training for employees and their immediate dependants aims to raise awareness, prevent proliferation of HIV and combat discrimination. The same group has access to voluntary counselling, testing and other forms of support. Those diagnosed as HIV-positive are provided with anti-retroviral drugs as part of an overall treatment regime. The support continues even if the employed family member leaves the company.

In Kenya, 1,500 people attended our event for employees' families on World Aids Day. With the theme of 'Voluntary counselling and testing – know your status while celebrating life', the aims of the day were to provide information on the pandemic; equip our employees and their families with the skills and knowledge to adapt to appropriate behavioural changes; and de-stigmatise and demystify Aids. At the event, 388 people chose to be tested, including the managing director of our East African business and his wife. In December, the International Conference on Aids and Sexually Transmitted Infection in Africa met in Abuja, Nigeria, to share advances made in the fight against the disease. Guinness Nigeria sponsored the event by helping create the conference's 'community village', a replica of an African settlement in which 5,000 delegates could meet to share experiences of HIV/Aids challenges and successes. Our Guinness Extra Smooth dome served as the conference's media centre. In Cameroon, HIV/Aids prevention and awareness is part of the public brewery tour, during which flyers and condoms are distributed to visitors.

An avian flu management team has established plans and processes to maintain business continuity and protect Diageo assets – in particular, the safety and wellbeing of its employees – in the event of a serious outbreak of the disease among humans.

### Engaging our employees

People give their best when they are kept informed and when their views can be freely expressed and are heard. The sense of pride that employees have in working for Diageo is fostered through a wide range of communications beginning with the induction of new recruits and continuing through team meetings, newsletters, email, intranet and posters.

As our primary means of formally monitoring employee engagement, our annual values survey is a key indicator of business performance and its results are crucial in shaping our strategy and ways of working. Each of the survey's 21 core questions this year was connected to one of our five values, allowing us to assess the extent to which colleagues were living the Diageo values in their work. The survey was distributed to employees and achieved a response rate of over 85%, compared with the previous year's 80%. Scores from 11 of the core questions were 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.

Overall, the results show a positive shift in employee attitudes since 2005. In the areas where we lagged furthest behind the index of high performing companies, we made the greatest gains – most notably in employees' confidence that action would be taken as a result of the survey itself. Responses to the survey, broken down by function and business, are studied by managers and used as a strong determinant of priorities for action. For example, with the survey showing that employee engagement with consumer issues had weakened since the previous year and was below the level of other high performing companies, a management priority will be to address this area with employees.

Examples of how survey results are used to direct improvements in working practices can be found across the world. In Australia the results of last year's survey were shared with employees and cross-functional teams were established to identify how we could improve in four priority areas: leadership communication, development, career opportunities and work/life balance. Solutions already implemented include a new policy on career breaks, a determination to make meetings more effective, publishing a corporate calendar and taking out company membership at local gyms. In North America, leadership and development opportunities were identified as issues by the survey. In response, the business agreed a shared objective for every employee to complete 40 hours of learning and development annually.

Communication was identified by the survey as an area for attention in Korea. As a result, new communication channels put in place include a quarterly conference at which senior managers can learn leadership skills, align with Diageo values and discuss organisational issues. The conference has increased understanding, built trust and respect and enhanced the commitment of our senior people. We have also opened new communications between employees and the chief executive of the business. These include skip level meetings, lunches with the CEO and

# People give their best when they are informed and when their views can be **freely expressed and are heard.**

regular messages from the top in a bimonthly newsletter. A direct email to the CEO which staff can use anonymously has also been established.

In Latin America a programme of initiatives was generated by groups considering the value survey results. Individual markets took action to address work-life balance issues, such as flexible working hours, providing laptops for home working and agreeing meeting-free days. They also plan greater employee involvement in community programmes and more management contact with employees to discuss business results and celebrate success.

Global values survey favourable responses %			
Core questions	2006 High performing companies	2006 Diageo score	2005 Diageo score
<b>Passionate about consumers overall score</b>	-	<b>79</b>	<b>80</b>
My team actively seeks to understand consumer needs	<b>86</b>	<b>78</b>	79
People in my team are encouraged to come up with innovative solutions for customers/consumers	<b>75</b>	<b>72</b>	78
<b>Valuing each other overall score</b>	-	<b>72</b>	<b>67</b>
My manager inspires me to give my best	<b>66</b>	<b>75</b>	69
<b>Freedom to succeed overall score</b>	-	<b>79</b>	<b>79</b>
People in my team can challenge existing ways of doing things	<b>63</b>	<b>85</b>	84
My manager generally understands the problems I face in my job	<b>65</b>	<b>74</b>	73
My manager trusts my judgement within my job	<b>65</b>	<b>87</b>	84
<b>Proud of what we do overall score</b>	-	<b>82</b>	<b>78</b>
I am proud to work for Diageo	<b>88</b>	<b>89</b>	89
Diageo makes a real contribution to the communities in which it operates	<b>81</b>	<b>76</b>	71
<b>Be the best overall score</b>	-	<b>70</b>	<b>64</b>
My manager gives me regular feedback on my performance	<b>68</b>	<b>70</b>	65
I feel significant actions have been taken as a result of previous surveys	<b>50</b>	<b>50</b>	41
I believe Diageo leadership acts on issues/opportunities identified in the survey	<b>67</b>	<b>60</b>	50

Diageo employees are free to join trade unions (membership is not monitored), though we prefer to work through our own employee consultation arrangements. One of the largest employee groups through which colleagues are consulted is the Diageo European Forum which represents the employee voice across 19 countries. During the year training was provided for forum members to help them develop as representatives and be able to support their colleagues in coping with change more effectively.

Trust, morale and engagement have improved significantly at our Bundaberg distillery in Australia following an initiative this year. With a large group of workers we developed a 2008 Workplace Vision for the plant which gives employees the freedom to influence their own working conditions. It also provides the framework for a two-year Enterprise Bargaining Agreement (EBA) which was finalised with key employees and their union. The EBA is aligned with the Diageo values and, on a trial basis, introduces wage increases linked to personal performance. A new skills structure supporting business needs will deliver recognition and reward for an individual's skills and abilities through training and development opportunities.

Businesses maintain documented grievance procedures for resolving issues that may arise between employees and their managers. In the UK and Ireland, an independently-run, confidential helpline called tlk2 provides free personal counselling, legal and financial advice. Over the last three years, around 500 people a year have made use of the service, seeking advice on issues such as work stress.

Remuneration packages are benchmarked to ensure that they remain competitive in our markets. In most cases an element is performance-related to reward employees' individual contributions to their team and to the business.

There are a variety of schemes to promote Diageo share ownership. These enable employees in 16 countries to benefit from the growth of the business by acquiring shares at a discounted price. Participation rates vary between countries and this year were, for example, 10% in Belgium and 76% in Korea. In the UK, 59% of employees saved under Diageo's largest plan. At the year end, over 16,000 past and present employees held a total of 34 million Diageo shares, representing around 1.1% of the issued ordinary share capital of the company.

Employee share ownership		
	2006	2005
Countries operating schemes	<b>16</b>	16
Employees* holding shares	<b>16,179</b>	16,486
Employees* holding more than 1,000 shares	<b>54%</b>	44%
Shares held by employees*	<b>34m</b>	33m

\*Past and present

Many businesses run recognition schemes and make public awards for outstanding performance. The Asian Heroes scheme is one of Diageo's most extensive. The programme celebrates exceptional achievement by employees in Asia, awarding travel and other prizes to winners in ten categories, such as best new product launch, best consumer event and the best lesson learnt from a mistake.

## Section 3: Environment

# CONSERVING OUR ENVIRONMENT

### CONSERVING NATURE

A NEW FISH LADDER AT OUR MORTLACH DISTILLERY OPENS THE UPPER REACHES OF THE DULLAN WATER IN SCOTLAND TO SPAWNING SALMON AND SEA TROUT.



### SAVING WATER

EDWIN MANLANGIT OF DIAGEO AUSTRALIA HAS OVERSEEN A WATER SAVING PROGRAMME AT HUNTINGWOOD.



### CLEANER WORKING

THE WASTEWATER BALANCING TANK IN SEYCHELLES DEPICTS THE ENVIRONMENT IT WAS BUILT TO PROTECT.



### SUPPLY CHAIN PARTNERS

WE WORKED WITH MALTSTERS TO BENCHMARK BEST ENVIRONMENTAL PRACTICE IN OUR MALT SUPPLY CHAIN.



