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DIAGEO Sustainability & Responsibility Report 2013

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Celebrating life, today and tomorrow

"As I start as chief executive of Diageo, I know that the ability to shape the future – for our company and our stakeholders – is in our own hands. The work we do in sustainability and responsibility today, working in harmony with our communities, suppliers, customers, consumers, and other partners, as well as the natural world around us, will help make that future a bright one. We call this celebrating life, today and tomorrow."

Ivan Menezes, Chief Executive

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01

DIAGEO 2013

Strategic Brands

Brand	Revenue	Profit	Volume	Market Share
Johnnie Walker	1,200	250	100	15%
James Watson	800	150	70	12%
Black & Tan	600	120	50	10%
Black & White	500	100	40	8%
Black & Red	400	80	30	6%
Black & Blue	300	60	20	4%
Black & Green	200	40	10	2%
Black & Yellow	100	20	5	1%

Financial Performance

Brand	Revenue	Profit	Volume	Market Share
Vodka	1,500	300	120	18%
Gin	1,000	200	80	14%
Whisky	800	160	60	10%
Tequila	600	120	40	8%
Rum	400	80	30	6%
Cognac	300	60	20	4%
Brandy	200	40	10	2%
Other	100	20	5	1%

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A message from Paul Walsh, Chief Executive (until 30 June 2013)

In my final introduction to our Sustainability & Responsibility Report, I am proud to point to many accomplishments that Diageo has achieved thanks to the tireless commitment of our people. As Diageo continues to grow and evolve, I am confident that my successor, Ivan Menezes, will build upon these successes and progress our work in support of creating long-term value.

For Diageo, earning the trust of all our stakeholders is central to our business strategy. At the heart of our success in driving consistent top line growth and margin expansion are people all over the world. From the farmers who grow the grains we use in our brands, and our own employees, to the customers who sell our products and the consumers who love them, we benefit from the partnerships we create. We also benefit from working in stable, growing economies. That means having relationships of mutual respect with governments, non-governmental organisations and community members who help ensure that we and other multinationals can contribute in a meaningful way.

This year we were honoured to have been named Britain's Most Admired Company by UK business magazine, *Management Today*. We also received many other sustainability awards in different parts of the world. Together these recognise our people, who have worked hard to earn the trust of all those whom our business touches.

During my 13 years as chief executive of Diageo, ensuring that our company is a trusted and respected member of society has been very important to me, and I am certain that our approach to sustainability and responsibility has been essential in earning this trust and respect. This approach, aligned with our values, is also a core component of delivering our financial performance because it facilitates our licence to operate, secures our supply of raw materials, generates business efficiencies, and motivates our people.



Among the most basic and essential elements of running a sustainable company is a commitment to health and safety wherever we work. I was deeply saddened that, despite the efforts of many employees across the business to improve our safety culture, four people lost their lives at work this year. Safety must be our number one priority and fatalities at work are simply not acceptable. Our sympathies go to their families, and we are committed to redoubling our efforts to ensure that everyone goes home from work safe every day.

Given the changes our business has been through over the last few years, this year we refreshed our approach to sustainability and responsibility. We interviewed more than 40 stakeholders to understand their social and environmental concerns for our business and industry, taking stock of our changing geographical footprint and any new implications for our Sustainability & Responsibility Strategy.

We were reassured that our stakeholders believe that our programmes are going in the right direction. Our research confirmed the belief that we can and should play an important role in communicating about alcohol responsibly and tackling alcohol misuse. I believe industry collaboration is an important element in this work, which is why, on behalf of Diageo, I signed the CEO Commitments to reduce harmful drinking.

Water stewardship, particularly in communities where access to clean water is limited, was also identified as an important responsibility of our company, our agricultural suppliers and others in the industry.

This is another key element of our strategy, and I am delighted to see developments in water efficiency at many of our sites in addition to a 21% reduction in water wasted at water-stressed sites since 2007. I am also encouraged by innovations such as the new, less water-intensive, cassava-based beer that we launched in Ghana.

Skills and empowerment – particularly for smallholder farmers and women in our value chain – were other elements that stakeholders prioritised as important for us to address. Empowering people through skills development has been at the heart of our community investment strategy since 2006, when we launched our Learning for Life programme in Latin America. This programme has helped more than 88,000 people progress or launch their careers, and after talking with students this year in Miami, it was moving to see the impact that Learning for Life continues to have years later.

We have much to be proud of this year in building a sustainable and responsible, as well as a profitable, business. I know Ivan shares my commitment to serving our stakeholders, and I believe Diageo is well placed to address the challenges and opportunities that lie ahead as it continues to grow around the world.

A handwritten signature of Paul Walsh in black ink, written in a cursive style.

Paul Walsh
Chief Executive
(until 30 June 2013)

A message from Ivan Menezes, Chief Executive (from 1 July 2013)

I am honoured to lead a company with such strong values. Building the trust of our stakeholders is not only important to me personally, but it is essential as we continue to expand in high growth markets around the world – many of which have evolving, and more demanding, expectations of the private sector.

Working alongside our leadership team, I have been very involved in shaping our Sustainability & Responsibility Strategy, and am confident of the direction we are taking to respond to stakeholder concerns while supporting and progressing our business.

At the heart of this strategy, we will continue to think of new and innovative ways to create a positive role for alcohol in society since it is central to our licence to operate. Given the importance of water to our business and our stakeholders, we will further drive our efforts to protect water resources as well as improve access to clean water in the local communities that need it most. As part of this, I look forward to progressing our sustainable agriculture agenda through partnerships in our supply chain. Responding to the call for further skills development and empowerment in our value chain, I am proud to say that we aim to expand our Learning for Life programme around the world. Already in Asia, we have made a commitment to support 2 million women through community investment programmes in 17 countries, in line with our recent endorsement of the Women's Empowerment Principles, a joint initiative between UN Women and the UN Global Compact.



While we continue to focus on these three important areas, we will not forget the business fundamentals that are an important part of our commitment to international frameworks such as the UN Global Compact. Working for high standards of safety and environmental stewardship within our operations and across our supply chain is essential to sustain a framework of good governance and ethical practices.

I am proud that today we are in a strong place – whether measured by sustainability awards, the results from this year's employee Values Survey, or feedback from our stakeholders. This is a tribute to Paul's leadership, and I will make it my priority to ensure that as Diageo continues to grow, we remain committed to sustainability and responsibility.

Ivan Menezes
Chief Executive
(from 1 July 2013)

“

I will make it my priority to ensure that as Diageo continues to grow, we remain committed to sustainability and responsibility.”

About our business

Together with our stakeholders, we have the ability to shape our future. The work we are doing to refresh our approach to sustainability and responsibility will help make that future a bright one – we call this celebrating life, today and tomorrow.

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About our business

Diageo is the world's leading premium drinks business. Great brands like Johnnie Walker, Smirnoff and Guinness, and a global presence as a marketer, distributor and producer, give us the reach – and a responsibility – to enable people all over the world to celebrate life, every day, everywhere.

Our brands are sold in more than 180 countries, and at a wide range of prices, from ultra premium through premium to more affordable brands. They include six of the world's top 20 spirits brands, with Smirnoff the number one by volume, and Johnnie Walker the number one by value. Our beer portfolio includes Guinness, the number one stout by value in the world, as well as a range of leading lager brands in Africa. In certain markets, such as North America and Great Britain, we also own a number of wine brands.

Diageo has a long heritage and a portfolio of strong brands reaching millions of people around the world, and we have a responsibility to ensure that our influence is a positive one. It's not just consumers drinking responsibly that we need to consider: as a producer, distributor and marketer of great brands, Diageo touches the lives of many other people as well – employees, customers, consumers, suppliers and those living in the wider communities in which we operate.

To ensure our brands and our growing business have a positive influence, we put our company values at the heart of everything we do. We're passionate about customers and consumers – our curiosity and customer and consumer insights drive growth. We give ourselves and each other the freedom to succeed – because this fosters an entrepreneurial spirit.

We're proud of what we do – we act sensitively with the highest standards of integrity and social responsibility. We strive to be the best – we are restless, always learning, always improving. Finally, we value each other – we seek, and benefit from, diverse people and perspectives.

The concept of valuing different perspectives is essential: working hard to understand the interests and concerns of all our stakeholders is integral to our development as a sustainable and responsible business. As we continue to expand into new high growth markets, engaging stakeholders with diverse perspectives will become even more important: over 40% of net sales this year came from high growth markets such as Russia, Turkey, Kenya, Mexico and Indonesia, and we expect that to reach 50% by the end of 2015. Staying true to our company's core strengths and values, while adapting to new environments and changing expectations, will help ensure that our purpose of celebrating life is something we do, not only today, but also tomorrow.

Diageo at a glance

Sold in more than 180 countries, our products – including some of the world's leading spirits, beer and wine brands – are manufactured and packaged at 121 facilities around the world.

Group

Diageo is the number one spirits company in North America, the world's most profitable beverage alcohol market, and the largest premium drinks company in Western Europe. In the high growth markets of Asia Pacific and Latin America, Diageo is the number one international spirits company; and in Africa, a leading beer and spirits company. Our presence in these and other high growth markets is increasing. These represent over 40% of net sales today and we expect that to reach 50% by the end of 2015. This will be helped by our recent investment in United Spirits Limited, the leading spirits company in India, the results of which are expected to be consolidated in the forthcoming year.

Snapshot of financial performance (2013)

	2013 performance ¹	Change since 2012 ² (%)
Volume (m of equivalent units)	165.0	5
Net sales (£m)	11,433	6
Operating profit ³ (£m)	3,530	10

Snapshot of operations (2013)⁴

Employees	28,410
Distilleries	52
Breweries	18
Wineries	11
Packaging and blending sites	14
Warehouses	11
Other sites	15

01

North America⁵

North America is our largest region by net sales and operating profit, and is the largest market for premium drinks in the world. It includes around 25% of our production facilities by volume, and we sell and market our products through five operating units: US Spirits & Wines; Diageo-Guinness USA; Chateau & Estate Wines Company; Diageo Canada; and the North American operations of Global Travel.

Snapshot of financial performance (2013)

	2013 performance	Change since 2012 ² (%)
Volume (m of equivalent units)	53.7	1
Net sales (£m)	3,733	5
Operating profit ³ (£m)	1,484	9

Snapshot of operations (2013)

Employees ⁶	3,491
Distilleries	4
Breweries	0
Wineries	7
Packaging and blending sites	5
Warehouses	2
Other sites	1

02

Western Europe⁵

Our Western Europe business comprises: Great Britain; Ireland; Iberia; France; Germany; Benelux; Italy; Nordics; Greece; Switzerland; Austria; the Western European reserve brands; Diageo Guinness Continental Europe; European wines; and the Western European operations of Global Travel. The region includes 48% of our production facilities by volume, as well as our global head office in London.

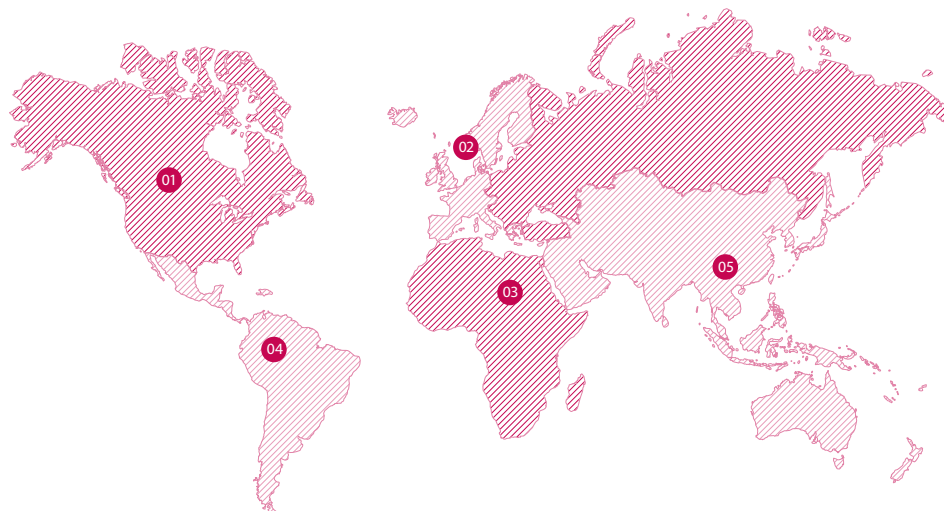
Snapshot of financial performance (2013)

	2013 performance	Change since 2012 ² (%)
Volume (m of equivalent units)	33.6	(3)
Net sales (£m)	2,220	(5)
Operating profit ³ (£m)	656	(9)

Snapshot of operations (2013)

Employees ⁶	8,449
Distilleries	36
Breweries	4
Wineries	0
Packaging and blending sites	5
Warehouses	7
Other sites	9

1. Reported group figures include £76 million net sales and £149 million operating loss before exceptional items relating to Corporate (see footnote 5).
2. Reported movements.
3. Operating profit before exceptional items.
4. Includes three sites for which Diageo did not have operational control for the full year ended 30 June 2013.



03
Africa, Eastern Europe and Turkey⁵

Our African businesses include: Nigeria; East Africa (Kenya, Tanzania, Uganda, Burundi, Rwanda, and South Sudan); Africa Regional Markets (including Ghana, Cameroon, Ethiopia, Angola, and Mozambique); and South Africa. Africa has some of the longest established and largest markets for Guinness, including Nigeria, the number one market in the world. We brew Guinness in a number of countries, either through subsidiaries or through third parties under licence. The region also encompasses our businesses in Russia, Central and Eastern Europe, and Turkey, and the Eastern European operations of Global Travel. The region accounts for around 17% of our production facilities by volume, including those of the newly acquired Meta Abo Brewery in Ethiopia and Mey İçki in Turkey.

Snapshot of financial performance (2013)

	2013 performance	Change since 2012 ² (%)
Volume (m of equivalent units)	37.9	7
Net sales (£m)	2,280	11
Operating profit ³ (£m)	654	14

Snapshot of operations (2013)

Employees ⁶	9,336
Distilleries	8
Breweries	13
Wineries	2
Packaging and blending sites	1
Warehouses	1
Other sites	5

04
Latin America and Caribbean⁵

Our Latin America and Caribbean business comprises the following markets: PUB (Paraguay, Uruguay, and Brazil); Andean (Venezuela, and Colombia); WestLAC (Central America and Caribbean, Argentina, Chile, Peru, Ecuador, and Bolivia); Mexico; and the operations of Global Travel in Latin America and Caribbean. In this region, we sell our brands through a network of Diageo companies and third-party distributors. Diageo also owns a controlling interest in Desnoes & Geddes Limited, the Jamaican brewer of Red Stripe lager. The region includes around 4% of our production facilities by volume, which reflects the acquisition of Ypióca Bebidas S.A., a leading cachaça producer in Brazil.

Snapshot of financial performance (2013)

	2013 performance	Change since 2012 ² (%)
Volume (m of equivalent units)	23.3	35
Net sales (£m)	1,457	18
Operating profit ³ (£m)	471	28

Snapshot of operations (2013)

Employees ⁶	3,080
Distilleries	2
Breweries	1
Wineries	2
Packaging and blending sites	1
Warehouses	1
Other sites	0

05
Asia Pacific⁵

Asia Pacific comprises: Australia; Greater China (China, Hong Kong, Macau, and Taiwan); India; North Asia (Japan, and Korea); South East Asia (Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam); and Global Travel Asia & Middle East, a business unit including duty free sales along with Middle Eastern markets. In a number of markets such as China and Thailand, we distribute brands through a combination of Diageo companies, joint ventures, and third-party distributors. The region includes around 6% of our production facilities by volume, including the Sichuan Shuijingfang Co., Ltd production sites.

Snapshot of financial performance (2013)

	2013 performance	Change since 2012 ² (%)
Volume (m of equivalent units)	16.5	2
Net sales (£m)	1,667	11
Operating profit ³ (£m)	414	21

Snapshot of operations (2013)

Employees ⁶	4,054
Distilleries	2
Breweries	0
Wineries	0
Packaging and blending sites	2
Warehouses	0
Other sites	0

5. In the year ended 30 June 2013, Diageo changed its internal reporting structure to reflect changes made to management responsibilities. As a result of this change, Diageo reports the following geographical segments both for management reporting purposes and in the external financial statements: North America; Western Europe; Africa, Eastern Europe and Turkey; Latin America and Caribbean; Asia Pacific; and Corporate. Diageo has also made changes in respect of the allocation of specific corporate items and the allocation of the operating profit before exceptional items of Global Supply, to better reflect the geographical segment to which the cost relates. In addition, certain transaction exchange differences, previously included in Corporate, have been allocated to the geographical segments to better reflect which geographical segment the item is in respect of. As a consequence of these changes, comparative prior-period figures have been restated.

6. The segmental split of employees in this report reflects geographical locations, whereas in the 2013 Annual Report employees are disclosed within the segment in which the employee provides the majority of his or her services.

Our brands

Johnnie Walker. Smirnoff. Captain Morgan. Baileys. Guinness. These are just some of the fabulous brands that people choose to celebrate with every day – and which make Diageo the world's leading premium drinks business.

	Johnnie Walker	Crown Royal	J&B	Buchanan's	Windsor	Bushmills	Captain Morgan
Category and market position	Scotch whisky No.1 Scotch whisky in the world ¹	Canadian whisky No.1 Canadian whisky in the world ²	Scotch whisky No.5 Scotch whisky in the world ¹	Scotch whisky No.2 Premium Scotch whisky in Latin America and Caribbean ¹	Scotch whisky No.1 Super premium Scotch whisky in Asia Pacific ¹	Irish whiskey Distilled at Ireland's oldest working distillery	Rum No.2 Brand in the rum category in the world ²
No cases/volume sold	20m 9 litre cases	6m 9 litre cases	4m 9 litre cases	2m 9 litre cases	1m 9 litre cases	1m 9 litre cases	10m 9 litre cases
Top markets	United States Global Travel Asia & Middle East Brazil Thailand Mexico China South Africa Australia	United States Canada France	Spain France South Africa United States Belgium Turkey	Venezuela Mexico United States Colombia Brazil	Korea China	United States Ireland Russia France Great Britain	United States Canada Great Britain Germany South Africa
Sustainability fact	Just under a million people have given their commitment never to drink and drive via Johnnie Walker's Join the Pact	Crown Royal's Heroes Project is now in its second year; it supports first responders – police officers, fire fighters, and local volunteers – as well as military heroes in North America	The J&B bottle is now 15% lighter, saving over 4,500 tonnes of carbon a year	The Buchanan's Time to Share programme recruited over 6,500 consumers in Latin America to donate four hours of their time each to volunteer for local causes	Windsor has reduced packaging by removing the giftbox from all variants served at the table in the traditional on trade market in Korea	Old Bushmills distillery has brightened up its local village by partnering with the community to paint derelict and vacant buildings with bright murals featuring scenes from local history	A partnership with Facebook launched a new responsible drinking ambassador, Cinnamon the Ship's Cat, under the Captain Morgan brand, targeting users during the 2012 Christmas period with responsible drinking messages
							

1. IWSR.
2. Impact Databank.
3. IRI.

Be it origin, blend or perfect serve, each of our brands is famous in its own way. Many have been a favourite choice for centuries, while some are more recent additions to our collection. Today, more and more people are choosing brands whose values and ethos match their own. Here is a selection of our top brands – on our corporate website you can find out more about all our brands.

Smirnoff	Ciroc	Ketel One	Baileys	Tanqueray	Guinness
Vodka	Vodka	Vodka	Liqueur	Gin	Beer
No.1 Premium vodka in the world ²	No.2 Ultra premium vodka in the United States ³	No.2 Super premium vodka in the United States ³	No.1 Liqueur in the world ²	No.1 Imported gin in the United States ⁴	No.1 Stout in the world ⁵
26m 9 litre cases	2m 9 litre cases	2m 9 litre cases	7m 9 litre cases	2m 9 litre cases	11m 9 litre cases
United States Great Britain Canada Brazil South Africa Australia	United States Brazil	United States Canada Brazil Australia Great Britain	United States Great Britain Germany Canada Italy	United States Spain Canada Great Britain Australia	Nigeria Ireland Great Britain United States Indonesia Cameroon
Smirnoff reached around 200,000 people with responsible drinking messages through social media, including a 'Get Home Safely' advertisement	Ciroc partnered with <i>Esquire</i> magazine to launch a contest to make a responsible drinking advert which aired on US national television on New Year's Eve	Ketel One vodka supports US organisation Modern Hispanic Gentlemen, a group championing Hispanic men who make a positive difference in their communities	By redesigning our pack we have reduced Baileys' carbon footprint by 3,500 tonnes of carbon per year, equivalent to taking 2,700 family cars off the road	The world's supply of Tanqueray is made in Cameronbridge, a distillery where we have commissioned a renewable energy facility which uniquely combines a wastewater treatment plant, biomass boiler and steam and electrical generation plant	To date the Arthur Guinness Fund has invested £11 million in sustainable enterprises
					

4. Beverage Information Group.
5. Plato Logic.

Our history

Renowned for their philanthropic works, our predecessor companies – Guinness, Grand Metropolitan, Seagram and Justerini & Brooks – are great icons of the drinks world. Diageo has inherited not only their famous brands, but also their ideals and ethos which run through everything we do today.



1759
Arthur Guinness signs 9,000-year lease on the now world-famous St James's Gate brewery in Dublin



1930s
Seagram runs first ads promoting responsible drinking



1974
Launch of Baileys, widely regarded as the industry's most successful product launch ever

1608
Licence granted to Bushmills area of County Antrim, Ireland



1749
Our oldest predecessor company, Justerini & Brooks – wine merchants, and blenders of the famous J&B whisky range – is founded in London

1820
John Walker's grocery business opens in Kilmarnock, Scotland



1830
Charles Tanqueray opens a gin distillery in London



1864
PA Smirnoff opens a distillery in Russia and begins making his own vodka

1883
Joseph E. Seagram & Sons, Inc. is formed in Ontario, Canada

1939
Crown Royal is created to celebrate the historic visit of King George VI and Queen Elizabeth to Canada



1982
Grand Metropolitan sets up Tomorrow's People which has helped over 400,000 unemployed and young people in deprived neighbourhoods

1989
Guinness UDV and Grand Metropolitan are founding members of the Portman Group, which promotes responsible marketing in the United Kingdom – Diageo now supports 18 such social aspect groups worldwide

1991
Grand Metropolitan and Guinness are among the founding members of The Century Council, a not-for-profit group funded by distillers to promote responsible drinking in North America

1992
Grand Metropolitan sets up The Foyer Federation to meet the challenge of rising youth unemployment and homelessness

DIAGEO

1997

Diageo is established by a merger between Guinness UDV and Grand Metropolitan

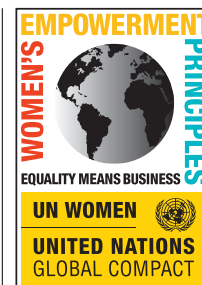


2002

Diageo signs the UN Global Compact

2011

Diageo launches its Sustainability & Responsibility Strategy



www.weprinciples.org

2013

Diageo signs Women's Empowerment Principles, a joint initiative between UN Women and the UN Global Compact

1994

Grand Metropolitan is a founder member of the London Benchmarking Group, which aims to improve the measurement, management, and reporting of community investment

Guinness UDV and Grand Metropolitan are founding members of the International Center for Alcohol Policies, whose mission is to encourage dialogue and pursue partnerships involving the beverage alcohol industry, governments, and the public health community with the aim of helping reduce alcohol abuse around the world

1997

Diageo launches the Diageo Foundation

Diageo signs the Dublin Principles providing ethical guidance to all concerned with alcohol consumption

2001

Diageo acquires the Seagram spirits and wines business

2003

Diageo writes its first social/environmental report, leading the industry

2006

Diageo joins the Carbon Disclosure Project (CDP) and makes its first annual submission

Diageo launches its Water of Life programme in response to the UN 2015 Millennium Development Goals

2008

Diageo publicly launches challenging environmental targets

Diageo launches DRINKIQ.com

Diageo signs the CEO Water Mandate

Diageo launches Learning for Life, its flagship community investment programme, in Latin America and Caribbean

2010

Together with other international beverage alcohol producers, Diageo commits to Global Actions on Harmful Drinking, a set of global and local initiatives dedicated to helping reduce the harmful use of alcohol with an emphasis on low- and middle-income countries

Diageo acquires Serengeti Breweries Limited, Tanzania

2011

Diageo signs the Cancun Communiqué

Diageo joins the CDP Supply Chain Project

Diageo acquires Mey İçki, Turkey

2012

Diageo gains control of Sichuan Shuijingfang Co., Ltd in China (principal brand: Shui Jing Fang Chinese white spirit)



Shui Jing Fang®

Diageo acquires 100% of the equity share capital of Meta Abo Brewery in Ethiopia (principal brand: Meta beer)

Diageo acquires 100% of the equity share capital of Ypióca Bebidas S.A., in Brazil (principal brand: Ypióca cachaça)

2013

Diageo joins 12 other industry leaders in signing the CEO Global Commitments to reduce harmful drinking

Diageo acquires 25.02% equity interest in United Spirits Limited, India

Approach and performance

Supporting the communities in which we operate is part of our strategy for success – through ‘Project Entrepreneur’ in our Learning for Life programme, for example, we’re providing skills and education to many of the thousands of ‘cooperativa’ families collecting materials for recycling in Colombia.

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Approach and performance

As the leading premium drinks business, our social and environmental impacts are diverse – we touch many people, from the farmers who grow our raw materials through to the consumers of our brands. Operating sustainably and responsibly to ensure that overall our impact is a positive one is at the heart of the way we do business.

In the last few years we have developed our business in new high growth markets such as Ethiopia, Turkey and Brazil. Consequently we are now considering even broader social and environmental issues to address the evolving expectations of our stakeholders. This evolution, combined with the impending expiry of our existing social and environmental targets led us to review our Sustainability & Responsibility Strategy this year.

Following conversations with internal and external stakeholders around the world, we prioritised those issues of most interest both to our external stakeholders and to us – from cost savings as a result of environmental efficiencies, to employee or consumer engagement, to securing our licence to operate. Our central principle remains the same: at each stage of the value chain, we seek to maximise our positive impacts to create value for our stakeholders while improving our own performance. For us, the two are inextricably linked – our company's future success depends on our ability today to contribute positively to society and the environment.

We call this 'celebrating life, today and tomorrow'.

Sustainability & Responsibility Strategy

Putting the principles of sustainability and responsibility into practice means accounting for our most material social and environmental impacts in every aspect of what we do – from sourcing raw materials, to running our manufacturing safely and efficiently, to influencing how our brands are sold and consumed.

Diageo's business strategy is to drive top line sales and profit in a sustainable and responsible way so that we create consistent, long-term value for our shareholders. While our wide range of brands and the expertise of our people are central to our commercial success, no less important are our values and our commitment to meeting the evolving expectations of our stakeholders.

We know the world's expectations of business are continuously progressing. New legislation is being passed for multinationals around the world, for example requiring greater human rights transparency in the United States or stricter environmental controls in China. We adapt to these changes to secure our licence to operate, but also take account of the expectations and interests of other stakeholders around the world – be they our employees, our local communities, non-governmental organisations (NGOs) or business partners.

There are certain basic issues that any food and beverage company should address, from health and safety, human rights and diversity, to environmental impacts, sustainable agriculture and good governance. Moreover, every company should be committed to openness and transparency in its dealings with stakeholders, including clear and accurate reporting.

We will continue to address these as a matter of course. Beyond this, there are certain social and environmental activities that we believe are particularly important to focus on given the nature of our business, where we operate, with whom we do business, and our global and local stakeholders. Identified this year following a materiality study described in more detail below, our strategic priorities are:

- **Alcohol in society** – as our highest priority, we will broaden our approach to communicating about alcohol responsibly and tackling misuse through effective programmes and policies
- **Water stewardship** – we will work to protect watersheds by continuing to maximise efficiencies in our operations and supply chain, investing in infrastructure in our communities, and advocating more broadly for change

Many of the issues considered most important by stakeholders correlated with our view of Diageo's most important risks and opportunities.

- **Skills and empowerment** – we will expand our skills-building community programme Learning for Life to support and empower stakeholders upstream and downstream from our operations.

We are now in the process of setting new targets for all areas of sustainability and responsibility, and will announce them next year. This year, however, we continue to report on our original targets across the five impact areas our programmes have focused on to date: alcohol in society, water and the environment, socio-economic development, governance and ethics, and our people. As in previous reports, we look not only at our own operations, but also at the impact we have across the value chain – from our suppliers through to our customers and consumers.

Refreshing our strategic priorities

Our central theme has always been 'shared value', by which we mean that everything we do should bring benefits to the stakeholders who are affected by our operations as well as to Diageo. In refreshing our strategic priorities, we determined what social and environmental issues were most 'material' by engaging internal and external stakeholders to understand their views, as well as by looking at the business risks and opportunities associated with sustainability and responsibility performance.

Last year we ran materiality workshops in three key markets (United Kingdom, Kenya, and China) with managers who have worked with, and know the concerns of, our major groups of stakeholders.

Using the findings from these workshops as a starting point, we conducted a global study this year. Central to our approach were interviews with our own senior managers and with more than 40 external stakeholders. We invited global NGOs and multilaterals for their expertise and wide geographical scope of work in our key impact areas, while stakeholders such as investors, customers and suppliers were invited because of the importance our businesses have to each other. We also included local NGOs and government representatives to gain insight into stakeholders' expectations in areas of new business activity such as India and Brazil.

Results of the global study

Three areas were revealed as most significant for stakeholders: alcohol in society, water security, and skills and education.

Within alcohol in society, stakeholders raised the continuing importance of communicating the risks of excessive drinking to consumers and society at large. They also mentioned working actively to tackle misuse itself through programmes and partnerships. A common piece of feedback was that all

major players in the alcohol industry should collaborate to have a greater collective impact on reducing alcohol misuse.

Within water security, stakeholders noted the need for alcohol producers to work on the issue both within their own operations and with local communities and raw material suppliers, particularly those operating in water-stressed areas. Finally, empowering stakeholders in our value chain through skills and education – particularly for smallholder farmers and women – was frequently cited as important for contributing further to socio-economic development.

Other issues ranked relatively highly by external stakeholders were industry collaboration, gender equality, and transparency in the supply chain. In internal interviews with senior managers, a few others came up frequently as important to address: workplace diversity; health and safety; and sustainable packaging.

The business case – risks and opportunities

Having collected feedback from stakeholders, we assessed the risks and opportunities associated with each issue they identified to determine our strategic priorities. Interestingly, many of the issues considered most important by stakeholders correlated with our view of Diageo's most important sustainability risks and opportunities.

For example, activities to promote a positive role for alcohol in society both mitigate risk and provide opportunities. First and foremost, working to ensure that our products are consumed responsibly is core to securing our licence to operate around the world. However, responsible drinking programmes, such as our 'Conoscere l'Alcol' campaign in Italy, can be meaningful ways to engage customers and consumers.

The security of our raw material supply, which relies heavily on water, is another key risk. As such, we focus on improving water efficiency, reducing water wasted and increasing the quality of the water we discharge to local water sources. This is particularly important in Africa, where 50% of our operations are in water-stressed areas. Reducing water use, along with emissions such as carbon and waste, also makes our operations more efficient; some of our environmental investments, such as water efficiency projects in Kenya, have paid for themselves in as little as six months.

Finally, demonstrating a positive impact on socio-economic development not only meets broader stakeholder expectations, but also can engage business partners and consumers, for example through cause-related campaigns such as Buchanan's Time to Share in Latin America. We also know that the work we do in this area motivates our own people and helps us retain and attract talent.

Engaging stakeholders

Working in partnership with all those on whom our business has an impact – our stakeholders – is an essential part of how we do business, and its importance is growing.

We engage stakeholders on two levels, local and global. At a local level, employees across many functions engage our people, local governments, customers, media, and community groups on issues of immediate concern to them. At a global level, we engage investors, customers, suppliers, and multinational organisations such as United Nations agencies or NGOs that have a broad remit. This year we interviewed more than 40 global stakeholders as part of our work to refresh our Sustainability & Responsibility Strategy.

Here we outline in general terms who our stakeholders are, and how we communicate with them.

Our stakeholders

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

The table below sets out each stakeholder group and examples of how we currently engage them on all issues, including sustainability and responsibility questions.

Our stakeholder engagement programme

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

Membership of codes and charters

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

- Alcohol in society:** we are a signatory to the Dublin Principles, which provide guidance for mutually acceptable means of co-operation, based on ethical principles, for all those concerned with alcohol consumption and its effects, including the beverage alcohol industry, public health officials, researchers, and others. The Principles were adopted by consensus by an international group of experts in 1997. This year we joined 12 other industry leaders in announcing a set of CEO Commitments to combat alcohol misuse.
- Water and the environment:** in 2002 we signed the UN Global Compact, the world's largest corporate citizenship initiative. In 2008 we endorsed the CEO Water Mandate, a UN-sanctioned private/public partnership that aims to address the world's growing water crisis as pressures intensify from climate change, population growth, and development. In 2010 we signed the Cancún Communiqué urging governments to make rapid progress on a number of key issues during the sixteenth UN Climate Change Conference of the Parties (COP16) in Cancún, Mexico.
- Socio-economic development:** in 2013 we signed the UN Women's Empowerment Principles, a joint initiative between UN Women and the UN Global Compact.

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



We interviewed more than 40 external stakeholders in reviewing our Sustainability & Responsibility Strategy



84% of employees said Diageo was performing well across a diverse range of sustainability and responsibility programmes in this year's Values Survey

This year the board approved Diageo's refreshed strategic priorities at its annual strategy conference.

How we manage sustainability and responsibility

We manage sustainability and responsibility in the same way that we manage all our business operations, at global and local levels. At the highest level, sustainability and responsibility is overseen by the corporate citizenship committee, chaired by the chief executive.

Governance structure

The corporate citizenship committee is responsible for making decisions or, where appropriate, recommendations to the board or executive committee, concerning policies, issues, measurement and reporting for the following impacts across our value chain: alcohol in society; water; broader environmental sustainability; socio-economic development; our people; and governance and ethics.

The committee reports progress at least once a year to the board; this year the board approved Diageo's refreshed strategic priorities at its annual strategy conference.

Two executive working groups (one on alcohol in society, chaired by the corporate relations director, and one on environmental performance, chaired by the president of global supply and procurement) assist the committee with decisions on specific issues. Beyond this global management, the regions and local markets manage those sustainability and responsibility areas most material for them given their specific operational footprint.

The work managed by these governance bodies is reported publicly through this Sustainability & Responsibility Report, certain aspects of which are assured externally. As well as publishing this report online, we also publish our social, ethical and environmental policies.

Policies and standards

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

- Global policies cover the principles to which we are committed when doing business; they are relevant to most employees
- Global standards are more procedural and apply to specialist activities; they apply to individuals only in certain specific roles.

Both policies and standards stem from our Code of Business Conduct, which defines how everyone at Diageo is expected to do business. In the table below you will find those policies that are particularly relevant to how we manage our sustainability and responsibility programmes. Please note, however, that these do not represent the full spectrum of our policies and standards.

Code, policies and standards

Document type	Title	Sustainability and responsibility programme
Code	Code of Business Conduct	All
Policy	Anti-Corruption	Governance and ethics
Policy	Anti Money Laundering	Governance and ethics
Policy	Competition & Antitrust	Governance and ethics
Policy	Employee Alcohol	Alcohol in society
Policy	Environment	Water and the environment
Policy	Human Rights and Anti-Discrimination	Our people
Policy	Marketing	Alcohol in society Value chain (customers and consumers)
Policy	Occupational Health & Safety	Our people
Policy	Quality	Value chain (customers and consumers)
Policy	Tax	Governance and ethics
Standard	Charitable contributions	Socio-economic development
Standard	Partnering with Suppliers	Value chain (our supply chain)

For more about our policies and standards, go to www.diageo.com.

Performance and key metrics

We are pleased with our overall performance this year, having made progress against most of our public targets.

Echoing the progress shown against the metrics in our summary table, this year 84% of employees around the world responded positively to a diverse spectrum of sustainability and responsibility questions included in our 'Integrity Index', a subsection of our annual Values Survey.

In some impact areas, this year marked the close of our target period, such as in our alcohol in society programme. Here we did not fully meet every target, but we are nonetheless pleased with our progress over the last three years. We will assess the appropriateness of meeting the few outstanding items as part of our efforts to establish new company-wide targets. The targets we will hold ourselves to in the future will help support the new set of commitments we recently established with other industry members to reduce the harmful use of alcohol.

In other impact areas, we are only part way through the target period, but we are still reporting strong performance. We are particularly pleased with our progress in water efficiency in Africa, where we exceeded our global target to improve water efficiency by 30% two years early.

While we are also proud of the efforts of our employees in improving our safety performance (we have reduced our lost-time accident frequency rate by 60% since 2010), we are deeply saddened that four employees in Africa were fatally injured at work this year. Any fatality is one too many, and only emphasises how important it is that we never cease to be vigilant about safety.

Awards and rankings

Being benchmarked against our peers and the wider business community is important for our understanding of how our approach to sustainability measures up to prevailing standards and attitudes. This year, our progress on sustainability and responsibility issues continued to be recognised externally, as listed below.

- Leading UK business magazine, *Management Today*, listed Diageo as the most admired company in its annual ranking.
- This year Diageo won 11 awards around the world as one of the best places to work.
- Diageo achieved membership of both the Carbon Disclosure Leadership Index and the Carbon Performance Leadership Index – the only beverage company to appear in both indices and the only one to appear in the Performance Index.
- Diageo was again selected as a member of the World and Europe Dow Jones Sustainability Indices (DJSI), one of only four beverage companies (along with Coca-Cola Hellenic, Molson Coors and PepsiCo). This year we scored 79, just five points behind the sector leader.
- This year, Diageo came second in the food and beverage category in the FTSE4Good index with a score of 4.8 out of 5.
- Diageo was again included in the Nasdaq Global Sustainability Index.
- Filing separate entries, Diageo Australia achieved a platinum rating for the third year running in the Business in the Community's (BITC) 2013 Corporate Responsibility Index (CRI), while Diageo Hellas was one of only four companies in Greece entering the CRI's platinum zone.



Diageo was again selected as a member of the World and Europe Dow Jones Sustainability Indices (DJSI) – one of only four beverage companies



Diageo was ranked as the number two food and beverage company by FTSE4Good



Diageo was ranked in the Carbon Disclosure Project as the best performing beverage company for climate change strategy, emissions disclosure and performance

We are particularly pleased with our progress in water efficiency in Africa, where we exceeded our global target to improve water efficiency by 30% two years early.





Key metrics

We have a number of performance targets in our impact areas. These will continue to be refined to ensure they reflect our most material sustainability and responsibility impacts. For more information on our progress against targets, please go to the relevant section of this report.









Metrics

Achieved		Off track	
On track		Not achieved	

Alcohol in society

Target by 2013	2013 performance	Achievement
Diageo marketing to be 100% compliant with the Diageo Marketing Code (DMC)	99.7%	
Effective industry self-regulatory or co-regulatory codes in place in our top 40 countries by value	38	
Responsible drinking reminders (RDRs) included in 100% of above-the-line advertising material	100%	
DRINKiQ.com included on all renovated and new brand labels	96% Spirits and ready-to-drink products	
	90% Beer products	
	45% Wine products	
Responsible drinking initiatives in place in our top 40 countries by value	39	

Water and the environment

Target by 2015	2013 performance	Cumulative performance (2007–2013)	Achievement
Progress against operational targets			
Reduce carbon emissions by 50%	4.1%	26.3%	
Improve water efficiency by 30%	1.5%	19.5%	
Reduce water wasted at water-stressed sites ¹ by 50%	7.0%	21.0%	
Reduce polluting power of wastewater by 60%	-9.8%	-18.1%	
Eliminate waste to landfill	53.4%	77.9%	
Progress against packaging targets			
Reduce average packaging weight by 10%	1.2%	5.3%	
Increase average recycled content across all packaging to 42%	2.0%	37.0%	
Make all packaging 100% recyclable/reusable	0.2%	98.5%	

1. Diageo defines water-stressed sites as those locations that pose a higher risk for water insecurity now and/or into the future; the definition is based on an evaluation of physical or economic water scarcity as well as regulatory and social risk.

Socio-economic development

Target by 2013	2013 performance	Achievement	
Contribute 1% of operating profit to charitable causes every year	0.9%		
Improve access to safe drinking water for 1 million people in Africa every year until 2015 ¹	Approximately 1 million		
Target by 2015	2013 performance	Cumulative performance (2006–2013)	Achievement
Source 70% of raw materials used in African operations from Africa	52%	N/A	
Target by 2016	2013 performance	Cumulative performance (2008–2013)	Achievement
Train 100,000 people through our Learning for Life programme in Latin America and the Caribbean	25,307	88,910	

1. To better manage our programme, we have reworded this target to focus on annual performance.

Our people

Target by 2013	2013 performance	Achievement	
Reduce our lost-time accident frequency rate ¹ by 60% compared to a 2010 baseline	60%		
Target by 2014	2013 performance	Cumulative performance (2004–2013)	Achievement
30% of leadership roles held by women	28%	N/A	

1. Number of accidents per 1,000 employees and directly supervised contractors resulting in time lost from work of one day or more.

Governance and ethics

Target by 2013	2013 performance	Achievement	
100% of new joiners completing Code of Business Conduct training on induction (within 30 days)	75% ¹		
100% of lower and middle managers and above complete the annual certificate of compliance	100% ²		
1% of employees report breaches through SpeakUp (global benchmark)	0.8%		
Maintain or improve positive responses to Values Survey question: 'Where I work I feel comfortable raising any concerns about compliance or ethics' ³	84%		

1. This number reflects only those enrolled on the elearning programme; it does not include those trained in face-to-face sessions in several of our markets, and our Supply team.

2. 99.8% completed in the allotted time, with the rest completing after the deadline.

3. This question was changed this year; last year's question was 'I would feel comfortable raising any concerns about compliance or ethics with my line manager, or through SpeakUp'. Please see compliance and ethics programme for commentary.

Alcohol in society

We want to ensure the millions who enjoy our much-loved brands do so responsibly. This led us to join 12 other leading global producers of beer, wine and spirits in a landmark commitment to reduce alcohol misuse over the next five years.

In this section:

- 21 CEO Global Commitments to reduce harmful drinking
- 22 Communicating about alcohol responsibly
- 24 Tackling alcohol misuse effectively through our programmes
- 26 Getting policy right



Alcohol in society

Alcohol has been part of social and cultural life around the world for centuries. As the world's leading premium drinks company, Diageo's much-loved brands are enjoyed by millions every day, and we're committed to ensuring they are enjoyed responsibly. Tackling alcohol misuse is the right thing to do: it helps our consumers celebrate life today and tomorrow, while supporting our long-term business interests.

Our approach and performance

Creating a more positive role for alcohol in society means encouraging adults to make responsible choices about whether, when, and how much to drink. We believe that efforts to reduce the misuse of alcohol are likely to be most effective when government, civil society, individuals and families, as well as the industry, work together.

To that end, Diageo is one of 13 leading global producers of beer, wine, and spirits, taking action on new commitments launched in October 2012 to reduce harmful drinking. These commitments build on long-standing efforts by the industry, and provide a co-ordinated response to support member states in implementing the World Health Organization's (WHO) global strategy to reduce the harmful use of alcohol.

Different cultures have a range of views on the role of alcohol, and some people make a choice not to drink alcohol at all. We recognise and respect this choice. We also acknowledge that some people should not drink as a matter of their own safety and wellbeing. This includes children and young people under the legal purchasing age, pregnant women, people who cannot control their drinking, or those who have a specific medical condition where drinking is not advised.

Some people drink too much and cause harm to themselves and others. Reducing alcohol misuse is a priority for Diageo and we are committed to playing our part. We focus on three areas:

- **Communicating about alcohol responsibly** and promoting rigorous company and industry-wide marketing standards
- **Tackling alcohol misuse** by supporting effective programmes with a variety of partners, which seek to raise awareness and change attitudes and behaviour
- **Advocating effective, evidence-based policy** which is culturally sensitive and does not result in unintended consequences.

This year marked the close of our target period. While we did not fully complete every target, we are nonetheless pleased with our progress over the past three years. We will assess the appropriateness of meeting the few outstanding items that remain as part of our efforts to establish new company-wide targets. The targets we will hold ourselves to in the future will help support the new set of commitments we recently established with other industry members to reduce the harmful use of alcohol.

CEO Global Commitments to reduce harmful drinking

We reached a further milestone in our long-standing efforts to promote responsible drinking in October, when we and 12 other industry leaders made a set of commitments to combat alcohol misuse.





In October 2012, at a global conference organised by the International Center for Alcohol Policies (ICAP), Diageo was one of 13 leading global producers of beer, wine, and spirits to launch new commitments to reduce harmful drinking. These 'CEO Commitments' provide a co-ordinated industry response to support member states in implementing the WHO's global strategy to reduce the harmful use of alcohol.

The CEO Commitments will be implemented over five years from 2013, and all participating companies will report progress annually, which will be audited by a third party. They cover work in the following five areas:

- Reducing underage drinking
- Strengthening and expanding marketing codes of practice
- Providing consumer information and responsible product innovation
- Reducing drinking and driving
- Enlisting the support of retailers to reduce harmful drinking.

This co-ordinated response builds on the three 'Global Actions on Harmful Drinking' that Diageo and 12 other major international beverage alcohol producers launched in 2010. These focused on areas highlighted in the WHO strategy: reduce drink driving; improve marketing self-regulation; and address non-commercial alcohol in low- and middle-income countries. Much of this work continues and has benefited from independent evaluation which concluded that the initiatives were highly efficient and effective, and that the overall impact of the work is already significant, given the short timeframe of implementation.

Performance against targets

Achieved		Off track	
On track		Not achieved	

A history of responsibility – ICAP Initiatives Report

Diageo and the industry have a long history of taking action to tackle alcohol misuse, and the Global Actions and CEO Commitments build on that work. In October 2012, ICAP published a report that demonstrated the serious role of alcohol producers in working to prevent and reduce harmful drinking. The report stated that the alcohol industry had sponsored some 3,600 initiatives over several decades, with an increasing focus on low- and middle-income countries. It also showed efforts by the alcohol industry to identify best practices in the United States and Europe and adapt them in a culturally sensitive manner to countries in Africa, Asia, and Latin America.

We believe that the alcohol industry has a collective reputation – if one player does the wrong thing, we all stand to lose the trust of the public and regulators.

Communicating about alcohol responsibly

Tackling alcohol misuse and promoting sensible drinking are responsibilities shared by many stakeholders. But when it comes to communicating responsibly about its products, we believe the industry should play a leading role.

Our approach

Not only do we take seriously our own obligations to market our brands responsibly to adults, we also work in partnership to drive common industry standards. Three principles underlie our approach to establishing rigorous standards for marketing and helping consumers make informed decisions about drinking – or not drinking:

- Following our own codes
- Supporting industry codes
- Making clear and accurate information available to consumers to help them make responsible choices.

Following our own codes

Diageo has two codes governing marketing standards: the Diageo Marketing Code (DMC), and the Digital Code of Practice, which together cover all media. Our aim is for all our marketing to comply fully, and we track this via an online tool that governs all our marketing campaigns. In 2013, 99.72% of our marketing complied. While this is an excellent achievement, we nevertheless continue to aspire to total compliance through enhanced communication and training.

Diageo Marketing Code

Governing us, and the third parties with whom we partner, the DMC is our mandatory minimum marketing standard. It applies across all our markets and guides every aspect of our

activities, from research and development to marketing, promotion, and packaging. It includes, for example, a requirement to direct our marketing only at adults, and not to present moderate consumption or abstinence negatively. We review the code every 12 to 18 months to ensure it addresses evolving issues in the marketplace.

Digital Code of Practice

Complementing the DMC, this code sets out 10 principles for digital marketing. These include ensuring that marketing is directed at adults over the legal purchasing age, and monitoring user-generated content. Last year, we refreshed this code and delivered a company-wide training course for all relevant marketers and third-party agencies. This year, we continued to train new trainers on this code.


Supporting industry codes

We believe that the alcohol industry has a collective reputation – if one player does the wrong thing with regards to promoting and marketing its products, we all stand to lose the trust of the public and regulators. As such, it is in all our interests to set rigorous industry standards, and work to establish industry compliance.

We manage our business with strict observance of all local regulations and laws, including those governing marketing. We strive to abide by industry self- or co-regulation codes in markets where they exist, and we work with others to establish them where they do not. Since 2008 more than 20 new national responsible marketing codes for alcohol have been introduced.

Almost all of our top markets by value have an advertising code. In the United Arab Emirates alcohol advertising is prohibited so we do not have a code. In Cameroon there is no code, so we are working with local partners to establish a strong industry standard.

Performance against target: following our own codes

Target by 2013	2013 performance	Achievement
Diageo marketing to be 100% compliant with the Diageo Marketing Code (DMC)	99.7%	

Performance against target: supporting industry codes

Target by 2013	2013 performance	Achievement
Effective industry self-regulatory or co-regulatory codes in place in our top 40 countries (by value)	38	

DISCUS and responsible marketing

In November 2012, Diageo joined industry leaders, government officials, and media experts from Facebook, Google, Twitter, Neilson, and Comscore at the annual best practice media summit of the Distilled Spirits Council of the United States (DISCUS). This included a day focused on compliance with the DISCUS Code of Responsible Practices. The session reviewed consumer trends and featured innovative techniques and technologies to moderate user-generated content on social media, as well as new tools to verify the age of users on social media sites such as Twitter.

Breaches of self-regulatory codes

Five industry bodies publicly report breaches of their self-regulatory codes, and this year Diageo was not responsible for any breaches. The industry bodies that monitor these self-regulatory codes do not impose fines; nevertheless, removing the offending marketing can be a costly lesson for any company. Further consequences include reputational damage and, in some instances, additional controls, such as being subject to mandatory pre-clearance for future advertising.

Making information available to consumers

To make responsible choices, consumers need clear and accessible information to be readily available. Our Diageo Alcohol Beverage Information Policy (DABIP) stipulates that we provide consumers with the right information to help them make sensible choices. The policy requires all new product launches, packaging renovations, and promotional packaging changes to include the following information on the primary packaging:

- Responsible drinking reminders
- Allergen information
- Alcohol by volume
- A link to DRINKiQ.com, our responsible drinking website.

An internal compliance audit conducted as part of DABIP found that some of our wine brands are putting DRINKiQ information on their websites, rather than on the label. We will rectify this as we refresh and reissue our policy next year.

We also publish nutritional information on packaging where such information is required by law, and in countries which ban alcohol websites, so that consumers will always have access to the information.

Complaints about advertising upheld by industry bodies that report publicly (2013)¹

Country	Industry body	Industry complaints upheld	Complaints about Diageo brands
Australia	Alcohol beverage advertising code	16	0
Ireland	Advertising Standards Authority for Ireland (ASAI)	1	0
United Kingdom	The Portman Group	1	0
	Advertising Standards Authority (ASA)	23	0
United States	Distilled Spirits Council of the United States (DISCUS)	1	0

1. 1 July 2012 – 30 June 2013.

Performance against target: making information available to consumers

Target by 2013	2013 performance	Achievement
Responsible drinking reminders (RDRs) included in 100% of above-the-line advertising material	100%	
DRINKiQ.com included on all renovated and new brand labels	96% Spirits and ready-to-drink products	
	90% Beer products	
	45% Wine products	

DRINKiQ

Diageo promotes responsible drinking through the DRINKiQ website and courses. Available in nine languages, with 22 specific country pages, DRINKiQ.com aims to raise the 'collective drink IQ' by increasing public awareness of the effects of alcohol. Courses aim to broaden understanding of alcohol issues and share tips for responsible drinking.

This year, a diverse range of stakeholders trained with DRINKiQ, from hospitality industry trainers and students, to traffic police, bus drivers, members of the lifestyle media, and sports clubs.

Our country-specific efforts included holding DRINKiQ workshops in Nigeria as part of a wider 'Plan Ahead' responsible drinking campaign, which targeted media and entertainers with the responsible drinking message in the hope that those in a position of influence would help to raise awareness of the dangers of drinking too much, especially when driving. In the United Kingdom, we developed a tailored course which is being delivered to train 720 professional cricket players on DRINKiQ principles. In India and Thailand, traffic police participated in our courses. In Vietnam, we trained 1,000 bus drivers, while in Australia, through our partnership with the National Rugby League over the last seven years, we have raised awareness of responsible drinking among 2,500 young adults entering professional sports, including 300 this year.



Media in Da Nang city, Vietnam, publicising an anti-drink driving campaign

Talking to our employees about responsible drinking

As well as taking new employees through the DRINKiQ course, we communicate with our people throughout the year about responsible drinking. For example, as the 2012 festive season approached, we wrote to employees urging them to celebrate our brands responsibly, whether hosting their own private celebrations, or an event on behalf of the company. We reminded them of our internal hosting guidelines that explain how to ensure alcohol is served responsibly at an event, as well as reminding them of the expectations set out in our Employee Alcohol Policy.

Promoting responsible drinking through our brands

As the guardian of many premium brands, we use our world-class marketing skills and reach to promote responsible drinking. Listed below are some of our brand-led responsible drinking campaigns.

- **Johnnie Walker's Join the Pact:** former Formula One™ World Drivers' Champions Jenson Button, Lewis Hamilton and Mika Häkkinen led this year's Join the Pact campaign, which is now in its fifth year and aims to collect online signatures from consumers pledging never to drink and drive. The number of signatures now stands at just under a million. The campaign covers 15 countries and this year included a visit by Lewis Hamilton to Singapore where he performed the World's Most Powerful Signature.
- **Captain Morgan's The Ship's Cat:** in late 2012, we launched a competition in association with Facebook challenging our marketing community to create breakthrough ideas to reinforce responsible drinking on a brand's Facebook pages. The winning entry from the Captain Morgan global brand team created a new responsible drinking ambassador, Cinnamon the Ship's Cat, and aimed witty messages at Captain Morgan consumers through Facebook's new newsfeed advertising. The campaign, which targeted mobile users, was launched during the festive period in December 2012 and was rolled out across Western Europe in 2013, reaching more than 5.5 million users.

Tackling alcohol misuse effectively through our programmes

Some people misuse alcohol, harming themselves and their communities. We're helping tackle alcohol misuse because it's bad for our consumers and society, it damages our reputation, and it jeopardises our licence to operate.

Our approach

We put our resources and skills into programmes that are designed to prevent and reduce alcohol misuse by working with others to seek to raise awareness and to change people's attitudes and behaviour. However, there is no one-size-fits-all approach – different cultures and societies require different approaches. In line with our de-centralised business, local teams choose programmes relevant to their country, so that the resources we provide meet a genuine local need.

In tackling alcohol misuse, we're always looking to reinforce our social responsibility goal – namely helping consumers enjoy alcohol responsibly, thus celebrating life, today and tomorrow.

This year, we backed more than 300 responsible drinking programmes in more than 40 countries, including 39 of our top 40 countries by value. In the remaining market, United Arab Emirates, we did not support any initiatives given the country's stance on alcohol.

Preventing excessive drinking

Our work in this area ranges from funding advertising campaigns that raise awareness of the risks of binge drinking, to supporting the medical profession in identifying and helping problem drinkers.

For example, we support the training of doctors and other health workers in screening and brief intervention (SBI), a simple but proven approach supported by the WHO. Through SBI, health professionals identify potential problem drinkers, and work with them to change their behaviour. The project in Russia has involved over 3,000 patients and 50 physicians in three cities since its launch in 2010, and information has been shared with key medical and research institutes in an effort to expand the project.

In the United States, Diageo is now supporting, through an unrestricted grant to NORC at the University of Chicago, the adaptation of a high-risk alcohol use screening and counselling training system for military medical personnel in all US military health clinics worldwide. The two-year programme draws on the training techniques and materials developed by NORC for the employee assistance programmes we supported last year.

Also in the United States, The Century Council, a not-for-profit organisation funded by distillers including Diageo, announced a three-year grant to the University of Pittsburgh's Department of Emergency Medicine, which is researching the effectiveness of text messaging in reducing hazardous drinking. A previous study on the subject in 2010, also funded by The Century Council, demonstrated measurable change in behaviour over a 12-week period. The new study will look at an entire year.

In Western Europe, we launched the 'Ask Dave' website in December. 'Dave' is our drinks 'guru', who calculates how long it will take for alcohol to be processed by your body. We promoted the initiative on social media so as to facilitate discussion in a way that is not 'preachy', but instead, factual, friendly and neutral. Since its launch, Ask Dave has reached over 70,000 unique visitors in 20 countries. Of those who provided feedback after using Ask Dave, 63% said that the site added to what they knew about drinking, and 69% said it made them think differently about the way they drink alcohol.

As part of this initiative we launched the 'Coaster', an educational tool advising shoppers and consumers of the comparative alcohol levels of beers, wines and spirits, as well as smart drinking tips and a link to Ask Dave.

Performance against target: tackling alcohol misuse effectively through our programmes

Target by 2013	2013 performance	Achievement
Responsible drinking initiatives in place in our top 40 countries by value	39	



In South Africa the Drive Dry Campaign adopted a powerful new tagline for 2012

We train our customers and work with them to develop their own training programmes to ensure that the skills needed to promote responsible drinking are taught to staff on the front line.

 300

Diageo supports more than 300 responsible drinking programmes in more than 40 countries

Tackling drink driving

We support many initiatives to reduce drink driving with public and private partners. In Scotland, for example, a multi-agency team, sponsored for the past four years by Diageo, won a Prince Michael International Road Safety Award in 2012 for its radio and social media campaign around safe driving, particularly in relation to alcohol. According to police data, the campaign contributed to a 33% reduction in fatalities, a 39% reduction in serious injuries, and a 62% reduction in the number of drink drivers.

We're also using interactive methods in Colombia, where last November we launched a smartphone application called 'Diageo Guardian Angel'. By using this app, people can find a safe way home through information about designated driver services, SMS-confirmed taxi cabs, and a flat rate for overnight parking. So far, more than 26,000 people have downloaded the app, and more than 1,000 have used the designated driver service.

In Taiwan, Diageo launched a designated driver service in partnership with 7-ELEVEN and Taiwan Taxi to help drinkers reach home safely. The service is available from 4,700 stores around the country and is accessed through mobile phones. A Taiwan Taxi driver will arrive within 10 minutes to drive a drinker's own car.

Addressing underage drinking

Diageo does not want underage drinkers as consumers and we work with many partners around the world to try to solve this complex social problem. This has included developing and implementing programmes which range from enforcing minimum purchasing ages, to helping adolescents develop the skills to resist social pressure to drink.

We place great emphasis on training to embed our message. For example, in Russia our DRINKIQ seminars have been attended by more than 6,200 students from 30 universities, with more than 10 trainers who are also students. In Venezuela, we have provided DRINKIQ training to 5,000 adult students across the country.

Meanwhile in Sweden, we have joined other industry leaders to finance 'Teach about Alcohol', an initiative in schools, developed by experts, which discourages young people from drinking, while encouraging those of legal drinking age who do drink to avoid irresponsible behaviour. Since it began in 2006, more than 9,000 teachers have taught the programme to about 450,000 students, and it has been recommended by the Swedish National Agency for Education. Independent evaluation demonstrated that students who have been through the programme have a healthier attitude towards drinking alcohol, become intoxicated less frequently, and engage in fewer risky activities while drinking, than students who did not participate in the programme.

Working with retailers to ensure responsible sales

Diageo's retail customers, from global retailers to local convenience stores and the hospitality industry, play a critical role in advancing a culture of responsible drinking, and we work closely with retail chains, bars and pubs to support them in this effort.

We train our customers and work with them to develop their own training programmes to ensure that the skills needed to promote responsible drinking are taught to staff on the front line, from bar staff serving drinks to shopkeepers selling alcohol over the counter.

In Italy, we partnered with the supermarket chain Auchan on a consumer information campaign 'Conoscere l'Alcol' in collaboration with the NGO, Fondazione Umberto Veronesi. It was recognised by the Italian Ministry of Health as a best practice approach. Banners were displayed and leaflets distributed in the supermarket's outlets, showing the recommended daily guidelines for drinking, the various strengths of different drinks, and suggestions for occasions when it is better not to drink. More than 250,000 shoppers were exposed to the campaign; over 60% said they would talk to family and friends, and almost 50% said they would think differently about what they drink. We also ran an anti-drink driving event in some outlets using a simulator; 80% of the people who tried it said they learned something new about alcohol consumption.

13

Diageo is one of 13 leading global producers of beer, wine, and spirits to sign a set of commitments to target alcohol misuse over the next five years



Diageo supports alcohol interlocks (that is, breathalysers to stop a car from starting if the driver's blood alcohol level is above a certain limit) for repeat drink drivers

Getting policy right

The industry advocates effective, evidence-based regulation to maintain a positive role for alcohol in society and to develop and implement solutions to alcohol misuse.

Our approach

The alcohol industry is already one of the most highly regulated in the world. As a responsible business, Diageo supports policies where they are evidence-based, account for drinking patterns, target at-risk groups, treat all forms of alcohol equally, and involve all stakeholders.

That is why, in addition to arguing for effective industry-wide standards in responsible marketing and selling, providing helpful information for consumers, and supporting effective programmes to tackle alcohol misuse, we publicly advocate that governments should adopt a minimum legal purchasing age of not less than 18, and a maximum blood alcohol concentration (BAC) level for drivers of no more than 0.08mg. We also support lower BACs for novice and commercial drivers, high-visibility enforcement of drink driving laws, and alcohol interlocks (that is, breathalysers to stop a car from starting if the driver's blood alcohol level is above a certain limit) for repeat drink drivers.

We oppose measures that are not evidence-based and that are likely to have unintended consequences, such as the use of high taxes to control consumption. While we fully support measures to tackle harmful drinking, high taxes are a blunt instrument. They often have the most impact on moderate consumers rather than reducing demand

among those who misuse alcohol. In countries with significant informal sectors, high taxes can also have the unintended consequence of driving consumers into non-commercial, unregulated markets where beverage alcohol is untaxed and sometimes unsafe.

Minimum pricing

Setting a minimum legal price per unit for alcohol is advocated by some NGOs and some governments as a measure to tackle harmful drinking. Diageo strongly supports the objective of trying to tackle alcohol misuse, but we are concerned that minimum pricing is an unproven measure which fails to address the underlying causes of problem drinking.

According to the Centre for Economics and Business Research, the evidence shows that although minimum pricing may reduce overall alcohol consumption, it will not significantly change the drinking habits of the heaviest drinkers. Rather, minimum pricing would treat all drinkers the same and therefore penalise the overwhelming majority of adults who enjoy drinking alcohol, and who do so in a legal and socially acceptable way, causing harm neither to themselves nor to others.

Non-commercial alcohol

A serious unintended consequence of excessively high tax rates as a means of curbing alcohol misuse is to exacerbate the problem of non-commercial alcohol. According to the WHO, at least 30% of all alcohol consumed around the world is unrecorded, including home-produced, illicit, counterfeit, and surrogate beverages. It is unregulated, untaxed, and sometimes unsafe.

According to WHO, consumption of illicitly or informally produced alcohol could have additional negative health consequences due to its higher ethanol content and potential contamination with toxic substances, such as methanol. Where harmful non-commercial products are consumed in large quantities, they represent a serious social, economic, and public health challenge.

 154,000

Over 154,000 people have trained with DRINKiQ, including hospitality industry trainers, students, traffic police, bus drivers, members of the lifestyle media and of sports clubs



We are the only spirits company in the world to disclose nutrition information for all brands – see www.DRINKiQ.com

A recent example of this occurred in 2012 in the Czech Republic, where bootlegged alcohol mixed with lethal methanol resulted in at least 31 confirmed deaths and led to the temporary suspension of the sale of all beverages over 20% alcohol by volume.

We are working to understand better the scope of the informal market and its implications so that it can be addressed through policy and programmes, in accordance with the ICAP Global Actions. This will enable a wide range of stakeholders to combat the spread and consumption of harmful non-commercial alcohol more effectively. However, there are complex social and economic factors, and developing policies and interventions in this field requires better enforcement, new approaches, and the engagement of all stakeholders.

UN strategies to reduce the harmful use of alcohol

Endorsed by all member states in May 2010, the WHO's global strategy to reduce the harmful use of alcohol presented a menu of policy options and interventions to address alcohol misuse at a national level. This strategy is becoming even more important as countries seek to reduce non-communicable diseases (NCDs) for which alcohol misuse is one of several risk factors.

In May 2013, the UN adopted a global framework with a target of reducing mortality from NCDs, including heart disease, cancer, and diabetes, by 25% by 2025, with many associated targets, including reducing harmful alcohol consumption by 10%.

We support the balanced and pragmatic approach addressed by the WHO global strategy and the UN's NCD framework and will work with member states and our own stakeholders to achieve these goals.

European Union alcohol strategy

Diageo has long been an active and constructive partner in support of EU action to tackle alcohol misuse. In 2006, the European Union adopted a strategy on alcohol-related harm, and we welcome its continuing operation. As a member of the European Alcohol and Health Forum, which aims to deliver the objectives of the strategy, we have partnered with governments, local authorities, civil society, NGOs, and the academic community to tackle alcohol misuse. We regard the Forum as an essential platform to demonstrate how to facilitate partnerships, improve dialogue, and share best practices towards our common goal.

Membership of industry bodies

We have helped establish many social aspects organisations (SAOs) – industry-funded bodies that work with governments, the private sector, and NGOs to promote responsible drinking. We also fund responsible drinking programmes through some of our trade associations. A list of our SAOs and trade associations that run responsible drinking initiatives can be found in the table below.

Diageo's memberships of SAOs and trade associations that run responsible drinking initiatives (2013)

SAO	Location	Website
DrinkWise	Australia	www.drinkwise.org.au
Educ'Alcool	Canada	www.educalcool.qc.ca
GODA	Denmark	www.goda.dk
Entreprise & Prévention	France	www.preventionalcool.com
DrinkAware	Ireland	www.drinkaware.ie
Mature Enjoyment of Alcohol in Society (MEAS)	Ireland	www.meas.ie
The Sense Group	Malta	www.drinkawaremalta.com
Fundación de Investigaciones Sociales A.C. (FISAC)	Mexico	www.alcoholinformate.org.mx
STIVA	The Netherlands	www.stiva.nl
Romanian Forum for Responsible Drinking	Romania	www.consuma-responsabil.ro
Industry Association for Responsible Alcohol Use (ARA)	South Africa	www.ara.co.za
Fundación Alcohol y Sociedad (FAS)	Spain	www.alcoholysociedad.org
Taiwan Beverage Alcohol Forum (TBAF)	Taiwan	www.tbaf.org.tw
Thai Foundation for Responsible Drinking (TFRD)	Thailand	www.thinkb4drink-tfrd.com/en/index.php
The Portman Group	United Kingdom	www.portmangroup.org.uk
The Century Council	United States	www.centurycouncil.org
Trade association	Location	Website
SpiritsEUROPE	EU	www.spirits.eu
Federal Association of the German Spirits Industry and Importers (BSI)	Germany	www.bsi-bonn.de/
Hungarian Association for Responsible Alcohol Consumption (HAFRAC)	Hungary	www.italmertek.hu
CASA	Italy	www.federvini.it
Brewers Association of Japan	Japan	www.brewers.or.jp/english/
PPS	Poland	www.pijodpowiedzialnie.pl/
Anebe	Portugal	www.bebacomcabeca.pt/site.html
Korea Alcohol Research Foundation	South Korea	www.karf.or.kr
FEBE	Spain	www.consumo-responsable.com
SSWS	Sweden	www.spritochvinleverantorerne.se
Distilled Spirits Council of the US	United States	www.discus.org



Case study

Cîroc Ultra Premium presents a safe drinking message to remember

We want party-goers to enjoy themselves during the festive season – New Year's Eve should be a night to remember, not one to forget. So for the biggest night of the year we asked our consumers to get creative with this important message.



As New York's 'Official Vodka of New Year's Eve', Cîroc took seriously its responsibility as a brand to spread the message of responsible drinking, especially during the holidays. Partnering with *Esquire* magazine, we launched a social responsibility advertising contest, The Ultra Premium Cut, to generate buzz among consumers, readers and aspiring film-makers. The prize? The chance to create the next Cîroc responsible drinking commercial, which aired on US national television on New Year's Eve.

The celebrity judging panel included New Year's Eve ringleader Sean 'Diddy' Combs along with *Esquire's* Jack Essig, and *Twilight* film star Nikki Reed, who narrowed entries down to a shortlist of three young, fresh, and funky advertisements. The winning entry, written and directed by independent filmmaker John Ryan Johnson, embodied the 'don't drink and drive' theme, complementing Cîroc's safe rides campaign which gave

away free taxi and subway travel to New Yorkers on New Year's Eve for the fifth year running. Chosen in December by visitors to www.esquire.com/ciroc, the 30-second spot features a just-married couple in their wedding clothes heading to the Manhattan riverside with a celebratory bottle of Cîroc vodka. In the final seconds the bride playfully tosses their car keys into the water.



For more case studies from around the world, please visit <http://srreport2013.diageoreports.com>



Case study

Responsible drinking in Mexico – a social movement on a mission for change

Combating alcohol misuse requires multiple partners working together on strategic projects with a common goal of bringing about societal change. In Mexico, we have developed a programme to reduce underage and binge drinking, drink driving, and ultimately to develop a culture and attitude of responsibility.

The programme, *Actuando Mejor*, seeks to make changes around the responsible consumption of alcohol and the service and sale of alcohol products in the state of Queretaro, Mexico. The programme's various initiatives have so far reached more than 15,000 people.

We've recruited NGOs, government authorities, educators, and hospitality and media companies – as well as parents, retailers, and bars – to implement measures designed to reduce drink driving and underage and excessive drinking. We aim to achieve these changes by providing expertise and resources for training, law enforcement, and advertising campaigns.

For example, we are training bartenders and service staff at bars and clubs, deploying responsible drinking ambassadors at

universities through DRINKiQ sessions, encouraging designated drivers, and providing safe rides home.

We are also advocating a balanced regulatory framework to provide a solid foundation for our programmes. For example, we promote responsible marketing, enforcement of the legal purchasing age, and drink driving legislation, among other regulatory measures.

A statistical evaluation is underway to measure the results of the programme and will be available next year.



For more case studies from around the world, please visit <http://srreport2013.diageoreports.com>

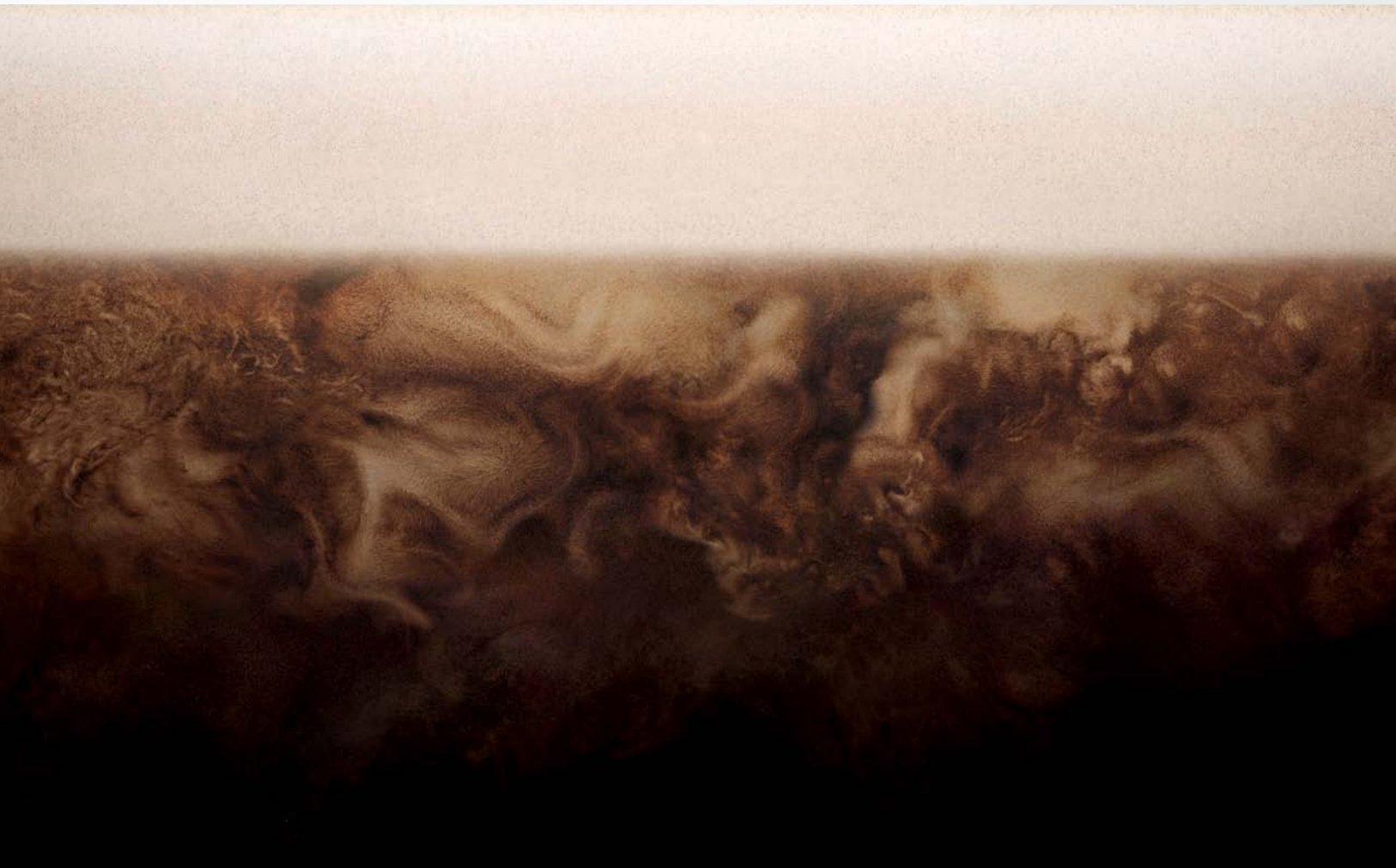
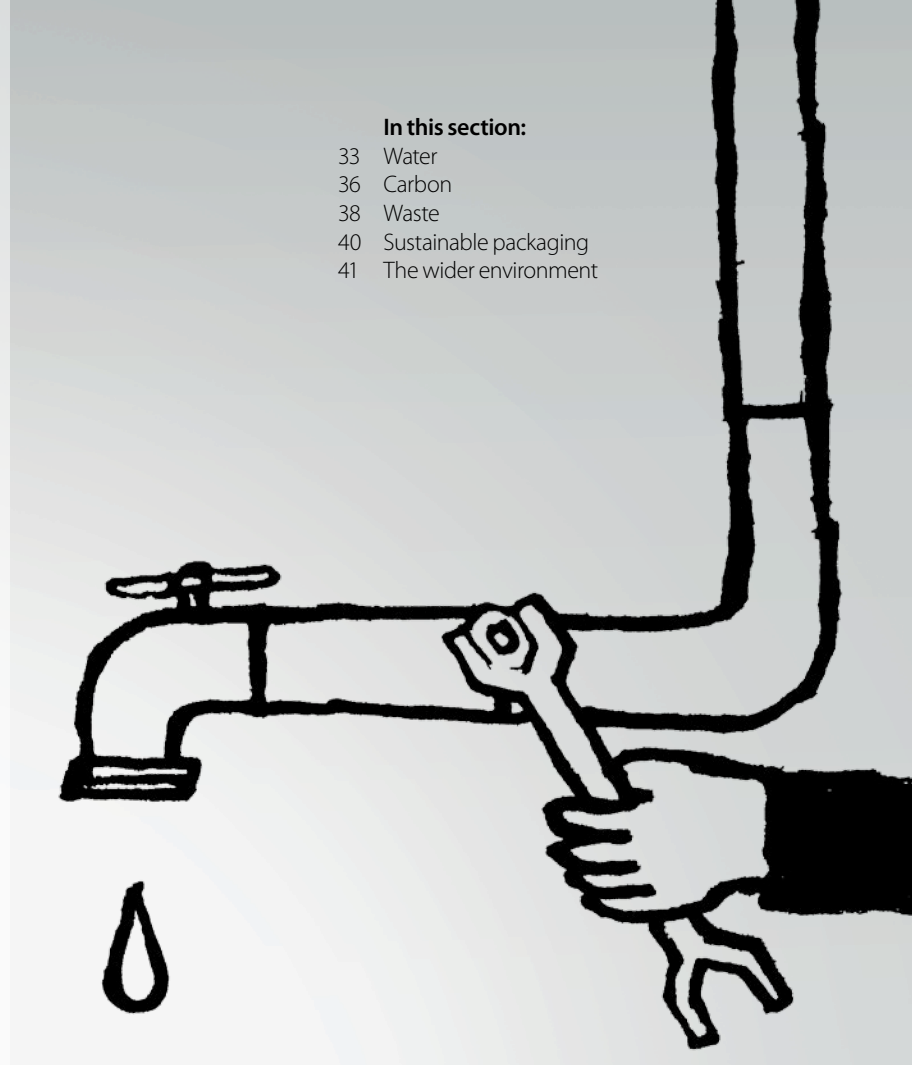


Water and the environment

Making our brands relies on natural resources such as water. To protect our environment we have set targets to further safeguard precious water resources, halve our carbon footprint, eliminate waste to landfill and create more sustainable packaging.