The environmental sustainability of any business is restricted by planet earth's finite resources and the limited capacity of the land, water and air to assimilate waste. Our aim is to minimise where possible the resources we need and the waste we generate, partly by efficiency measures and partly by switching to renewable resources and finding ways to re-use or recycle waste which do not degrade the environment.

#### Environmental management

The requirements of our environmental policy are defined and implementation criteria determined through a set of risk management standards. Compliance with the standards is checked annually through our Licence to Operate framework (see page 32). In the last two years 95% of production sites have undergone an environmental audit, around a quarter of them by external personnel. Environmental management systems (EMS), based on recognised frameworks, have been implemented at all existing production sites with newly-acquired facilities expected to become compliant with our policy requirement during the next two years. Having identified local benefits, 11 sites have opted to have their EMS certified to the international standard ISO14001, with ten more locations planning to achieve this level of recognition within two years.

Measurements of our most significant environmental impacts – the use of energy and water, and the production of solid waste, liquid effluent

and greenhouse gases – are our primary indicators of performance. The data are totalled from 131 production and large office sites and expressed as both totals and ratios relative to Diageo's beverage production volume – a measure of the size and activity of the business. Our methods of recording and checking data have continued to improve this year, uncovering small errors in previous years leading to restatements of performance and one target. We will continue to refine our procedures to maximise the accuracy of our information. In 2004, we set three-year targets for improvement in five relative performance indicators. In some cases, performance is already better than the levels we targeted for 2007. Next year we intend to set new challenging targets for further improvement. Progress against targets is tracked monthly and reviewed by the Diageo environmental working group at quarterly meetings, providing an opportunity to share best practice between sites and plan further improvements.

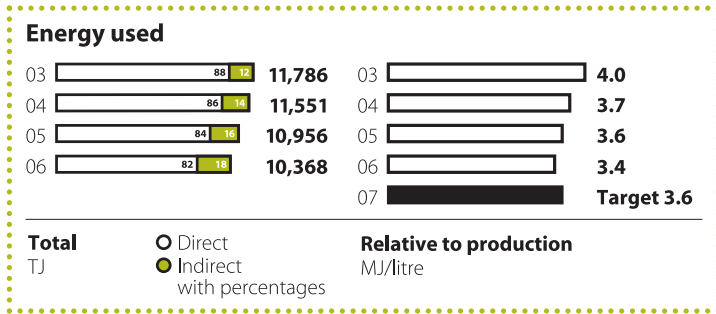
#### Energy and climate change

Climate change is one of the most important issues facing mankind. This year we put in place a global energy strategy aimed to factor the cost of carbon into more business decisions, raise awareness of the issue with employees and manage our response to regulatory measures. We are also increasingly examining renewable sources of energy. With plants in very different locations from inner cities to mountain glens, there is unlikely to be a single solution for all sites,



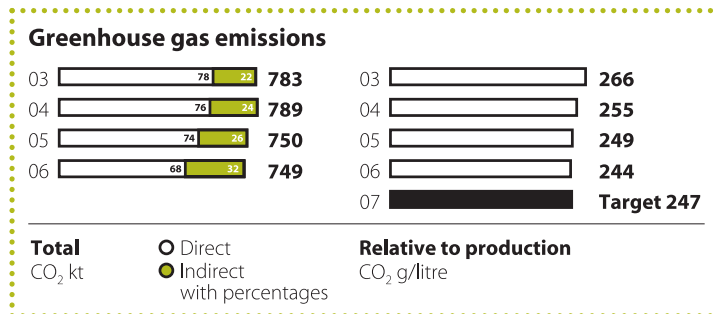
# Our aim is to **minimise the resources we need and the waste we generate.**

but technologies under consideration at particular sites include wind, tidal and biogas. In the graphs we show current sources of energy and greenhouse gas emissions divided into fossil fuels, such as oil and gas (direct), and electricity (indirect). We have also played our part in slowing the processes that cause climate change by reducing our carbon emissions, primarily through energy efficiency measures. Such initiatives, in the past three years, have helped reduce greenhouse gas emissions relative to production by 8%. This represents an annual rate of reduction considerably ahead of that required of developed countries to stabilise global greenhouse gas concentrations under the Kyoto Protocol.



At our west London office we have fulfilled a commitment we gave when the building was planned by introducing a green travel scheme for everyone working at the site. On one 'green day' per week, employees must now travel to work other than as the single occupant of a car. The scheme has proved successful with over 40 active car-share arrangements started in the first six months of operation.

We have made progress in collecting data on business flights and car journeys from more Diageo businesses and believe that the 19.8 kt of greenhouse gas emissions we have recorded this year accounts for more than 80% of the total. We aim to improve on this coverage in future reports.

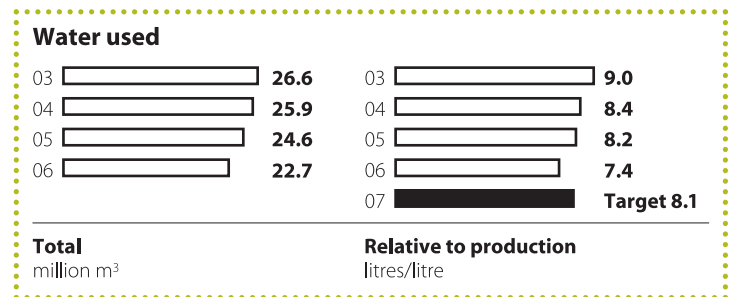


The regulation of greenhouse gas emissions, in particular through structures such as the UK's Climate Change Levy and the EU Emissions Trading Scheme (EU-ETS), provides an additional financial incentive for companies to reduce greenhouse gas emissions. For Diageo the main impact of regulations is to reinforce our drive to be increasingly efficient and to find low-carbon energy solutions. Five Diageo sites in the UK and Ireland are within the scope of the EU-ETS. This year these sites in

aggregate emitted less carbon than their allocation. Through the period of the scheme up to 2012, our focus on carbon reduction is planned to result in compliance with EU-ETS cap levels.

## 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 availability is expected to become further restricted in the future. Around 10% of Diageo production sites are located in countries where water supplies are forecast by the UN to come under stress in the next 20 years, with a further 5% in areas predicted to suffer water scarcity. We withdrew 22.7 million cubic metres of water this year – 49% from mains supplies, 44% from wells or boreholes and 7% from rivers or lakes. Reducing the amount of water needed to make each litre of product – by using less and recycling more process water – is a priority of our environmental programme.



We have made water efficiency gains at many locations. In Huntingwood, Australia, our Water Watch project has built on water-saving measures reported last year. Starting from the experience of a returning Diageo Earthwatch champion, a team of volunteers has raised awareness at the site and addressed many water management issues. Rinsing cans and bottles in air instead of water has saved 20 million litres a year. Vacuum pump cooling reduced water use from 20 to four litres per minute, with further improvements expected from upgrading the way tanks are spray-cleaned. Bottle washing water is now reused and some 13 million litres a year are recycled through a new reverse osmosis plant. Programmes like these have helped us reduce Diageo's relative water use globally by 18% over the past three years.

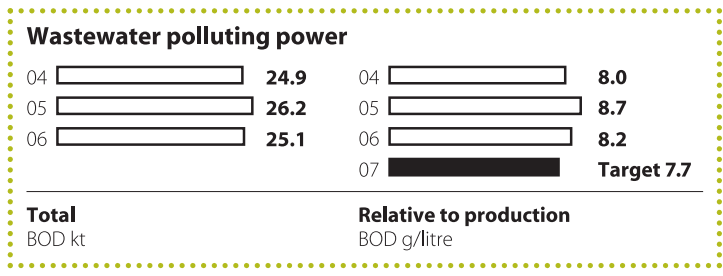
## Benchmarking water use in maltings

A 2005 Earthwatch champion who studied scarce water management in Kenya, Colin Parry has worked with 12 of Diageo's malt suppliers in Europe to study the environmental impacts of their use of water. The objectives of the research were to benchmark and share best practice in the industry, understand our indirect biodiversity impacts and assess the sustainability of a crucial ingredient supply. The study revealed generally good water management. All but one maltings had reduced relative water use since 2003 by making process changes, involving employees and setting improvement targets. All had effluent discharge licences and, where outflow levels were exceeded, action plans in place to correct them. The report recommended that companies consider implementing at their own plants the best practice measures identified. We will monitor progress against these recommendations.