In this section:

- 33 Water
- 36 Carbon
- 38 Waste
- 40 Sustainable packaging
- 41 The wider environment



Water and the environment

We're proud of our brands, and alongside that pride comes a recognition that making them has an environmental impact – on the rivers which give us water, the ecosystems in which our ingredients are grown, and the people with whom we share these natural resources. We owe it to them, and to the future of our business, to ensure that we safeguard the environment in everything we do.

Our approach and performance

From the fields from which we source our ingredients to the consumers who enjoy our brands, our value chain encompasses farmers, vineyards, suppliers, distilleries and breweries, transport networks, retailers, shoppers – and more. We recognise that there are impacts on the environment at every link in that chain, and that protecting resources and minimising the impacts is both a requirement as a responsible company, and imperative for the success of our business. Ultimately our aspiration is to be a business which does not materially deplete natural resources, does not contribute to climate change, causes no lasting damage to species, habitats, or biodiversity – and wherever possible, improves the environment we operate in.

We are analysing and addressing the impacts of our operations throughout the value chain, adding new areas of activity as our understanding of them grows and our capability develops. Our strategy is underpinned by a commitment to address those areas of our operations where we see the greatest impacts and where we are most able to act. In 2008, we set ourselves a series of challenging targets to achieve by 2015 in the areas of water, carbon emissions, and waste – mostly absolute targets which acknowledged that our existing impacts should be reduced in real terms, regardless of the future size of the business. In 2009, we added commitments covering our packaging.

We are making good progress towards halving carbon emissions and eliminating waste to landfill from our operations by 2015, and the packaging of our brands is becoming more sustainable.

Water is one of our most critical environmental impacts, with its implications for local economies, communities, and ecosystems – and we have made continued progress against targets to improve water efficiency and reduce pollution. Since 2008 we have focused particularly on reducing our impact in areas defined as 'water-stressed'¹ – and our water strategy has continued to evolve to reflect our growing understanding of water management within watersheds. This year, our operations in Africa exceeded our 30% improvement target for water efficiency two years ahead of our 2015 target.

Alongside these long-standing commitments, we are increasingly looking at impacts from our supply chain. For example, we are assessing the way our ingredients are grown in terms of the implications for water use, and we are aiming to make our packaging more sustainable through partnerships with suppliers. We are also exploring ways to reduce our 'scope 3' emissions – the carbon footprint of our value chain beyond the emissions resulting directly from our operations ('scope 1'), or indirectly from the energy that we buy ('scope 2').

Where we can, we aim to extend our work across the full length of the value chain through initiatives with customers and consumers such as our glass recycling campaign, which encourages consumers in Brazil and Colombia to recycle bottles at sites run by our partner customers.

As our business expands, both organically and through acquisitions, we have both an opportunity to learn from the experience of new colleagues, and a requirement to address the additional challenges presented by increased production and a wider operational footprint in new geographies.





This year has also seen a number of investments and initiatives which we expect to yield significant results in 2014 and beyond. We have invested in applied research at universities in Ireland and the United Kingdom which is exploring novel approaches to achieving carbon-neutral operations and new uses for manufacturing by-products, and we have committed to further water conservation projects at our operations in Kenya. We anticipate that the bio-energy projects commissioned in 2013 in Scotland, and our investment in bio-energy at our Tusker brewery in Kenya, will reduce emissions from next year.

Our strategic approach has been further strengthened by the appointment as external advisor to our environmental executive working group of Professor Gordon L Clark DSc (Oxon) FBA, Director of the Smith School of Enterprise and the Environment, Oxford University.

In 2013, for the first time all our operational environmental metrics – carbon emissions, water, wastewater discharge and waste to landfill – were independently assured. In the previous two years, only carbon emissions and water metrics were assured.

1. Diageo defines water-stressed sites as those locations that pose a higher risk for water insecurity now and/or into the future; the definition is based on an evaluation of physical or economic water scarcity as well as regulatory and social risk.

Performance against targets

Achieved		Offtrack	
On track		Not achieved	

2013 performance






We have made significant progress towards our targets this year while the business has both increased production organically, and grown through acquisitions. New businesses in Turkey, Ethiopia, and other markets have added 8% to our greenhouse gas (GHG) emissions and 6% to water use, but we have nonetheless achieved overall reductions, in line with our ambition to grow our business while reducing our environmental impact.

Delivering against absolute targets is not necessarily a linear process, however: our progress with some impacts has been more rapid than with others. As our business continues to expand, achieving our targets will become increasingly challenging, and we will continue to evaluate our progress in the coming year.

Our efforts will be greatly enhanced by the commissioning of our bio-energy plant at Cameronbridge in Scotland. The plant, which came into full service in the last quarter of 2013, is expected to reduce total company CO₂ emissions by over 5% by the end of 2014.

Performance against targets for water and the environment

Progress against operational targets

Target by 2015	2013 performance (%)	Cumulative performance (2007–2013) (%)	Achievement
Reduce carbon emissions by 50%	4.1	26.3	
Improve water efficiency by 30%	1.5	19.5	
Reduce water wasted at water-stressed sites ¹ by 50%	7.0	21.0	
Reduce polluting power of wastewater by 60%	-9.8	-18.1	
Eliminate waste to landfill	53.4	77.9	




1. Diageo defines water-stressed sites as those locations that pose a higher risk for water insecurity now and/or into the future; the definition is based on an evaluation of physical or economic water scarcity as well as regulatory and social risk.

Progress in efficiency format (by litre of packaged product)¹

Target by 2015	2013 performance (%)	Cumulative performance (2007–2013) (%)
Reduce carbon emissions by 50%	1.2	27.3
Improve water efficiency by 30%	1.5	19.5
Reduce water wasted at water-stressed sites ² by 50%	6.7	33.3
Reduce polluting power of wastewater by 60%	-13.0	-16.5
Eliminate waste to landfill	52	78

1. Carbon emissions (grams CO₂/litre of packaged product); water efficiency and water wasted (litre/litre of packaged product); wastewater polluting power (grams/litre of packaged product); waste to landfill (grams/litre of packaged product).
 2. Diageo defines water-stressed sites as those locations that pose a higher risk for water insecurity now and/or into the future; the definition is based on an evaluation of physical or economic water scarcity as well as regulatory and social risk.

Progress against packaging targets

Target by 2015	2013 performance (%)	Cumulative performance (2009–2013) (%)	Achievement
Reduce average packaging weight by 10%	1.2	5.3	
Increase average recycled content across all packaging to 42%	2.0	37.0	
Make all packaging 100% recyclable/reusable	0.2	98.5	

Water

Water is essential – for the communities in which we operate, for the natural world, and for our business. Managing this precious resource wisely is a high environmental priority.

Our approach

Water is our most important ingredient, but is also a precious shared resource which is coming under increasing pressure in many parts of the world. It is essential to our production processes and used widely throughout our supply chain, especially for the crops grown for our ingredients; and it is vital to the ecosystems, local economies, and communities in which we work.

While water is necessary everywhere, water supplies are under more stress in some places than in others. We are committed to improving the water efficiency of our operations around the world, but place particular emphasis on stewardship at our production sites in water-stressed¹ areas (see map below). Around 30% of our production takes place in these areas – often in regions where our business is growing. Stewardship in such areas requires a long-term view: for example, this year we commissioned a programme to analyse the impacts of climate change on water security and supply in East Africa over a 25-year horizon, focusing in particular on Nairobi, Kenya, where three of our production sites are located.

Our Blueprint Water Framework is designed to tackle our approach to the global water crisis holistically, and is based on three main platforms: **community involvement**, **collective action**, and **our operations**. Increasingly, we are also looking at water use throughout our supply chain.

Our **community involvement** programme, Water of Life, is intended to increase access to clean water, principally in Africa, as described in the socio-economic development section of this report.

Collective action is essential to addressing the global water challenge, and we are signatories to the CEO Water Mandate. We recognise that, in general, water extraction is becoming unsustainable, and that freshwater withdrawals in key watersheds must be brought back into line with sustainable supply. We are committed to working with other businesses and stakeholders to address this and other challenges.

Our operations are the area over which we have greatest control. Our three operational targets reflect our commitment to best practice water stewardship: to use water more efficiently throughout our business, to improve the quality of the wastewater we discharge, and to minimise the water wasted in water-stressed¹ sites.

 **32%**

Our operations in Africa have improved their water efficiency by 32% since 2007 – achieving our 2015 target two years early

 **1 million**

Despite making more products, we used nearly 1 million cubic metres less water this year – equivalent to the annual domestic needs of 50,000 people

Diageo sites located in water-stressed¹ areas

Ghana

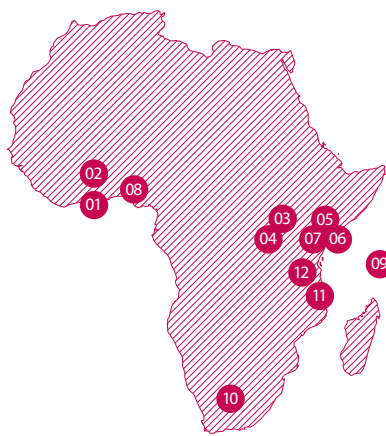
- 01 Accra Achimota
- 02 Kumasi Kaasi

Uganda

- 03 IDU: Uganda Distilling
- 04 UBL: Uganda Brewing

Kenya

- 05 Nairobi KML: East Africa Maltings
- 06 Nairobi KBL: Kenya Brewing
- 07 Nairobi CGI: Kenya Glass Manufacturing



Nigeria

- 08 Lagos: Ogba

Seychelles

- 09 Seybrew

South Africa

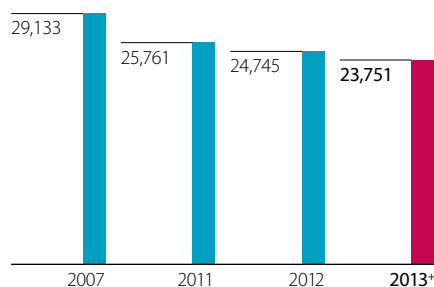
- 10 SA Cider

Tanzania

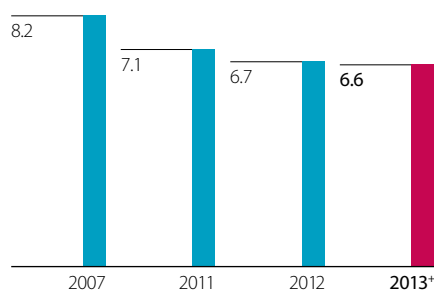
- 11 Dar Es Salaam
- 12 Moshi

1. Diageo defines water-stressed sites as those locations that pose a higher risk for water insecurity now and/or into the future; the definition is based on an evaluation of physical or economic water scarcity as well as regulatory and social risk.

Water use by year (1,000s m³)^{1,2}



Total water efficiency by year (l/l)^{1,2}



1. 2007 baseline data and data for each of the five years in the period ended 30 June 2012 have been restated in accordance with Diageo's environmental reporting methodologies.
 2. In accordance with Diageo's environmental reporting methodologies total water used excludes irrigation water for agricultural purposes on land under the operational control of the company.
 + Total water use for the year ended 30 June 2013 is covered by KPMG's independent assurance report.

Performance

This year, we reduced absolute water withdrawals by 4% or 994,000 cubic metres, improved water efficiency by 1.5%, and reduced the volume of water wasted in water-stressed locations by 7%. While the volume of wastewater discharge (measured as BOD Ktonnes) increased this year by 9.8% compared with 2012, projects we commissioned in Cameronbridge (Scotland), Douala (Cameroon), and other sites in Africa during the last quarter of 2013 will significantly reduce the polluting power of wastewater discharges in subsequent years.

We are proud of the progress made against our 2007 baseline even while our production has increased and we have been integrating acquired businesses which added over 6% to Diageo's total water use.

Improving water efficiency worldwide

We aim to improve water efficiency across our operations by 30% by 2015. We are currently on schedule, having made improvements of 19.5% since 2007, with 1.5% improvements in the last year. We are confident that we will meet our 2015 target, although we know that efficiencies will become progressively harder to deliver.

We reduced the absolute volume of water we use by nearly 1 million cubic metres this year. These reductions come despite increases in our overall production volume, and in particular increases in distilling, which is the most water-intensive part of our production.

Our operations in Africa achieved their 2015 target of improving water efficiency by 30% this year – two years ahead of schedule. We are particularly proud of this milestone since water in Africa is such a critical resource. In Africa and elsewhere, we have improved the efficiency of our brewing operations through a combination of continuous improvement and operational efficiency projects which conserve and reuse water from packaging lines, vacuum pumps, and the brewing process.

For information about the impact our water use has on local sources, see the wider environment section on pages 41-45.

Reducing water wasted in water-stressed areas¹

We have designated 12 of our production sites as water-stressed. In these sites, our goal is to reduce water wasted by 50% by 2015, compared to a 2007 baseline. Our progress this year – a 7% reduction, contributing to a 21% reduction against our 2007 baseline – is the result of a number of conservation measures and technology applications, including water recycling and reuse, in particular at our sites in the most water-stressed areas.

1. Diageo defines water-stressed sites as those locations that pose a higher risk for water insecurity now and/or into the future; the definition is based on an evaluation of physical or economic water scarcity as well as regulatory and social risk.

Water use by region by year (1,000s m³)^{1,2}

Region	2007	2011	2012	2013
North America	4,404	2,759	2,460	3,053 ³
Western Europe	11,291	9,470	9,186	8,961
Africa, Eastern Europe and Turkey	11,190	11,774	11,433	10,419
Latin America and Caribbean	1,354	871	774	542
Asia Pacific	660	586	503	399
Corporate	234	301	389	377
Diageo (total)	29,133	25,761	24,745	23,751 ⁺

1. 2007 baseline data and data for each of the five years in the period ended 30 June 2012 have been restated in accordance with Diageo's environmental reporting methodologies.
 2. In accordance with Diageo's environmental reporting methodologies total water used excludes irrigation water for agricultural purposes on land under the operational control of the company.
 3. Increased water attributable to increased distillation to meet future demand for our products.
- + Total water use for the year ended 30 June 2013 is covered by KPMG's independent assurance report.

Water efficiency by region by year (l/l)^{1,2}

Region	2007	2011	2012	2013
North America	6.7	5.5	5.0	6.5 ³
Western Europe	7.6	6.7	6.6	6.6
Africa, Eastern Europe and Turkey	9.8	7.9	7.2	6.6
Latin America and Caribbean	14.2	11.4	10.6	9.1
Asia Pacific	4.4	4.4	3.5	3.3
Diageo (total)	8.2	7.1	6.7	6.6 ⁺

1. 2007 baseline data and data for each of the five years in the period ended 30 June 2012 have been restated in accordance with Diageo's environmental reporting methodologies.
 2. In accordance with Diageo's environmental reporting methodologies total water used excludes irrigation water for agricultural purposes on land under the operational control of the company.
 3. Increased water attributable to increased distillation to meet future demand for our products.
- + Total water efficiency for the year ended 30 June 2013 is covered by KPMG's independent assurance report.

Total water withdrawn by source 2013 (1,000s m³)

Region	Ground		
	Mains water ¹	(borehole/ well)	Surface water (river/lake)
North America	1,362,720	660,203	1,030,195
Western Europe	3,842,927	4,164,256	953,532
Africa, Eastern Europe and Turkey	3,438,523	6,255,269	751,750
Latin America and Caribbean	0	541,964	0
Asia Pacific	325,877	59,269	14,151
Corporate	309,544	67,405	0
Diageo (total)	9,279,592	11,748,366	2,749,628

1. Data includes 25,588m³ of water given to communities.

Reducing water pollution

By 2015 our target is to reduce the polluting power of wastewater from our operations (measured in biochemical oxygen demand or 'BOD') by 60% against a 2007 baseline. While the volume of wastewater discharge increased this year by 9.8% compared with 2012, there have been several encouraging developments which we believe will keep us on course to meet our 2015 target. At our Cameronbridge distillery in Scotland, which was responsible for 60% of our global BOD in 2012, BOD output fell by 12% in the last quarter of 2013, during the commissioning of our new bio-energy plant, which you can read more about in our case study. A new effluent treatment plant, currently being commissioned at Douala in Cameroon, where we make Malta Guinness and other brands, is expected to reduce BOD by 90% in 2014.

In 2013, we also focused our efforts on monitoring wastewater BOD emitted directly into potentially sensitive water receptors, namely inland rivers, where wastewater pollution is less dispersed and where it may have greater environmental impacts on ecosystems or the availability of potable water. In the last year, wastewater BOD volumes emitted to inland rivers from our brewing sites in Africa were reduced by 25%, and overall BOD load was reduced by 29%, a result of sustained investment in effluent treatment plant expansion and upgrades.

A new effluent treatment plant, currently being commissioned at Douala in Cameroon is expected to reduce the polluting power of wastewater from our operations by 90% in 2014.

Water discharge by quality and destination (2013)

The immediate receiving medium after leaving Diageo site	As a % of total Diageo effluent volume	% of the final BOD to the environment
Lake	8	1
Third-party municipal	36	1
Land	1	0
River	31	15
Sea	24	83
Wetland	0	0
Diageo (total)	100	100

Waste water polluting power by region by year (BOD/kt)¹

Region	2007	2011	2012	2013
North America	330	30	13	11
Western Europe	21,812	30,258	28,438	33,690
Africa, Eastern Europe and Turkey	11,593	11,003	8,458	6,795
Latin America and Caribbean	561	27	32	8
Asia Pacific	0	0	3	1
Corporate	1	3	1	1
Diageo (total)	34,297	41,321	36,945	40,506
Total under direct control	33,472	41,034	36,691	40,306 ⁺

1. 2007 baseline data and data for each of the five years in the period ended 30 June 2012 have been restated in accordance with Diageo's environmental reporting methodologies.

+ Total BOD under direct control for the year ended 30 June 2013 is covered by KPMG's independent assurance report.

Carbon

The growth of our business must not come at the expense of future generations. Our long-term sustainability depends on reducing our reliance on the fossil fuels which contribute to climate change.

Our approach

Changes in climate caused by human activity have the potential to create unprecedented social, economic and environmental challenges. Like any responsible business, we are addressing our greenhouse gas footprint as a priority.

We have committed to halving our carbon emissions in absolute terms by 2015, which has required a significant review of the relationship between production and the use of fossil fuels in our operations.

We believe we can grow our business while reducing the carbon emissions associated with our value chain, as well as reducing our exposure to the risks of energy insecurity and rising costs, through four main activities:

- Improving energy efficiency in our operations
- Generating renewable energy at our sites
- Sourcing renewable or low-carbon energy
- Working in partnership to reduce carbon in our supply chain.

In 2008 we committed to an absolute reduction in greenhouse gas (GHG) emissions. We believe our willingness to take the lead in this area will position us well when all companies listed on the London Stock Exchange are required by law to measure and report their GHG emissions in 2013.

Performance

We reduced our total carbon emissions by 4.1% this year, and overall by 26.3% compared to our 2007 baseline. This included a reduction in direct emissions (scope 1) of 3%, and indirect emissions (scope 2) from purchased energy of 14%. This reduction in absolute terms has been achieved even though production volume has grown, particularly in the most energy-intensive area of our business, distilling; in fact, our carbon reduction initiatives reduced emissions by 9% in 2013, but were partially offset against the increased emissions from greater production. Overall, with our current portfolio of projects to reduce emissions, we are well over halfway towards our 2015 target.

Worldwide, over 170 energy-saving and renewable energy initiatives in our operations contributed to these reductions. For example, a new combined heat and power unit commissioned in April of this year at our US Virgin Islands site, and fuelled by natural gas,

will reduce site emissions by 14,000 tonnes of carbon over the course of a full year.

Scope 3 emissions – the carbon footprint of our value chain beyond our scope 1 and scope 2 emissions – were not included in our 2015 target-setting process. However, as our carbon strategy has broadened, we have increased our understanding of where our scope 3 impacts are greatest, and we are concentrating our efforts on these areas, namely logistics, key packaging and agricultural suppliers, and product refrigeration at point of sale.

We believe the best approach to monitoring and managing carbon emissions in our supply chain is through collaboration with others, as our work with the Beverage Industry Environment Roundtable demonstrates. In addition, since 2006 we have disclosed our emissions to the Carbon Disclosure Project (CDP), an independent not-for-profit organisation which holds the largest database of primary corporate information on climate change in the world. Diageo outscored all other beverage companies in the CDP's rankings for climate change strategy, emissions disclosure and performance in 2012 – and was ranked in the top 10 of the world's largest companies.

Last year, we joined the CDP Supply Chain programme and invited 125 of our key suppliers, representing approximately 80% of our total spend, to disclose their carbon emissions data to the CDP. The CDP Supply Chain programme enables us to engage with our key suppliers on measuring and managing carbon emissions, and through their disclosures gain a greater insight into our own supply chain emissions. We had a high rate of response from our suppliers, and the results will form the basis for future collective action to reduce emissions.

Improving energy efficiency in our operations

Improving the energy efficiency of our operations reduces carbon emissions, cuts energy bills, and reduces our exposure to energy risks. This year, measures such as

improving insulation on cookers and stills, the installation of variable speed drives and low energy lighting systems, and improvements to air condensers and boilers helped us create significant efficiencies. While in total energy use was 8% lower than in our baseline year of 2007, this year, compared with 2012, energy use increased by 3% to 13.4 tetra joules due to increased production, particularly in the more energy-intensive processes.

Generating renewable energy at our sites

Alcohol production creates a number of by-products which can be exploited as sources of renewable energy, and we have continued to invest significantly in the bio-energy potential of our distilleries and breweries.

For example, we have built a £6 million anaerobic digestion plant at our Dailuaine distillery in Scotland which generates biogas from draff and pot ale condensate. This will supply 40% of the site's electricity, while reducing CO₂ emissions by 5%. A new biomass plant recently commissioned at Glenlossie, also on Speyside, is expected to generate 50% of the site's energy, saving 6,000 tonnes of CO₂.

Sourcing renewable/low-carbon energy

Renewable and low-carbon energy from bio-energy, nuclear, wind, and hydro-electric sources can contribute significantly to reducing emissions. This year we sourced 54% of our electricity from low-carbon sources, with some regions, like the United Kingdom and Ireland, approaching 100%.

Often, sourcing low-carbon energy can be combined with measures that help us meet our targets. For example, at our Douala brewery in Cameroon, where we make Guinness and other beer brands, converting our boilers from oil to natural gas reduced carbon emissions by 30% when combined with better insulation and heat recovery.

In Canada, our Valleyfield distillery switched its primary fuel source to bio-methane during the year, contributing to a further reduction in GHG emissions.

Carbon emissions by weight by region (1,000s tonnes CO₂)^{1,2}

Region	2007	2011	2012	2013
North America	217	130	68	53
Western Europe	363	322	317	331
Africa, Eastern Europe and Turkey	293	295	294	273
Latin America and Caribbean	26	23	21	17
Asia Pacific	30	16	15	12
Corporate	23	13	17	15
Diageo (total)	952	799	732	701 ⁺

1. CO₂ figures are calculated using the kWh/CO₂ conversion factor provided by energy suppliers, the relevant factors to the country of operation or the International Energy Agency, as applicable.

2. 2007 baseline data, and data for each of the five years in the period ended 30 June 2012, have been restated in accordance with the WRI/WBCSD Greenhouse Gas Reporting Protocol and Diageo's environmental reporting methodologies.

+ Total tonnes of CO₂ included in this table in respect of the year ended 30 June 2013 are covered by KPMG's independent assurance report.

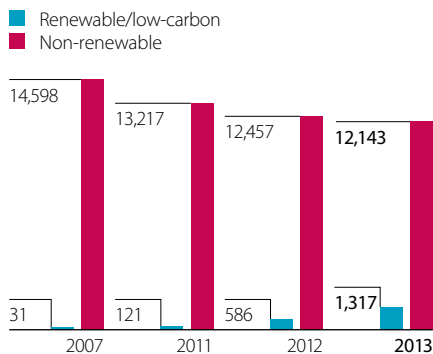
Reducing carbon from transport/distribution

Our understanding of the emissions associated with distribution – both of raw materials and packaging to our sites, and of our brands to market – is growing, and we are focusing increasingly on the GHG footprint of those parts of our value chain that lie outside our direct operations. This year we significantly improved how we measure emissions from the distribution of finished goods, by including ocean freight shipments as well as road and rail transport. Our estimated CO₂ emissions for this part of our value chain in 2013 were 288,167 metric tonnes.

With over 40% of these emissions coming from our North American operations, we have implemented several reduction initiatives there. For example, we have established ourselves as leaders in energy-efficient distribution through our use of compressed natural gas (CNG) fuelled trucks and our four-year membership of SmartWay, a public/private collaboration between the US Environmental Protection Agency and the freight transportation industry. SmartWay helps freight shippers, carriers, and logistics companies improve fuel efficiency and save money – our primary logistic company in North America improved its carriers' carbon efficiency by 3% (as measured by grams of CO₂ emitted per mile travelled).

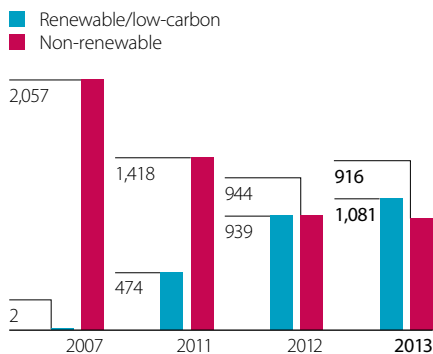
We are also helping our employees reduce their carbon footprint, by encouraging them to use video- and tele-conferencing instead of travelling to meetings; to work from home when it makes sense to do so; and to take part in bike-to-work schemes.

Renewable and non-renewable direct energy consumption (TJ)^{1,2}



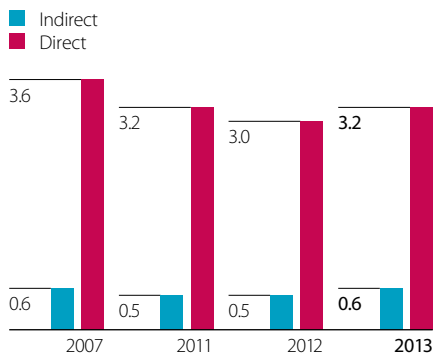
1. Direct energy consumption refers to energy sources that are owned or controlled by the company and generate scope 1 emissions as defined by the WRI/WBCSD Greenhouse Gas Reporting Protocol.
2. 2007 baseline data, and data for each of the five years in the period ended 30 June 2012, have been restated in accordance with the WRI/WBCSD Greenhouse Gas Reporting Protocol and Diageo's environmental reporting methodologies.

Renewable and non-renewable indirect energy consumption (TJ)^{1,2}



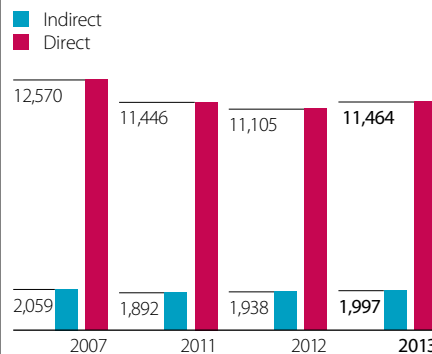
1. Indirect energy consumption refers to the energy used from purchased electricity consumed and which generates scope 2 emissions as defined by the WRI/WBCSD Greenhouse Gas Reporting Protocol.
2. 2007 baseline data, and data for each of the five years in the period ended 30 June 2012, have been restated in accordance with the WRI/WBCSD Greenhouse Gas Reporting Protocol and Diageo's environmental reporting methodologies.

Direct and indirect energy efficiency (MJ/litre packaged)^{1,2}



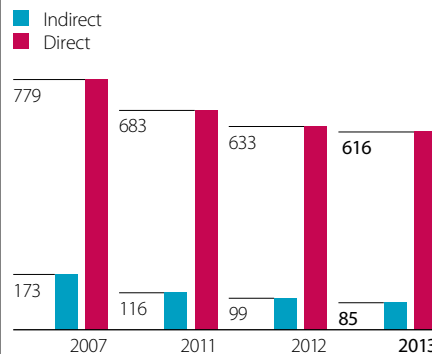
1. Direct and indirect energy sources refer to those that generate scope 1 (direct) and scope 2 (indirect) emissions as defined by the WRI/WBCSD Greenhouse Gas Reporting Protocol.
2. 2007 baseline data, and data for each of the five years in the period ended 30 June 2012, have been restated in accordance with the WRI/WBCSD Greenhouse Gas Reporting Protocol and Diageo's environmental reporting methodologies.

Direct and indirect sources of energy (TJ)^{1,2}



1. Direct and indirect energy sources refer to those that generate scope 1 (direct) and scope 2 (indirect) emissions as defined by the WRI/WBCSD Greenhouse Gas Reporting Protocol.
2. 2007 baseline data, and data for each of the five years in the period ended 30 June 2012, have been restated in accordance with the WRI/WBCSD Greenhouse Gas Reporting Protocol and Diageo's environmental reporting methodologies.

Direct and indirect carbon emissions by weight (1,000s tonnes CO₂)^{1,2}



1. CO₂ figures are calculated using the kWh/CO₂ conversion factor provided by energy suppliers, the factors relevant to the country of operation or the International Energy Agency, as applicable.
2. 2007 baseline data, and data for each of the five years in the period ended 30 June 2012, have been restated in accordance with the WRI/WBCSD Greenhouse Gas Reporting Protocol and Diageo's environmental reporting methodologies.

 80%

We halved the volume of manufacturing waste sent to landfill this year, and, since 2007, have reduced the amount of waste we send to landfill by nearly 80%

Waste

We want nothing to be thrown away: by 2015, we aim to have eliminated waste to landfill from our operations. To reach that goal we're finding new and better ways to reduce, reuse, and recycle.

Our approach

As with most products, making alcoholic beverages generates waste at almost every stage of the product lifecycle. Where possible, we aim to reuse or recycle the waste from our operations in ways that bring benefits to our business, the environment, and local communities.

Above all, we're committed to eliminating waste to landfill from our operations by 2015. Landfill sites can cause the contamination of ground water, emit the greenhouse gas methane, and take up land that could be put to better use. They can also damage the biodiversity that we and our local communities rely on.

The vast majority of our waste is non-hazardous, including organic matter like yeast remaining from the brewing and distillation processes; kieselguhr, which is a soft rock used for filtration; and the pulped labels from the bottles which we recycle. Other waste streams include damaged packaging, sludge from wastewater treatment, boiler ash, and office waste.

Less than 0.5% of our total waste is hazardous; it includes oils, acids, bases, and construction waste. These are used subject to government regulations and environmental consents, and are disposed of through specialist contractors.

For all our waste, our strategy is based on five platforms:

- Eliminating materials where possible
- Reducing materials
- Finding agricultural uses for waste
- Recycling packaging and other materials
- Recovering waste for energy.

Performance

We reduced waste to landfill by 53.4% this year, contributing to an overall reduction of 77.9% against our 2007 baseline: the equivalent of 81,099 tonnes of manufacturing waste now being reused or recycled, instead of going to landfill. This also means we have eliminated an estimated 80,000 tonnes of GHG emissions, equivalent to 11% of Diageo's total emissions from direct operations.

Overall, 25 operational sites have achieved zero waste to landfill already, including our first site in Africa, the Achimota brewery in Ghana, where we make Guinness and other beer brands, while 50 sites send less than one tonne of waste to landfill. Eliminating waste to landfill entirely by 2015 remains a challenging target, but we are making good progress.

Reducing materials

We can reduce the amount of waste going to landfill by reducing the volume of materials we use in the first place. For example, at our brewery in Benin, Nigeria, where we make Guinness, a new beer membrane filtration system has eliminated the need to use kieselguhr, reducing overall waste by 14% this year. The same technology applied at our Ogba brewery in 2012 has, in a full year, reduced waste to landfill by 53%.

25 of our sites have achieved zero waste to landfill, including our first site in Africa, our Achimota brewery in Ghana.

Finding agricultural uses for waste

Material that in the past was sent to landfill is now being put to good use by farmers. At several of our Mey İçki facilities in Turkey, the by-products from raki distillation are now being used in animal feed and fertilisers, reducing waste to landfill by 40% this year. At our distillery in the US Virgin Islands, all the by-products from rum distillation are now being used in animal feed.

Recycling packaging and other materials

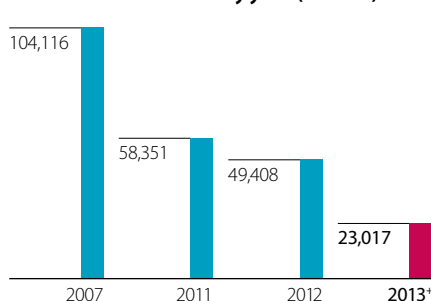
We want as much material as possible to be recycled. At our Red Stripe brewery in Jamaica, better waste segregation reduced waste to landfill by 26% this year.

Recovering waste for energy

Where materials cannot be recycled, as a last resort we explore their potential for energy recovery through thermal combustion. Where energy recovery is the only feasible option, we work with trusted partners using

advanced technology to minimise the impact of converting waste to energy. For example, less than 1% of waste from our operations in Scotland is sent for energy recovery.

Total waste to landfill by year (tonnes)¹



1. 2007 baseline data, and data for each of the five years ended 30 June 2012, have been restated in accordance with Diageo's environmental reporting methodologies.

+ Total waste to landfill for the year ended 30 June 2013 is covered by KPMG's independent assurance report.

Total waste to landfill by region by year (tonnes)¹

Region	2007	2011	2012	2013
North America	40,828	20,516	16,573	535
Western Europe	3,627	579	181	1,240 ²
Africa, Eastern Europe and Turkey	52,536	35,698	30,754	19,615
Latin America and Caribbean	4,698	696	941	693
Asia Pacific	1,287	75	107	91
Corporate	1,140	787	852	843
Diageo (total)	104,116	58,351	49,408	23,017 ⁺

1. 2007 baseline data, and data for each of the five years ended 30 June 2012, have been restated in accordance with Diageo's environmental reporting methodologies.

2. Increased waste to landfill attributable to construction waste.

+ Total waste to landfill for the year ended 30 June 2013 is covered by KPMG's independent assurance report.

Total weight of waste by type and disposal in 2013 (tonnes)

Region	Total waste reused or recycled	Total waste to landfill	Total waste
North America	76,207	535	76,742
Western Europe	396,976	1,240	398,216
Africa, Eastern Europe and Turkey	209,968	19,615	229,583
Latin America and Caribbean	7,802	693	8,495
Asia Pacific	36,207	91	36,298
Corporate	6,192	843	7,035
Diageo (total)	733,352	23,017 ⁺	756,369

+ Total waste to landfill for the year ended 30 June 2013 is covered by KPMG's independent assurance report.