# Section 3: Environment – Conserving our environment

After use, process water normally has a high organic content, which can pollute any waterways into which it is discharged. We take a variety of measures at different locations to minimise such environmental damage. We treat about 18% of wastewater on site before discharge, an increase on 9% last year due to new effluent treatment plants coming on-stream at our three Nigerian sites. About 45% is sent to municipal treatment plants and a further 6% is spread on agricultural land. Around 30% flows untreated to water, most significantly the sea. Outflows are subject to consent by local authorities and their impact on ecosystems is closely monitored. Further water treatment plants are under construction at our sites in Cameroon, Ghana and Jamaica.

In the past, wastewater from our Seychelles brewery was discharged untreated into a lagoon under government licence. As this fell short of our environmental standards, we switched the outflow to a new municipal treatment plant which reduces organic content to sustainable levels. The brewery commissioned 15 art students to transform the new balancing tank to depict the local marine environment.

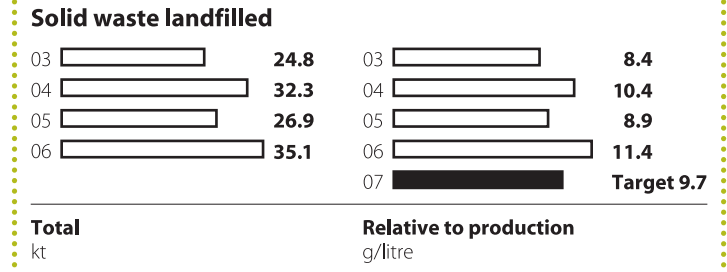


### Materials and recycling

Most of the solid materials we use are beverage ingredients from renewable sources such as grain, hops and grapes. The residues these materials leave after use are mostly sold for processing into animal feed or disposed of sustainably by composting for use as agricultural mulch. Most other waste from manufacturing and office sites is recyclable and, where facilities exist, glass and metals from rejected packaging, cardboard and paper are commonly reprocessed.

Overall, 90% of solid waste from our sites was reused or recycled this year. The remainder, which was mostly sent to landfill, amounted to just over 35kt – the increase over 2005 being caused by a number of large one-off waste disposals connected with building works at a number of sites.

A secondary environmental impact occurs through the disposal of packaging by consumers. Most of the materials we use – glass, aluminium, steel, paper and plastics – are recyclable. To encourage the development of sustainable packaging for Diageo brands, technical guidance on the recyclability and minimisation of materials is now available for our marketing teams and agencies. These advise on environmental, social and economic aspects – which must be balanced when packaging is designed. For example, while refillable glass bottles may be environmentally advantageous for beer where distribution distances are short and return rates high, they may not be economically sustainable for spirits due to the increased risk from counterfeiters.



In Africa over 90% of our beer bottles are returned for refilling. In Jamaica, beer bottles destined for the domestic market are returnable and have an expected life of 20 fillings before recycling. For exported beer, it is environmentally preferable for bottles to be recycled in the country of use rather than being returned along long supply lines. Export bottles are therefore made with less glass than domestic ones to minimise the energy required to manufacture, transport and recycle them.

### Hazardous substances and spills

The number of production sites at which ozone-depleting halons and CFCs are present has been reduced from 12 to 10, with the total stock of halon cut by 88% to 138kg and CFCs reduced 94% to 229kg. We also recorded a reduction in hazardous waste of which 340 tonnes were disposed of by specialist contractors. A number of temporary non-compliances with emission consent levels were recorded and nine resulted in official notices being received. For one of these, involving violations of air emission limits at our Relay, Maryland plant, a fine of £16,000 was incurred. There were a number of incidents with potential environmental consequences – mostly liquid spills – but none was significant enough to warrant an official notice. Action was taken to contain spillages and make changes to minimise future risk.

### Biodiversity

Being 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. This year we embarked on a project to identify the species or habitats affected most and explore the possibilities of mitigating that impact. The first stage of the project identified species or habitats whose use was known to have a biodiversity impact. The list included agave, cinnamon and cassia, cork, cranberry, grape, hop, peat and peat-bog ecosystems, sugar cane and vanilla. We worked with experts to assess these ingredients in more detail, reviewing their possible biodiversity implications and their sustainability risk to the business. The project recommended that steps be taken to engage on these biodiversity issues locally and that, reflecting the widespread nature of biodiversity impacts through water use, our efforts in this area should be increased.

The Dullan Water, a river in north-east Scotland, is designated as both a Site of Special Scientific Interest and a Special Area of Conservation, due to the presence of Atlantic salmon, otters, sea lampreys and freshwater mussels. We have worked with local conservation agencies to manage and part-fund the installation of two fish ladders to provide

**Our energy strategy** aims to factor the cost of carbon into business decisions, raise awareness, manage our response to regulations and seek renewable sources of energy.

## SUSTAINABLE BEEKEEPING

EMPLOYEES IN CAMEROON AIM TO CREATE OPPORTUNITIES IN HONEY-MAKING TO HELP CONSERVE RAINFOREST ECOSYSTEMS.



## CHECKING WATER USE

CLOSER MONITORING OF WATER USE AT SANTA VITTORIA, ITALY IS REDUCING WASTE ACROSS THE SITE.



## CLEAN-UP IN PARADISE

VOLUNTEERS FROM SEYCHELLES BREWERIES HELP CLEAR LITTER FROM THE ISLANDS.



## FIGHTING POLLUTION

TREE PLANTING ON THE BANKS OF THE DETROIT RIVER, NEAR DIAGEO'S AMHERSTBURG PLANT.



a path over the weirs at our Mortlach and Dufftown malt whisky distilleries, and open the upper stretches of the river for spawning salmon and sea trout.

This was the fourth year of our Earthwatch programme as part of which 15 employees per year become Earthwatch champions and join a two-week conservation project. The assignments, co-ordinated by the educational and research trust Earthwatch, this year were in such diverse locations as the Galapagos Islands, a Thailand coral reef and the Inner Hebrides in Scotland. As a key part of the programme, returning champions implement an environmental project in their workplace or community.

**Detroit River cleanup** Inspired by his trip to study pollution in the Czech Republic, Diageo Earthwatch champion Chris Kuszowski partnered with the Detroit River Canadian Cleanup organisation to naturalise a waterfront near our plant in Amherstburg. His intention was to help the fight against pollution in the Detroit River, while raising awareness of the importance of a sustainable environment. Chris recruited a team of volunteers and, with the support of the local conservation authority and public works department, planted over 200 native trees, as well as shrubs and other vegetation.

**Cameroon honey** Two Diageo Earthwatch champions from Cameroon joined forces to deliver their local environmental project. Josephine Yelang had studied the Pantanal wetlands in Brazil and Peter Tem surveyed butterflies and orchids in Spain. Back in Douala, they used Diageo Foundation grants to create sustainable business opportunities in beekeeping and so reduce human pressure on rainforest ecosystems. Local people will be trained in apiculture and shown the environmental benefits of planting insect-pollinated trees to preserve the forest. Josephine and Peter hope to cover 20 communities by 2008. They have already selected villages to take part and purchased training materials.

**Reducing waste together** After her Earthwatch study trip in Malaysia, Tiziana Casetta's local action plan was to improve environmental efficiency at her workplace in Santa Vittoria D'Alba, Italy by finding ways to reduce the use of water, electricity and steam. A team of colleagues met regularly to discuss solutions and produced a fact sheet, sent out with salary slips to over 400 employees, that showed how energy could be saved. These included switching off machinery, lights and air conditioning after hours. As a result of Tiziana's project, water meters have been installed to monitor the water being used for washing tanks and to avoid unnecessary waste across the site.

## Section 4: Economy

# INVESTMENT AND CREATING VALUE



### UGANDAN BARLEY

DEMAND FOR LOCAL BARLEY FOR SENATOR KEG LAGER HAS CREATED A NEW BUSINESS FOR UGANDAN FARMERS.



### CREATING PUBLIC WEALTH

GERALD MAHINDA, MD OF EAST AFRICAN BREWERIES (RIGHT), WHICH WAS RECOGNISED AS THE COUNTRY'S LARGEST TAXPAYER.



### AFRICA'S FAVOURITE

MORE THAN ONE-THIRD OF ALL THE GUINNESS SOLD IN THE WORLD IS ENJOYED IN AFRICA.

Diageo's primary purpose is to create value for investors by providing our consumers with our brands. Because our business is successful, in many markets Diageo is a powerful engine for economic growth. We provide jobs and develop the skills of our people, create business for others in the supply 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 quantifies the value we add to the raw materials and services we buy in the course of this economic activity and shows how it is distributed to various groups of stakeholders in exchange for their contribution to the business. This section examines the major recipients of cash value added – government, investors and employees. Value also 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. The remaining cash value added is invested in research and development – a source of innovation and technological advance – or retained in our business for growth, including the purchase of new companies or brands and capital spending on plant and buildings. Both items represent investment for the benefit of Diageo's stakeholders in the future.

#### Cash value added statement

	2006 £ million	2005 £ million
Cash received from customers	9,704	8,968
Other income	892	1,333
Subtotal – cash received	10,596	10,301
Cost of goods and services	(3,999)	(3,709)
<b>Cash value added</b>	<b>6,597</b>	6,592
Alcohol taxes	2,444	2,291
Other taxes	450	379
Subtotal – paid to governments as tax	2,894	2,670
Paid to investors for providing capital	2,271	1,861
Paid to employees for their services	924	848
Retained for growth	259	946
Paid to lenders as return on borrowings	211	228
Community investment	20	23
Research and development	18	16
<b>Distribution of cash value added</b>	<b>6,597</b>	6,592

# We make a **significant contribution to the economies in which we operate**, creating wealth and supporting sustainable development.

## Distribution of cash value added 2006



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

Transactions between Diageo subsidiaries in different countries are carried out according to the OECD Model Tax Convention. This states that any goods or services transferred between the two subsidiaries should be priced on an arm's length basis as if they were unrelated companies. 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.

We work with key government agencies and industry bodies on issues that influence, protect or promote our business objectives or have an impact on our stakeholders. Examples of key public policy issues are barriers to free access to markets as well as levels and systems 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, in Uganda, where there is no legislation regulating the sale of alcohol, we have been instrumental in setting up the National Alcohol Beverage Association. Chaired by Uganda Breweries, a Diageo subsidiary, the newly-established association is collaborating with the Ugandan health ministry on drafting a national policy on alcohol.

## Returns for investors

The second largest slice of cash value added from our business goes to our shareholders. Over 90% of our business is owned by institutional investors, the remainder being held by private shareholders including thousands of current and former employees.

In recognition of the capital they provide, £2.3 billion was returned to shareholders during the year – through dividends and the share buyback programme – representing 34% of the total distribution of cash value added. We are committed to make such returns as efficiently as possible. In 2006, we paid £864 million in the form of dividends and £1.4 billion via Diageo's share buyback programme. A total of £9.1 billion has been returned to shareholders in buybacks since Diageo was formed in December 1997.

We assess the value that shareholders receive from Diageo by tracking total shareholder return. This measures the relative return from movements in the share price together with dividends received. In 2006, Diageo ranked 8th in its peer group, compared with 7th in the previous year.

## Investing for sustained growth

In its 2006 Value Added Scoreboard, the UK department of trade and industry ranked Europe's top 700 companies according to the value they added (using a measure slightly different from ours). The scoreboard is designed to show how effectively these companies create wealth and reinvest to achieve continued growth. This year, Diageo remained top of the alcohol beverage sector. Diageo was also ranked top for wealth creation efficiency with the most-increased score in the sector.

## DTI Value added scoreboard

Alcohol beverage sector European ranking	Value added £ million	Change %	Wealth creation efficiency %	Change %
<b>1 Diageo</b>	<b>3,049</b>	<b>-17</b>	<b>273</b>	<b>+10</b>
2 Heineken	2,626	+17	147	-8
3 SABMiller	2,590	+106	216	+8
4 InBev	2,301	+26	150	-1
5 Carlsberg	1,201	+2	133	-7
6 Allied Domecq*	1,128	+8	224	-6
7 Scottish & Newcastle	1,082	-20	150	+6
8 Pernod Ricard	940	n/a	197	n/a

Source: DTI 2006 Value Added Scoreboard, based on 2005 accounts. Definitions used: value added = sales less bought-in goods and services; wealth creation efficiency = value added as a percentage of employment costs plus depreciation; change = 2005 result compared with average of four previous years.  
\*Allied Domecq merged with Pernod Ricard in 2005. Website [www.innovation.gov.uk](http://www.innovation.gov.uk).

## Engaging with government

The largest slice of the added value we generate goes to governments through taxation. This year, tax accounted for 44% 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, there are other taxes including those paid by our businesses, such as local and property taxes; sales taxes such as VAT paid by our consumers; income taxes levied on our employees and investors; and the various corporate taxes paid by our suppliers and customers 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.

# Section 4: Economy – Investment and creating value

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

Economic development is about developing the skills of a nation's workforce as well as financial flows. Globally, 14% of cash value added is passed to our employees, underlining the important role our business performs in sustaining jobs in the economies in which we operate.

The loss of educated, talented people through emigration is a particular economic problem for developing countries. Diageo's talent strategy has played a part in reversing this 'brain drain' by recruiting for roles in Africa from the African diaspora in the First World. Now, six out of seven of our general managers in Africa are nationals of African countries. Over the past three years, five Africans have been appointed to the Diageo African executive committee and, in the past two years, expatriates in our workforce in Africa have been reduced by half.

## The Millennium Development Goals

In an effort to shift some of the obstacles to economic progress in developing nations, all 191 member countries of the UN have pledged by 2015 to meet eight Millennium Development Goals (MDGs) to improve people's lives by tackling poverty, hunger, disease and lack of opportunity. Currently, projected achievement of the goals and their more specific targets is patchy, and in some parts of the world the MDGs are not expected to be fully met in the nine years remaining. The outlook in sub-Saharan Africa is particularly bleak. In a UN progress report published in September 2005, not one target was expected to be achieved in the region.

Companies have an important part to play in supporting the broader development objectives outlined in the founding declaration and in addressing the targets. Diageo's primary contribution comes from the economic value-creating activity of our businesses. By providing jobs for over 5,000 employees in developing countries, we help create material wealth and empowerment. Nearly one-fifth of Diageo's production sites are in developing countries, accounting for more than half of our global brewery output. Local sourcing of many raw materials and services compounds the positive economic impact of these operations through the activities of businesses in our supply chain. Our impact is extended through the production of our brands by many licensees and joint ventures. Including these, we are involved in manufacturing in 22 African countries. A further contribution comes through the taxes levied on our products and businesses which support national governments. The benefits from our core business activities can help meet the goals of the UN initiative. In addition, our community investment often supports particular MDGs or targets – for example, by providing access to clean drinking water or working against HIV/Aids – and through good citizenship we promote equal opportunities and minimise our environmental impacts. A summary of the MDGs and how our actions have supported them is given on [www.diageo.com](http://www.diageo.com).

## Promoting investment in Africa

The success of Diageo's businesses in Africa provides a clear example of the opportunities available for companies to invest in the continent. We brew or distil in 22 sub-Saharan countries, either through subsidiaries or joint ventures (some of which are quoted on local stock exchanges), or licence arrangements. Our 4,500 Diageo Africa employees represent a fifth of the global workforce. The first exports of Guinness to Africa were to Sierra Leone in 1827 and now more than one-third of all the Guinness sold in the world is enjoyed in Africa. Besides the widely-popular stout, Diageo produces many other iconic African brands such as Tusker beer in East Africa, Star beer in Ghana and the soft drink Malta Guinness in many markets. This year we published *Diageo in Africa*, a supplement to the corporate citizenship report, available on the website.

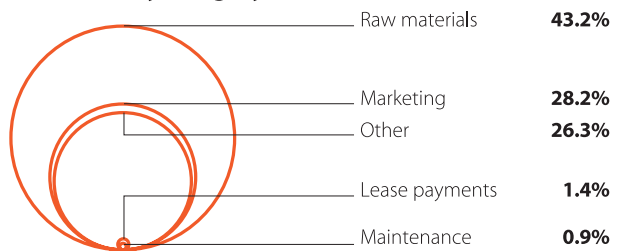
To encourage other companies to invest – and so help support development in Africa – in 2004 we launched the Diageo Africa Business Reporting Awards. The scheme aims to reward fair and balanced reporting of the business opportunities in African countries in preference to the negative press that the continent often receives. The awards are gaining wide recognition for the cause of reporting fairly on Africa. Winners of the 2006 scheme, which attracted a record number of entries, were announced at a ceremony held in London in June.