Hazardous waste, reused, recycled and sent to landfill in 2013 (tonnes)

Region	Hazardous waste reused or recycled	Hazardous waste to landfill
North America	95	0
Western Europe	1,388	1,100
Africa, Eastern Europe and Turkey	65	3
Latin America and Caribbean	399	0
Asia Pacific	0	0
Corporate	9	0
Diageo (total)	1,956	1,103

Sustainable packaging

Great brands should come in great packaging – which is vital for protecting, preserving and displaying our drinks. We want to keep the sense of celebration around Diageo products, while reducing the environmental impacts of our packaging.

Our approach

People want the brands they enjoy to be in perfect condition when they buy them – and we want them to stand out on the shelf. But the packaging that helps protect and market our brands has environmental impacts throughout a chain that stretches from our suppliers, through the retailer, to the consumer and beyond.

We want to use packaging which has the lowest possible environmental impact while protecting, delivering and presenting our brands. To achieve this, in 2009 we set ourselves targets to reduce our average packaging weight, increase the recycled content of our packaging, and make all our packaging recyclable or reusable by 2015. We are also looking for ways to work with our suppliers, customers, and consumers to ensure that our packaging is effective as well as sustainable. This includes an in-depth analysis of US and European recycling rates.

Performance

This year we have made progress towards all three of our targets.

Reducing packaging

Weight reductions not only affect how much material we need to package our products, but create other savings, especially in transport and associated carbon emissions.

We saved 12,200 tonnes in packaging weight, a reduction of 1.2%. Since 2009, we have reduced the average weight of our packaging by 5.3% – good progress towards the 10% reduction we’re committed to reaching by 2015.

This year, for example, we saved 1,600 tonnes of packaging by reducing the weight of Smirnoff Ice glass bottles in Venezuela, and a further 2,500 tonnes of packaging weight through the new J&B whisky bottle’s improved design.

Increasing recycled content

We aim to increase the average recycled content across all packaging by 20% to 42% by 2015. This year, we increased recycled content by 2.0% to 36.5%, largely through increasing the content of recycled glass in the new Baileys bottle to 60%, changes in cullet content (recycled glass which has been crushed and is ready for re-melting) across a range of beer bottles, and increases in the use of recycled glass in our Smirnoff and Bundaberg brands in Australia. Overall, 80% of our cardboard packaging and 52% of aluminium cans are made from recycled material.

Our aim is to use more recycled and sustainably sourced virgin content in all our packaging. Glass is our largest packaging material by weight, and recycled content varies according to factors that are often local, like the availability of cullet and recycling facilities. We are working with suppliers and improving technology to increase recycled content. In South Korea, for example, our glass suppliers increased recycled content on average to 52% this year, up from 20% in 2012. In North America, where recycling rates are low, good quality cullet is not available, and we are committed to finding ways to work with government, industry, and suppliers to improve this.




Making packaging recyclable and reusable

We are aiming to make all our packaging 100% recyclable or reusable by 2015. This year, the proportion was 98.5%, compared to 95% in 2009. Making our packaging recyclable reduces the risk that it will end up adding to the landfill problem. We tailor our approach to recycling according to what can be achieved in the market where a product is sold, while aiming overall to eliminate the use of any materials that are harmful to the environment.

We also look for opportunities to work with retailers, consumers, and other stakeholders to increase recycling rates and, where possible, deliver other benefits. In Brazil, for example, we work with customers, suppliers, and co-operatives through our glass recycling campaign. Our partner, Cooperative Vira Lata, collects glass from participating customers, saving recycling costs for both customers and consumers. Our bottle manufacturer, Owens-Illinois, then buys the ground glass from the co-operative, generating income for more than 60 co-operative members. This year over 1,300 tonnes of glass was recycled, and the programme was recognised as one of the best ‘sustainability practices’ by the American Chamber of Commerce at the Fibops and ECO Awards.

We have since launched our glass recycling initiative in four cities in Colombia. Through our Learning for Life programme, we have helped train 125 people working in the collection and recycling supply chain there.

Progress against packaging targets

Target by 2015	2013 performance (%)	Cumulative performance (2009–2013) (%)	Achievement
Reduce average packaging weight by 10%	1.2	5.3	
Increase average recycled content across all packaging to 42%	2.0	37.0	
Make all packaging 100% recyclable/reusable	0.2	98.5	

The wider environment

Healthy, diverse ecosystems form the fabric of life – supporting plants and animals, farmers and the local economy, and our business. By minimising our impacts on the wider environment, we respect the natural world for its own sake, for the sake of our neighbours, and for our business.

Our approach

Our distilleries, breweries, wineries, and other sites are all surrounded by complex ecosystems which support a wide range of plant and animal species and are vital to the livelihoods of local people. Our potential impacts on the wider environment and the ecosystem services it provides are increasingly important to us, in particular those caused by the use of our main ingredient, water.

Alcohol production is also associated with a range of air emissions which can deplete ozone or contribute to acid rain, although these impacts are relatively small for our business. Spills and other incidents can introduce substances – usually alcohol – into the environment. We are measuring and reporting these impacts, mitigating the risks, and reducing them wherever possible.

In this section we report on our work in relation to the wider environment, including:

- Addressing our impacts on biodiversity
- Reducing ozone-depleting substances and other air emissions
- Accounting for incidents
- Genetically-modified organisms.

Addressing our impacts on biodiversity

We recognise that a business which uses natural ingredients is a stakeholder in the shared resource of biodiversity, with a responsibility to preserve and support it; we also depend on it for the sustainability of our business.

Many of the programmes described in other sections of this report create environmental improvements that support biodiversity. Water use, water abstraction, and air emissions all generate impacts on biodiversity. As well as our own initiatives, we have set out what we expect from our suppliers in our Partnering with Suppliers standards.

Water and biodiversity

The use of water in areas that are water-stressed¹ has particular consequences for biodiversity. Our overall water strategy focuses on increasing the efficiency of water use and reducing pollution globally, with a specific emphasis on reducing water wasted in water-stressed areas.

We have identified 10 water sources used by our operations as being sensitive. Three of our production sites are associated with wetlands designated under the Convention on Wetlands of International Importance:

- Kumasi Kaase, Ghana, in relation to the Owabi Nature Reserve
- Kampala International Distillers Uganda, in relation to Lutembe Bay
- Kampala Uganda Breweries Limited, Uganda, in relation to Mabamba Bay.

In each protected wetland we are monitoring the local issues specific to our sites, and implementing innovative technologies which improve water efficiency and the quality of wastewater. We are also exploring the potential for collaboration with other industries and stakeholders to encourage the spread of more effective management practices. For example, at our Kumasi facility in Ghana we reduced the absolute volume of water abstracted by 22% this year, and upgraded our effluent treatment plant to ensure any wastewater discharged meets, or is of better quality than, local national standards.

The water that leaves our operations has potential impacts on rivers, lakes, streams and the ocean, and we seek to mitigate impacts through effluent monitoring and treatment. For information on how we manage effluent, see our section on reducing water pollution.

Protected areas and threatened species

We have identified 35 operational sites and/or vacant owned land to be near or adjacent to areas designated as having biodiversity value by the United Nations or national conservation lists. These have a total area of approximately 29km².

Several of our sites are also in or close to the habitats of species that are designated as threatened by the International Union for Conservation of Nature (IUCN). For example our Captain Morgan distillery is in St Croix, the US Virgin Islands, where the St Croix ground lizard is listed as critically endangered by the IUCN. Our winery in Paicines, California, is adjacent to the Pinnacles National Monument, a release site for the California condor, which is on the IUCN's Red List of Threatened Species. In all cases, we are managing these sites in accordance with our licence conditions and the requirements of local stakeholders.

A full list of sites close to protected areas, and threatened species (to the best of our knowledge) is included overleaf.

1. Diageo defines water-stressed sites as those locations that pose a higher risk for water insecurity now and/or into the future; the definition is based on an evaluation of physical or economic water scarcity as well as regulatory and social risk.

 12,000

We reduced the weight of our packaging by over 12,000 tonnes through new designs and lighter bottles

Our overall water strategy focuses on increasing the efficiency of water use and reducing pollution globally with a specific emphasis on reducing water wasted in water-stressed areas.

Sites or land owned adjacent to areas of biodiversity value

Site	Type of operation	Biodiversity value of adjacent land	IUCN Red List of Threatened Species or local designations
Acacia Vineyard, United States	Winery	Huichica Creek Watershed: US Fish & Wildlife Service, and National Marine Fisheries Service	<ul style="list-style-type: none"> California freshwater shrimp (<i>syncaris pacifica</i>): endangered Steelhead (<i>callitris monticola</i>): vulnerable
Auchroisk Distillery, Scotland	Distillery	River Spey: Freshwater Natura 2000 site; SAC	<ul style="list-style-type: none"> Freshwater pearl mussel (<i>margaritifera margaritifera</i>): endangered Atlantic salmon (<i>salmo salar</i>): least concern Eurasian otter (<i>lutra lutra</i>): near threatened Sea lamprey (<i>petromyzon marinus</i>): least concern
Beaulieu Vineyard, United States	Winery/packaging	Bale Slough – Napa River Watershed; National Marine Fisheries Service – Critical Habitat	<ul style="list-style-type: none"> Steelhead (<i>callitris monticola</i>): vulnerable
Benrinnis Distillery, Scotland	Distillery	River Spey: Freshwater Natura 2000 site; SAC	<ul style="list-style-type: none"> Freshwater pearl mussel (<i>margaritifera margaritifera</i>): endangered Atlantic salmon (<i>salmo salar</i>): least concern Eurasian otter (<i>lutra lutra</i>): near threatened Sea lamprey (<i>Petromyzon marinus</i>): least concern
Blackgrange, Scotland	Warehousing	Firth of Forth: Freshwater Natura 2000 site; SSSI	<ul style="list-style-type: none"> Red-throated diver (<i>gavia stellate</i>): least concern Slavonian grebe (<i>podiceps auritus</i>): least concern Golden plover (<i>pluvialis apricaria</i>): least concern Bar-tailed godwit (<i>limosa lapponica</i>): least concern
Blair Athol Distillery, Scotland	Distillery	River Tummel – part of the River Tay: Freshwater Natura 2000 site; SSSI; SAC	<ul style="list-style-type: none"> Atlantic salmon (<i>salmo salar</i>): least concern Brook lamprey (<i>lampetra planeri</i>): least concern River lamprey (<i>lampetra fluviatilis</i>): least concern Sea lamprey (<i>petromyzon marinus</i>): least concern Eurasian otter (<i>lutra lutra</i>): near threatened
Blythswood, Scotland	Warehousing	Black Cart – tributary of River Clyde: Freshwater Natura 2000 site; SSSI	<ul style="list-style-type: none"> Whooper swan (<i>cygnus cygnus</i>): least concern
Bonhill, Scotland	Warehousing	Inner Clyde Estuary: Freshwater Natura 2000 site; SSSI	<ul style="list-style-type: none"> Common redshank (<i>tringa totanus</i>): least concern
Broxburn, Scotland	Distillery	Firth of Forth: Freshwater Natura 2000 site; SSSI	<ul style="list-style-type: none"> Red-throated diver (<i>gavia stellate</i>): least concern Slavonian grebe (<i>podiceps auritus</i>): least concern Golden plover (<i>pluvialis apricaria</i>): least concern Bar-tailed godwit (<i>limosa lapponica</i>): least concern
Burghead Maltings, Scotland	Maltings	Moray Firth: Maritime ecosystem (Sea) Natura 2000 site; SSSI	<ul style="list-style-type: none"> Bottlenose dolphin (<i>tursiops truncatus</i>): least concern
Cambus, Scotland	Warehousing	Firth of Forth: Freshwater Natura 2000 site; SSSI	<ul style="list-style-type: none"> Red-throated diver (<i>gavia stellate</i>): least concern Slavonian grebe (<i>podiceps auritus</i>): least concern Golden plover (<i>pluvialis apricaria</i>): least concern Bar-tailed godwit (<i>limosa lapponica</i>): least concern
Cardhu, Scotland	Distillery	River Spey: Freshwater Natura 2000 site; SSSI and SAC	<ul style="list-style-type: none"> Freshwater pearl mussel (<i>margaritifera margaritifera</i>): endangered Atlantic salmon (<i>salmo salar</i>): least concern Eurasian otter (<i>lutra lutra</i>): near threatened Sea lamprey (<i>petromyzon marinus</i>): least concern
Carsebridge, Scotland	Warehousing	Firth of Forth: Freshwater Natura 2000 site: SSSI	<ul style="list-style-type: none"> Red-throated diver (<i>gavia stellate</i>): least concern Slavonian grebe (<i>podiceps auritus</i>): least concern Golden plover (<i>pluvialis apricaria</i>): least concern Bar-tailed godwit (<i>limosa lapponica</i>): least concern
Chalone Vineyard, United States	Winery/Packaging	Pinnacles National Park: Terrestrial (Land), U.S. Fish & Wildlife Service	<ul style="list-style-type: none"> California condor (<i>gymnogyps californianus</i>): critically endangered

Site	Type of operation	Biodiversity value of adjacent land	IUCN Red List of Threatened Species or local designations
Cragganmore Distillery, Scotland	Distillery	River Spey: Freshwater Natura 2000 site; SSSI and SAC	<ul style="list-style-type: none"> Freshwater pearl mussel (<i>margaritifera margaritifera</i>): endangered Atlantic salmon (<i>salmo salar</i>): least concern Eurasian otter (<i>lutra lutra</i>): near threatened Sea lamprey (<i>petromyzon marinus</i>): least concern
Dailuaine Distillery, Scotland	Distillery	River Spey: Freshwater Natura 2000 site; SSSI and SAC	<ul style="list-style-type: none"> Freshwater pearl mussel (<i>margaritifera margaritifera</i>): endangered Atlantic salmon (<i>salmo salar</i>): least concern Eurasian otter (<i>lutra lutra</i>): near threatened Sea lamprey (<i>petromyzon marinus</i>): least concern
Dalwhinnie Distillery, Scotland	Distillery	River Truim – tributary of the River Spey: Freshwater Natura 2000 site; SSSI and SAC	<ul style="list-style-type: none"> Freshwater pearl mussel (<i>margaritifera margaritifera</i>): endangered Atlantic salmon (<i>salmo salar</i>): least concern Eurasian otter (<i>lutra lutra</i>): near threatened Sea lamprey (<i>petromyzon marinus</i>): least concern
Dufftown Distillery, Scotland	Distillery	River Dullan – tributary of the River Fiddich/River Spey: Freshwater Natura 2000 site; SSSI and SAC	<ul style="list-style-type: none"> Freshwater pearl mussel (<i>margaritifera margaritifera</i>): endangered Atlantic salmon (<i>salmo salar</i>): least concern Eurasian otter (<i>lutra lutra</i>): near threatened Sea lamprey (<i>petromyzon marinus</i>): least concern
Glen Ord Distillery, Scotland	Distillery	Beaulie Firth (Inner Moray Firth): Maritime ecosystem (Sea) Natura 2000 site; SSSI and SAC	<ul style="list-style-type: none"> Eurasian otter (<i>lutra lutra</i>): near threatened European rabbit (<i>oryctolagus cuniculus</i>): near threatened
Glen Spey Distillery, Scotland	Distillery	River Spey: Freshwater Natura 2000 site; SSSI and SAC	<ul style="list-style-type: none"> Freshwater pearl mussel (<i>margaritifera margaritifera</i>): endangered Atlantic salmon (<i>salmo salar</i>): least concern Eurasian otter (<i>lutra lutra</i>): near threatened Sea lamprey (<i>petromyzon marinus</i>): least concern
Glendullan Distillery, Scotland	Distillery	River Fiddich – tributary of the River Spey: Freshwater Natura 2000 site; SSSI and SAC	<ul style="list-style-type: none"> Freshwater pearl mussel (<i>margaritifera margaritifera</i>): endangered Atlantic salmon (<i>salmo salar</i>): least concern Eurasian otter (<i>lutra lutra</i>): near threatened Sea lamprey (<i>petromyzon marinus</i>): least concern
Gleneagles Hotel, Scotland	Hotel	Raised dome sphagnum peat mire – SSSI which is managed in conjunction with Scottish Natural Heritage	<ul style="list-style-type: none"> Eurasian wigeon (<i>anas penelope</i>): least concern Greylag goose (<i>anser anser</i>): least concern Pink-footed goose (<i>anser brachyrhynchus</i>): least concern
Hewitt Provenance, United States	Winery	Bale Slough – tributary of the Napa River, National Marine Fisheries – Critical Habitat	<ul style="list-style-type: none"> Steelhead (<i>callitris monticola</i>): vulnerable
Icheon, South Korea	Blending/packaging	Nam Han River: Freshwater, Ramsar Convention, national legislation 'Ecosystem and Landscape Region for Conservation'	<ul style="list-style-type: none"> Korean striped bitterling (<i>acheilognathus yamatsutae</i>): not yet assessed Korean spined bitterling (<i>acanthorhodeus gracilis</i>): not yet assessed Korean oily shiner (<i>sarcocheilichthys nigripinnus morii</i>): not yet assessed
Kilkenny, Ireland	Brewery	River Nore: SAC	<ul style="list-style-type: none"> Freshwater pearl mussel (<i>margaritifera margaritifera</i>): endangered
Knockando Distillery, Scotland	Distillery	River Spey: Freshwater Natura 2000 site; SSSI and SAC	<ul style="list-style-type: none"> Freshwater pearl mussel (<i>margaritifera margaritifera</i>): endangered Atlantic salmon (<i>salmo salar</i>): least concern Eurasian otter (<i>lutra lutra</i>): near threatened Sea lamprey (<i>petromyzon marinus</i>): least concern
Menstrie, Scotland	Warehousing	Firth of Forth: Freshwater Natura 2000 site; SSSI	<ul style="list-style-type: none"> Red-throated diver (<i>gavia stellate</i>): least concern Slavonian grebe (<i>podiceps auritus</i>): least concern Golden plover (<i>pluvialis apricaria</i>): least concern Bar-tailed godwit (<i>limosa lapponica</i>): least concern
Mortlach Distillery, Scotland	Distillery	River Dullan – tributary of the River Fiddich/River Spey: Freshwater Natura 2000 site; SSSI and SAC	<ul style="list-style-type: none"> Freshwater pearl mussel (<i>margaritifera margaritifera</i>): endangered Atlantic salmon (<i>salmo salar</i>): least concern Eurasian otter (<i>lutra lutra</i>): near threatened Sea lamprey (<i>petromyzon marinus</i>): least concern
Mwanza, Tanzania	Brewery	Adjacent to the wetland at the shores of Lake Victoria	<ul style="list-style-type: none"> None

Site	Type of operation	Biodiversity value of adjacent land	IUCN Red List of Threatened Species or local designations
Red Stripe, Jamaica	Brewery	Approximately 3.2km from Kingston Harbour – National Environment Protection Agency Water Resource Authority	<ul style="list-style-type: none"> • White-winged dove (<i>zenaida asiatica</i>): least concern • Brown pelican (<i>pelecanus occidentalis</i>): least concern • Magnificent frigatebird (<i>fregata magnificens</i>): least concern • Yellow warbler (<i>dendroica petechia</i>): least concern
Shieldhall, Scotland	Distillery	Inner Clyde Estuary: Ramsar Convention, national legislation	<ul style="list-style-type: none"> • Common redshank (<i>tringa totanus</i>): least concern
St Croix, US Virgin Islands	Distillery	The St Croix ground lizard, mainly found in beach areas and upland forest, is indigenous to the island of St Croix and three other islands	<ul style="list-style-type: none"> • St Croix ground lizard (<i>ameiva polops</i>): critically endangered
Sterling Vineyards, United States	Winery	Napa River Watershed: National Marine Fisheries Service	<ul style="list-style-type: none"> • Steelhead (<i>callitris monticola</i>): vulnerable
Uganda Brewery, Uganda	Brewery	Adjacent to Murchison Bay at the shores of Lake Victoria	<ul style="list-style-type: none"> • Madagascar pond heron (<i>ardeola idae</i>): endangered; • Shoebill (<i>balaeniceps rex</i>): vulnerable • Gonolek (<i>lanarius mufumbiri</i>): near threatened • Papyrus yellow warbler (<i>chloropeta gracilirostris</i>): vulnerable
Waterford BBA, Ireland	Brewery	Lower River Suir: Freshwater Natura 2000 site	<ul style="list-style-type: none"> • Freshwater pearl mussel (<i>margaritifera margaritifera</i>): endangered • Eurasian Otter (<i>lutra lutra</i>): near threatened • White-clawed crayfish (<i>austropotamobius pallipes</i>): endangered • Atlantic salmon (<i>salmo salar</i>): least concern

Notes

SSSI: Site of Special Scientific Interest (SSSI) is a conservation designation denoting a protected area in the United Kingdom.

Natura 2000: this is a network of protected areas in the European Union as designated under (1) Habitats Directive (i.e. Council Directive 92/43/EEC on the conservation of natural habitats and of wild fauna and flora), and (2) the Birds Directive (i.e. Council Directive 2009/147/EC on the conservation of wild birds).

SAC: a Special Area of Conservation (SAC) is defined in the European Union's Habitats Directive (92/43/EEC).

IUCN: International Union for Conservation of Nature.

 26%

We have reduced our absolute volume of greenhouse gas emissions by 4% this year, and cumulatively by 26% since 2007, despite growing our business – a big step towards decoupling our growth from our environmental impact

Reducing ozone-depleting and other air emissions

We have made significant progress in eliminating ozone-depleting substances from our operations. However, some substances, including hydrochlorofluorocarbons (HCFCs), are inherent components of equipment, and small quantities are emitted through its use and maintenance.

This year we are reporting a greater amount of ozone-depleting substances and fluorinated gases than in 2012, due to the inclusion of data from newly-acquired businesses along with more rigorous data collection. This year, 12,909.5kg of HCFCs were present in our refrigeration and air-conditioning systems, of which 693.5kg were emitted. Halons have been almost eliminated from all our manufacturing sites, while CFCs are present in extremely small quantities.

Ozone-depleting substances and fluorinated gases (2013)

	Present kg	Emitted kg
Halons	0.5	0.0
CFC	63.1	0.0
HCFC	12,909.5	693.5
HFC	7,143.5	522.3
SF6	7.5	0.0

Other air emissions

The use of fuel and the distillation of alcohol generate emissions which have impacts on the environment. In 2013, we emitted 1.252kt of nitrous oxides (NOx) and 1.405kt of sulphur dioxides (SOx).

NOx and SOx are calculated based on fuel usage and standard emission factors. A small number of sites have NOx and SOx air emissions associated with the roasting and kilning of cereals, used to flavour some of our brands. These emissions are measured but are minimal to our overall total NOx/SOx levels, which remain low compared with background NOx and SOx data.

NOx and SOx emissions by year (kt)

	2011	2012	2013
NOx	1.538	1.315	1.252
SOx	1.385	1.368	1.405

Accounting for incidents

There were nine incidents of non-compliance with environmental consents this year, resulting in a total of £68,119 in fines. There were 15 spills or incidents during the reporting year, totalling approximately 76,300 litres of spilled material. In all cases regulators were informed and were satisfied with our response and follow up.

Genetically-modified organisms (GMOs)

Our policy is always to adhere to regulatory requirements for ingredients. In general we use materials from non-genetically modified sources as ingredients in our products. If GMO ingredients are present in our products we strictly adhere to local labelling requirements. We are committed to ensuring our consumers have the best possible access to information with which to make informed choices.



Case study

Cameronbridge: cleaner energy, cleaner water



Our distillery at Cameronbridge is the largest in Scotland – and with the commissioning of our new bio-energy facility in March 2013, we believe it will also be one of the most environmentally sustainable in the world.

Cameronbridge distils some of the world's most famous spirits – including grain whisky for Johnnie Walker and Bell's whiskies, Smirnoff vodka, and Tanqueray and Gordon's gins – and we've also made it the flagship of our drive for greater sustainability.

Our £65 million investment makes Cameronbridge the first distillery in the world to combine biomass combustion, anaerobic digestion and water recovery. We expect that the bio-energy facility will generate up to 30MW of energy, meeting 95% of the site's energy needs, while new water recovery technology has the capacity to recover up to 30% of the water used in the distilling process.

As well as saving enough carbon to heat 10,000 homes, the new facility will significantly improve the quality of the water it discharges, measured in biochemical oxygen demand (BOD). We estimate that this plant will reduce Diageo's total volume of wastewater discharged (as measured by BOD) by 55%.

In June we were delighted to host David Cameron, Prime Minister of the United Kingdom, who visited Cameronbridge distillery to mark the completion of the bio-energy plant and expansion programme.



For more case studies from around the world, please visit <http://srreport2013.diageoreports.com>



Case study

Greener energy, still great Guinness

Since February 2013, the steam boilers that play such a crucial role in brewing Guinness at Douala have been fuelled by natural gas following a six-month, £800,000 conversion project and a great partnership with our gas provider. Natural gas provides consistent energy while emitting significantly less CO₂ than heavy fuel oil: in Douala we project that the switch from oil to gas, combined with efficiency improvements such as better insulation and heat recovery, will result in a 30% reduction in CO₂ emissions.

The project began in 2012, when Guinness Cameroon agreed a contract with Rodeo Development Ltd to buy natural gas piped directly from their two new gas wells at Logbaba, Cameroon. By installing dual fuel

burners, we were able to ensure that we could benefit from this new supply while retaining the flexibility and security we need to keep brewing great beer.

Baker Magunda, Managing Director of Guinness Cameroon, said: 'This new gas equipment will secure for our plant a constant and consistent energy supply, enabling us to achieve our business ambitions in a more efficient and sustainable manner.'

The project at Douala is one of dozens of energy initiatives undertaken in 2013 to help us meet our target of halving greenhouse gas emissions by 2015.

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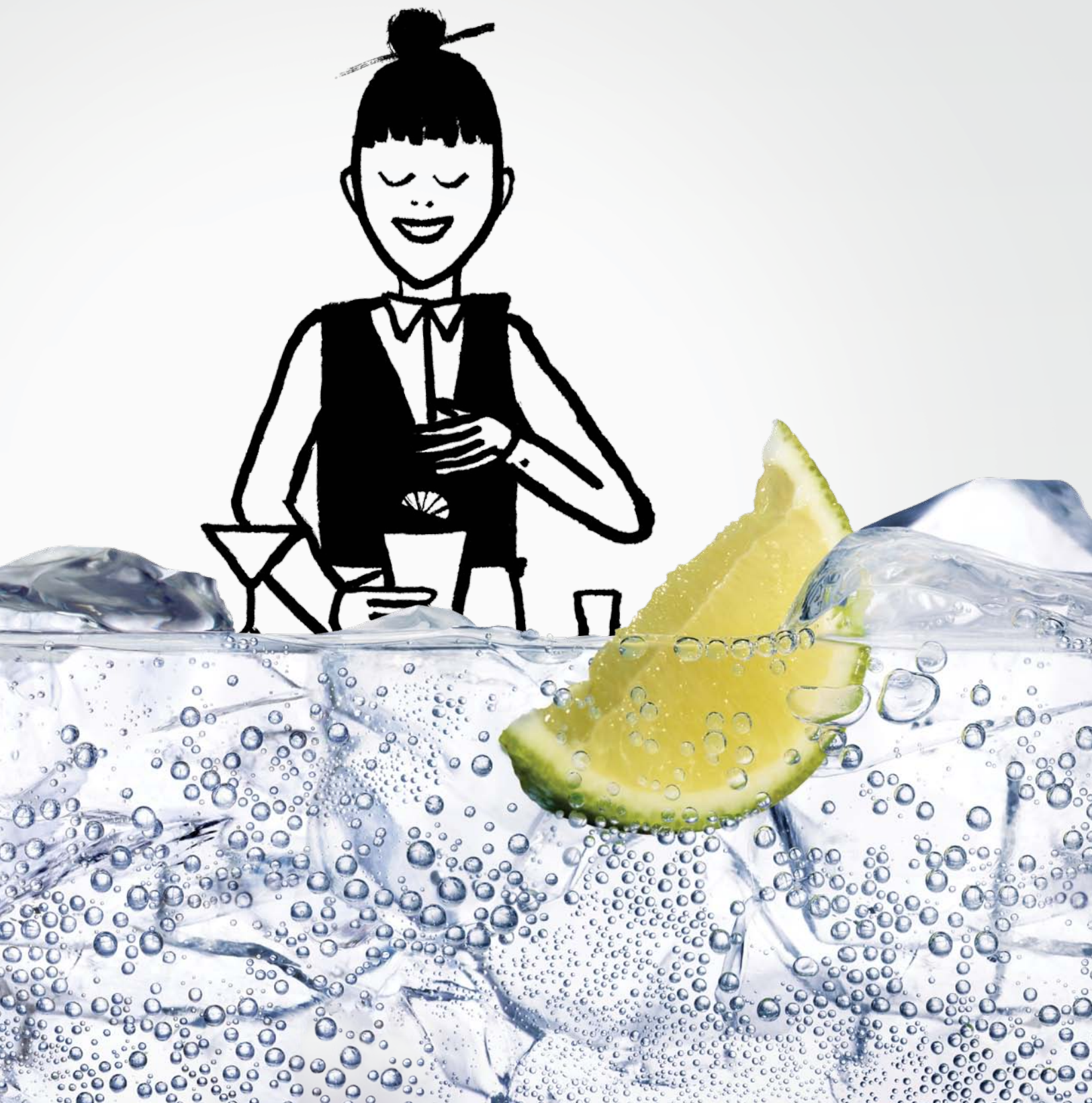


Socio-economic development

We empower people by investing in skills, as well as in communities as a whole by creating jobs, paying taxes, providing access to clean water, and helping when disaster strikes. This year we launched Plan W, a £6.4m investment to empower 2 million women across Asia by 2017.

In this section:

- 48 Local wealth creation
- 50 Community investment
- 53 Advocacy and awareness



Socio-economic development

Celebrating life, every day, everywhere, means that through all our activities we aim to contribute positively to the lives of our employees and business partners, and to the wider community. Working together with local people for the benefit of the societies and economies where we operate builds trust with our stakeholders and perpetuates the stable operating environment we need to succeed.

Our approach and performance

Our stakeholders expect global companies like Diageo to contribute to socio-economic development in the communities in which they operate. At Diageo, giving back to our communities has been a part of our history dating back to the founders of our predecessor companies, from Arthur Guinness's work with Dublin's poor in the nineteenth century, to Grand Metropolitan's projects addressing unemployment in the 1980s.

In recent years, we have made a meaningful assessment of the potential impact of our entire value chain on our local communities. This is continuing as our business grows around the world. Today, our commitment to giving back helps us build relationships with our stakeholders, and directly supports our business strategy.

Three pillars define our approach to socio-economic development:

- **Local wealth creation** – contributing to economic development through business activities such as local hiring, local sourcing, our tax contributions, and fostering an enterprise culture
- **Community investment** – establishing investment programmes that empower individuals and communities, bolstered by brand-led initiatives and charitable activity
- **Advocacy and awareness** – harnessing the power of consumers, and collaborating with other companies, governments, industry bodies, and non-governmental organisations (NGOs) to advance sustainable development.

A strong principle in this work is to engage stakeholders to understand and address local interests and concerns and, where possible, work in partnership to solve complex problems. By doing so we ensure that we achieve the greatest impact from our investment in development programmes.

Our community investment this year – 0.9% of operating profit – resulted in around 1 million people getting better access to clean water and 25,307 students improving their vocational and other skills. This year we have begun to emphasise women in our skills development work. In Asia for example, 9,000 women participated in programmes specifically designed for them. Beyond community investment, our business contributed to local wealth creation in many ways. One indicator that we track is local sourcing in Africa; this year 52% of our raw materials used in the region were sourced locally.

Local wealth creation

We have a strategic interest in ensuring that our value chain is both commercially and ethically robust. Doing so underpins our success and contributes to local economic prosperity.

Our approach

Like most businesses, we create wealth directly for our local stakeholders through our daily business operations, including providing jobs, sourcing locally, and paying local duties. However, creating wealth in a lasting way requires more: we must work with local people to address development challenges such as education and health, and advocate high standards of governance in the communities where we operate.


This work is only going to become more important as our presence in high growth markets increases: recent investments, namely in Turkey, Brazil and India, are shifting Diageo's centre of gravity. These markets represent over 40% of net sales today and are expected to represent 50% by 2015. Contributing to economic and social development will become core to our business success and reputation in those regions, as it already is in the markets where our production footprint is long-standing and well-established.

Performance

There are many ways that our business created wealth for its local communities this year. For example:





- We employed an average of 28,410 people in 2013, with 54.6% from high growth markets in Africa, Latin America and Caribbean, and Asia Pacific
- In Kenya, Ghana and Nigeria, we contributed 6%, 3% and 0.7% respectively of the government's total tax receipts
- We also create wealth through sourcing our core ingredients and packaging, for example we purchase about 180,000 tonnes of grain from farmers in Africa, as discussed in the sustainable agriculture section of this report
- Some of our subsidiaries are publicly listed on local stock exchanges, where investors receive dividend payments and potential capital growth; in total we have over 100,000 local shareholders in high growth markets.

Performance against targets: local wealth creation

Target by 2015	2013 performance	Cumulative performance (2011-2013)	Achievement
Source 70% of raw materials used in African operations from Africa	52% ¹	N/A	

1. Given that this number represents agricultural raw materials only, we are confident that, once we include all raw materials in our reporting, we will be on track to achieve our target.

Performance against targets

Achieved 	Off track 
On track 	Not achieved 

Cash value added in 2013



Suppliers

More than 40% of our contribution comes from buying raw materials, logistics and transportation, packaging and marketing materials, advertising and information services and business support from tens of thousands of direct suppliers. This year our procurement spend increased by 7% compared to last year. Where possible and economically appropriate, we source locally to support local farmers, communities and economies. In Africa, we aim to source 70% of our raw materials from the region by 2015. At the moment, we work with thousands of farmers across the continent and source 52% of our raw materials locally.



Governments

Every year, our tax contribution accounts for a significant proportion of the value we contribute to economies around the world. This year it amounted to about 30% of our total contribution, including £4,054 million in alcohol taxes and £649 million in other taxes. This represents an increase of almost 6% compared to last year. Our tax footprint is made up of direct taxes including corporation and local business taxes, excise duties and other sales taxes such as VAT. Indirect taxes might include income and corporate taxes paid by our employees and suppliers.



Retained/invested for growth

This year we made a number of acquisitions of brands, distribution rights and equity interests in premium drinks businesses, particularly in high growth markets such as India and Brazil. Such opportunities for growth benefit not only us as a company but also the economies in which we do business. Read more about changes to our business this year in our 2013 Annual Report.



Employees

Recruiting, developing and retaining local talent is one of the more direct ways in which we can help develop local communities. This year we paid our employees £1,294 million, or 8% of our total contribution, in salaries and benefits.



Investors

We work hard to add long-term value for shareholders and are pleased to report that our total shareholder return continues to outperform the FTSE 100. Diageo is committed to a sustainable and progressive dividend policy and this year recommended a further 9% increase in the annual dividend paid to shareholders. We encourage our employees to become shareholders. As at 30 June 2013, 16,788 past and present employees held 1.27% (2012 – 1.27%) of Diageo's ordinary issued share capital (excluding treasury shares).



Lenders

Diageo is an active borrower in global debt capital markets. Investing in Diageo debt instruments allows investors to achieve attractive yields, while their capital is guaranteed by our strong cash flow generation and sound business model. This year, about 3% of our total contribution was paid to lenders.



Community investment

We invested £32 million this year in community development that aimed to address local interests and needs. In total, this amounted to 0.9% of our operating profit before exceptional items.



Research and development

Regionally focused innovation helps create local jobs and supports local communities. Guinness Ghana Breweries, for example, launched Ruut Extra Premium beer, brewed from locally sourced cassava which is a mainstay of Ghanaian agriculture. The innovation is designed to benefit local farmers as well as produce a quality branded beer at a reasonable price for the Ghanaian market.

Community investment

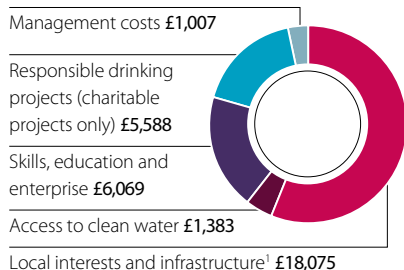
We invest in long-term, actively-managed programmes that help serve critical local needs, from access to clean water to skills development, aiming to make a sustainable difference to our communities.

Our approach

Building on the legacy of our brands' founders, among them John Walker and James Buchanan, who saw business sense in protecting and investing in their own communities, we focus our efforts on what will best serve local needs and where we believe we can make most impact. These include: responsible drinking; access to clean water; empowerment through skills, education and enterprise; and supporting local interests and infrastructure.

Promoting responsible drinking is a significant aspect of our community investment, as detailed in the alcohol in society section. So are our efforts on water, which is critical to our business and to local livelihoods. Our Blueprint Water Framework, explained further in the water and environment section, focuses in part on improving water infrastructure and sanitation in local communities where access to clean water is limited.