In support of this initiative, in November 2005 we brought a group of African American journalists from the USA to observe the business environment first-hand in Kenya, Uganda, Ghana and Nigeria. The journalists visited Diageo community and environmental projects, met government ministers, business leaders, local media and international development agencies and were invited on to the floor of the Nigerian Stock Exchange. The plea from government ministers to the US media representatives was clear – portray Africa in its entirety; not only the crisis of HIV/Aids and famine, but also the region's potential for commercial investment.

## The supply chain

In addition to the issues that arise directly from our own operations are the impacts exerted by other businesses active in our supply chain. The backward links in this chain represent the businesses which supply us with raw materials, finished goods and services, while the forward links are those with roles in distributing and delivering our brands to consumers. As it is demand for our brands that sustains the supply chain, we are concerned that the other companies within it should derive adequate business benefit from it and have an appropriate approach to corporate citizenship issues.

## Purchases by category 2006



# We are concerned that **other companies in our supply chain** should have an appropriate approach to corporate citizenship.

Developing strong relationships with business partners helps ensure that the supplies essential to our operations are sustainable, that we can obtain the best value in terms of cost, quality, service and innovation, and that the terms and conditions of business are fair. They also make it easier to influence supply-chain partners and encourage them to maintain standards similar to our own in human rights, business ethics and environmental practices.

There is no group standard in respect of payments to suppliers. Operating companies are responsible for agreeing terms and conditions for their business transactions when orders for goods and services are placed, so that suppliers are aware of the terms of payment and include the relevant terms in contracts where appropriate.

## Indirect economic impacts

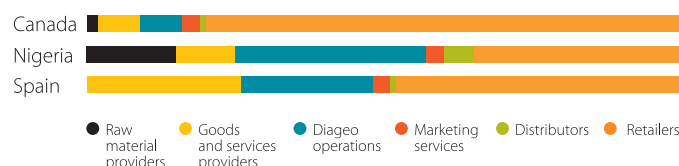
Our 'direct' economic effect on employment is to create value in the middle of the supply chain through our own activities. Economic value is also generated by activity at other points along the supply chain. This extensive 'indirect' effect sustains jobs in agriculture, manufacturing, services, distribution, wholesaling and retailing. Diageo's total impact on employment is the sum of these direct and indirect effects. It can be quantified by using an 'employment multiplier' which relates the total jobs sustained to the number of jobs in our own workforce. A further 'induced' effect supports yet more employment when the salaries earned by our employees, suppliers and customers are spent.

We carried out an assessment of Diageo's economic impact in three countries – Canada, Nigeria and Spain – in which our businesses have different characteristics. In Canada, Diageo has distilling and distribution operations; in Nigeria, brewing and distribution; and in Spain we have distribution but no production facilities. The study aimed to quantify the distribution of economic value – and hence the potential for sustaining employment – along the supply chain of Diageo's products in each of the three countries, from agricultural raw materials to the point of sale to consumers.

Although the study did not produce an employment multiplier in any of the three countries, it did allow the number of jobs created at some parts of the supply chains to be estimated. For example, in Canada, where Diageo had around 870 employees, an estimated further 815 jobs were sustained in agriculture, 1,838 in manufacturing and 40 in transport. In Nigeria, 1,668 direct jobs were judged to be augmented by around 7,794 more in manufacturing, based on published sources for employment multipliers.

Reliable figures were not available for agriculture in Nigeria. However, as a significant buyer of locally-grown grain, our effect on employment in Nigerian farms is likely to be substantial. In Spain no jobs were created in the raw material sector because we have no local manufacturing. Significant value is created in the retail end of the chain and we estimate that our business indirectly contributes to many thousand of jobs in the hospitality and leisure industries in Spain. In Canada, the proportion of value created at the centre of the chain is noticeably lower than in the other countries, while the proportion found at the point of retail

## Distribution of value created in the supply chain\*



\*Inclusive of tax

is higher. This is because of the way alcohol beverages in Canada are distributed and tax collected via government-owned operations, which adds to the mark-up at the end of the supply chain. In the other two countries, a greater proportion of such taxes appear as part of Diageo operations, as well as at point of sale. In all cases, tax payments by Diageo contribute to employment within government and beyond.

Employment multipliers vary with industry and market and tend to be greater in developing countries (where estimates as high as 25 or 30 have been published for the beverage sector) than in industrialised regions where they can be in single figures. The Scotch Whisky Association published an employment multiplier of 6.6 for the spirits industry in Scotland in 2000. Across the world, the breadwinners whose livelihoods depend on the economic value created by Diageo's supply chains are likely to number in the hundreds of thousands.

## Indirect social and environmental impacts

Our supplier standards, drawn up with reference to external codes such as the International Labour Organisation conventions on human rights, set out the principles of business ethics, recognition of human rights and environmental management we expect from suppliers.

The task of monitoring our thousands of suppliers is substantial. Last year we piloted a scheme covering those with whom we did significant business or who were identified as potentially high risk due to their location or business sector. Around 86% of the 270 enterprises provided a self-assessment on compliance with our standards. The information was the basis for developing relationships with suppliers and helping them address areas of concern. For example, in Japan a conference was held with our top 25 suppliers to share the challenges we face in our business and explain clearly what we expect from commercial partners.

This year we have built on this experience by joining the independent Supplier Ethical Data Exchange, or Sedex, a scheme for the on-line self-assessment of suppliers, validated by independent audit, which assesses compliance with Ethical Trading Initiative standards of human rights, labour standards and health and safety and encourages improvement where necessary. Diageo suppliers identified as potentially high-risk will be requested to participate in this scheme. Those with identified areas of concern will be encouraged to undergo an independent audit and asked to put in place a mitigation plan.

## Section 4: Economy – Investment and creating value

### Ugandan barley

In 2003, our business in Uganda saw a large tax reduction on beers brewed from home-grown raw materials as an opportunity to produce a quality beer – Senator lager – from local grain at an affordable price. But it meant introducing barley to an area where it had not been grown before. The Kapchorwa district on Mount Elgon was identified as climatically suitable for barley and we provided seed, fertiliser and pesticides interest-free for 50 farmers to plant the crop. Today, barley supports about 2,000 Kapchorwa farmers. Our brewery pays them cash on delivery for the grain, providing a more reliable and consistent income than the maize on which they previously depended. The boost to the community's economy has allowed more families to send their children to school and improve their homes. The new industry, estimated to be worth £1.6 million a year, requires new skills. In partnership with others, Uganda Breweries is providing business training to help farmers plan and manage their crops to maximise yields.

Through the Diageo vendor quality assurance programme, we audit potentially high risk suppliers for compliance with our environmental risk management standards. They are also assessed by their Diageo relationship managers to ensure they meet the requirements of our codes of business conduct and marketing practice.

Responding appropriately to the problems 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 loss of business by the supplier could have wider economic implications. Our aim is to balance these possible outcomes and, building on strong relationships, work with identified suppliers to help them improve. Only in cases of gross transgression, where the supplier fails to move towards compliance, do we plan to use the sanction of seeking alternative sources of supply.

### Developing customer relationships

We create business for our customers – the distributors, wholesalers and retailers of our brands – by providing them with our brands and by offering commercial skills and resources to encourage demand and maximise their returns. We continually review our products and seek to meet consumers' needs through a programme of imaginative and technological innovation, investing £18 million in research and development during the year.

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 and maintain high standards of citizenship in our relationship. We continually look for efficiencies in distribution and reduce waste through innovation in logistics, packaging and merchandising to provide better value for consumers and advantages for the environment. For example, in the UK, Spain and Belgium, when our trucks deliver stock to certain supermarket depots, instead of returning empty, they carry other goods back to a customer outlet near our production plant, thus saving road-trips and carbon emissions.

Increasingly, we are developing strategic relationships with major customers. During the year this approach to relationship-building was recognised by Wal-Mart when Diageo was named International Supplier of the Year by Sam's Club, the retailer's cash-and-carry division. We beat 40,000 other suppliers across all categories to achieve this title.

In the UK there are 1.3 million students over the age of 18 in higher education. Their universities and colleges host around 400 bars whose stock is purchased centrally by a service arm of the National Union of Students. We have a strong relationship with this important customer based on mutually-held objectives for commercial success and high standards of citizenship. The NUS has an extensive assessment process which grades suppliers according to their approach to the ethical and environmental concerns of union members, following this up with audit visits. We work with the NUS to assure them of our high standards of integrity. As a sponsor of the What's in it? campaign, described on page 10, we make a particular contribution to the aim of student unions of encouraging responsible drinking and promoting their bars as safe and responsible environments for entertainment and celebration.