Community investment by type (£000)



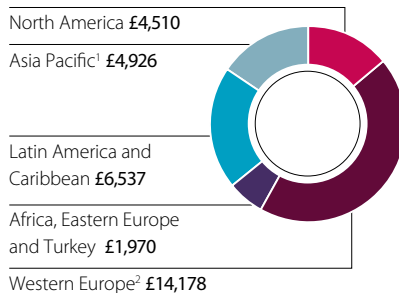
1. Note that investment shown in local interests and infrastructure £8.4 million (2012 – £8.1 million) to the Thalidomide Trust in the United Kingdom, and £1.7 million (2012 – £1.5 million) to The Thalidomide Foundation Ltd as explained on page 52.

Our focus on empowerment through skills, education, and enterprise embodies a long-standing commitment to investing in communities. Our approach has evolved over the years, looking increasingly at our entire value chain – from providing vocational skills in the hospitality industry in Latin America and Asia, which you can read about below, to working with smallholder farmers in Africa on increasing their yields, which you can read about in our supply chain section.

We have begun to emphasise women's empowerment as part of this work, reflecting feedback from NGOs and other stakeholders about the impacts of the alcohol industry on women, and the rise of women's empowerment as an issue on the global policy agenda.

Beyond these areas, we also contribute to local charitable causes and disaster relief as part of our community investment, particularly in regions where employees and operations are directly affected. These rely both on employees from across the business giving their own time and money, and on contributions from Diageo and the Diageo Foundation, a UK-registered charity. Moreover, many of our brands run programmes to raise funds for worthwhile causes, whether in response to natural disasters or to support wider charitable campaigns.

Community investment by region (£000)



1. Investment shown for Asia Pacific includes £1.7 million (2012: £1.5 million) to The Thalidomide Foundation Ltd in Australia as explained in our Thalidomide trust legacy commitment. The contributions listed here are distinct from the litigation settlement achieved in July 2012 in Australia. They also include total investment from Global Travel & Middle East.
2. Investment shown for Europe includes £8.4 million (2012: £8.1 million) to the Thalidomide Trust in the United Kingdom.

 28,410

We employed 28,410 people in 2013, with 54.6% from high growth markets in Africa, Latin America and Caribbean, and Asia Pacific

Performance against target: community investment


Target by 2013	2013 performance	Achievement
Contribute 1% of operating profit to charitable causes every year	0.9%	

Performance against target: access to clean water – Water of Life

Target by 2013	2013 performance	Achievement
Improve access to safe drinking water for 1 million people in Africa every year until 2015 ¹	Approximately 1 million	

1. To better manage our programme, we have reworded this target to focus on annual performance.

Performance against target: Investing in skills, education and enterprise – Learning for Life

Target by 2016	2013 performance	Cumulative performance (2008-2013)	Achievement
Train 100,000 people through our Learning for Life programme in Latin America and the Caribbean	25,307	88,910	

Access to clean water: Water of Life

Water of Life provides safe drinking water to people who need it. Since June 2006, we have developed more than 200 projects in 18 countries, supporting initiatives including boreholes, wells, rainwater harvesting and domestic filtration devices. We aim to develop a Water of Life community programme at each production site in Africa by 2015. As well as providing access to clean water, Water of Life projects aim to:

- Combine safe water with sanitation
- Promote good hygiene and sanitation
- Develop people's skills and communities' ownership of projects
- Be self-financing, to ensure the upkeep of equipment and technology.

Most projects are co-funded with other organisations so that they benefit from both local knowledge and expertise in water sustainability. For example in Uganda, we partnered with the government on a water system rehabilitation project at Jinja hospital, which serves 320,000 people a year. In Nairobi, we worked with the city council to invest in water tanks and a piping system at the Kariobangi health centre. Elsewhere, our partners range from social enterprises on the ground in Kenya, to NGOs, to multinational consumer goods companies.

Although most of our Water of Life projects are in Africa, we have also launched Water of Life projects in Asia, including in Malaysia, Vietnam, and Cambodia, which you can read about in our case study.

Investing in skills, education, and enterprise

We believe that developing new skills and providing education are important indicators of socio-economic development, and we have, historically, placed great emphasis on this in our local communities. Another big priority for us is encouraging enterprise as a means of improving social mobility, particularly in high growth markets and increasingly among women.

Learning for Life

Our Learning for Life programmes teach skills and provide training in bartending, tourism, retailing, hospitality, and entrepreneurship, helping participants gain a real chance of finding employment and becoming active contributors to their community.

In 2013, we ran 59 programmes in 30 countries, and trained 25,307 people, bringing the numbers trained since the launch of Learning for Life five years ago to over 88,000. The programme spans our entire value chain to maximise its impact. In Colombia, for example, Project Entrepreneur, which has been running since 2011, involves working with bottle collecting 'cooperativas' – or associations of low-income families – to help them operate their businesses more efficiently while acquiring an entrepreneurial vision. In August, 300 'Project Entrepreneurs' graduated. Elsewhere, in Miami, 198 students graduated from our Project Hospitality programme, which trains them for the hospitality and tourism sector.

We are seeking to expand Learning for Life beyond its traditional locations. In Scotland, for example, we are developing pilot projects which we aim to launch within the next two years. We are also intensifying Learning for Life's focus on the quality of training, identifying particular needs in local job markets along with commercial links to our business. Ultimately, we want participants to be best placed to find a job and keep it. In line with this, we're conducting economic impact studies to measure the success of projects, beginning with Mexico, with the aim of using the results to help us to enhance our programmes.

 200

Since 2006, Diageo has initiated more than 200 Water of Life projects in 18 countries

 88,910

88,910 people have been trained through our Learning for Life programme since its launch in 2008

 £6.4 million

We have pledged £6.4 million to empower 2 million women in 17 countries in Asia Pacific by 2017

 £32.1 million

£32.1 million (0.9% of our operating profit) went to our community investment programmes this year

'Plan W: Empowering women through learning'

In December 2012, Diageo announced a £6.4 million strategy to empower 2 million women in 17 countries in Asia Pacific by 2017. As we grow in that region, it becomes increasingly important to support local communities, particularly women who often play pivotal roles there. 'Plan W: Empowering women through learning', aims to improve the experience of women from many different backgrounds by helping them develop their skills through training.

Building on existing community programmes which had women's empowerment components such as Champions for Change, described in last year's report, we have created Plan W to empower women further in four ways:

- **Our company** – strengthen our internal diversity policies and practices
- **Our industry** – increase women's employability in the hospitality sector through training
- **Our communities** – work with partners to train women in marginalised communities to improve their prospects, and establish programmes to support social entrepreneurs
- **Our consumers** – raise awareness through brand-led campaigns.

To date we have worked with CARE International, an NGO specialising in gender issues. In Nepal, we're working with CARE to deliver skills-based training and seed funding to marginalised women to start their own businesses, while in Sri Lanka we're training women to work in the hospitality industry.

We're also working with other partners in different parts of Asia. For example, in Thailand we are working with the NGO PDI (Population and Development International), to address gender inequality in the rural village of Ban Kok Klang by generating income through farming, establishing loan funding, and training influential female community leaders who can help the programme reach a wider audience.

In Cambodia we've extended our partnership with Watershed, which you can read about in our case study. In April we launched the Diageo Foundation Korea with a pledge to contribute £500,000 every year for the next five years. In partnership with the Ministry of Gender Equality and Family, the foundation will support initiatives to empower marginalised women.

Supporting local interests and infrastructure

Many of our brands and employees support local causes, from disaster relief efforts after the earthquake in China's Sichuan province in April, and the flooding in Australia, to events like the Great British Bike Ride, which raised £60,000 for Help for Heroes, a charity that supports wounded servicemen and women. Read more about our fundraising for social causes in brand-led programmes opposite.

Sometimes, an investment made to benefit our operations also has a tangible positive impact on our local communities. In Nigeria, for example, we made a significant investment in the Lyoha road connecting our production and distribution site to the main Lagos road networks, including asphaltting and gas pipe protection.

Thalidomide trust legacy commitment

Our community investment figures include £8.4 million (2012: £8.1 million) to the Thalidomide Trust and £1.7 million (2012: £1.5 million) to The Thalidomide Foundation Ltd in Australia, in support of a legacy commitment. Thalidomide is a drug which was distributed in the United Kingdom, Australia, and New Zealand by the pharmaceutical subsidiary of the Distillers Company Limited (DCL). It was withdrawn after side-effects of the drug on unborn children were discovered. In 1986, Guinness acquired DCL and in 1997 merged with Grand Metropolitan to become Diageo. We therefore inherited this commitment from DCL. We are working with various thalidomide organisations, including making contributions to the Thalidomide Trust in the United Kingdom and to The Thalidomide Australia Fixed Trust in Australia.

Advocacy and awareness

Joining forces with governments, NGOs, suppliers, local communities, and the consumers of our brands, means we can make an even greater contribution to socio-economic development around the world.

Our approach

There is increasing recognition – and expectation – among governments and NGOs that the private sector can be a catalyst for sustainable development. This is especially so in countries without well-developed regulatory environments. Beyond good business practices and participatory community investment, we believe that one of the best ways companies can contribute to sustainable local change is by engaging others to become advocates for causes important to them and their stakeholders. Our world-famous brands provide us with a great opportunity to engage consumers in campaigns that champion social and environmental causes.

Awareness: brand-led programmes

Our brands sponsor many initiatives that address social issues, one of the main ones being the Arthur Guinness Fund. Building on the legacy of giving back that originated with our founder, Arthur Guinness, the Arthur Guinness Fund was established in 2009 to support entrepreneurs with ‘a business head and a social heart’, and is committed to finding innovative solutions to address social problems.

To date, the Arthur Guinness Fund has invested over £11 million in sustainable enterprises. In Ireland, £2.54 million has so far been awarded to 30 projects – for example Hireland, an organisation which aims to reduce unemployment, received £42,000. Elsewhere we are working with Ashoka, the world’s leading association of social entrepreneurs, to help finance their network of over 3,000 social entrepreneurs. For example, one project is a progressive housing development programme in Kenya which could make home ownership affordable to 70% of the urban working population, while offering them the chance to be part of a secure, prosperous community.

Broadening our reach to Southeast Asia, in November 2012 we began working with the British Council in Malaysia, investing £50,000 to fund worthwhile enterprises; while in October 2012, we launched the Arthur Guinness Fund in Singapore, committing £95,000 in the first year to projects that enhance the lives of marginalised women.

Other initiatives

Below are just a few examples from our other brands.

- **Buchanan’s:** our Time to Share campaign recruited 6,500 volunteers from Venezuela, Colombia, and Mexico, each of whom donated four hours of their time to community improvement projects, directly influencing the lives of 36,214 people in the region’s neighbourhoods, schools and community centres.
- **Bell’s:** in October 2012, we launched a campaign to raise £1 million by the end of 2013 for Help for Heroes, the British military veterans’ charity. By the end of the financial year, we had raised over £500,000.
- **Johnnie Walker:** the Keep Walking project in Taiwan has funded community-minded, pioneering business ideas since it launched in 2003. By the end of 2013, it had invested over £4.5 million in social entrepreneurs.

Advocacy

Some of our strongest advocacy work involves arguing for industry-wide standards to tackle alcohol misuse and promote responsible drinking, as discussed in our alcohol in society section. We are also active advocates in the following areas.

- **Anti-corruption:** we are working to address this barrier to economic development in a number of countries. So far the emphasis has been on Africa, including joining the Convention on Business Integrity (CBI) in Nigeria in a move towards a ‘visible zero tolerance’ for corruption, and leading the development of the Code of Ethics for Business in Kenya.
- **Food security:** we are one of 28 global companies behind The World Economic Forum’s New Vision for Agriculture as a driver of food security, environmental sustainability, and economic opportunity. We are also part of the Grow Africa initiative which promotes agricultural development through public/private partnerships.
- **Water:** we are signatories to the CEO Water Mandate, joining UN agencies, NGOs, governments, and other stakeholders in committing to developing, implementing, and disclosing policies and practices around water sustainability.
- **Women’s empowerment:** this year Diageo became the first beverage alcohol company to sign the Women’s Empowerment Principles, a joint initiative between UN Women and the UN Global Compact, which Diageo signed in 2002. The UN defines empowerment as a woman’s right to have choices, opportunities and access to resources – all of which improve her sense of self-worth and ability to influence society and the economy.

We believe that one of the best ways companies can contribute to sustainable local change is by engaging others to become advocates for causes important to them and their stakeholders.



Case study

A question of supply: access to clean water for Tanzania's health services



Lack of a regular clean water supply, sanitation and hygiene, pose a significant health problem in Tanzania – particularly in the dispensaries and health centres where almost 70% of the population go to receive health services.

National figures show that almost two-thirds of all health facilities lack a regular water supply – this is a familiar situation for the people of the Songea district in the Ruvuma region of Tanzania.

To improve access to clean and safe water for the 50,000 people who use the Mletele public primary health facility and for the surrounding communities of Songea, Diageo has committed £24,067 to construct deep boreholes and install a hand water pump. The work, which will be managed by the African Medical and Research Foundation (AMREF), is expected to be completed by July 2013.

We've also committed £27,755 to AMREF to do the same for the Mkamba public primary health facility and surrounding municipality in the Dar es Salaam region, bringing access to clean water to another 10,100 people.

Water of Life projects such as these provide 'kick start' funding and expertise so that they can eventually stand on their own. These initiatives, funded by the Diageo Foundation, will also provide education and promote hygiene among staff and patients.

Through these projects we hope ultimately to strengthen the governance of, and community participation in, water management in these regions.



For more case studies from around the world, please visit <http://srreport2013.diageoreports.com>



Case study

Empowering women to improve sanitation and hygiene in rural Cambodia

Public sanitation exists in only 23% of communities in rural Cambodia, while only around 50% have access to clean drinking water. These rates persist despite decades of NGO and government schemes to give away toilets, hand-pumps, chlorine tablets, and water filters.

To address this challenge, the public enterprise Watershed has sought to change community attitudes toward sanitation. Using a 'hands-off' marketing model, it aims to develop local social entrepreneurs and community networks to act as sales agents and local retailers, creating new channels to distribute sanitation products.

Diageo invested £50,000 in the Watershed programme in Cambodia's Kampong Cham province between December 2011 and January 2013, in a partnership with USAID. As a result of the project, more than 10,000 rural Cambodian households chose to purchase their own toilet or water filter device, investing more than £282,000 of their own money. Consequently, local businesses prospered and suppliers employed more

people from the community to work as agents, labourers, and installers.

These are achievements to be proud of; however we believe more can be done. With a further investment of £50,000 from the Diageo Foundation through Plan W, our global programme to empower women, Watershed will build directly on the work in Kampong Cham province. It will investigate how access to clean water, sanitation, and hygiene can be improved, focusing specifically on increasing opportunities for women in business and on women as consumers of safe and affordable products that improve their families' health and comfort.



For more case studies from around the world, please visit <http://srreport2013.diageoreports.com>

Our people

We pride ourselves on being a great place to work, winning multiple awards including Britain's 'most admired company' this year. Our status as one of the world's best multinational workplaces in several countries where we operate recognises our performance, values and reputation.

In this section:

- 57 Who we are
- 59 Safety
- 61 Health and wellbeing
- 62 Our talent



Our people

We want our people to be free to achieve their full potential. We aim to provide a safe, healthy, inspiring work environment, in which talent is developed and rewarded, and individuals are respected. That way our people – and our business – can ‘be the best’.

Our approach and performance

We owe our success to our people, living our values throughout the 180 countries in which we operate. In this section we quote from Diageo’s *Our Talent Story*, which was compiled from conversations with people throughout the business. It articulates our pride in what we do, and describes the opportunities and ambition we have for the people around the world we rely on to make the great brands our consumers love.

Creating the conditions for our people to succeed is reflected in our ambition that ‘everyone goes home safe, every day, everywhere’. Our philosophy of ‘Zero Harm’ has helped us meet our target of reducing lost-time accidents (LTAs) by 60% since 2010, but we always work to eliminate accidents altogether. However, this year four people were fatally injured at work, and therefore our priorities remain the development of our safety culture, the skills and capability of people in the workplace, and our Severe and Fatal Incident Prevention programme (SFIP).

From the moment they join Diageo, we want employees to feel ‘engaged’: aligned with our strategy, connected to our values, and motivated to achieve their potential.

We support our employees through clear HR policies, competitive reward programmes, coaching and development opportunities, and health and wellbeing initiatives.

Maintaining a culture that embraces diversity from recruitment through to senior leadership is particularly important, and as part of this we have a specific target for women in leadership positions – 30% of all leadership roles by 2014 – which we are well on the way to achieving with 28% this year.

Each year we carry out a Values Survey, and this year 92% of our employees took part. We were pleased that ‘engagement’ remained high at 85%, and ‘super-engagement’ went up to 41%, getting us closer to our aspiration of 50%.

Workplace awards





We are proud that Diageo has been honoured with workplace awards, as shown in the table below.

Workplace awards¹

Location	Award
Global	Most Admired Company (<i>Management Today</i>)
Global	Ranked 9th in 2012
Argentina	Ranked 6th in 2012
Canada	Ranked 19th in 2013
Germany	Ranked 16th in 2012
Greece	Ranked 10th in 2013
Iberia	Ranked 16th in 2013
Ireland	Diageo ‘demand’ was ranked 1st in 2013 Diageo ‘supply’ was ranked 6th in 2013
Kenya	Won inaugural Deloitte ‘Best Company to Work For’ Survey
Latin America	Ranked 8th Best Multinational to work for in Latin America
Mexico	Ranked 4th in 2012

1. Awarded by the Great Place to Work Institute unless otherwise stated.

Performance against targets

Achieved		Offtrack	
On track		Not achieved	

Our business model encourages the promotion of local leaders, and many of our leadership group have benefited from multi-market experience, helping them to gain the cultural understanding necessary to be effective leaders for a global business.

Who we are

‘Walk into any Diageo distillery, brewery or office, anywhere in the world and the chances are you’ll be met by a diverse group of people who are really good at what they do.’
Our Talent Story

Our total number of employees is 28,410, an increase of 10.6% since 2012. As we grow, we become ever more diverse, and we are proud to report that in this year’s Value Survey, 88% said: ‘In my team people can be themselves, regardless of their ethnic background, gender, or style’.

Our commitment to diversity is articulated in our Human Rights and Anti-Discrimination Policy and can be illustrated in a number of ways. For example, 28% of our senior leaders are women, as are a third of our board members. This year Diageo became the first beverage alcohol company to sign up to the Women’s Empowerment Principles, a joint initiative between UN Women and the UN Global Compact.

Our business model encourages the promotion of local leaders, and our general managers represent 12 nationalities. We believe in supporting local communities, and over 60% of our leaders come from the market in which they work. We are also proud that many of our leadership group have benefited from multi-market experience, helping them to gain the cultural understanding necessary to be effective leaders for a global business.

While our employees’ views will always be our most important benchmark, we are pleased that our commitment to diversity is being recognised externally. Diageo North America was awarded a 100% score on the Corporate Equality Index of the Human Rights Campaign Foundation for the fifth year in a row, was named by *Working Mother* magazine in its top 100 companies, and was placed by the National Association of Female Executives in its top 50. Diageo Business Services in Budapest was honoured with a Special Recognition Award by the Association of Women’s Career Development.

From the moment they join Diageo, we want employees to feel ‘engaged’: aligned with our strategy, connected to our values, and motivated to achieve their potential.

 28%

28% of leadership roles at Diageo are held by women

Employee resource groups

We support employee resource groups as part of our diversity strategy. While each is different, these networks enable employees to support each other, and they range from global groups like Spirited Women, our women's network group now operating in North America, the United Kingdom, Ireland, South Africa, and Hungary, to African and Asian heritage networks, and lesbian, gay, bisexual, and transgender groups.

Many employees also take part in GREENIQ, our company-wide programme designed to raise awareness of environmental issues and drive improved environmental performance across the business.

Managing change

In cases where changes to our business mean that we move out of certain communities, we support affected employees in a number of ways. These include communicating about job reductions with as much notice as possible, and making great efforts to find new roles for those who wish to stay with us. Earlier this year we announced changes to the structure of our Global Supply and Procurement operation, to align it better with our key markets. As with any change programme, this has represented a period of uncertainty for those in supply and procurement, but we are committed to providing employees with regular updates and appropriate support during the transition, whatever their future employment situation either within or outside Diageo.

In any case like this we always meet, at the very least, the notice periods required in the relevant countries, which vary from two to 12 weeks, and we give full redundancy or severance support in line with local policy. We also offer training, which varies by market, to help those who leave Diageo to find other jobs.

At a glance – a profile of our people in 2013

Average number of employees by region by gender¹


	Men	Women	Part-time	Fixed-term	Total
North America	2,095	1,396	N/A ²	N/A ²	3,491
Western Europe	5,343	3,106	726	434	8,449
Africa, Eastern Europe and Turkey	6,816	2,520	116	162	9,336
Latin America and Caribbean	1,987	1,093	2	48	3,080
Asia Pacific	2,564	1,490	35	142	4,054
Diageo (total)	18,805	9,605	879	786	28,410

1. Employees have been allocated to the region in which they reside. In Diageo's 2013 Annual Report, employees are allocated to the region for which they provide the majority of service.
2. In North America, we do not define employees' contracts in this way.

Average number of employees by role by gender

	Men	Women	Total
Managers	6,136	2,387	8,523
Supervised workers	12,669	7,218	19,887
Diageo (total)	18,805	9,605	28,410

Performance against target: women in leadership roles

Target by 2014	2013 performance	Cumulative performance (2009-2013)	Achievement
30% of leadership roles held by women	28%	N/A	

New hires by region by gender¹

	Men	Women	Total	As a % of regional headcount
North America	257	169	426	12.2
Western Europe	439	396	835	9.9
Africa, Eastern Europe and Turkey	780	342	1,122 ²	12.0
Latin America and Caribbean	542	251	793	25.7
Asia Pacific	292	225	517	12.8
Diageo (total)	2,310	1,383	3,693 ²	13.0

1. Excludes employees joining the business as part of an acquisition.
2. Not all sites in Africa, Eastern Europe and Turkey collate age data, hence the discrepancy with the figure in the new hires by region by age table.

New hires by region by age¹

	Under 30 years	30-50 years	50+ years	Total
North America	158	225	43	426
Western Europe	399	411	25	835
Africa, Eastern Europe and Turkey	556	505	43	1,104 ²
Latin America and Caribbean	356	409	28	793
Asia Pacific	167	341	9	517
Diageo (total)	1,636	1,891	148	3,675 ²

1. Excludes employees joining the business as part of an acquisition.
2. Not all sites in Africa, Eastern Europe and Turkey collate age data, hence the discrepancy with the figure in the new hires by region by gender table.

Employee turnover by region and gender

	Men	Women	Total	As a % of regional headcount
North America	240	179	419	12.0
Western Europe	447	410	857	10.1
Africa, Eastern Europe and Turkey	620	206	826	8.9
Latin America and Caribbean	321	189	510	16.6
Asia Pacific	311	191	502	12.4
Diageo (total)	1,939	1,175	3,114	11.0

Safety

We all have the right to work in a safe environment. In Diageo, our philosophy of Zero Harm is simple: everyone goes home safe, every day, everywhere.

Our approach

The safety of our people is our highest priority. Our Zero Harm programme is designed to ensure that all our people go home safe, every day, and is based on four pillars – prevention, culture, compliance, and capability. Our safety model, followed at all our sites, is based on strict health and safety controls, robust risk assessments, and a desire to improve safety standards continuously.

Performance

Last year, we introduced the Severe and Fatal Incident Prevention (SFIP) programme, specifically designed to identify and effectively control the highest risks in our operations. We are confident that this is the right approach and have committed significant leadership and capital resources to the programme. However, such an ambitious programme will take a number of years to embed fully. No fatality is acceptable, and we are resolute in our ambition to eliminate them from our business.

We are deeply saddened to report that four colleagues were fatally injured at work this year. In December, one of our Nigerian sales colleagues died in a traffic accident – tragic proof that driving remains the biggest risk to our people. We recognise that we have little control over significant driving risk factors such as road conditions or other drivers, but our approach focuses on elements we can control. To date, our SFIP programme has significantly reduced employee road traffic accidents in Nigeria, and we will continue to work to prevent severe and fatal incidents.

In April, two contract employees died at our Accra brewery in Ghana. One, a member of the brewing team, entered a disused basement area and was overcome by a lack of oxygen; the other was a member of site security who went in to help. Diageo does have a clear approach to confined space management covering all risks, procedures and emergency response plans; however, this tragic incident emphasises the importance of having robust procedures for identifying confined spaces, including locations not traditionally considered as confined spaces, such as disused and redundant parts of the plant. It is also a reminder to ourselves that we need to be constantly vigilant about activities not directly related to normal and official operations. We must ensure that all employees and contractors are fully aware of, and understand the hazards represented by, confined spaces, and that they are familiar with specific requirements for entry, including emergency response procedures.

The fourth fatality occurred in late June at our glass facility in Kenya. A contractor was killed in a lift when he got trapped between the door and the door frame on an upper floor. As we published this report, the fatality was still under investigation and the exact cause unconfirmed; the preliminary review confirmed that the lift was in working order and was up to date with statutory inspections.

 28,410

We employ 28,410 employees around the world


 92%

92% of employees took part in our annual Values Survey

 86%

86% of our employees believe Diageo contributes positively to the Sustainability & Responsibility agenda

Performance against target: safety

Target by 2013	2013 performance	Achievement
Reduce our lost-time accident frequency rate ¹ by 60% compared to a 2010 baseline	60%	

1. Number of accidents per 1,000 employees and directly supervised contractors resulting in time lost from work of one day or more.

Fatalities (2007–2013)

	2007	2008	2009	2010	2011	2012	2013
Diageo (total)	1	4	0	2	4	1	4

Lost-time accident frequency rate per 1,000 full-time employees (2007–2013)¹

	2007	2008	2009	2010	2011	2012	2013
North America	38	29.3	23.2	9.98	5.06	4.15	1.94
Western Europe	N/A ²	N/A ²	N/A ²	5.43	5.96	2.63	2.80
Africa	22.6	19.91	4.15	2.87	1.48	1.69	2.09 ³
Eastern Europe and Turkey	N/A ²	N/A ²	N/A ²	3.64	1.12	1.10	0.32 ⁴
Latin America and Caribbean	8.53	4.87	3.47	2.78	3.42	1.44	0.90 ⁵
Asia Pacific	5	2	1.4	1.97	1.41	0	1.26
Diageo (total)	16.5	12.4	7.4	4.96	3.73	2.14	1.97 ⁶

1. Number of accidents per 1,000 employees and directly supervised contractors resulting in time lost from work of one calendar day or more.
2. Due to organisational changes, comparable data for this period is not available.
3. Includes results from the Meta Abo (Ethiopia) acquisition this year for the first time. The LTA rate of the pre-existing Diageo Africa business was 1.69 this year.
4. Includes results from the Mey İçki (Turkey) acquisition this year for the first time. The inclusion of these numbers had little impact on Diageo's total rate.
5. Includes results from the Zacapa (Guatemala) acquisition this year for the first time. The LTA rate of the pre-existing Diageo LAC business was nil this year. Zacapa is showing a 60% improvement in its LTA rate since acquisition.
6. Includes results from the Sichuan Shuijingfang Co., Ltd (China). We are unable to break the number out due to local regulatory restrictions; however the inclusion of these numbers had little impact on Diageo's total rate.

Number of days lost to accidents per 1,000 full-time employees (2010–2013)

	2010	2011	2012	2013
Diageo (total)	190.71	158.79	106.63	66.37

Lost-time accidents

Our overall safety performance is on track and compares favourably with that of our peers. This year, our LTA frequency rate had fallen by over 60% compared with our baseline set in 2010, and we remain on track to reduce LTAs by 20% each year until 2015. Moreover, the severity of LTAs (measured by days lost as illustrated in the table) has reduced even further, dropping by almost 40% since 2012.

We have achieved this despite including results from our new acquisitions in Ethiopia, Turkey, China, and Guatemala, where safety programmes have not as yet been brought fully into line with Diageo's. Our existing business therefore performed ahead of target; overall results were offset by the results of these acquisitions.

In Africa, safety performance has not been as positive as we aimed for, but within the results there are some highlights. Meta Abo, which has been included in our safety results this year for the first time, is showing a dramatic improvement, with a reduction of over 60% in LTAs. However, with eight LTAs there is still

more to do. Our business in South Africa had an excellent year with no LTAs for the second year running, and our Nigeria sites achieved the same. Moreover, with the implementation of SFIP this year, our independent contractors experienced a 40% reduction in LTAs. However, even without the tragedy of the fatalities, our employee LTA performance in Africa was disappointing; our team there remains committed to improving next year, and will do so by continuing to focus on SFIP.

Our North American business continues to deliver exceptional improvement. Of particular note was our Amherstburg site in Canada, which achieved more than one million hours worked without an LTA. Overall, 75% of our manufacturing sites had no LTAs this year.

While we are pleased with our progress, our aim remains to have no accidents anywhere. Over the next 12 months we will focus on further embedding our SFIP and behaviour-based safety programmes, as well as working with our new acquisitions in delivering Zero Harm.



Since 2010, we have reduced our lost-time accident frequency rate by 60%

We encourage our employees to have a healthy and balanced lifestyle. Our local occupational health teams offer a range of activities to encourage everyone to be more aware and more in control of their wellbeing.

Health and wellbeing

‘What makes Diageo different is our deliberate choice to focus on people.’
Our Talent Story

Our approach

When our employees come to work we like to welcome the ‘whole person’, which means supporting both their physical and their emotional wellbeing. How we do this varies according to local needs and how our employees access their healthcare. There is, however, one constant: that our employees understand the importance of responsible drinking.

Responsible drinking

Our global Employee Alcohol Policy makes clear to all our people their responsibilities with regard to alcohol, and we promote responsible drinking through our DRINKiQ programme. DRINKiQ has been designed to equip all our employees to act as ambassadors for responsible drinking. It provides them with the knowledge they need to make the right decisions and to encourage others to do the same. Employees may attend workshops or explore the subject as part of their induction. Diageo North America has also created a new online training tool, which was made available to all their employees this year.

Occupational health

We encourage our employees to have a healthy and balanced lifestyle. Our local occupational health teams offer a range of activities to encourage everyone to be more aware and more in control of their wellbeing. These include providing health tips in newsletters such as those shared by our Kenyan team, and, from Diageo Singapore, offering yoga and pilates classes as well as advice on cooking and accessing health checks. In North America, the Striding towards Wellness programme encourages regular health checks and raises awareness of common health issues, and in Northern Ireland, the You are Made of More initiative has promoted strategies for managing both physical and mental health.

In the United Kingdom and Ireland, a health surveillance programme protects employees against work-related conditions. It provides assessments for new and expectant mothers, night workers, lone workers, and those working at heights. Since 2009, an annual Walking Challenge has encouraged employees to take 10,000 steps a day to increase their overall fitness and general wellbeing.

Combating HIV/Aids

Since 2003 our operating companies across Africa have adopted HIV and Aids workplace education and prevention initiatives, and provided treatment for employees and their families through the Live Life employee wellness programme. This includes: education and awareness programmes; peer coaching; access to counselling and testing; healthy living and nutritional advice; and free anti-retroviral drugs. Uganda, for example, held an Aids awareness week in December which included blood donation, health education and peer educator training, and access to counselling and testing on site.

Our talent

'Diageo is serious about its people, serious about investing in them.'
Our Talent Story

Our approach

We want our people to feel excited and engaged about working with us. We are committed to investing in their success, for their benefit and for that of our business. Our aim is to create a diverse, global workforce who feel inspired to deliver brilliant results, and who are strongly aligned to the aims of the business.

To achieve that vision, we have developed a rewards structure that recognises performance; we have a career development process that harnesses talent and rewards personal growth; and we have built the values of our business into everything we do, measuring them through our annual Values Survey, run by external provider, Kenexa.

Performance

Our Values Survey helps us understand the extent to which our employees believe Diageo is living up to its values. The feedback we receive from the Survey helps us shape and develop our business – 91% of the employees surveyed told us that they fully support the values for which Diageo stands. This year the Survey included employees from our recently acquired businesses, Mey İçki in Turkey, Meta Abo in Ethiopia, and Ypióca in Brazil, and we were therefore particularly pleased that our engagement level held up well at 85% overall.

Sustainability and responsibility

Each year we ask a number of questions related to sustainability and responsibility. This year we brought these questions together to create an 'Integrity Index' to help us measure our performance in this area. The results are shown below, and are broadly in line with last year's.

- **Leadership in the responsible drinking agenda:** 91% of people thought that Diageo was effective in promoting responsible drinking.
- **Contribution to local communities:** 81% felt that Diageo made a real contribution to the communities in which we operate.
- **Contribution to environmental sustainability:** 86% agreed that Diageo was environmentally responsible.
- **Diversity and inclusion:** 88% said people can be themselves, regardless of their ethnic background, gender, or style.

Values Survey results (2013)

Values	Favourable responses (%) ¹	Movement from last year (%)
Passionate about customers and consumers	85	–
Freedom to succeed	79	-1
Proud of what we do	83	–
Be the best	73	–
Valuing each other	73	–
Engagement indicators		
Engagement	85	-1
Leadership index ²	74	–
Super-engagement	41	+1

1. The percentage of respondents who selected the two most favourable responses (typically 'strongly agree' and 'agree').

2. As a significant driver of engagement, we measure leadership as part of the Values Survey. The Leadership Index pulls together all of the key survey items that relate to 'My manager'.

- **A culture that inspires ethical behaviour:** as described in the governance and ethics section, this year we adapted two questions in this area, to give a better picture of how employees feel about integrity within Diageo. The results showed that 85% of employees believed that their manager is committed to high standards of ethical business practices and conduct; while 84% felt comfortable raising any concerns about compliance and ethics.

Developing talent

The cornerstone of our development initiatives is our Partners for Growth (P4G) performance management programme. All employees take part in P4G conversations with their managers, covering objectives, development plans, and career aspirations. The aim is to engage them with the business and with their own personal development. We believe leaders who really know their people can better focus them on strategic priorities and help them to feel valued.

Functional training

Functional excellence is vital, and we encourage our teams to keep developing skills in their own professional field. Our global online learning and development tool, the Diageo Academy, allows employees to access development materials or to book places on classroom training events in their own markets and languages. The Academy is also the pathway to both leadership and functional training resources, and provides access to programmes such as iDevelop, a global functional capability assessment and development tool.

Leadership training

As our business grows, we need to ensure that we have a pipeline of diverse, local talent ready to fill our leadership roles. We are constantly looking out for great people to hire and develop, providing them with the skills and support they need to lead our business and 'be the best'.

The Diageo Leadership Performance Programme (DLPP), launched in 2007, is our flagship leadership development initiative. This year the programme was refreshed to align it with our new market structure and to place greater emphasis on coaching, and 257 new, or newly promoted, senior leaders were invited to take part.

Graduate training

This year we welcomed 126 graduate trainees through regional early-career programmes in many of our markets and functions, reflecting our desire to encourage local talent. Our management trainee programme in China was launched after a relationship-building and internship campaign with the prestigious Fu Dan University in Shanghai. Nine candidates were successful in joining Diageo from more than 7,000 applications.

Mid-career training

Our mid-career regional programmes have been developed to motivate middle managers and build their capability for leadership – for example, our 12-month pan-African Growing Leaders Programme (GLP) is designed for high-potential, mid-career talent from across the region. In total, 483 managers across Diageo took part in mid-career programmes this year.

Reward and recognition

Diageo's reward and recognition strategy reflects our diverse, inclusive and performance-orientated culture. Our reward programmes are designed to attract, motivate and retain talented people, to be engaging, and to reward, fairly and equitably, sustainable and responsible performance that is aligned with our values.

We aim to ensure that employees have their personal contribution recognised and rewarded, with the opportunity to share in the company's success and receive benefits that meet their needs. Among other reward schemes, we:

- Offer competitive **base pay** that reflects the individual's skills and knowledge
- Carry out **pay reviews** that recognise personal performance
- Offer annual **incentive plans**, rewarding employees for achieving both business and personal goals
- Provide all-employee **share plans** to encourage employees to connect with the business by participating as shareholders
- Design **benefit packages** in accordance with local conditions and practices in every market – these may include retirement benefits, healthcare benefits and flexible working arrangements.

We benchmark our packages externally to ensure they are in line with the local market. We ensure that all employees are rewarded in ways that meet, at a minimum, national legal standards, and should provide for basic needs and some discretionary spend.

Executive rewards

Like those for all our employees, the rewards for our executive directors and senior leaders are performance-orientated. Their personal performance is measured against individual business objectives that include non-financial measures such as conformity with our Code of Business Conduct and our sustainability and responsibility policies. More information about executive rewards is available in the directors' remuneration report in our 2013 Annual Report.

Share ownership

We encourage all our businesses to operate employee share plans. In 2013, 34 countries operated an all-employee share plan, the majority of which participated in Diageo's International Sharematch Plan. As of 30 June 2013, 16,788 past and present employees held 1.27% (2012: 1.27%) of Diageo's ordinary share capital (excluding treasury shares).

Recognition

We recognise the achievements of our employees in every market, using a variety of schemes which both celebrate good work in its own right, and help to inspire and motivate us to 'be the best'.

Each market develops its own recognition schemes, highlighting examples of living our values, innovation, excellence in customer service, and ideas or activities which encourage profitable growth. For example, the Asia Pacific Hero Awards celebrate excellence in the areas of people, performance, relationships and reputation. The awards ceremony takes place at the regional leadership conference and recognises both teams and individuals for their contributions to the region's success.

Collective bargaining

We have a strong commitment to industrial dialogue, and in 2013 more than 35% of our employees were covered by collective bargaining agreements. We aim to maintain regular, open dialogue with unions over issues of common interest. For example, in Illinois, United States, our history of working in partnership with employee representative group Local 3 Union to enable the site to adapt to the changing needs of consumers, contributed to the £64 million investment we made in the site this year.

Human rights

We have a responsibility to respect human rights, and that starts with the rights of our employees. Everyone has the right to expect their basic human identity and dignity to be fully respected in the workplace. We have outlined our approach in our policies and guidelines, including our Human Rights and Anti-Discrimination policy, and we will continue to demonstrate our commitment through our activities.

We work to ensure that we do not infringe human rights ourselves, and that we are not complicit with others in any abuse of rights. We do not use forced or compulsory labour and we will not work with others who do; nor will we employ children under the age of 16. We have a special responsibility to protect employees under 18, and ensure that their interests are promoted.

Our commitment to pay wages and benefits for a standard working week that meet, at a minimum, national legal standards, is an important element of the policy. We believe wages should be enough to give employees a bit extra as well as meeting basic needs.

SpeakUp

We actively promote the use of our independent whistleblowing service, SpeakUp – you can read more about SpeakUp in our governance and ethics section.

Employee share schemes by year (2011–2013)

	2011	2012	2013
Countries operating schemes	31	31	34
Employees' holding shares	16,057	16,531	16,788
Employees' holding more than 1,000 shares	48.9%	45.1%	43.9%
Shares held by employees ¹	32m	32m	32m

1. Past and present.



Case study

Empowering women in Asia



Our Plan W programme aims to empower millions of women worldwide. In the Asia Pacific region, where we have committed £6.4 million to improve the prospects of 2 million women in 17 countries by 2017, Plan W got off to a great start through a launch in Singapore attended by some of the region’s most dynamic female leaders.

Plan W is designed to address the fact that in many of the high growth markets in which we operate, women remain substantially disadvantaged; and that, when women are empowered, businesses perform better, communities improve their standard of living, and economies are strengthened. Plan W gives a new focus to our efforts to improve the diversity of our own business, deliver targeted skills training to women in the hospitality industry, work with strategic partners to train women in marginalised communities, and raise awareness among consumers.

In December 2012, we hosted a panel discussion in Singapore to unveil Plan W to the Asia Pacific region. More than 150 women joined the discussion in person, including Siobhan Hamilton, General Manager Diageo

Singapore, Malaysia and Indonesia. Many more followed it through Livestream and Twitter. Gilbert Ghostine, President, Diageo Asia Pacific, said: ‘We are very proud to launch Plan W to support women and the development of communities all around Asia Pacific. As we progress with this major initiative across the region, we will look for more strategic partners who are equally committed to supporting this cause.’

Through Plan W, we work with strategic partners including CARE International to support improvements in literacy and sanitation, and empower women to develop their own businesses by building their skills.



For more case studies from around the world, please visit <http://sreport2013.diageoreports.com>



Case study

New acquisitions achieve over 60% reduction in lost-time accidents in just one year

When we acquired Meta Abo Brewery in January 2012, the site’s safety performance fell far short of Diageo standards. A key part of the business integration planning was therefore to get them to adopt our Zero Harm programme – and fast. Since then, improvements have been spectacular, thanks to the commitment of local leaders, a change in culture, and the general pace of change, resulting in an impressive 60% reduction in lost-time accidents (LTAs). It also meant a fantastic first for the business in Ethiopia – their first ever six months without an LTA, which we celebrated in October 2012.

Our commitment to Zero Harm has also transformed operations and working conditions in our new business in Guatemala, which makes Zacapa rum, with a 60%

We welcomed a number of new businesses to Diageo this year, and our Zero Harm philosophy is already delivering great results in Guatemala and Ethiopia.

reduction in LTAs this year. Two significant changes led to this great result: implementing safe ways of working – including a safer environment, better safety training and leadership communications; and strengthening the safety culture of employees, contractors and visitors.

Nonetheless, there is no room for complacency – all our new businesses still had some LTAs this year, so there is still work to be done. However, within all teams there is a strong commitment to a Zero Harm culture, and we will continue to focus on improving safety everywhere until we have eliminated all accidents from our operations.



For more case studies from around the world, please visit <http://sreport2013.diageoreports.com>



Governance and ethics

People want to trust the company behind the brands they love. To earn this trust and stay proud of what we do we're committed to respecting diversity, promoting safety and human rights, and creating a culture of integrity and strong values.

In this section:

- 66 Regulatory environment and public policy
- 67 Code and policies
- 69 Compliance and ethics programme



Governance and ethics

People want to trust the company behind the brands that they love. Earning and keeping that trust requires vigilance, and is essential for our long-term commercial success. Behind a business that acts with integrity are employees doing the right thing. Our reputation can only be sustained if every one of us is doing the right thing, every day, everywhere.

Our approach and performance

To help our employees make the right decisions at work, we have a sound corporate governance structure (see our 2013 Annual Report) and a robust compliance and ethics programme with our Code of Business Conduct at its centre.

However, doing business with integrity goes beyond having a good corporate governance framework and compliance with policies, procedures, and regulations. It is about creating a culture that demands integrity. This year, we have been working harder than ever to engage our employees, with training for more of our managers, as well as our new joiners, so that a culture of integrity resonates across the business.

This year, the number of potential breaches raised to us by employees increased by 24% (around a third of which were reported via our confidential whistleblower hotline, SpeakUp, which is available to all employees and our business partners). We see this increase as an indication that our people feel more confident in sharing their concerns; in our annual Values Survey, 84% of employees reported that they felt comfortable speaking up. However, we have also seen a slight decrease in the number of breaches subsequently confirmed, and we view this as evidence of our programme's effectiveness.

We are continually adapting and assessing what we are doing. We are choosing to be more transparent about our approach and our performance, because we want Diageo to be one of the world's most trusted and respected companies.

Regulatory environment and public policy

Our success and ability to create a positive role for alcohol in society depends to a great extent on a balanced regulatory framework that provides a strong foundation for our programmes.

Alcohol is one of the most regulated products in the world. Virtually every aspect of our operations is regulated: production, product liability, distribution, importation, marketing, promotion, sales, pricing, labelling, packaging, advertising, labour, pensions, compliance and control systems, and environmental issues.





This high level of regulation can be an advantage to companies with good corporate governance and the right approach to business ethics, where regulation is balanced to promote economic growth. We work with governments around the world to develop proportionate, effective regulation. Our engagement with government bodies is always professional and governed by our Code of Business Conduct. You can read more about our policy work and positions on alcohol in society in that section of this report; here we look at our policy on tax.

Tax affairs

Our approach to tax supports our strategy of international competitiveness, expansion and investment, while balancing the interests of our stakeholders including shareholders, governments, employees, and local communities. We believe that a fair and effective tax system is in the interests of taxpayers and society at large, and can contribute to the fight against poverty and corruption. Advocating for fair and effective tax systems is particularly important in high growth markets, which we expect to account for more than 50% of our business by 2015.

We actively manage and report our tax affairs in a manner that ensures compliance with all fiscal obligations, and is consistent with our own values as well as international best practice guidelines, such as international accounting standards and the OECD (Organisation for Economic Co-operation and Development) Guidelines for Multinational Enterprises. As part of our tax management we consider the implications of our strategy for Diageo's wider corporate reputation and long-term sustainability. This year, we paid £4.7 billion in taxes around the world, which includes excise, corporation and payroll taxes.

Performance against targets

Achieved		Off track	
On track		Not achieved	

Tax policy

At the end of 2012, we began one of our regular reviews of our tax policy. This coincided with an increase in the debate on international corporate tax rules, including initiatives at the OECD, the European Union, and the United Nations. Our updated global tax policy is broader in scope to ensure it covers the widest view of tax accountabilities as well as increased transparency for employees and stakeholders concerning our approach to tax.

Our approach to tax, set out in our policy, is based on six key principles:

- We are committed to the effective, balanced and active management of our tax affairs to deliver our business strategy and to create sustainable shareholder value
- We pursue open working relationships with all tax authorities and, as part of this aim, we adhere to a policy of disclosure to relevant tax authorities in respect of all tax matters
- We conduct our business on sound commercial principles and in doing so take account of all relevant costs, including tax
- We undertake tax management activities in countries where we have manufacturing operations, logistics, sales and marketing, brand ownership and management, or a significant corporate presence
- Transactions between Diageo subsidiaries are conducted on an arm's-length basis according to appropriate transfer pricing rules and OECD principles; this ensures that the group's global profits are properly allocated to the jurisdictions in which those profits are generated
- Where appropriate, Diageo will express views on the formulation of tax laws either directly or through trade associations and similar bodies.

The policy also sets out guidelines for employees who are involved in, or whose actions impact the management of, Diageo's tax affairs. The guidelines explain how to ensure that Diageo complies with all relevant laws and regulations. It states that employees should act in a truthful and co-operative manner when dealing with tax authorities, and that external organisations performing tax services for Diageo must act within the principles of the policy.

To ensure that these guidelines are followed throughout the business, this year we made it compulsory for all employees in our finance department to participate in training to improve their understanding of how tax applies in the business. This included training on transfer pricing, direct and indirect taxes, and the role our employees have in the reporting process and managing tax audits.

Code and policies

Our Code and policies are not simply sets of rules: they are written to give accessible and helpful guidance to employees on how to bring our values to life every day.

To create a culture of compliance and ethics, it is essential that we make sure our people understand what is expected of them and how they should behave. Our Code of Business Conduct ('our Code') sets the standard for what is expected of everyone working at Diageo. All of our other policies and standards flow from its principles.

This year, the board mandated that all lower managers must join middle and senior managers in completing an annual certification of compliance to confirm their understanding of and adherence to our Code and any applicable policies, and to identify any areas of possible non-compliance.

Code of Business Conduct

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

- **Our products** – marketing and innovation; quality; international trade and free zone sales
- **Personal integrity** – conflicts of interest; insider trading
- **Commercial integrity** – bribery, corruption, and improper payments; competition and anti-trust; money laundering; accurate reports and accounts
- **Employment** – health, safety, and security; discrimination and harassment; responsible drinking
- **Company assets** – brand protection; information management and security; data privacy
- **External activity** – external communications; political activity; community and charitable giving; human rights; environment.

Our Code applies to everyone working for Diageo worldwide, regardless of location, role, or level of seniority. We expect those representing and acting on behalf of Diageo, including temporary and contract employees, consultants, agents, and any other third party acting in our name, to do so in accordance with the principles of our Code.

We expect all our suppliers to adhere to our Partnering with Suppliers standard, which includes the key principles from our Code that are applicable to them.



1

We brought our global risk, internal controls and compliance agenda together into one team to provide an even stronger framework for great corporate governance



9,600

We extended our annual certification of compliance from 3,220 to more than 9,600 managers this year

 5,000

We're training more than 5,000 of our line managers in creating a culture of integrity

We aim to bring all our training to life through engaging workshops, communications and competitions, taking the words off the page and into the culture of our workplaces.

Other policies

Our Code is underpinned by a number of global policies covering specific areas of our activities in more detail. We review our policy regime every year to ensure that we take account of any changes in our external environment, and we update our policies accordingly. Our global policies cover:

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

Training

Building on the work we did to refresh our Code last year, for the past 12 months we have focused on embedding its principles as well as our other policies through locally organised, risk-based training. We aim to bring all our training to life through engaging workshops, communications, and competitions, taking the words off the page and into the culture of our workplaces.

Code training

When an employee joins Diageo, he or she must attend training about our Code, which covers key areas including human rights and anti-corruption, and explains how to report breaches and where to get help and advice. We give refresher training and updates as our standards evolve with changing regulation and best practice.

Some regions go beyond the basic training with annual events such as the Pathway of Pride programme in Africa, 'Asi soy, asi somos, sin excepción' in Latin America, and Ethics Day in Asia Pacific. These events provide a forum for sharing experiences and promote ethical behaviour, with special workshops and activities that reflect the needs of the region.

New joiners

The estimated 3,693 employees who joined us during the year were taken through a one-hour induction on compliance and ethics. This is the same for all, regardless of geography, role or grade. All new employees must do this induction within 30 days of joining; moreover, they are expected to have a conversation with their line manager about our Code and policies, and what is expected of them, within the first two weeks of joining the company.

Performance against target: training

Target by 2013	2013 performance	Achievement
100% of new joiners completing Code of Business Conduct training on induction (within 30 days)	75% ¹	

1. This number reflects only those enrolled on the elearning programme; it does not include those trained in face-to-face sessions in several of our markets, and our Supply team.

Compliance and ethics programme

Our global programme aims to create an exemplary compliance environment, and an ethical framework to ensure that Diageo always does business with integrity.

This year we restructured the way we oversee compliance and ethics across the business, bringing together risk management, internal control, and compliance and ethics into one central team. This team is now managed by our global risk and compliance director, who reports to the group finance controller, and directly to the audit committee on all controls, compliance, and ethics matters.

Our controls, compliance, and ethics programme, overseen by the audit and risk committees, focuses on seven areas, each of which has an annual plan. How the programme is implemented, however, is determined by each of our markets, based on their areas of greatest risk, what matters most locally, and what will work best for those employees. Our over-riding aim is to encourage integrity in every part of Diageo: instead of 'we do it because we have to', we want employees to feel that 'we do it because it's the right thing to do'.

Organisational leadership and culture

Our leaders and managers are at the front line in engaging our people in our Code and policies and helping them to make the right decisions. We have made good progress in raising the profile and importance of compliance and ethics within our business. This year we focused on engaging and training line managers – we believe this middle tier of our organisation is central to developing a more fundamental culture of ethics and integrity.

In response to feedback through our Values Survey and from the annual certificate of compliance (see below), we strengthened and relaunched our Leaders of Integrity toolkit and training in December, by giving further guidance on areas such as handling conflicts of interest, gifts and entertainment, making policies relevant to teams, and preventing retaliation against those who report breaches.

Ultimately, the toolkit is designed to show managers how to lead their team in a way that remains faithful to our purpose and values. It helps them understand their responsibilities, what to do in different situations and how to handle any breaches of our Code, policies or standards. The changes we have made should help reduce the number of breaches and near-breaches of our standards, and help us protect our reputation by addressing potential problems or behaviour early and correctly.

Standards and procedures

We have clear and simple global policies, standards, and procedures that cover key aspects of our business operations, and explain to employees what is expected of them. To ensure our policies are relevant and up to date, we review them at least once a year, ensuring they are accessible and available to all. We work with a team of subject matter experts to manage the policies and standards, and we help our markets embed them effectively. We audit and monitor compliance against these standards, which allows us both to detect and to prevent breaches.

Annual certificate of compliance

The annual certificate of compliance (ACC) is an important measure of the effectiveness of our compliance and ethics programme, since it includes questions that are designed to confirm that managers have fulfilled their duties with regard to compliance, and have read and understood our Code and the global policies relevant to their roles. The ACC also requires line managers to confirm that they have had informed conversations with their direct reports about our Code, and the policies that are most important to their respective roles.

In 2013, we expanded the ACC to include all lower level managers in addition to middle managers. Translating the ACC into 14 languages for the first time, we succeeded in tripling its reach from 3,220 managers to just over 9,670, or 40% of our people. Our target for this roll-out was to reach all lower managers by 19 November; by this date 99.8% had completed the ACC. By the end of January, all had done so.



Ethics Day in Asia Pacific boosts employee awareness of the importance of doing the right thing

Performance against target: annual certificate of compliance

Target by 2013	2013 performance	Achievement
100% of lower and middle managers and above complete the annual certificate of compliance	100% (99.8% completed in the allotted time, with the rest completing after the deadline)	

Assessing our risk profile

Each year, all business units and functions are expected to carry out a compliance risk assessment, including consideration of human rights and corruption, and to develop mitigation plans for their most relevant risks. They are required to report on their progress to the board's audit and risk committee. This year all did so.

Due care in delegating authority

We're also committed to establishing good working relationships with our partners and ensuring that they adhere to our standards.

Our approach to mitigating the risk of corruption from third parties evolved this year with a new programme called 'Know Your Business Partner'. It provides a consistent framework for each market to assess bribery and corruption risk from business partners, and the steps to take to mitigate those risks. So far we have trained the key employees who will manage this programme in our highest-risk countries, with the aim of implementing it in all our markets by the end of the next financial year. For more information on how we manage social and ethics risks in our supply chain, see the suppliers section.

As our business expands through mergers and acquisitions, it is also important to ensure that we embed our principles in new business units. We plan ahead and move quickly to ensure our new partners are operating to the same standards as our existing businesses, and we are consistent in our stance on non-compliance issues. Read more in our case study.

Monitoring, auditing, and reporting

Our internal audit team monitors performance against our risk mitigation plans as well as general compliance with our Code of Business Conduct, and may identify breaches during their audit work. We also strive to ensure we have a culture in which employees feel comfortable to raise concerns they might have about potential breaches. This is essential if we are to ensure that unethical behaviour does not go unchallenged, and has appropriate consequences.

We expect anyone who comes across a breach of our Code to report it immediately, either through SpeakUp, our confidential whistleblowing helpline, to their line manager,

or to a member of the compliance and ethics, human resources or legal teams. In recent years we have extended SpeakUp to suppliers, so that they too can raise any concerns with us.

To track and respond to all identified breaches faster and more securely, we launched a breach reporting database in July 2012. Having trained all relevant compliance managers and lawyers, and our corporate security team, to use the database, we now have better insights into our performance in this area, from how quickly we manage and investigate breaches, to areas of breaches that may need specific training or other interventions.

To help employees be better prepared to avoid breaches, we routinely share examples of breaches that have recently occurred, or testimonials from colleagues who were tempted to do the wrong thing yet made the right decision.

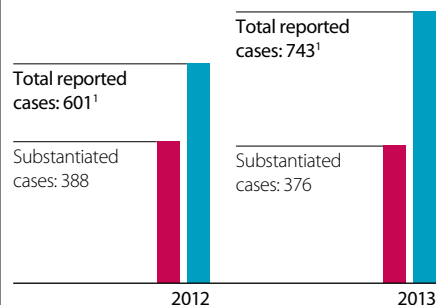
Breaches this year

There were 743 suspected breaches reported this year, compared with 601 in 2012, of which 376 were subsequently substantiated compared with 388 last year. Of the suspected breaches, 242 were reported through SpeakUp, the same number as in 2012, but representing a lower percentage of employees since we have grown this year. Given that overall the number of cases reported has gone up, however, it is clear that more employees chose to report directly to their line manager, the legal team, or our controls, compliance and ethics managers. This, along with the fact that the number of substantiated cases has gone down, strengthens our belief that our programme is working, and that we are creating an environment where people feel comfortable raising concerns.

Response and continuous improvement

All identified breaches of our Code and policies are taken very seriously and investigated within a target of 30 days by experienced investigators who handle every breach reported to us that requires action. Our response to proven breaches varies depending on the severity of the matter. We aim to help employees improve through individual coaching and training, but we will take formal disciplinary action when necessary (see enforcement and incentives, below).

Reported and substantiated breaches



1. Reported through SpeakUp – 242.

160

Our SpeakUp confidential hotline can be accessed from more than 160 countries

Performance against target: monitoring, auditing, and reporting

Target by 2013	2013 performance	Achievement
1% of employees report breaches through SpeakUp (global benchmark)	0.8% ¹	

1. Although this falls below the global benchmark, we have seen breach reporting overall increase by 24%, so we believe that employees still feel comfortable raising issues, but are using internal channels more than SpeakUp.

Developing our Values Survey and creating an Integrity Index

To ensure we continuously improve our performance in this area we also rely on our Values Survey, which asks every employee how he or she believes we are demonstrating our company values, including the quality of our leadership and how we work as teams.

Three years ago we introduced two questions on compliance, and the responses have become essential in helping us shape our programme. This year, we adapted these questions to give a better picture of how employees really feel about integrity within Diageo.

Question: My manager is committed to high standards of ethical business practices and conduct

This new question has been included because we want to hear how well employees feel their line managers set the right tone, and whether they lead by example.

Question: Where I work, I feel comfortable raising any concerns about compliance or ethics

Ensuring employees feel they can raise concerns is critical to protecting an ethical culture, and we encourage them to share concerns either internally or via SpeakUp. We follow up any weaknesses through a post-Survey review so that they can be understood and addressed.

This year we achieved our target of maintaining or improving positive responses to this second question, with, as last year, 84% responding positively.

Reflecting the fact that sustainability and responsibility are growing themes, we brought these questions together with six others to create an 'Integrity Index' to help us measure our performance in this area. We want to be admired by our stakeholders and always be proud of what we do: by measuring and reporting back to markets we can continue to strengthen our culture of 'doing the right thing'.

Enforcement and incentives

Wherever possible, we look to improve our culture through training, coaching and incentives. Annual performance appraisals are weighted with 70% based on performance and the other 30% based on behaviour – including the individual's commitment to Diageo's controls, compliance, and ethics agenda. Employees' overall performance affects their pay increases, and where relevant, their bonuses.

We take seriously the disciplinary consequences of breaches of our Code or policies, and any actions by employees that violate certain aspects, for example our provisions on anti-discrimination and human rights, would result in the termination of their contract. This year, 116 people exited the business as a result of breaches of our Code or policies.

Training and communications

In addition to training on our codes and policies and our focus this year on middle management, we've been giving further training to controls, compliance, and ethics managers and 'ambassadors' on the necessary function-specific and leadership capabilities for their roles.

We want to be admired by our stakeholders and always be proud of what we do: by measuring and reporting back to markets we can continue to strengthen our culture of 'doing the right thing'.

 84%

We scored 84% on our Integrity Index, included for the first time this year as part of our Values Survey

Performance against target: developing our Values Survey and creating an Integrity Index

Target by 2013	2013 performance	Achievement
Maintain or improve positive responses to Values Survey question: 'Where I work I feel comfortable raising any concerns about compliance or ethics' ¹	84% ²	

1. This question was changed this year; last year's question was 'I would feel comfortable raising any concerns about compliance or ethics with my line manager, or through SpeakUp'.
2. Compared with 84% in 2012.



Case study

Nick Leeson's cautionary tale about integrity and corporate culture



Left to right: Anja Drew, Head of Compliance, Controls and Ethics (brandhouse); Nick Leeson; Martin Kromat, Finance Director (brandhouse)

Diageo's joint venture, brandhouse, based in South Africa, hosted its annual Pathway of Pride event in February. The event is designed to inspire a culture of integrity in the company, educating employees about compliance, ethics, anti-corruption and anti-bribery. This year, a unique and fascinating guest speaker was invited.

Nick Leeson is the 'rogue trader' who, at the age of 28, committed a fraud so large it caused the collapse of the company he worked for, the 230-year-old Barings Bank. He was imprisoned for six years in 1995. Today, his personal story holds valuable lessons for employees of any organisation.

Speaking to brandhouse employees, the former banker explained that the fraud started as a small mistake, a miscommunication discovered hours later, which he tried to hide. He admitted that telling his superiors what had happened 'was the first thing I should have done'. Yet he confessed to having a 'fear of failure' and moreover described a 'culture of fear' at the organisation. 'I thought I'd lose my job [if I asked for help],' he said.

Asked what others could do to avoid a similar path, Mr Leeson said: 'asking for help and advice and communicating when

you have a problem, rather than trying to deal with it as I did many years ago.' He also stressed the importance of seeking out experienced people who may have been in similar situations – but who made the right decisions instead.

Gerald Mahinda, brandhouse MD, commented: 'Feedback from employees has been outstandingly positive, so much so that there is now demand for more frequent compliance and ethics events. Employees are also debating far more about integrity and ethics issues, and there have been more calls to our SpeakUp confidential hotline.'



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Case study

Growing our business the right way in Brazil, Turkey, and Ethiopia

Implementing our compliance infrastructure within newly acquired businesses in the first year of operation is critical. So when we acquired Ypióca, the Brazilian cachaça business, we rolled out our Code of Business Conduct training to more than 600 employees, set up a risk management committee, and introduced internal controls to ensure that critical risks to the business were addressed – all within the first year.

As Renato Gonzalez, Managing Director of Ypióca, said: 'As well as creating value, Diageo places equal importance on managing risks and creating a culture where integrity is lived every day within our organisation.'

However, the process also continues beyond the first year. In Turkey and Ethiopia, for example, we continue to embed our

compliance programme in our subsidiaries Mey İçki and Meta Abo, respectively, which we acquired two years ago.

In Turkey our network of compliance and ethics ambassadors – employees embedded within the business – champion the programme, answer queries, and ensure there is an accessible contact to raise potential concerns. This year, Mey İçki employees also completed our Values Survey for the first time.

In Ethiopia this year we rolled out Pathway of Pride, Diageo's compliance engagement programme in Africa, while our teams in London and Nairobi continued to train local employees in compliance.



Meta Abo, Ethiopia



For more case studies from around the world, please visit <http://srreport2013.diageoreports.com>

Our value chain

From the farmers who grow our raw materials to the businesses who make our packaging, we want to work in partnership with our suppliers so that the materials we use are made in ways that contribute positively to local communities and the natural environment.

In this section:

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- 77 Sustainable agriculture and local sourcing
- 78 Food safety and quality



Our value chain

Making our operations more sustainable is important, but it is not enough on its own. Our brands rely on a long and complex value chain that joins us with our suppliers, customers, and consumers. We share a responsibility to make every link in that chain stronger.

In the moment it takes to sip one of our drinks, the consumer is making a connection: to the farm, plantation or vineyard where the ingredients for that drink were grown; to the many suppliers of packaging, energy, raw materials, and labour, without whom we could not create our brands; and to the shop or venue where the drink was bought. That whole journey, from the field to the glass and beyond, is our value chain: it is our responsibility to ensure that at every link in that chain, our impacts on people, communities, and the natural world are as beneficial as possible.

Our reputation, and the sustainability of our business model, depend on our ability to recognise and mitigate the potential risks along our value chain. In this section, we report on the work we are doing with three of the most important links in that chain – suppliers, customers, and consumers.

Our supply chain

Our supplier network presents us with a great opportunity: to co-operate with a diverse group of farmers, businesses, and utilities on the vital undertaking of making our business more sustainable. As a starting point, we set rigorous minimum standards in areas like ethical business, human rights, environmental sustainability, and health and safety.

Customers and consumers

We produce more than 100 brands which are enjoyed in more than 180 countries. This gives us the opportunity to engage a large and extremely diverse group of shoppers and consumers, whose safety, health, and enjoyment are all central to our business. Here you can read about food safety and quality – how we ensure our brands are produced to the highest standard. Elsewhere in this report you can read about some of our brand programmes that engage consumers with sustainability issues.

Our customers are the retailers, hotels, restaurants or other venues that sell our brands, and they are important partners in helping us to encourage responsible drinking and reduce our environmental footprint – covered elsewhere in this report. Many of our customers also look to Diageo to help them improve their own sustainability performance.

Our supply chain

From the farmers who grow our raw materials to the businesses who make our packaging, we invite our suppliers to be our partners in providing locally and sustainably sourced materials which have a positive impact on the communities and environment in which we operate.

Our approach





Around 30,000 direct suppliers from more than 100 countries provide us with the raw materials, expertise and other resources which help us make great brands. Many of those direct suppliers themselves have an extensive supply chain, connecting us with thousands more farmers and businesses.

This network of direct and indirect suppliers presents us with opportunities to form partnerships based on ethical, social, and environmental principles. We believe collaboration with our suppliers, other consumer goods companies, and industry associations like AIM-PROGRESS, the Carbon Disclosure Project (CDP), and the Supplier Ethical Data Exchange (SEDEX), is the most effective means of improving practice in our supply chain and in the industry as a whole. While we engage with suppliers throughout our supply chain, our main focus is on working with those with whom we have the most immediate relationships.

Our work with suppliers is based on three core principles.

- **Optimise due diligence:** our due diligence processes are designed to help our suppliers improve their sustainability performance. While we have our own standards and guidelines, we also work with industry associations like AIM-PROGRESS and SEDEX, which provide collaborative platforms for sharing supply chain ethical data in order to reduce duplication and the burden on shared suppliers.
- **Build capability:** when we can, we help suppliers meet our standards by offering training to build their skills and capabilities.
- **Support local businesses:** working with local suppliers is an important way in which we contribute to local economies, especially in high growth markets.

Performance against targets

Achieved		Offtrack	
On track		Not achieved	

 30,000

We work with around 30,000 direct suppliers from more than 100 countries



We've created a new beer in Ghana brewed with cassava, a sustainable local crop

Managing our supply chain impacts

With a network as wide and diverse as ours, work with suppliers inevitably takes many forms. However, we focus on three key impact areas in our supply chain.

- **Responsible sourcing:** managing the social and ethical risks of our procurement.
- **Sustainable agriculture and local sourcing:** working with suppliers to ensure that our raw materials are produced sustainably, and, where possible, seeking suppliers local to our operations who can meet our procurement needs.
- **Carbon reduction, sustainable packaging, and environmental management:** managing the carbon footprint of our supply chain through collaborative initiatives like the CDP, setting robust targets for the sustainability of the packaging we use, and promoting environmental management standards in our supply chain are all important in reducing our overall impact. Our work in these areas is described in the water and environment section of this report.

What we buy

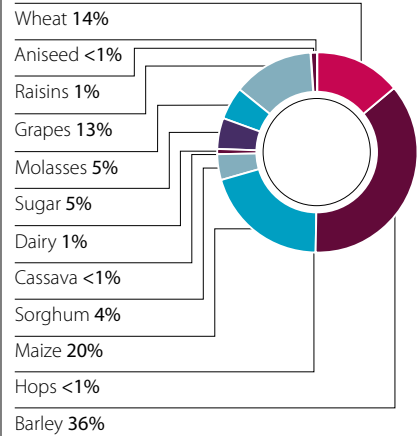
We source goods and services from a wide variety of businesses around the world, and our procurement systems depend on relationships with suppliers that are local, regional, and global. Alignment with our sustainability and responsibility standards, which include our Partnering with Suppliers standard, is among many factors we assess in choosing our suppliers, alongside cost, quality, and service.

The goods and services we buy include:

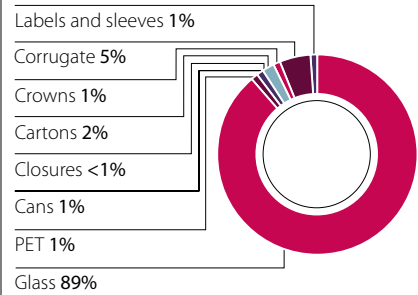
- **Marketing materials** – media, sponsorship and other materials that promote our brands at retail customers' business sites and elsewhere
- **Raw materials and utilities** – including agricultural crops like barley, maize, sorghum, and sugar; and utilities, such as electricity and water used at our manufacturing sites and offices
- **Information services and business support** – including consultants, travel, and other support services
- **Packaging materials** – such as glass, paper, board, plastic, and aluminium
- **Logistics** – the services for distributing our materials and products around the world.

This year, in total we spent £6.5 billion on supplied goods and services, which included 1.9 million tonnes of agricultural raw materials like barley and maize, and approximately 1 million tonnes of packaging.

Raw materials by volume 2013



Packaging materials by volume 2013



Where we buy

While we source these materials from around the world, we want to provide a sustainable market for local raw materials by stimulating the development of local supply chains. For example, in the United Kingdom and Ireland, our largest production region by volume, we source up to 90% of our cereal supply locally. In Africa, which is our largest region by production volume for beer, our ambition is to source 70% of all raw materials locally by 2015 – read more on page 77.



We have reported our emissions to the Carbon Disclosure Project since 2006, and are now asking our suppliers to do the same

We are committed to working with our suppliers, industry partners, and trade associations to drive higher standards in business ethics and sustainability.

Responsible sourcing

We work with suppliers to make sure the goods, raw materials and services we need are produced responsibly, ethically, and with respect for human rights and the environment.

We are committed to working with our suppliers, industry partners, and trade associations to drive higher standards in business ethics and sustainability. We have clear sets of standards and guidelines as well as a defined process for managing social and ethical risks throughout our supply chain.

Our Partnering with Suppliers standard

Our Partnering with Suppliers standard sets out the minimum social, ethical and environmental compliance standards we require suppliers to follow as part of their contract with us, as well as aspirations for our long-term partners to work towards. It includes the following.

- **Ethical business practices** – we emphasise our Code of Business Conduct standards, and require suppliers to comply with legislation, and commit to working against corruption, extortion, and bribery.
- **Human rights** – we recognise International Labour Organisation core standards on safe working conditions, fair pay, and reasonable hours as a minimum, and encourage suppliers to endorse the Universal Declaration of Human Rights. Also, our global human rights and anti-discrimination policy applies, as far as is reasonably achievable, to partners, suppliers, and third-party contractors.
- **Health and safety standards** – we expect suppliers to maintain a safe working environment, including access to safety equipment and training.
- **Environmental impacts** – we set out our commitment to reduce carbon emissions, waste, and water, and ask suppliers to demonstrate a similar commitment by managing, monitoring, and improving their performance.
- **Responsible drinking programmes** – we encourage our partners to make use of our information and experience in creating a more positive role for alcohol in society.

Identifying and managing risk

The process by which we manage social and ethical risks has four stages.

1. **Initial screening:** a series of key risk-based questions which our procurement team applies to all current and potential suppliers. Criteria for identifying high risks include analysis of country of origin, type of goods or service, potential impact on a global brand, and use of temporary or casual labour.

2. **Pre-qualification:** a questionnaire used as part of our supplier qualification process that asks key questions about social and ethical risks, including human rights.
3. **Qualification:** any potentially high-risk suppliers are required to register with the SEDEX (see below), and to complete the SEDEX self-assessment questionnaire.
4. **Audit:** suppliers who represent the highest risk are independently audited with the SEDEX Members Ethical Trade Audit (SMETA) '4 pillar audit protocol'. We agree ways to address any gaps, and work with suppliers to help raise their ethical standards. In the rare event that a supplier is unable or unwilling to improve standards, we will end our contract with them.

Performance and partnerships

We work through SEDEX, a not-for-profit organisation that enables suppliers to share assessments and audits of ethical and responsible practices with their customers.

To date, 1,095 of our 'potential high risk' supplier sites have registered with SEDEX, up from 875 last year. Of these, 998 have completed a SEDEX self-assessment questionnaire. Some 134 of the highest risk companies were independently audited during the last three years; audits were commissioned by Diageo (4), or accessed through SEDEX and AIM-PROGRESS (130). This is an increase from 105 last year. Suppliers from China and India accounted for 21% of these audits, with issues relating to health, safety, and hygiene being those most frequently raised.

Merchandising materials remain one of our highest risk categories, because they are often made in higher risk countries and we often buy through intermediaries and therefore may lack visibility of the original manufacturing source. We continue to work with our key merchandising suppliers to develop assurance further down the supply chain, with around 80 of our second tier suppliers now audited.

We are also an active member of AIM-PROGRESS, a forum of 35 leading consumer goods companies including Coca-Cola, Unilever, and Nestlé, which promotes responsible sourcing practices and sustainable supply chains. In October 2012 we hosted an AIM-PROGRESS supplier capability event in Lagos, Nigeria, designed to equip suppliers with the knowledge, resources, and tools to uphold responsible sourcing practices.

Suppliers are also encouraged to use our confidential whistleblowing service, SpeakUp. This year we received three calls relating to suppliers and vendors through SpeakUp (only one case was substantiated), and we are working to address concerns raised about discrimination.

Sustainable agriculture and local sourcing

We rely on raw materials from agriculture, so it is imperative that we focus our efforts on anticipating climate change and resource scarcity in partnership with suppliers and farmers.

Growing agricultural raw materials often requires resources that are under mounting pressure. Challenges such as water scarcity, unsustainable farming practices, competition for arable land from fuel crops, and climate change all pose potential risks to the supply of our raw materials and to the livelihoods of the farmers who produce them.

We approach our agricultural supply chain knowing that the future prosperity of farmers, suppliers and our business is closely linked with our ability to create partnerships and generate joint business value in ways that are sustainable, secure, and mutually beneficial. We support sustainable sourcing and, where appropriate, local sourcing of raw materials which meet our quality standards. In the United Kingdom and Ireland, our largest production region by volume, we source up to 90% of our cereal supply locally.

Increasingly, we are looking at alternative raw materials like sorghum and cassava, which are more resilient and better adapted to their local climates. For example, this year we successfully launched Ruut Extra Premium beer in Ghana, Diageo's first cassava-based beer, providing local farmers with a commercial market for one of Ghana's most popular crops. At the heart of our approach is the recognition that partnerships with farmers are the most effective way to promote sustainable farming practices and secure local supply networks. We have seen how these partnerships, when successful, can change lives and transform communities.

As a business, we aspire to the aims defined by the Sustainable Agriculture Initiative: 'Sustainable agriculture is the efficient production of safe, high quality agricultural products, in a way that protects and improves the natural environment, the social and economic conditions of farmers, their employees and local communities, and safeguards the health and welfare of all farmed species.'