The Liquor Control Board of Ontario (LCBO), which is responsible for retailing alcohol beverages in the Canadian province, is one of our top ten customers globally. Sharing LCBO's commitment to responsible marketing, we have worked closely with the board to help in meeting part of its mission to be a socially responsible, performance-driven and profitable retailer. We have recently developed a plan to support the LCBO's environmental objective of reducing packaging in the supply chain. With our customer's support, we successfully launched Smirnoff Ice in plastic bottles in the province. Wine in Tetra Pak containers is in development. Both of these materials are easier to recycle than glass in Canada, providing environmental advantages.

We have adopted a standard survey to monitor major customer relationships and make the customer's voice stronger in our business decisions. Used in our top 27 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. In this year's survey, customers noted as strengths: Diageo's market, category and brand knowledge; being passionate about and understanding our customers' business; and our commitment to the responsible marketing of alcohol beverages. Areas for improvement identified included: one-to-one contact with customers at various levels; and the consistency and quality of our work at the point of purchase. Surveyed regularly, our customers' views help us develop relationships and ways of working in their markets and globally.



# POLICY AND MANAGEMENT

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### Engaging our stakeholders

We list our most important stakeholders – those who can affect, or be affected by, our business – as our investors, employees, commercial partners, government, community, the media and consumers.

‘Commercial partners’ includes suppliers, customers, distributors and joint venture partners. The continuing goodwill of each stakeholder group is essential to the future of Diageo, and our aim is that relationships with our stakeholders are close and mutually beneficial.

Our businesses engage with stakeholders in a variety of ways – for example:

- **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 global 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 supply 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 investment is targeted where it can do most good; projects are developed in partnership with NGOs; best practice is shared with other companies, governments and NGOs through membership of network organisations; pilot projects provide community input to the main project design; tsunami projects were visited by members of the corporate citizenship team; external evaluations of large projects are used to refine future initiatives.
- **Media** relations are fostered through briefings, meetings and press releases; our chief executive maintains contacts with senior journalists; key employees are trained in media skills and we have a global network of media professionals; and 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 information on nutrition and allergens on packaging and through our newly-launched website [www.knowyourdiageodrink.com](http://www.knowyourdiageodrink.com); and they can communicate concerns via consumer care lines.

The top 40 Diageo markets, representing the vast majority of our business, have stakeholder engagement plans in place as part of their corporate relations strategy and the implementation of these is reviewed as part of our business strategic review cycle. The understanding we gain from stakeholder engagement is a powerful directing influence in the formulation of our values, policies, priorities and actions and many examples of this are given in this report.

The report itself is designed to provide our stakeholders with information on Diageo’s response to sustainability issues. It is not aimed at any particular stakeholder group, though it is distributed most systematically to employees to raise their awareness and foster a sense of pride in their involvement with Diageo.

We use a number of sources of reference to ensure that we report on areas of relevance and prioritise the most important issues. Questionnaires from investors and analysts representing them, response cards from previous reports, the guidelines of the Global Reporting Initiative, and the process of stakeholder engagement described above all help direct our corporate citizenship priorities and reporting.

### Co-ordinating citizenship issues

The work of the Diageo board and its committees is described in detail in the corporate governance report which is included in the annual report. In summary, the board consists of its 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, environmental policies 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 and Europe markets, global supply and the global functions. The chief executive has created committees intended to have an ongoing 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, policies and issues. This includes such matters as: corporate citizenship performance, measurement and reporting; community affairs;

# Section 5: Governance – Policy and management

environmental matters; and other emerging corporate citizenship issues. Progress in these areas is reported periodically to the board and publicly through this report, which is subject to external assurance.

An alcohol and responsibility executive working group assists the committee with its work on specific issues linked to Diageo's commitment to responsible drinking. It brings together the key executives from the business and functional representatives involved in detailing and realising Diageo's commitment to responsible drinking. The Diageo environmental working group develops strategies for compliance with our environmental policy and shares best practice across the business. 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 located throughout the business.

Diageo is an equal or minority party to a number of important joint ventures which distribute and may manufacture our brands in certain markets. Last year we worked with important joint venture partners on an approach to ensuring that the businesses we share have implemented a suitable range of policies covering, as a minimum, ethical business conduct, human rights, responsible marketing, environmental management and the supply chain. We are now reviewing businesses in which we have a 25-50% holding. Where gaps are identified, we will work with our joint venture partners to put appropriate policy commitments in place.

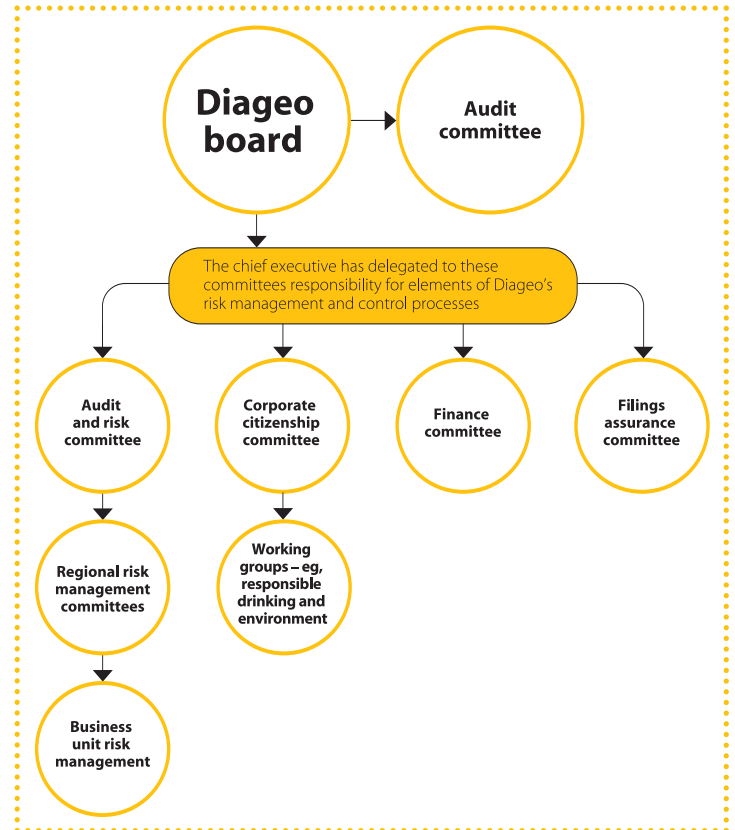
## Managing risk

Our aim is to manage risk and control our activities so as 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, made up of executive management, meets at least quarterly to review the risk profile of the company and receive detailed reports from supporting bodies and committees.

Our approach complies with applicable UK and US governance requirements. Significant business units and the Diageo executive committee each perform a risk assessment at least annually as part of their strategic planning. Business unit risk assessments and the activities planned to manage those 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.

The Diageo Licence to Operate (LTO) programme aims to reduce risk by assessing sites' compliance with legislation and with our own policies and standards in the areas of quality, environment and occupational health and safety. The scheme's annual audit and management review programme is consistent across the world and its on-line reporting system allows us to track progress. Audits are conducted by Diageo

personnel independent of the site under review. LTO has been implemented at all beer and spirits sites (excluding Bushmills, acquired during the year). All have prioritised their actions and the delivery of these will be monitored over the coming year.



At the 2006 European Risk Management Awards, the quality of our work in this area, particularly the LTO programme, achieved recognition for our colleagues as European Risk Management Team of the Year, with the judges citing the 'passion, commitment and determination to bring risk management to life at Diageo'.

## Diageo policies

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 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. Dialogue with interested groups helps us to ensure that our policies address the legitimate concerns of stakeholders.

The **code of business conduct** sets out Diageo's standards on business integrity issues such as conflicts of interest, competition, insider trading, corrupt payments, money laundering and other illegal practices. In addition, it acts as an overarching compliance

# Being a good corporate citizen is essential for any business wishing to enjoy a sustainable future. For us, it includes living our values and being accountable to our stakeholders.

instrument by including a requirement to comply with the company's other main policies. This year, the code was revised to take account of the increasing importance of an effective control environment to achieve our strategic goals. The review involved wide consultation within Diageo and input from the Institute of Business Ethics and the Ethics Officer Association. The requirement to complete an annual compliance certificate was this year extended to all managers globally, with 100% response. The certificate signifies adherence to the code of business conduct and thus to other Diageo policies not only by each of the approximately 3,000 managers but also by people reporting to them. During the year, 118 issues were reported through this process. These matters were reviewed and investigated, and where appropriate referred to the audit and risk committee for resolution. Potential issues raised and investigated included claims of employee conflicts of interest, breaches of the employee alcohol policy and potential issues surrounding our internal marketing codes and expenses policy.