Our agricultural suppliers

We buy raw materials such as barley, sorghum, maize, and grapes from a diverse range of suppliers, from sizeable commercial businesses to smallholders whose area of sorghum or barley might cover no more than an acre. We deal directly with around 150 first tier suppliers and thousands of farmers; and we have an even wider network of suppliers whose produce we buy indirectly. While historically we have sourced the largest proportion of our ingredients from Europe, our business has grown significantly in other regions, notably Africa – a particular focus of our work in local sourcing.

Buying locally

Local sourcing is a deliberate choice to ensure a reliable supply of raw materials from close to our breweries and distilleries, while having a positive impact on the communities in which we operate.

For example, we use barley to make both beer and whisky, and it represents 36% of our total raw materials by volume. We source barley mainly from Scotland, Ireland, and Kenya, where it is processed locally.

Our ambition for Africa

Our brewing businesses have had close connections with farmers in Africa for decades: as our largest region by volume for beer, Africa is an important focus for our activities.

Our target is to source 70% of all our raw materials locally in Africa by 2015. By 'raw materials locally' we mean all materials within Africa and used in our African operations to produce our brands, which includes raw materials of both agricultural and non-agricultural origin. We currently source over 52% of agricultural raw materials locally throughout Africa, which approximates to 180,000 tonnes per year. The 52% understates our total performance against our target, which should also include non-agricultural raw materials. We plan to report on these going forward.

Sourcing agricultural and other raw materials locally provides a reliable source of income for thousands of smallholder farmers and agri-businesses, which in turn benefits the economies in which they trade. Farmers benefit from longer-term supply agreements and access to advice, training, inputs and financing options. Our local operations benefit from a diverse, sustainable supply of high

quality ingredients which underpin the success and growth of their brands.

Like barley, sorghum is an ingredient in many of our African beer brands and represents 4% of our raw materials. Sorghum is more drought-tolerant and therefore requires less water to grow than many alternatives, and offers a supply for our operations in water-stressed¹ regions. We buy sorghum in Ghana, Nigeria, Kenya, and Tanzania, where we are working with local farmers and government agencies to increase the supply of sorghum through training and technical assistance to small-scale farmers.

Sustainable agricultural partnerships

Where we have been able to establish longstanding partnerships with suppliers based on the principles of sustainable agriculture, we have seen significant benefits for our business and our suppliers.

In Kenya, for example, we have long worked with commercial barley farmers who supply grain to our malting facility. Our partnerships with these farmers aim to improve yields and develop scalable business models, linking larger farmers with smallholder communities. We are also working with financial services companies to provide farmers with credit facilities and basic insurance against loss of income due to drought.


Similarly, our barley development programme in Ethiopia, in partnership with the Ethiopian Government's Agricultural Transformation Agency (ATA) and 764 smallholders, is designed to develop supply for our operations there.

In Ireland, our work with cereal farmers has included programmes linking seed houses, cereal growers, and the maltster. The programmes include fully traceable sourcing from seed to brewhouse, food safety education and accreditation, seed assurance validation, and advice on crop rotation, pesticides, and chemicals. We support these partnerships with an annual due diligence audit programme, and have worked with suppliers to use the spent grains which previously went to landfill as a valuable input to animal feed and fertiliser.

Cream is another example of an ingredient which has formed the basis of a partnership with a supplier. In 2011, we joined with our primary cream supplier to develop a sustainability strategy addressing quality assurance, animal health and welfare, carbon, biodiversity, water, and health and safety. In July 2012, they began a two-year audit programme which will monitor progress and compliance in 4,300 farms.

1. Diageo defines water-stressed sites as those locations that pose a higher risk for water insecurity now and/or into the future; the definition is based on an evaluation of physical or economic water scarcity as well as regulatory and social risk.

Performance against target: buying locally

Target by 2015	2013 performance	Cumulative performance (2006–2013)	Achievement
Source 70% of raw materials used in African operations from Africa	52% ¹	N/A	

1. Given that this number represents agricultural raw materials only, we are confident that, once we include all raw materials in our reporting, we will be on track to achieve our target.

Food safety and quality

When a consumer drinks one of our brands, it should be safe, pleasurable, and produced to the highest standard.

Our approach

We aim to design and make products that are always safe for consumers to drink, and that meet their expectations in terms of taste, consistency, and presentation. By doing so we protect consumers, our customers, and the reputations of our brands and our business.

All our products go through a full regulatory review before they are launched, and although food safety legislation varies from country to country, we maintain consistency through global quality standards designed to match or exceed local market regulations. Our Global Quality Policy applies to all Diageo businesses. We also apply relevant quality standards to our third-party producers, who are contracted to comply with them.

Legal requirements for labelling vary from country to country: wherever we operate, we comply with the local requirements and include a 'drink responsibly' reminder on each of our bottles and cans, and a reference to www.DRINKIQ.com.

We are pleased to report that we recorded no food safety incidents in 2013 that resulted in a product recall. We want to maintain this record and ensure that we always strive for the highest quality for our products. To this end, all our manufacturing sites have improvement plans in place and are working towards a goal of zero defects in four main ways.

- **We analyse the root causes of quality defects** and create improvement plans to address them – this has already resulted in a significant reduction in total defects across Diageo.
- **We are improving our management systems** by working towards certification to ISO 9000 and FSC22000 at every site. The first site accredited was Bushmills, Northern Ireland, in December 2012.
- **We continue to engage our employees** across the business to deliver 'right first time' quality.
- **We're also building relationships with our customers** through regular meetings to discuss their concerns. For example, we have piloted a new programme to develop customer feedback in North America this year that has improved our quality performance through activities such as a quarterly 'scorecard' review with each key customer where we share insights, highlight areas for improvement and track progress.

Performance

To maintain the best-tasting, highest quality products and packaging, we constantly measure our performance. We record 'defects' – any individual fault on a single product, that can be as small as a tiny tear on a label – and 'incidents', which usually refer to a defect that applies to a larger number of units. While the majority of the defects that we report on here are found before our products go to market, we also collect and respond to complaints from customers and consumers on any issue of concern to them.

This year we recorded a 62% decrease in total defects found before our products left our sites. This includes a 76% reduction in 'critical' defects (issues such as closure or cap damage, or an illegible date code). When defects such as these occur, we respond by holding the stock and carrying out a full root-cause analysis to prevent it happening again.

These decreases are the result of quality improvement programmes at all our sites. We have seen encouraging progress, for example, from a programme designed to address the challenge of packaging defects in Africa. Since it was introduced in 2011, we have reduced defects in Africa by 74%. In North America, we have invested in new packaging, coding, and labelling equipment which has resulted in a 87% reduction in defects this year.

We have also built quality into the design phase of our innovation process, which has helped reduce defects: for example, we expect the redesigned labels for Johnnie Walker Red Label and Baileys Irish Cream to reduce minor defects by 42%.

We have continued to gather and act on customer and consumer concerns through our consumer care lines and in-market companies, and we aim to respond to any concern within five working days. We are enhancing our network for consumer care services in markets in Asia Pacific, Latin America, and Africa; and consumers can also reach Diageo through their retailers or our website. In total, this year we received and responded to 33 customer complaints per million units sold (a unit being one case of nine one-litre bottles), which primarily concerned taste, or leakage from damaged containers.

This year we recorded no food safety incidents that resulted in a product recall.

Quality performance (2013)

Quality issue	Description	Improvement on 2012 (% reduction)
Total defects ¹	Individual defects identified on isolated products	62
Critical defects ¹	Unsafe or illegal defects	76
Internal incidents ^{2,3}	When an incident is identified before the product leaves our plant	30
External quality incidents ^{2,3}	When an incident is identified by customers or consumers	14
Customer and consumer concerns	Gathered through consumer care processes	9

1. A defect refers to an individual fault on a single product unit. We define a critical defect as something that is unsafe or illegal. For example, an illegible product code is a critical defect.

2. An incident relates to an entire batch. The possible causes of a quality incident vary, but might include: inconsistent taste; particles visible in the products; or incorrect labelling.

3. External quality incident: an incident that has resulted in a product recall from the customer.



Case study

Ethiopia: the cradle of barley

In the fields around the central Ethiopian town of Sebeta, home of Meta Abo Brewery, an exciting barley development programme is underway. If it succeeds, it could help improve the lives of thousands of small-scale farmers.



The high land around Sebeta is very suitable for growing barley, an essential ingredient for our beer business and a potential cash crop that could make a significant difference to the lives of farmers and to the local economy. In partnership with farmers, the Ethiopian Government's Agricultural Transformation Agency (ATA), Oromia Bureau of Agriculture, and Technoserve, we are developing a scalable farming project that aims to be commercially viable, environmentally sustainable, and socially inclusive.

The project is based on building close relationships with farmers and farmers' co-operatives, and could eventually reach thousands of smallholders. Last year, 764 smallholder farmers took part in a pilot involving training and technical assistance, finance, and the sharing of sustainable cultivation practices. It is the first project of

its kind in Ethiopia, and early signs are that it has the potential to tap a great source of ingredients.

After one year, the project yielded 225 tonnes of good quality barley, and we are confident that we can significantly improve the collective performance of all the project's partners as we build on what we have learnt from the pilot.

We have underlined our commitment to the project with a Letter of Intent, signed at the World Economic Forum in Davos, and the project is in line with the commitment of the G8 to support agricultural development in Ethiopia, and the growth and transformation plan of the Ethiopian Government.



For more case studies from around the world, please visit <http://sreport2013.diageoreports.com>



Case study

Bushmills leads the way on food safety

Even when you've been a beloved brand for centuries, like Bushmills Irish Whiskey, you should never stop looking for ways to improve quality. So when we began seeking a new food safety certification for every one of our manufacturing sites, our Old Bushmills distillery in Northern Ireland became the first to achieve it.

Consumer safety is always an essential focus for our brands, so we're continually on the look-out for ways to improve quality assurance. This year we began a programme to achieve food safety certification FSSC 22000 (TS22002-1), an international standard for food safety systems in the food manufacturing industry.

At Old Bushmills, the team launched a project to gain accreditation. Implemented by the existing food safety and quality team, led by Helen Mulholland, and backed by the whole leadership team, it involved all employees in a one-day training session to build their capability in food safety. The initiative was linked to our building manufacturing excellence programme which helped it gain momentum and become part of the site's day-to-day ways of working.

The audit began in October 2012, and covered all operations including distilling, warehousing, and bottling; accreditation was successfully achieved in December 2012. The team held an open day for colleagues from other sites across the region to share what they had learnt, and help them achieve the same high standard.

Asked how they had got there, Site Director Gordon Donoghue commented: 'It's all about safety, not food or health, but overall safety. It is at the heart of everything we do and is treated with the same degree of respect and focus.'



For more case studies from around the world, please visit <http://sreport2013.diageoreports.com>



About this report and GRI

Like many of our brands, Cîroc vodka takes responsible drinking seriously. This year, we gave away free travel to New Yorkers on New Year's Eve and hosted a contest for aspiring film directors to create a 'don't drink and drive' advertisement that aired on national TV.

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About this report and GRI

Diageo has published an annual global Sustainability & Responsibility Report since 2003. It is an integral part of our corporate disclosure and reporting practice, and is published each year alongside our Annual Report.

We report against the Global Reporting Initiative (GRI) guidelines and received limited assurance from KPMG (see page 89). Diageo also supports the UN Global Compact (UNGC) and reports on progress against its advanced framework.

We believe that online reporting makes our content more accessible to a wider audience, while being more sustainable in terms of production and our carbon footprint.

We welcome stakeholders' views on our report and on our approach to sustainability and responsibility in general. We hope that you enjoy this report and we encourage you to give us your feedback either by contacting us or filling in the feedback form on our contact page, www.srreport2013.diageoreports.com

Scope and boundaries

This report is for all our stakeholders. It explains our key impacts across our value chain and sets out our goals, strategy, and performance for the year.

Programmes and goals

The report outlines our programmes, describing our goals of:

- Creating a positive role for alcohol in society
- Addressing global water and environmental challenges at our operations, and the global water challenge more broadly in our local communities
- Contributing to socio-economic development
- Creating a great place to work for our people
- Holding ourselves to the highest standards of governance and ethics
- Working with our suppliers, customers, and consumers to ensure we have a positive impact across our value chain.

The report refers back to certain targets set out in our 2011 Sustainability & Responsibility Report and assesses our progress in meeting them. This year we refreshed our approach to sustainability and responsibility. We interviewed more than 40 external stakeholders to understand their social and environmental concerns for our business and industry, taking stock of our changing geographical footprint and any new implications for our Sustainability & Responsibility Strategy. We will use this feedback to refine our reporting areas and targets in future years.

Reporting boundaries

This report covers the global operations of Diageo plc in the financial year ended 30 June 2013. Dates refer to financial years unless otherwise stated. The following are boundaries for the various types of figures found throughout the report.

- **Financial data** includes the results of the company and its subsidiaries, together with Diageo's attributable share of the results of associates and joint ventures. The results of subsidiaries acquired or sold are included from, or up to, the date that control passes, as indicated in the acquisitions table below. A subsidiary is an entity controlled, directly or indirectly, by Diageo plc. Control is the power to govern the operating and financial policies so as to obtain benefits from its activities. On the acquisition of a business, or of an interest in an associate or joint venture, fair values, reflecting conditions at the date of acquisition, are attributed to the net assets including identifiable intangible assets and contingent liabilities acquired.
- **Alcohol in society** includes data such as for all sites for which Diageo has full operational control. This year's report includes data from three newly acquired businesses: Mey İçki in Turkey, Meta Abo Brewery in Ethiopia, and Ypióca Bebidas S.A., in Brazil.
- **Environmental data** is collected and reported for all sites where Diageo has full

operational control. We report environmental data for acquired businesses as soon as practical, and no later than after we collate one full year's financial data. This year's report includes environmental data from four newly acquired businesses: Zacapa in Guatemala, Mey İçki in Turkey, Meta Abo in Ethiopia and Sichuan Shuijingfang Co., Ltd in China.

- **Socio-economic development** data includes charitable giving on behalf of the company, all subsidiaries, and the independent Diageo Foundation, as defined by the London Benchmarking Group. This year's report includes data from three newly acquired businesses: Mey İçki in Turkey, Meta Abo in Ethiopia and Ypióca in Brazil.
- **Our people:** safety data has the same boundary as environmental data, described above. In addition, we include all off-site employee work-related risks (driving on public roads and activities at third-party locations). For other data in the our people section, we have included the results of the company and its subsidiaries, as well as the following three newly acquired businesses: Mey İçki in Turkey, Meta Abo in Ethiopia and Shuijingfang in China.
- **Compliance and ethics** data such as breaches includes information for all sites for which Diageo has full operational control. The results of subsidiaries acquired or sold

are included from, or up to, the date that control passes, as indicated in the acquisitions table below.

- **Supplier data** includes all business contracts, short- or long-term, which Diageo upholds for the purchase of raw materials, packaging, logistics and transportation, marketing materials, and information services and business support.
- **Food safety and quality data** is collected and reported for all sites where Diageo has full operational control. While new acquisitions adopted our global measures within the first year, performance is being tracked outside the scope of this report until a reliable baseline has been established.

Uncertainty and estimates

While we make every effort to capture all information as accurately as possible, it is neither feasible nor practical to measure all data with absolute certainty. Where we have made estimates or exercised judgement, this is highlighted within these reporting guidelines.

Significant changes in our operations

Diageo has made a number of acquisitions of brands, distribution rights, and equity interests in premium drinks businesses over the last three years, including those in the table below.

Acquisitions

Acquisition	Date acquired	Consideration ¹ £ million	Location	Principal brands acquired
25.02% equity interest in United Spirits Limited	13 May – 4 July 2013	594	India	McDowell's Nr 1 family and other Indian whisky, brandy and rum products
50% equity interest in United National Breweries traditional sorghum beer business	27 June 2013	23	South Africa	Chibuku, Leopard Special and Ijuba sorghum beer products
93% equity stake in SJF Holdco which owns a 39.7% controlling equity interest in Shuijingfang	27 January 2007 – 7 June 2013 (control of Shuijingfang from 29 June 2012)	267 ²	China	Shui Jing Fang Chinese white spirit
100% of the equity share capital of Ypióca Bebidas S.A.	9 August 2012	284	Brazil	Ypióca cachaça
100% of the equity share capital of Meta Abo Brewery Share Company SC	9 January 2012	153	Ethiopia	Meta beer
49% of Diageo Philippines Inc not already owned by the group	14 December 2011	15	Philippines	Distribution company
20% of Kenya Breweries Ltd not already owned by the group	25 November 2011	134	Kenya	Tusker and other beer products
45.5% of the equity share capital of Hanoi Joint Stock Company (Halico)	13 May 2011 – 24 June 2012	60	Vietnam	Vodka Hanoi
100% of the equity share capital of Mey İçki Sanayi ve Ticaret A.Ş.	23 August 2011	1,260	Turkey	Yeni Raki, Terkirdağ Raki, Istanbul vodka
50% controlling equity stake in Rum Creations Products Inc.	5 July 2011	148	Guatemala	Zacapa rum
51% equity stake in Serengeti Breweries Limited via a 50.03% equity-owned subsidiary	22 October 2010	60	Tanzania	Serengeti lager
20% equity stake in LNJ Group	30 September 2010	6	United States	22 Marquis sparkling liqueur

1. Includes net borrowings acquired but excludes the value of put options and transaction costs.

2. Excludes cash acquired in Shuijingfang when first consolidated.

For more information see our 2013 Annual Report.

Principles of management and reporting

In managing our sustainability programme, and describing it in this report, we aim to adopt the principles of the Global Reporting Initiative (GRI).

This table sets out how our report responds to each element of the framework.

Diageo's response to GRI reporting principles

Principle	What it means	Our response
Stakeholder inclusiveness ⁺	The report should identify stakeholders and explain how the reporting organisation has responded to their reasonable expectations and interests.	We set out who our key stakeholders are, explain how we have engaged them this year and identify key areas of the report that address their areas of interest (see engaging stakeholders on page 15). This year we interviewed 40 external stakeholders to gather their views on Diageo's approach to sustainability and responsibility (see page 14).
Materiality ⁺	The report should cover topics and indicators that: <ul style="list-style-type: none"> • Reflect the organisation's significant economic, environmental, and social impacts • Would substantively influence the assessments and decisions of stakeholders. 	This year we expanded our analysis of material issues through internal and external stakeholder engagement and additional research. We prioritised issues by assessing both stakeholder and business interests. Our aim is to report fully on issues deemed highly material and to explain our approach to those deemed of medium materiality. See Sustainability & Responsibility Strategy on page 13.
Sustainability context	The report should present the organisation's performance in the wider context of sustainability.	Where appropriate, we give the context for each impact area at the start of each section, and, where possible, explain the local impact of our operations, for example highlighting our impact on water in water-stressed areas.
Completeness	Coverage of the material topics and indicators and definition of the report boundary should be sufficient to reflect significant economic, environmental, and social impacts, and enable stakeholders to assess the reporting organisation's performance in the reporting period.	Our coverage of material topics is explained in the scope and boundaries section.
Balance	The report should reflect positive and negative aspects of the organisation's performance to enable a reasoned assessment of overall performance.	We report against stretching targets and against GRI indicators, whether or not our performance has been strong. This gives a balanced view of our impacts, which have been defined taking into account the views of a range of stakeholders.
Comparability	Issues and information should be selected, compiled, and reported consistently.	We continue to report against GRI as well as targets disclosed in prior years to ensure that readers can compare this year's performance with that of previous years.
Accuracy	The reported information should be sufficiently accurate and detailed for stakeholders to assess the reporting organisation's performance.	We explain our methodology for calculating performance against targets (see reporting methodologies). KPMG has provided limited assurance for water usage, carbon emissions, biochemical oxygen demand (BOD), and waste to landfill data disclosed in this report where marked with the symbol +.
Timeliness	Reporting should occur on a regular schedule and information should be made available in time for stakeholders to make informed decisions.	This report is published with our annual report every year. The data in both reports reflect performance in the year ended 30 June 2013.
Clarity	Information should be made available in a manner that is understandable and accessible to stakeholders using the report.	We aim to make our report easy to understand for a wide audience. Wherever possible, we define terminology and use visuals to make our messages clear. For example, we have a visual introduction on the homepage of the report website, and an interactive map summarising information about the company, called 'at a glance' (included here on pages 6-7).
Reliability	Information and processes used in the preparation of the report should be gathered, recorded, compiled, analysed, and disclosed in a way that could be subject to examination and that establishes the quality and materiality of the information.	KPMG has assured three aspects of our report, determined as being highly material for the success of our business and Sustainability & Responsibility Strategy (see page 89): <ul style="list-style-type: none"> • Diageo's alignment with the GRI principles of materiality and stakeholder inclusiveness during the development of the Sustainability & Responsibility Strategy at central level • Reliability of environmental performance data for 2013 (carbon emissions, water usage, biochemical oxygen demand (BOD) and waste to landfill) where marked with the symbol + • Diageo's self-declared GRI application level.

Reporting methodologies

For each of our impact areas, we have analysed the best way of measuring performance, and put in place a system of measurement appropriate to the subject.

Here you will find an explanation of our methodology for calculating our targets and other key information for each impact area.

Alcohol in society

Here we detail the basis of calculation for the following metrics:

- Setting baseline data and targets
- Compliance with the Diageo Marketing Code (DMC)
- Responsible drinking reminders on above-the-line marketing material
- Responsible drinking initiatives
- Effective industry codes in place.

Setting baseline data and targets

Diageo's alcohol in society targets were set in the financial year ended 30 June 2010. Progress against baseline data is not relevant, as each target measures a point in time, ending 30 June 2013.

Compliance with the Diageo Marketing Code

Breaches are reported as an estimated percentage of total marketing executions. The calculation considers the number of internally reported breaches of the DMC as a percentage of the total number of marketing projects submitted through SmartApprove in the year ended 30 June 2013.

Responsible drinking reminders on above-the-line marketing material

Technical regulatory managers in each region performed a manual review and assessment of our active product listings to determine our compliance with our current Diageo Alcohol Beverage Information Policy, including whether www.DRINKIQ.com appeared on our labels. Given our total number of global stock-keeping units (SKUs), while the results are not absolute, they are sound and accurately reflect the current status of our brands.

Responsible drinking initiatives

Performance is based on internally reported initiatives through a network of corporate relations leaders in each of our markets.

Effective industry codes in place

Performance is based on internally reported initiatives through a network of corporate relations leaders in each of our markets and a review of industry databases.

Water and the environment

This section details Diageo's environmental reporting methodologies, and outlines the basis of calculation for the following metrics:

- Setting baseline data and targets
- Greenhouse gas (GHG) emissions
- Water consumption
- Wastewater polluting power as measured by biochemical oxygen demand (BOD)
- Waste to landfill
- Litres of packaged product
- Sustainable packaging.

Setting baseline data and targets

Environmental data is externally reported on the basis of our financial reporting year, running from 1 July to 30 June. Diageo's environmental reporting methodologies are reviewed and updated on an annual basis by Diageo's environmental leadership team and ratified by Diageo's environmental executive working group, chaired by the President of Diageo Global Supply and Procurement.

Reporting boundaries

Environmental data is collected and reported for all sites at which Diageo has full operational control, and as defined by the World Resources Institute/World Business Council for Sustainable Development Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, Revised Edition (WRI/WBCSD Protocol). Diageo believes that, by including environmental data from all offices and production sites under its operational control, its environmental reporting will be consistent with reporting on other operational activities. Environmental data from joint ventures and associates (where Diageo does not have full operational control) has not been included within the reported figures.

Baseline

Diageo's baseline year was set as the financial year ended 30 June 2007, applies to all environmental targets with the exception of packaging, which has a baseline of 30 June 2009, and has been prepared in accordance with the internal reporting guidelines and calculation methodologies set out here. The baseline data is used as the basis for calculating progress against Diageo's targets for GHG emissions, water consumption, BOD and waste to landfill, first announced in September 2008.

The continued relevance of 2007 as the baseline year is reviewed on an annual basis.

Restatement of baseline environmental data

Diageo will restate environmental data for the baseline year and intervening years to reflect changes in the company that would otherwise compromise the accuracy, consistency, and relevance of the reported information. Restatements are made in line with the protocols defined by the WRI/WBCSD Protocol, and the Beverage Industry Sector Guidance for Greenhouse Gas Emissions Reporting version 2.0.

The base year environmental impact data, and data for intervening years, are adjusted to reflect acquisitions, divestments, updates to databases for CO₂ equivalent (CO₂eq) emission factors, any errors in methodology and calculations, and any significant changes in reporting policy that result in a material change to the baseline of more than 1% as advised by independent sources. We will report acquisitions data as soon as practical, and no later than after we collate one full year's financial data. We will also restate data where we can show that structural changes regarding outsourcing and insourcing have an impact of more than 1%.

The environmental impacts attributed to Diageo's fiscal year 2007 baseline were adjusted in accordance with guidance from the WRI/WBCSD Protocol, and the methodology independently approved.

The protocol describes the need for companies to restate environmental impacts for consistent tracking over time when they undergo significant structural changes. This is necessary to make meaningful historical comparisons; in other words, previous emissions data is recalculated to compare 'like with like'.

In fiscal year 2013, the environmental impacts for the base year 2007 and intervening years were restated due to the acquisition of four businesses: Mey İçki in Turkey, Meta Abo in Ethiopia, Zacapa in Guatemala, and Shuijingfang in China.

Additionally, where more up-to-date information on electricity emission factors is available, including revisions to International Energy Agency databases, the latest available data is applied.

The base year environmental impacts associated with acquisitions and bringing production in house are principally determined directly from the historical data records for production volumes, energy, water consumption and waste generated for the base year and intervening years. In certain cases where historical data is unavailable, the environmental impacts for the base year and intervening years are extrapolated from current environmental impact data, based on production patterns.

In the current financial year, the environmental impacts associated with acquisitions and in-sourcing increased Diageo's base year environmental impacts by between 6% and 8% for water and GHG emissions respectively. The impacts of these increases on 2015 targets will be absorbed, and Diageo reaffirmed its commitment to 2015 targets this year.

Uncertainty and estimates

While we make every effort to capture all information as accurately as possible, it is neither feasible nor practical to measure all data with absolute certainty. Where we have made estimates or exercised judgment, this is highlighted within these reporting guidelines.

Target setting

Diageo has set environmental targets based on a baseline year of the financial year ended 30 June 2007. The year by which Diageo aims to achieve these targets is defined as 2015.

Reviewing our targets

In 2008 Diageo set environmental targets based on baseline data from the financial year ended 30 June 2007, with the aim of achieving these targets by 2015. Since setting these targets and reporting our performance against them, we have included acquisitions and reset our 2007 baseline data using the principles of the WRI/WBCSD Protocol. Until 2011 these acquisitions were relatively minor in terms of our overall impact on the environment: typically less than 5%. However, in 2011 the company announced its intention to buy several larger businesses. Therefore in the Sustainability & Responsibility Report 2011 we confirmed a review of the implications of these proposed acquisitions for our environmental reporting methodologies in terms of the total volume of production and overall impact on the environment. This review was completed in January 2012, and concluded that there would be no change to the environmental reporting methodologies and that we would continue to incorporate these new acquisitions in our 2007 baseline with no change to our 2015 environmental targets.

However, given the scale of the investment in United Spirits Limited (USL) in India, Diageo will review the environmental impacts associated with this business during 2014 and reassess the implications and our approach to our environmental strategy and future targets.

Greenhouse gas (GHG) emissions

GHG emissions data has been prepared in accordance with the WRI/WBCSD Protocol. A summary of the key elements of this standard and their application to Diageo's business is outlined below.

Scope

Scope 1 emissions (i.e. direct GHG emissions) from on-site energy consumption of fuel sources, such as gas, fuel oil and diesel, are reported for all sites where we have operational control. Scope 2 emissions (i.e. indirect GHG emissions) from purchased electricity and heat is also reported for these sites. Diageo does not fully report on its scope 3 emissions at present. Carbon dioxide emissions from the fermentation process are not included within our reported environmental data as these emissions are from a biological short cycle carbon source (outside scopes 1, 2, and 3).

Calculation methodology

The GHG emissions data is externally reported in tonnes of CO₂ equivalent (CO₂eq). CO₂eq is the measure used to compare the emissions from various greenhouse gases based on their global warming potential (GWP). Each year we also look at the GWP of minor sources of CO₂eq such as hydrofluorocarbons (HFCs). However, the quantities are minimal, approximately 500 tonnes CO₂eq, and therefore fall below the materiality threshold.

The GHG emissions data has been calculated on the basis of measured energy and fuel use, multiplied by the relevant CO₂eq conversion factors. Fuel and energy use is based on direct measurement verified through purchase invoices for the vast majority of our sites (>99%). In certain limited instances (<1%), where invoices or meter readings are not available, it has been necessary to estimate energy and fuel use. All CO₂eq is reported in metric tonnes.

The most reliable and up-to-date emissions factors, which are reviewed on an annual basis, are used to convert energy use to CO₂ including:

- kWh/CO₂eq factor provided by energy suppliers where a contract is in place with respect to the energy supplied to the relevant site
- Relevant conversion factors to the country of operation (for example, national conversion factors supplied by the relevant government)
- International Energy Agency (2012) conversion factors.

Renewable/low-carbon electricity

A number of sites have entered into contracts for 'green tariffs' or low-carbon tariffs for their electricity supply. The CO₂eq emissions from these tariffs have been zero-rated where the contract specifies that the supply onto site is from a 100% low-carbon source such as renewable or nuclear energy. Otherwise we use the supplier's CO₂eq emission factor.

Water consumption

Diageo collects water consumption data from the production sites over which it has operational control, using internally developed reporting guidelines based on the GRI methodology. In addition to tracking total water usage, Diageo also collects information to calculate 'water efficiency', meaning the ratio of the amount of water required to produce one litre of packaged product.

As part of its continuing progress, using the World Resources Institute Aqueduct tool, and data from the United Nations' definition of water-stressed, Diageo has designated 12 of its production sites as being located in areas which are water-stressed, identifying them as higher risk in terms of sustainable water supply. We define water wasted as water leaving a site as process wastewater.

Calculation methodology for water consumption

Diageo uses internally developed reporting guidelines which define the total quantity of water used in production as water obtained from groundwater, surface water, and mains supply less any clean water provided back to local communities directly from a site. Uncontaminated water abstracted and returned to the same source under local consent, water abstracted from the sea, and rainwater collection are excluded from water usage data reported. Water used for irrigation purposes on land under Diageo's operational control is not currently included in Diageo's total, since it does not influence water use efficiency within our production operations. It is our intention to complete a comprehensive review of irrigation water use, including establishing a robust methodology, to quantify use on land under Diageo's operational control in order to determine materiality and impacts. The findings from this review will be reflected in future reporting. All water use is reported in cubic metres.

Wastewater polluting power as measured by biochemical oxygen demand

Much of the water used in brewing, distilling and beverage packaging facilities is used for cleaning process equipment, and such water becomes polluted with product residues. The strength of effluent is expressed as biochemical oxygen demand (BOD) or chemical oxygen demand (COD). BOD is a direct measure of the polluting strength of effluent, and quantifies the oxidisable organic matter present in the wastewater or effluent stream.

Diageo measures, reports, and controls the polluting power of site effluent from its operationally controlled sites and reports the final BOD load discharge to the environment, that is both directly controlled and treated by third parties, consistent with international methods and literature describing the determination of BOD impacts. The site effluent volume is determined from an on-site flow meter or calculated using a 'mass balance' formula, and validated through industry standard correlation coefficients.

The concentration/BOD strength of the effluent is determined from:

- On/off site BOD analysis
- On/off site COD analysis and applying industry (or site specific) correlation coefficient to convert to BOD
- Third-party/municipal treatment facility BOD data.

The final BOD load to the environment is determined from the volume in cubic metres of site effluent multiplied by the BOD concentration in mg/l, and is expressed as thousands of tonnes.

Waste to landfill

Diageo records the type and quantity of all waste to landfill from across the production sites over which it has operational control using Diageo's environmental reporting methodologies and GRI protocols. Waste to landfill includes hazardous and non-hazardous materials.

Calculation methodology for waste to landfill

The definition of waste to landfill includes all hazardous waste and all unwanted or discarded material produced in solid, sludge or liquid form. This includes all refuse, garbage, construction debris, treatment and process sludges, and materials that a site has been unable to reclaim, reuse, or recover. All waste to landfill is reported in metric tonnes.

Litres of packaged product

To calculate efficiency ratios, Diageo uses 'litres of product packaged' as the standard measure for comparison, as this measures the environmental impact associated with the production of our products.

Calculation methodology for production figures

Our calculation of litres of product packaged includes the total litres of product packaged which enter a finished goods warehouse at operationally controlled sites, together with any product sent to a third party for packaging (i.e. a non-controlled site). Damaged product is not included in these figures.

Sustainable packaging

Diageo monitors and assesses the type and volume of packaging used and the alternatives available to ensure our brands are delivered to the consumer with the smallest possible environmental footprint. The methodology applying to sustainable packaging encompasses:

- Pack weight
- Recycled content
- Recyclability.

All sustainable packaging impacts are quantified and expressed in terms of weight: grams/kgs; tonnes; or percentages.

Pack weight changes are determined by quantifying the weight reduction/increase in grams and multiplying by the number of SKUs affected on an annualised basis. Recycled content is determined by establishing the volume in grams/kgs of non-virgin materials used to generate the pack components, and adjusting for in-year changes to recycled content.

Recyclability is expressed as a percentage, determined by quantifying the weight of the final pack deemed to be non-recyclable and multiplying by the total annualised volume of the SKU. Having set targets against a 2009 baseline, we input regional packaging data on each of our three metrics (weight, recycled content, and recyclability) on a monthly basis. They are then consolidated and internally verified.

We have established a sustainable packaging framework, implementation plan, and targets to ensure that, where practical, our packaging has the smallest environmental footprint consistent with the brand proposition, and our sustainable packaging team is working to implement this throughout Diageo.

Socio-economic development

Here we explain the basis of calculation for:

- Setting baseline data and targets
- Plan W
- Water of Life beneficiaries
- Learning for Life beneficiaries
- Community investment figures.

Setting baseline data and targets

Baselines differ for each metric. Our Water of Life targets were set in the year ended 30 June 2007. Cumulative performance records activity between 1 July 2006 and 30 June 2013. Our Learning for Life target was set in the year ended 30 June 2009, and beneficiaries are counted from 1 July 2008 to 30 June 2013. Our community investment target is set each financial year as a percentage of operating profit before exceptional items.

Plan W

We measure four indicators of performance for Plan W programmes: number of women empowered; number of men engaged; number of indirect beneficiaries; and the broader indirect impact of the programme. We have developed an online survey tool which each country team will fill in with the results for each category next year.

Water of Life beneficiaries

Our implementation partners provide us with beneficiary data for each project. To meet the criteria for a Water of Life programme, each beneficiary should:

- Live within 2km of the water source, or 500m if in an urban area
- Be able to get his or her water from:
 - Piped water into a dwelling, plot or yard
 - A public tap/standpipe
 - A tube well/borehole
 - A protected dug well
 - A protected spring
 - Rainwater collection
 - Water filtration and purification.

We are aware that each partner has its own methodology and, with the help of an independent organisation, we are conducting a review in an effort to improve the quality and consistency of our data.

Learning for Life beneficiaries

Beneficiaries are defined as direct participants in Diageo-funded Learning for Life programmes from 1 July 2008 to 30 June 2013.

Community investment figures

Community investment includes contributions (in the form of cash, in-kind donations or employee time) from Diageo plc and the Diageo Foundation. It includes contributions to charitable entities, non-branded responsible drinking programmes that benefit charities, and management costs associated with the Diageo Foundation. We use the principles of the London Benchmarking Group, which we helped pioneer in 1994, to measure our community investment.

Cash, in-kind donations, and employee time contributions are recorded through an annual survey of local markets around the world.

Our people

Here we explain the basis of calculation for:

- Setting baseline data and targets
- Employee profile data
- Lost-time accident frequency rate
- Fatalities
- Women in senior management positions
- Super-engagement results.

Setting baseline data and targets

Baseline information differs between metrics. Employee profile information and super-engagement results are calculated annually, and for this year, they were calculated at the year ended 30 June 2013. Lost-time accident frequency has a baseline of 30 June 2010, and targets were set for the end of this financial year.

Employee profile data

Total employee data comprises our average number of employees, and is captured globally through financial information systems. Regional data describes where employees reside; this differs from the annual report which considers the department for which the employee works. Gender data is collected selectively by region, provided at market level by local human resource systems and teams. Breakdowns in employee profiles (gender, age, etc) are calculated by using ratio analysis, reconciling information gathered from market level systems and the global financial system.

Lost-time accident (LTA) frequency rate

The LTA frequency rate is defined as the number of LTAs per 1,000 employees. An LTA is defined as any work-related incident resulting in injury or illness where the individual is unable to work or where a job restriction is required. Our LTA numbers also include any work-related fatalities.

The assessment of lost time excludes the day the incident occurred, is based on calendar days, and is made without regard to whether or not the person was scheduled to work. In line with industry best practice, we include in our definition of an 'employee' all temporary staff and contractors who work under our direct supervision.

Fatalities

Fatalities include any employee work-related fatality or any work-related fatalities occurring to third parties and contractors while on Diageo's premises.

Women in senior management positions

Gender data has been provided at market level by human resources systems and teams.

Super-engagement results

Data is collected from an annual survey sent to all employees and administered by Kenexa, one of the world's largest employee survey providers. This year the data represented 92% of Diageo's employee base, compared with 91% in 2012.