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



Managers receive training in the code through conventional workshops or intranet-based programmes. In North America our e-course on the code was completed by over 240 managers and the alcohol beverage trade practices course by over 170. More than 420 attended a seminar on regulatory compliance. Project Integrity is a programme of half-day workshops on governance, risk and compliance which examine case

studies on corruption and money laundering. Around 1,050 employees attended 51 courses held in 18 countries during the year. Further workshops are planned.

Diageo policies are regularly reviewed to ensure that they continue to achieve their objectives. The policies, the full texts of which are available on our website, are summarised below:

- **Marketing code** – guidance on responsible marketing, promotion and innovation for marketing and advertising practitioners
- **Code of ethics** – standards of reporting, disclosure and honest and ethical conduct for specific senior officers of the company
- **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** – management and standards in the main areas of environmental impact
- **Supplier standards** – supporting an ethical basis to business practice, the protection of human rights and the management of environmental impacts within the supply chain
- **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.

## Performance measures

To track our progress and provide stakeholders with a meaningful picture of the improvements we have made in corporate citizenship, we maintain an extensive range of performance indicators and additionally seek opportunities, through independent assessments, to benchmark Diageo against comparable companies.

To prioritise enhancements in the most important areas, 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 people within Diageo responsible for our relationships with particular stakeholder groups. This year we reviewed our performance indicators and have incorporated the current list into our GRI content index, available on the website.

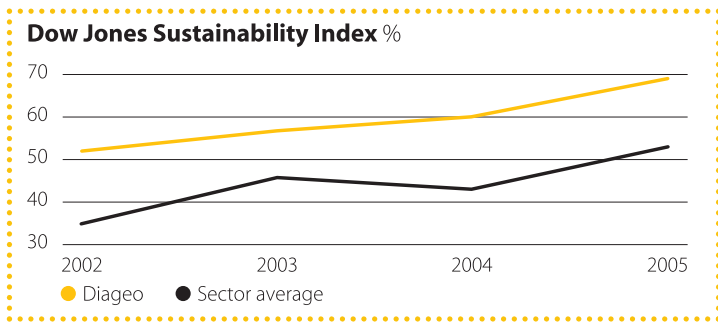
We routinely compare our performance as a corporate citizen with that of our peers to learn what we can from others. We have participated in a number of benchmarking projects – for example, a Business in the Community (BITC) project on measuring social impacts and the Global Leadership Network, a strategic corporate citizenship research and benchmarking initiative of Boston College and AccountAbility.

# Section 5: Governance – Policy and management

We aim to complete the questionnaires we receive from investors and others which seek to evaluate our management systems and performance for the benefit of particular audiences, including many of our stakeholders. We use these assessments, with their published indices or rankings, to keep our strategy in tune with best practice and stakeholder priorities.

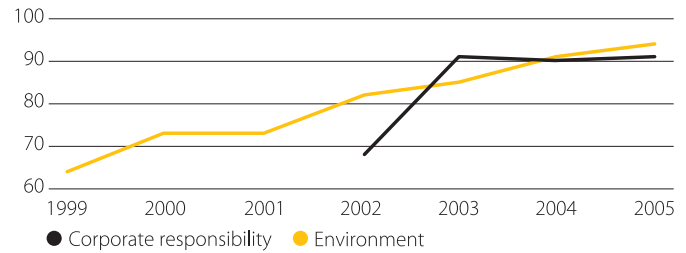


Diageo is included in the FTSE4Good and Dow Jones Sustainability indices, listings which help investors select companies with good records of corporate responsibility. To be included, companies must be judged to be working towards social, environmental and economic sustainability and be developing positive relationships with stakeholders. In the benchmarking assessment carried out for Dow Jones in 2006, which due to changes is not comparable with previous years, Diageo scored 63%. The sector average score was 54%.



The BITC corporate responsibility index ranks companies' social and environmental management and performance. On an assessment of our worldwide business in 2005, Diageo was placed 48th out of 131 participating companies. In the BITC environment index, which assesses how organisations integrate environmental responsibility into their business functions, Diageo was ranked 25th out of 145 companies. Diageo was the beverage sector leader in both indices.

**BITC indices: Diageo scores %**



### 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. As a signatory we are required to publish an annual 'communication on progress' (opposite). In this, we have reported examples of actions and outcomes for each of the ten principles of the Compact. Support for principles 1-6 is covered by compliance with our human rights policy; principles 7-9 are covered by our environmental policy; and principle 10 by our code of business conduct.



# UNGC COMMUNICATION ON PROGRESS

Priorities for action	Examples of practical actions and outcomes	See page
<b>Human rights</b>		
Businesses should:		
1. Support and respect the protection of internationally proclaimed human rights	A health and safety campaign at many manufacturing plants included safety days, incident simulations, training and awareness raising.	19-20
2. Make sure they are not complicit in human rights abuses	Potentially high risk suppliers were identified and a new monitoring and audit scheme established. A pilot risk-based assessment did not identify abuses in participating suppliers.	29-30
<b>Labour standards</b>		
Businesses should uphold:		
3. The freedom of association and the effective recognition of the right to collective bargaining	Performance-related pay deals were agreed with unions for workers at three plants in Ireland, Italy and Australia. Improvements noted in Bundaberg, Australia included increased trust, morale and engagement with enhancements to processes and the workplace. During the year, we established a works council at our service centre in Budapest.	20-21
4. The elimination of all forms of forced and compulsory labour	We make no use of forced or compulsory labour. Potentially high risk suppliers were identified and a new monitoring and audit scheme established. A pilot risk-based assessment did not identify abuses in participating suppliers.	29-30
5. The effective abolition of child labour	We make no use of child labour. Potentially high risk suppliers were identified and a new monitoring and audit scheme established. A pilot risk-based assessment did not identify incidences in participating suppliers.	29-30
6. The elimination of discrimination in respect of employment and occupation	We implemented a new Diageo-wide resourcing policy which reinforces existing anti-discrimination practices. This corporate citizenship report includes examples of actions we have taken to promote diversity in our workforce.	18
<b>Environment</b>		
Businesses should:		
7. Support a precautionary approach to environmental challenges	To identify and manage environmental risk at our supply sites, an environmental leadership team was established. Seven newly-acquired wineries were audited to identify improvements needed to bring them in line with Diageo standards. Half the action points have been completed, with the balance due next year. An effluent plan was put in place to deal with increased production volumes in Dublin. Through altering flows, reducing BOD and improved monitoring, licence exceedences were reduced from 122 in 2005 to 34 this year. New bunding has been installed at the Port Dundas distillery, Scotland and Baileys plant, Northern Ireland to reduce the risk of environmental damage in the event of a spillage.	22-25
8. Undertake initiatives to promote greater environmental responsibility	The environmental management system at Waterford, Ireland, was certificated to ISO14001. At Kilkenny, Ireland, a new system of waste separation was introduced and wastes previously landfilled are now recycled or composed, reducing landfill to 50% of the target level in the first month of operation. At our packaging plant in Runcorn in the UK a new '5S' housekeeping methodology has reduced landfill by 200t a year.	22-25
9. Encourage the development and diffusion of environmentally friendly technologies	To raise awareness among our brand teams and design agencies, we published general and technical guides on the principles of sustainable packaging. At our bottling plant at Santa Vittoria, Italy, plastic coating has been removed from a range of wine labels, saving 2.5t a year in waste plastic. At one Scottish engineering site, newly-installed welding machines are 30% more energy efficient than previous equipment; at another, specialist plastic waste is now recycled, saving 45t of landfill a year. A plant and furnace upgrade at our Kenyan glassworks has saved over 1MJ of energy per tonne of bottles produced. Effluent treatment plants installed this year at our three breweries in Nigeria have reduced BOD in their outflow to water by around 80%. In Seychelles, connection with a new external treatment plant has reduced by around 50% BOD discharged to the nearby lagoon. Energy-saving light fittings were installed in Relay, Maryland, and Sterling Vineyards, California, to cut electricity consumption by around 350GJ a year.	22-25
<b>Corruption</b>		
Businesses should:		
10. Work against all forms of corruption, including extortion and bribery	To embed our code of business practice fully in our ways of working, 51 Project Integrity workshops were held in 18 countries, the e-theBest programme was extended and fraud workshops were held for senior managers.	29-30, 33

## Section 5: Governance

# REPORTING AND ASSURANCE

### Reporting programme

This is the fourth corporate citizenship report on Diageo's global business; the last was published in September 2005. While we strive continuously to improve our coverage and measurement of citizenship issues, no fundamental changes have been introduced that would invalidate comparison with the 2005 report.

The corporate citizenship report is one element of Diageo's regular reporting which includes the annual report and annual review and background material published on the website [www.diageo.com](http://www.diageo.com). Information which may be useful in understanding the sustainability of Diageo's business is given in these other reports.

For a full picture of Diageo's approach it is useful to consider the business not only from a global perspective but also at country level. Contributing to the prosperity of communities, sustaining jobs and working with customers and suppliers are examples of issues with considerable local resonance. In the last three years, we have published or are now preparing reports on Diageo in Canada, East Africa, Greece, Ireland, Jamaica, Korea, Nigeria, Seychelles, Spain and Thailand. We have also prepared a supplement on our business in Africa. All reports are made 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's impacts and actions which allows stakeholders to track our performance over time and make comparisons with other companies. We have prepared this report in accordance with the Global Reporting Initiative (GRI) 2002 Guidelines ([www.globalreporting.org](http://www.globalreporting.org)). A GRI content index, which locates information within the report with reference to GRI indicators, is available on the website. We have reviewed the draft revised version of the GRI Guidelines, known as G3, and have amended our reporting in some areas in response to anticipated changes. We shall consider basing our next report on the G3 Guidelines when the final version is published.

In response to stakeholder requests to add comparative detail in areas not currently covered by the GRI guidelines, we seek other standard means of reporting our performance – for example, through membership of the London Benchmarking Group which provides a method of evaluating community investment.

### External assurance

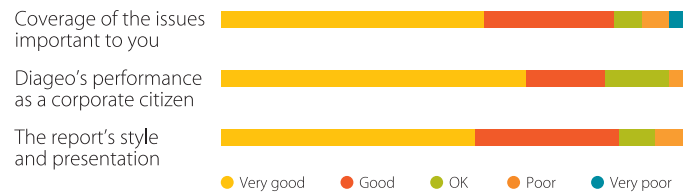
The main aim of this report is to provide an understanding of our business – for which readers need to be confident that we have covered the topics which are important to them and that the information we have included is right. We have commissioned The Corporate Citizenship Company to give an external assurance opinion as to 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 report in order to improve our reports in the future. This assessment is given in summary form on page 37 and in full on the

website. We believe that this detailed approach to assurance is more useful to our readers than the more common limited opinion of veracity, a view endorsed by stakeholders in a feedback consultation we held last year.

### We value your opinion

We welcome your views on Diageo's approach to corporate citizenship and about this report. Following publication of the 2005 report we received 36 responses using a reply card. We hope we have responded adequately to each of the points raised by this means in this year's report.

#### Readers' ratings of the corporate citizenship report 2005



To give your comments on this report, please use the reply card provided. If you prefer, or the card has been used, email your comments to [corporatcitizenship@diageo.com](mailto:corporatcitizenship@diageo.com) or write to Geoffrey Bush, Director of 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. 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 US Securities and Exchange Commission.

# Your views matter



We want our report to present a clear picture of Diageo's corporate citizenship performance, covering the issues that are important to you. Please take the time to give us your views by completing this form or, if you prefer, on [www.diageo.com](http://www.diageo.com).

## Diageo corporate citizenship report 2006

1 How would you rate the report's coverage of the issues that are important to you?

- very good    good    ok    poor    very poor

2 Based on the report, how would you rate Diageo's performance as a corporate citizen?

- very good    good    ok    poor    very poor

3 How would you rate the report's style and presentation?

- very good    good    ok    poor    very poor

4 If you read the 2005 report, how does this year's report compare?

- much better    better    about the same  
 worse    much worse

5 Please expand on any points, or give us your views on the report, or on Diageo's corporate citizenship programme in general

6 Please tick the box or boxes that indicate your relationship with Diageo.

- |  |                                      |                                   |
|--|--------------------------------------|-----------------------------------|
| <input type="checkbox"/> consumer        | <input type="checkbox"/> shareholder | <input type="checkbox"/> employee |
| <input type="checkbox"/> former employee | <input type="checkbox"/> retailer    | <input type="checkbox"/> supplier |
| <input type="checkbox"/> government      | <input type="checkbox"/> NGO         | <input type="checkbox"/> media    |
| <input type="checkbox"/> neighbour       | <input type="checkbox"/> other       |                                   |

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Diageo plc  
8 Henrietta Place  
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# EXTERNAL ASSURANCE STATEMENT

Diageo has commissioned The Corporate Citizenship Company to provide an external assurance and commentary on its corporate citizenship report 2006. 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 of underlying corporate records, and to provide this statement for which we have sole responsibility. A full version of our external assurance and commentary is available at [www.diageo.com](http://www.diageo.com), including details 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 progress Diageo has made in its commitments to corporate citizenship. Where gaps in published performance data and stakeholder views on material issues exist, they are identified below. In forming our opinion and making our comments, we have had regard to the principles of the international assurance standard AA1000 ([www.accountability.org.uk](http://www.accountability.org.uk)), notably concerning materiality, completeness and responsiveness. We have considered the 11 reporting principles judged essential by the GRI sustainability reporting guidelines of 2002, as well as the practice of leading corporate reporters in the industry and beyond.

## Commentary

A corporate citizenship report should explain how the company impacts on society, looking at the material economic, social and environmental concerns of its stakeholders. It should show how decisions are made and differing interests are balanced. Honest about shortcomings, it should demonstrate how the organisation is responsive by listening, learning and improving. This is the fourth year in which we have provided the assurance for Diageo's corporate citizenship report. We believe that this report has made yet further improvements on meeting the requirements of a good corporate citizenship report.

The Background section provides a clearer profile of the company, and the report begins to explore the company's economic impacts more fully. Last year we recommended that Diageo do more work to understand its biodiversity impacts and the company has begun this. It has also made good progress on hitting its environmental targets.

This year, we examined in some detail the company's responsible drinking commitments. This work showed that Diageo's efforts in this area are significant and are applied across business functions, with particular attention paid to marketing. Its extensive relationships with campaign groups and public bodies are notable for the industry.

## Looking ahead

There are four areas that the company should particularly address in its reporting in the future. Firstly, reports should give readers greater context around the issues raised. For example, this report shows many responsible drinking initiatives with extensive commitments

to responsible marketing. It should also report how its products reach consumers, through on-trade and off-trade, large hospitality outlets or small bars, as distribution and retail are critical factors in promoting responsible drinking. Furthermore, such information is essential to understanding Diageo's role in the industry as a whole. To some extent this is addressed in country reports, but there should be more explicit links between these and the global report, not least because attitudes to alcohol and the structure of the industry vary widely around the world.

Secondly, Diageo's reports should offer more robust measures and analysis. For example, despite good information about promoting diversity, the only clear measure provided relates to gender. Responsible drinking is widely discussed and a statement is made about getting better at measuring programmes. Good data on programme inputs and outputs is provided using the LBG model, but Diageo should look to report more extensively on the longer-term impacts of its activities.

In our opinion, Diageo seeks to act responsibly in relation to its range of stakeholders. Some of the greatest challenges are at the ends of its extensive value chain – not only distribution, retail and consumers, but also the sourcing of materials. We believe that, where raw materials are sourced directly, Diageo should report more fully on its relations with farmers and smallholders, particularly in developing countries and water-stressed regions.

Finally, the report refers to a number of internal programmes. For example, Diageo's global energy strategy is a potentially significant initiative in reducing carbon emissions and its full implementation would be welcomed. Future reports should cover its progress and state the sources of energy consumed. The Licence to Operate programme is an extensive operational improvement process now rolled out across all beer and spirits businesses. It is important that this is consistently applied worldwide, and the version being designed for key commercial partners would be of interest to stakeholders.

## Additional LBG assurance statement

Diageo is an active member of the LBG (London Benchmarking Group). The LBG model helps businesses improve the management, measurement and reporting of their community involvement programmes. It moves beyond charitable donations to include the full range of contributions made to community causes and assesses the results for the community and the business. ([www.lbg-online.net](http://www.lbg-online.net)). As managers of LBG, we have worked with Diageo to ensure that it understands the model and applies its principles to the measurement of community involvement programmes. 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

London, 30 August 2006  
[www.corporate-citizenship.co.uk](http://www.corporate-citizenship.co.uk)



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