Governance and ethics

Here we explain the basis of calculation for:

- Setting baseline data and targets
- Values Survey questions
- New joiners
- Annual certification of compliance
- SpeakUp.

Setting baseline data and targets

Having completed the initial roll-out of our Code of Business Conduct globally we have focused on ensuring the key elements of our programme are working effectively by measuring four key performance indicators. These were set out in July 2012 with a completion year of 30 June 2013.

Values Survey questions

Data is collected from an annual survey sent to all employees and administered by Kenexa, one of the world's largest employee survey providers. This year the data represents 92% of Diageo's employee base, compared with 91% in 2012.

New joiners

All new starters are automatically enrolled in our Code of Business Conduct e-learning programme through Diageo Academy, which tracks global participation and responses. In markets where access to the Academy is difficult, we carry out face-to-face training and a register is taken.

Annual certification of compliance

We extended the annual certification of compliance to include more levels of management this year. This was administered through the global online training tool, Diageo Academy, which holds a record of participation and responses for all employees. These are then reported to market and function leadership teams, and reviewed by control, compliance, and ethics managers.

SpeakUp

Our SpeakUp whistleblowing line is advertised across our markets. Calls that come in are tracked by an external party and picked up by the global risk and compliance team. All investigations are monitored by our corporate security team who track length of time and resolution on a case tracking system.

Our value chain – suppliers

Here we explain the basis of calculation for:

- Setting baseline data and targets
- Local sourcing in Africa
- SEDEX self-assurance
- Audits of highest-risk suppliers.

Setting baseline data and targets

All performance figures against targets are for the period from 1 July 2012 to 30 June 2013.

Local sourcing in Africa

Our target is to source 70% of all our raw materials locally in Africa by 2015. Our definition of local raw materials is all materials within Africa and used in our African operations to produce our brands; this includes raw materials of both agricultural and non-agricultural origin.

SEDEX self-assurance

Self-assessment data is provided to us in reports run from the Supplier Ethical Data Exchange (SEDEX), a not-for-profit organisation that enables global suppliers to share assessments and audits on ethical and responsible practices with their customers. Their system includes the number of suppliers who have registered with Diageo, linked their operating sites with ours, and then completed the self-assessment or any other performance-related data. We compare these results with the total number of suppliers we have identified as potentially high risk (considering industry type, location, or association with our brand).

Audits of highest-risk suppliers

Audits are conducted by independent third-party auditing companies, trained to SEDEX Members Ethical Trade Audit protocols or equivalent. Of total audits, four were requested directly by Diageo, and 130 were requested directly by others. Those requested by others remain valid through the AIM-PROGRESS mutual recognition process or through adherence to our own audit requirements. All were accessed via the SEDEX platform on which the supplier owns the audit data.

The second tier merchandising supplier audits were conducted either by independent third-party auditing companies, or by the merchandising suppliers' internal audit teams.

Our value chain – customers and consumers (food safety and quality)

Here we detail the basis of calculation for:

- Setting baseline data and targets
- Packaging defects (ppm)
- Total concerns (complaints).

Setting baseline data and targets

Baselines for each metric are always based on the final actual performance in the previous year. Improvement targets are set based on the trajectory required to hit our medium-term strategic goals (2015). Some adjustment may be made to the targets for each business depending on their actual level of performance and strategic priorities.

Packaging defects (ppm)

Packaging defects data is based on a 0.1% sampling for wines and spirits and a 0.025% for beers. Individual packs are inspected against a Global Finished Product Standard. The number of defects is recorded and reported monthly against the sample size for the production run. Figures are aggregated globally and are weighted based on volume of production.

Total concerns (complaints)

All complaints are recorded (validated or not) through consumer care lines and in-market companies. The concern rate is calculated based on the volume produced at the site in the same period as the complaint was received. Figures are aggregated globally, are weighted based on volume of production, and are expressed as number of complaints per units sold, with a unit being one case of nine one-litre bottles.

Assurance

We aim to align our reporting with what we believe to be the best standards for non-financial reporting. We believe in reporting against reliable data and strive to improve the quality of our non-financial disclosures.

Towards these aims, we engaged KPMG again this year to provide limited assurance of three aspects of our report, determined as being highly material to the success of our Sustainability & Responsibility Strategy:

- Our application of the Global Reporting Initiative (GRI) principles of ‘materiality’ and ‘stakeholder inclusiveness’ during the evolution of our Sustainability & Responsibility Strategy
- Reliability of environmental performance data for 2013 (carbon emissions, water usage, biochemical oxygen demand (BOD), and waste to landfill)
- Our self-declared GRI application level.

As in previous years, we also engaged the London Benchmarking Group to assure our community investment data and methodology.

Our response to last year’s assurance

In addition to creating value for our business and our stakeholders, having a strategy that addresses our material impacts, and reporting against them appropriately, is part of the GRI. Having our materiality process externally assured helps give us confidence that we are following best practice.

Last year we commissioned KPMG to assure our reporting, focusing on the following three areas:

- Reliability of performance data for the year ended 30 June 2012 marked with the symbol ^ in the water and the environment section
- Diageo’s alignment with the GRI principles of materiality and stakeholder inclusiveness marked with the symbol ^ as described in the Sustainability & Responsibility Strategy section
- Diageo’s self-declared GRI application level marked with the symbol ^ in the GRI Index section.

In its public assurance statement, KPMG outlined a number of recommendations. The table below sets out these recommendations and explains how we have addressed them.

Response to 2012 assurance recommendations

Topic	Recommendations	How we responded
Stakeholder engagement	To date, Diageo’s local market strategy reviews have involved Diageo employees assessing the company’s material impacts and programmes. Diageo should extend these local market reviews to more markets and engage with external stakeholders to ensure consistency across markets in light of the new operating model. Furthermore, Diageo should continue to drive, embed and formalise the Sustainability & Responsibility Strategy process as a whole in its 21 markets.	Our focus this year has been engaging external global stakeholders to provide input into our global strategic priorities. We worked with an external consultancy firm to interview over 40 external stakeholders to assess the key material issues that could affect Diageo and our stakeholders in the medium to long term.
Sustainability and responsibility management – co-ordination between markets and global	Diageo should continue to drive, embed and formalise the Sustainability & Responsibility Strategy process as a whole in its 21 markets.	Regional executives have been closely involved in the development of our global strategic priorities. Local general managers have also been involved in discussions of performance metrics, which will be developed in the next reporting year.
Approach to acquisitions	Diageo should set out how it will incorporate acquisitions into its Sustainability & Responsibility Strategy.	As part of our global stakeholder study, we interviewed selected stakeholders in acquisition markets such as India and Brazil, and fed their insights into the development of our refreshed strategic priorities.

Independent Assurance Report of KPMG Audit Plc to Diageo plc

KPMG Audit Plc was engaged by Diageo plc ('Diageo') to provide limited assurance over selected disclosures within the Diageo Sustainability & Responsibility Report for the year ended 30 June 2013 ('the Report').

This independent assurance report is made solely to Diageo in accordance with the terms of our engagement. Our work has been undertaken so that we might state to Diageo those matters that we have been engaged to state in this Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than Diageo for our work, for this independent assurance report, or for the conclusions we have reached.

Responsibilities

The directors of Diageo are responsible for preparing the Report and the information and statements within it. They are responsible for the identification of stakeholders and material issues, for defining objectives with respect to sustainability performance, and for establishing and maintaining appropriate performance management and internal control systems from which reported information is derived.

Our responsibility is to express our conclusions in relation to the assurance scope which is set out below.

Assurance scope

The scope of assurance was determined by Diageo in accordance with the materiality principles as defined by the GRI. As Diageo's reporting processes mature, the scope of assurance will expand over time. In the United Kingdom, assurance of sustainability-related information is not mandatory. The organisation is able to select the scope and level of assurance to be provided by a practitioner.

The extent of evidence-gathering procedures for a limited assurance engagement is less than for a reasonable assurance engagement, and therefore a lower level of assurance is provided. Our conclusions are based on the appropriate application of the criteria outlined in Diageo's environmental reporting methodologies on pages 84-86.

Inherent limitations

Non-financial performance information is subject to more inherent limitations than financial information, given the characteristics of the subject matter and the methods used for determining such information. The absence of a significant body of established practice on which to draw allows for the selection of different but acceptable measurement techniques which can result in materially different measurements and can affect comparability. The precision of different measurement techniques may also vary. Furthermore, the nature and methods used to determine such information, as well as the measurement criteria and the precision thereof, may change over time. It is important to read the selected sustainability information contained within the Report as set out in the assurance scope and in the context of Diageo's environmental reporting methodologies included on pages 84-86.

Assurance scope

Selected sustainability information	Level of assurance	Reporting criteria
Reliability of performance data for the year ended 30 June 2013 marked with the symbol + in the water and the environment section of the report.	Limited assurance	Diageo's environmental reporting methodologies on pages 84-86 outline the reporting criteria for the following selected sustainability data: <ul style="list-style-type: none"> Greenhouse gases are based on the World Resources Institute/World Business Council for Sustainable Development Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, Revised Edition (otherwise referred to as the WRI/WBCSD Protocol) Water consumption is based on the Global Reporting Initiative (GRI) G3 Reporting Guidelines Water efficiencies are based on Diageo's environmental reporting methodologies Waste to landfill is based on the GRI G3 Reporting Guidelines Biochemical oxygen demand (BOD) load to environment under direct control is based on GRI G3 Reporting Guidelines.
Diageo's alignment with the GRI principles of materiality and stakeholder inclusiveness marked with the symbol + as described in the About this report section of the report.	Limited assurance	The criteria set out in the GRI G3 Reporting Guidelines for each of the principles of material and stakeholder inclusiveness.
Diageo's self-declared GRI application level marked with the symbol + in the GRI Index section of the report.	Limited assurance	GRI G3 Reporting Guidelines and application level requirements.

Greenhouse gases

In particular, inherent limitations affect the conversion of electricity and fuel used to calculate carbon emissions. Conversion of electricity and fuel used to calculate carbon emissions is based upon, inter alia, information and factors derived by independent third parties as explained in Diageo's environmental reporting methodologies on pages 84–86. Our assurance work has not included examination of the derivation of those factors or of other third-party information. Our assurance work has not included challenging the scientific work undertaken by independent third parties when calculating these emissions factors.

Basis of our work

We conducted our work in accordance with ISAE 3000¹. We conducted our engagement with a multi-disciplinary team, qualified and experienced in non-financial assurance. The team included specialists in auditing environmental and financial information and with experience of similar engagements.

Our independence

ISAE 3000 requires the practitioner to comply with the requirements of Parts A and B of the Code of Ethics for Professional Accountants, issued by the International Ethics Standards Board for Accountants (the IESBA Code). This Code requires, among other things, that the members of the assurance team (practitioners) as well as the assurance firm (assurance provider) be independent of the assurance client, including not being involved in writing the Report, and that they plan and perform the engagements to obtain limited assurance about whether data are free from material misstatement. The Code also includes detailed requirements for practitioners regarding integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. KPMG Audit Plc has systems and processes in place to monitor compliance with the Code and to prevent conflicts regarding independence. Our independence from the client is reviewed on an annual basis.

1. International Standard on Assurance Engagements 3000: Assurance Engagements Other Than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board.

Work performed

We planned and performed our work to obtain all the evidence, information, and explanations that we considered necessary in relation to the above scope. Our work included, but was not limited to, the evidence-based procedures further explained below.

Assurance Scope 1 – reliability of performance data for the year ended 30 June 2013 marked with the symbol + in the section entitled water and the environment within the Report

At group level we:

- Evaluated the suitability of reporting systems against the WRI/WBCSD Protocol, the GRI G3 Reporting Guidelines, and Diageo's internal reporting requirements
- Conducted interviews with management and other personnel at Diageo to obtain an understanding of the data collection process, information flows and the systems and controls used to generate, aggregate, and report the environmental data
- Reviewed measurements, calculations, supporting information, quality controls systems, and procedures which support the environmental data for the year ended 30 June 2013; our work included verifying the application of the appropriate CO₂ emission factors for all sites.

At site level we:

- Tested data from 11 different sites covering between 39% and 77% of the data for each data set in the year ended 30 June 2013. Sites visited were in: Uganda, Cameroon, Ethiopia, Tanzania, Turkey, Scotland and Kenya (two sites). We performed desk-top audits over two sites in Nigeria and one in the US Virgin Islands
- The sites were selected based on their risk factors and levels of materiality, such as their contribution to group CO₂ emissions, size, and location.

Assurance Scope 2 – Diageo's alignment with the GRI principles of materiality and stakeholder inclusiveness marked with the symbol + as described in the section of the Report entitled about this report

We:

- Evaluated the completeness of Diageo's 'materiality assessment' by performing limited media analysis and internet searches for references to Diageo during the reporting period and reviews of investment analysts' reports
- Evaluated Diageo's action plan for 2013 at group level and assessed whether it incorporated the recommendations in our Internal Management Report from the year ended 30 June 2012
- Interviewed senior management including a selection of members from the CSR leadership team
- Interviewed a selection of key staff at head office level to assess activities related to stakeholder engagement and determining Diageo's material issues in the development of the refreshed Sustainability & Responsibility Strategy
- Reviewed key documentation to come out of the process of stakeholder engagement and material issue analysis which was part of the development of the refreshed Sustainability & Responsibility Strategy
- Reviewed drafts of the Report and relevant web text to ensure there were no disclosures that were misrepresented or inconsistent with our findings.

Assurance Scope 3 – Diageo's self-declared GRI application level marked with the symbol + in the GRI Index section of the Report

We:

- Checked the GRI Index included in the section of the Report entitled about this report to ensure consistency with the GRI application level requirements of B+
- Reviewed Diageo's self-assessment against GRI application level B+ including the company's description of the 'extent' of reporting per disclosure.

Conclusions

The following conclusions are based on the work performed and the scope of our assurance engagement described above.

Assurance Scope 1 – reliability of performance data for the year ended 30 June 2013 marked with the symbol + in the section entitled water and the environment of the Report

Nothing has come to our attention to suggest that the performance data marked with the symbol + in the section entitled water and the environment within the Report, is not, in all material respects, fairly stated in accordance with Diageo's environmental reporting methodologies on pages 84–86.

Assurance Scope 2 – Diageo's alignment with the GRI principles of materiality and stakeholder inclusiveness marked with the symbol + as described in the section of the Report entitled about this report

Nothing has come to our attention to suggest that Diageo's description of the company's alignment with the GRI principles of materiality and stakeholder inclusiveness marked with the symbol + as described in the sections of the Report entitled approach and performance, and about this report, is not, in all material respects, fairly stated.

Assurance Scope 3 – Diageo's self-declared GRI application level marked with the symbol + in the GRI Index section of the Report

Nothing has come to our attention to suggest that Diageo's self-declaration of GRI application level B+ marked with the symbol + in the section of the Report entitled GRI Index, is not, in all material respects, fairly stated.

Paul Nichols for and on behalf of KPMG Audit Plc

Chartered Accountants
London
30 July 2013

Appendix – observations arising from our work

In this appendix we have set out certain matters that came to our attention during the course of this engagement. Our objective is to use our knowledge of the group gained during our limited assurance engagement to make useful comments and suggestions for Diageo to consider. Without prejudice to our conclusions presented above, we present some of the key observations and areas for improvement below.

Our observations on Assurance Scope 2

We present some of the observations in relation to Diageo's alignment with the GRI principles of materiality and stakeholder inclusiveness which are part of our Report to Management. Our observations include but are not limited to the following.

- Diageo engaged with external stakeholders this year to inform its Sustainability & Responsibility Strategy. The focus of this engagement was primarily with global stakeholder groups. Going forward we recommend that Diageo extend this engagement to a wider range of key market level stakeholders to further integrate local insights into its global Sustainability & Responsibility Strategy.
- Diageo progressed its internal stakeholder engagement with its board and senior level employees this year, and should continue to roll this out to remaining levels. While Diageo consistently tracks employee perception of sustainability and responsibility performance through its annual Values Survey, it could further collect and integrate employees' ideas and concerns into its Sustainability & Responsibility Strategy in a uniform way.
- This year Diageo has refreshed its strategic sustainability and responsibility priorities and will update its aspirations for the business accordingly. Once it is ready to implement its new strategy, Diageo should formalise a process for embedding it into new acquisitions.

LBG Assurance Statement – Diageo

Diageo is an active member of the LBG (London Benchmarking Group). The LBG model helps businesses to improve the management, measurement and reporting of their corporate community involvement programmes. It moves beyond charitable donations to include the full range of contributions (in time, in kind and in cash) made to community causes, and assesses the actual results for the community and for the business. (See www.lbg-online.net for more information.)

As managers of the Group, we have worked with Diageo to ensure that it understands the LBG model and has applied its principles to the measurement of community involvement programmes during the year to 30 June 2013. Having conducted an assessment, we are satisfied that this has been achieved. Our work has not extended to an independent audit of the data.

Two developments in Diageo's data merited attention this year.

Firstly, Diageo has included data on major cause-related marketing activity in Latin American countries aiming to establish new forms of volunteering. While we are satisfied that only those elements relating directly to the delivery of voluntary activity have been reported, Diageo and its partner should ensure that the amount of ongoing activity and the growth in participation are measured, to establish that the level of volunteering achieved is proportionate to the investment made.

Secondly, a significant increase in donations of Diageo product has been reported. In light of the sensitivities around alcohol, we are encouraged that Diageo has only included those donations that support fund-raising activities of community organisations.

Finally, we reiterate a previous recommendation that Diageo should more systematically quantify the achievements of its activities (outputs and impacts) in its application of the LBG model so that a clear assessment of the overall impact of its investment into the community can be achieved.

Corporate Citizenship

www.corporate-citizenship.co.uk
July 2013

GRI Index

This index provides an overview of our reporting against the GRI G3 Sustainability Reporting Guidelines. Our self-assessment of our Sustainability & Responsibility Report indicates that we are a [B+] reporter[†].

STANDARD DISCLOSURES PART I: Profile disclosures

Description	Reported	Cross-reference/direct answer
1. Strategy and Analysis		
1.1 Statement from the most senior decision-maker of the organisation.	Fully	Chief executive's introduction (page 2)
1.2 Description of key impacts, risks, and opportunities.	Fully	Our approach and performance (page 12)
2. Organisational Profile		
2.1 Name of the organisation.	Fully	Diageo plc
2.2 Primary brands, products, and/or services.	Fully	Our brands (page 8)
2.3 Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures.	Fully	Diageo at a glance (page 6)
2.4 Location of organisation's headquarters.	Fully	Lakeside Drive Park Royal London NW10 7HQ
2.5 Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	Fully	Diageo at a glance (page 6)
2.6 Nature of ownership and legal form.	Fully	Full name: Diageo plc Registered number: 23307 Registered office: Lakeside Drive, London NW10 7HQ Place of registration: England and Wales
2.7 Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	Fully	Diageo at a glance (page 6)
2.8 Scale of the reporting organisation.	Fully	Diageo at a glance (page 6)
2.9 Significant changes during the reporting period regarding size, structure, or ownership.	Fully	Scope and boundaries (page 81)
2.10 Awards received in the reporting period.	Fully	Performance and key metrics (page 17)
3. Report Parameters		
3.1 Reporting period (e.g. fiscal/calendar year) for information provided.	Fully	Scope and boundaries (page 81)
3.2 Date of most recent previous report (if any).	Fully	August 2012
3.3 Reporting cycle (annual, biennial, etc.)	Fully	Annual
3.4 Contact point for questions regarding the report or its contents.	Fully	About this report and GRI (page 80)
3.5 Process for defining report content.	Fully	About this report and GRI (page 80)
3.6 Boundary of the report (e.g. countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance.	Fully	Scope and boundaries (page 81)
3.7 State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope).	Fully	Scope and boundaries (page 81)
3.8 Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations.	Fully	Scope and boundaries (page 81)

Description	Reported	Cross-reference/direct answer
3.9 Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report. Explain any decisions not to apply, or to substantially diverge from, the GRI Indicator Protocols.	Fully	Reporting methodologies (page 84)
3.10 Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g. mergers/acquisitions, change of base years/periods, nature of business, measurement methods).	Fully	Reporting methodologies (page 84)
3.11 Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	Fully	Scope and boundaries (page 81) Reporting methodologies (page 84)
3.12 Table identifying the location of the Standard Disclosures in the report.	Fully	GRI index (page 92)
3.13 Policy and current practice with regard to seeking external assurance for the report.	Fully	Assurance (page 88)
4. Governance, Commitments, and Engagement		
4.1 Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight.	Fully	See Diageo's 2013 Annual Report (Corporate governance report)
4.2 Indicate whether the chair of the highest governance body is also an executive officer.	Fully	The chairman of the board is not counted as a non-executive director and is not independent by virtue of being the chairman, in accordance with section A31 of the UK Corporate Governance Code.
4.3 For organisations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members.	Fully	See Diageo's 2013 Annual Report (Corporate governance report)
4.4 Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	Fully	See Diageo's 2013 Annual Report ('Relations with Stakeholders', Corporate governance report)
4.5 Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organisation's performance (including social and environmental performance).	Fully	See Diageo's 2013 Annual Report ('Performance Evaluation', Corporate governance report)
4.6 Processes in place for the highest governance body to ensure conflicts of interest are avoided.	Fully	See Diageo's 2013 Annual Report ('Activities of the board', Corporate governance report)
4.7 Process for determining the composition, qualifications, and expertise of the members of the highest governance body and its committees, including any consideration of gender and other indicators of diversity.	Fully	See Diageo's 2013 Annual Report ('Performance evaluation' and 'Activities of the nomination committee', Corporate governance report)
4.8 Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	Fully	About our business (page 4) Codes and policies (page 67) Compliance and ethics programme (page 69)
4.9 Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	Fully	How we manage sustainability and responsibility (page 16). See also Diageo's 2013 Annual Report ('Executive director and control' within the Corporate governance report)
4.10 Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	Fully	See Diageo's 2013 Annual Report ('Performance evaluation', Corporate governance report)
4.11 Explanation of whether and how the precautionary approach or principle is addressed by the organisation.	Fully	See Diageo's 2013 Annual Report (Sustainability & Responsibility)
4.12 Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses.	Fully	Membership of codes and charters (page 15)
4.13 Memberships in associations (such as industry associations) and/or national/international advocacy organisations in which the organisation: * Has positions in governance bodies; * Participates in projects or committees; * Provides substantive funding beyond routine membership dues; or * Views membership as strategic.	Fully	Membership of industry bodies (page 28) Responsible sourcing (page 76) Sustainable agricultural partnerships (page 77)
4.14 List of stakeholder groups engaged by the organisation.	Fully	Sustainability & Responsibility Strategy (page 13) Engaging stakeholders (page 15)
4.15 Basis for identification and selection of stakeholders with whom to engage.	Fully	Sustainability & Responsibility Strategy (page 13) Engaging stakeholders (page 15)

Description	Reported	Cross-reference/direct answer
4.16 Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	Fully	Engaging stakeholders (page 15)
4.17 Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting.	Fully	Sustainability & Responsibility Strategy (page 13)

STANDARD DISCLOSURES PART II: Disclosures on management approach (DMAs)

Description	Reported	Cross-reference/direct answer
G3 DMA		
DMA EC Disclosure on management approach EC		
Aspects Economic performance	Fully	Local wealth creation (page 48)
Market presence	Fully	Sustainability & Responsibility Strategy (page 13) See Diageo's 2013 Annual Report ('Business description')
Indirect economic impacts	Fully	Local wealth creation (page 48)
DMA EN Disclosure on management approach EN		
Aspects Materials	Fully	See Diageo's Environmental Policy
Energy	Fully	Carbon (page 36)
Water	Fully	Water (page 33)
Biodiversity	Fully	The wider environment (page 41)
Emissions, effluents and waste	Fully	Carbon (page 36) Waste (page 38)
Products and services	Fully	See Diageo's Environment Policy
Compliance	Fully	Governance and ethics (page 65)
Transport	Fully	Carbon (page 36)
Overall	Fully	See Diageo's Environment Policy
DMA LA Disclosure on management approach LA		
Aspects Employment	Fully	See Diageo's Human Rights and Anti-Discrimination Policy
Labour/management relations	Fully	See Diageo's Human Rights and Anti-Discrimination Policy
Occupational health and safety	Fully	See Diageo's Occupational Health and Safety Policy
Training and education	Fully	See Diageo's Human Rights and Anti-Discrimination Policy
Diversity and equal opportunity	Fully	See Diageo's Human Rights and Anti-Discrimination Policy
Equal remuneration for women and men	Not disclosed	
DMA HR Disclosure on management approach HR		
Aspects Investment and procurement practices	Fully	See Diageo's Partnering with Suppliers standard
Non-discrimination	Fully	See Diageo's Human Rights and Anti-Discrimination Policy
Freedom of association and collective bargaining	Fully	See Diageo's Human Rights and Anti-Discrimination Policy
Child labour	Fully	See Diageo's Human Rights and Anti-Discrimination Policy
Prevention of forced and compulsory labour	Fully	See Diageo's Human Rights and Anti-Discrimination Policy
Security practices	Fully	See Diageo's Code of Business Conduct
Indigenous rights	Not material	
Assessment	Fully	See Diageo's Code of Business Conduct
Remediation	Fully	See Diageo's Code of Business Conduct
DMA SO Disclosure on management approach SO		
Aspects Local communities	Fully	See Diageo's Code of Business Conduct
Corruption	Fully	See Diageo's Code of Business Conduct
Public policy	Fully	See Diageo's Code of Business Conduct
Anti-competitive behaviour	Fully	See Diageo's Code of Business Conduct
Compliance	Fully	See Diageo's Code of Business Conduct
DMA PR Disclosure on management approach PR		
Aspects Customer health and safety	Fully	See Diageo's Marketing Code Tackling alcohol misuse (page 24) Food safety and quality (page 78) See Diageo's Quality Policy
Product and service labelling	Fully	See Diageo's Marketing Code Making information available to consumers (page 23) Food safety and quality (page 78)
Marketing communications	Fully	See Diageo's Marketing Code Communicating about alcohol responsibly (page 22)
Customer privacy	Fully	See Diageo's Code of Business Conduct
Compliance	Fully	See Diageo's Code of Business Conduct

STANDARD DISCLOSURES PART III: Performance indicators

Description	Reported	Cross-reference/direct answer
Economic		
Economic performance		
EC1 Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	Fully	Diageo at a glance (page 6) Local wealth creation (page 48) Community investment (page 50)
EC2 Financial implications and other risks and opportunities for the organisation's activities due to climate change.	Fully	The business case – risks and opportunities (page 14) Carbon (page 36)
EC3 Coverage of the organisation's defined benefit plan obligations.	Fully	Our talent, reward and recognition (page 62) See Diageo's 2013 Annual Report (Directors' remuneration report as well as Financial statements – employees)
EC4 Significant financial assistance received from government.	Fully	See Diageo's 2013 Annual Report (Note 8: Taxation)
Market presence		
EC5 Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation.	Not disclosed	Not disclosed
EC6 Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	Fully	Sustainable agricultural partnerships (page 77)
EC7 Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	Fully	Who we are (page 57)
Indirect economic impacts		
EC8 Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	Partially	Supporting local interests and infrastructure (page 52)
EC9 Understanding and describing significant indirect economic impacts, including the extent of impacts.	Partially	Local wealth creation (page 48)
Environmental		
Materials		
EN1 Materials used by weight or volume.	Fully	Our supply chain (page 74) Sustainable packaging (page 40) We do not report on the breakdown of renewable and non-renewable as the disclosure is not material to our business. We believe that it is more useful to our stakeholders to disclose which materials are used in our products, as well as the sustainability of the packaging.
EN2 Percentage of materials used that are recycled input materials.	Fully	Sustainable packaging (page 40)
Energy		
EN3 Direct energy consumption by primary energy source.	Fully	Carbon (page 36)
EN4 Indirect energy consumption by primary source.	Fully	Carbon (page 36)
EN5 Energy saved due to conservation and efficiency improvements.	Fully	Carbon (page 36)
EN6 Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	Fully	Carbon (page 36)
EN7 Initiatives to reduce indirect energy consumption and reductions achieved.	Partially	Carbon (page 36)
Water		
EN8 Total water withdrawal by source.	Fully	Water (page 33) The wider environment (page 41)
EN9 Water sources significantly affected by withdrawal of water.	Partially	Water (page 33) The wider environment (page 41)
EN10 Percentage and total volume of water recycled and reused.	Not disclosed	

Description	Reported	Cross-reference/direct answer
Biodiversity		
EN11 Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	Fully	The wider environment (page 41)
EN12 Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	Not disclosed	
EN13 Habitats protected or restored.	Not disclosed	
EN14 Strategies, current actions, and future plans for managing impacts on biodiversity.	Not disclosed	
EN15 Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	Partially	The wider environment (page 41)
Emissions, effluents and waste		
EN16 Total direct and indirect greenhouse gas emissions by weight.	Fully	Carbon (page 36)
EN17 Other relevant indirect greenhouse gas emissions by weight.	Partially	Carbon (page 36) The wider environment (page 41)
EN18 Initiatives to reduce greenhouse gas emissions and reductions achieved.	Fully	Carbon (page 36)
EN19 Emissions of ozone-depleting substances by weight.	Fully	The wider environment (page 41)
EN20 NOx, SOx, and other significant air emissions by type and weight.	Fully	The wider environment (page 41)
EN21 Total water discharge by quality and destination.	Partially	Water (page 33)
EN22 Total weight of waste by type and disposal method.	Fully	Waste (page 38)
EN23 Total number and volume of significant spills.	Fully	The wider environment (page 41)
EN24 Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	Not disclosed	
EN25 Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff.	Not disclosed	
Products and services		
EN26 Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	Fully	Water (page 33) Carbon (page 36) Waste (page 38)
EN27 Percentage of products sold and their packaging materials that are reclaimed by category.	Not disclosed	
Compliance		
EN28 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	Fully	The wider environment (page 41)
Transport		
EN29 Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce.	Fully	Carbon (page 36) The wider environment (page 41)
Overall		
EN30 Total environmental protection expenditures and investments by type.	Partially	The business case – risks and opportunities (page 14) Carbon (page 36) Cameronbridge: cleaner energy, cleaner water (page 46)
Social: Labour Practices and Decent Work		
Employment		
LA1 Total workforce by employment type, employment contract, and region, broken down by gender.	Fully	Who we are (page 57)
LA2 Total number and rate of new employee hires and employee turnover by age group, gender, and region.	Partially	Who we are (page 57)
LA3 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	Not disclosed	
LA15 Return to work and retention rates after parental leave, by gender.	Not disclosed	
Labour/management relations		
LA4 Percentage of employees covered by collective bargaining agreements.	Fully	Our talent (page 62)
LA5 Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.	Fully	Managing change (page 58)

Description	Reported	Cross-reference/direct answer
Occupational health and safety		
LA6 Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes.	Not disclosed	
LA7 Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and by gender.	Partially	Safety (page 59)
LA8 Education, training, counselling, prevention, and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases.	Fully	Health and wellbeing (page 61)
LA9 Health and safety topics covered in formal agreements with trade unions.	Not disclosed	
Training and education		
LA10 Average hours of training per year per employee by gender, and by employee category.	Partially	Our talent, Developing talent (page 62)
LA11 Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	Partially	Our talent, Developing talent (page 62) Who we are, Managing change (page 57, page 58)
LA12 Percentage of employees receiving regular performance and career development reviews, by gender.	Fully	Our talent, Developing talent (page 62)
Diversity and equal opportunity		
LA13 Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.	Partially	Who we are (page 57) See Diageo's 2013 Annual Report (Corporate governance report)
Equal remuneration for women and men		
LA14 Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation.	Not disclosed	
Social: Human Rights		
Investment and procurement practices		
HR1 Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening.	Not disclosed	
HR2 Percentage of significant suppliers, contractors and other business partners that have undergone human rights screening, and actions taken.	Fully	Responsible sourcing (page 76)
HR3 Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	Fully	Codes and policies (page 67)
Non-discrimination		
HR4 Total number of incidents of discrimination and corrective actions taken.	Not disclosed	
Freedom of association and collective bargaining		
HR5 Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights.	Not disclosed	
Child labour		
HR6 Operations and significant suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour.	Not disclosed	
Forced and compulsory labour		
HR7 Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour.	Not disclosed	
Security practices		
HR8 Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations.	Not disclosed	
Indigenous rights		
HR9 Total number of incidents of violations involving rights of indigenous people and actions taken.	Not material	Not material
Assessment		
HR10 Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments.	Fully	Monitoring, auditing and reporting (page 70)

Description	Reported	Cross-reference/direct answer
Remediation		
HR11 Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms.	Not disclosed	
Social: Society		
Local communities		
SO1 Percentage of operations with implemented local community engagement, impact assessments, and development programmes.	Partially disclosed	Sustainability & Responsibility Strategy (page 13)
SO9 Operations with significant potential or actual negative impacts on local communities.	Partially disclosed	Community investment, Access to clean water (page 51)
SO10 Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities.	Fully	Sustainability & Responsibility Strategy (page 13)
Corruption		
SO2 Percentage and total number of business units analyzed for risks related to corruption.	Fully	Monitoring, auditing and reporting (page 70) See Diageo's 2013 Annual Report (Corporate governance report)
SO3 Percentage of employees trained in organisation's anti-corruption policies and procedures.	Fully	Code training (page 68)
SO4 Actions taken in response to incidents of corruption.	Fully	Monitoring, auditing and reporting (page 70)
Public policy		
SO5 Public policy positions and participation in public policy development and lobbying.	Fully	Getting policy right (page 26) Regulatory environment and public policy (page 66) Advocacy (page 53)
SO6 Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	Fully	See Diageo's 2013 Annual Report (Corporate governance report, Charitable and political donations)
Anti-competitive behaviour		
SO7 Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes.	Not disclosed	
Compliance		
SO8 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	Fully	No significant fines or non-monetary sanctions for non-compliance with laws and regulations this year
Social: Product Responsibility		
Customer health and safety		
PR1 Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	Partially	Communicating about alcohol responsibly (page 22) Food safety and quality (page 78)
PR2 Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	Fully	Communicating about alcohol responsibly (page 22) Food safety and quality (page 78) To the best of our knowledge, we have had no significant incidents of non-compliance with regulations regulating in a fine or penalty or warning.
Product and service labelling		
PR3 Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	Partially	Communicating about alcohol responsibly, Making information available to consumers (page 22) Food safety and quality (page 78)
PR4 Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes.	Fully	Food safety and quality (page 78)
PR5 Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	Fully	Food safety and quality (page 78)
Marketing communications		
PR6 Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	Partially	Communicating about alcohol responsibly (page 22)
PR7 Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.	Fully	Communicating about alcohol responsibly (page 22)
Customer privacy		
PR8 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	Fully	To the best of our knowledge, there have been no substantiated complaints regarding breaches of customer privacy and losses of customer data.
Compliance		
PR9 Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	Not disclosed	

UN Global Compact Index

Diageo supports the UN Global Compact (UNGC), and its core values in the areas of human rights, labour standards, the environment and anti-corruption. Diageo is also a signatory to the UNGC CEO Water Mandate.

The following index, structured along the UNGC advanced reporting criteria, serves as our annual Communication on Progress (COP).

United Nations Global Compact Communication on Progress

Criterion	Description	Cross-reference/direct answer
Implementing the ten principles into strategies and operations		
Criterion 1	Mainstreaming into corporate functions and business units	Sustainability & Responsibility Strategy (page 13) The business case – risks and opportunities (page 14) Performance and key metrics (page 18)
Criterion 2	Value chain implementation	Approach and performance – entire section (page 12) Codes and policies (page 67) Our value chain – entire section (page 73)
Robust human rights management policies and procedures		
Criterion 3	Robust commitments, strategies or policies in the area of human rights	Who we are (page 57) Human rights (page 63) Codes and policies (page 67) Responsible sourcing (page 76)
Criterion 4	Effective management systems to integrate the human rights principles	How we manage sustainability and responsibility (page 16) Compliance and ethics programme (page 69)
Criterion 5	Effective monitoring and evaluation mechanisms of human rights integration	Compliance and ethics programme (page 69) Monitoring, auditing and reporting (page 70) Human rights (page 63)
Robust labour management policies and procedures		
Criterion 6	Robust commitments, strategies or policies in the area of labour	Codes and policies (internal) (page 67) Our people – entire section (page 55) Responsible sourcing (page 76)
Criterion 7	Effective management systems to integrate the labour principles	Safety (page 59) Health and wellbeing (page 61) Our talent (page 62) Compliance and ethics programme (page 69) Responsible sourcing (page 76)
Criterion 8	Effective monitoring and evaluation mechanisms of labour principles integration	Safety (page 59) Compliance and ethics programme (page 69) Responsible sourcing (page 76)

Criterion	Description	Cross-reference/direct answer
Robust environmental management policies and procedures		
Criterion 9	Robust commitments, strategies or policies in the area of environmental stewardship	Approach and performance – entire section (page 12) Water and the environment – entire section (page 30) Codes and policies (page 67) Responsible sourcing (page 76)
Criterion 10	Effective management systems to integrate the environmental principles	Water and the environment – entire section (page 30)
Criterion 11	Effective monitoring and evaluation mechanisms for environmental stewardship	Water and the environment – entire section (page 30)
Robust anti-corruption management policies and procedures		
Criterion 12	Robust commitments, strategies or policies in the area of anti-corruption	Codes and policies (page 67) Responsible sourcing (page 76)
Criterion 13	Effective management systems to integrate the anti-corruption principle	Leadership training (page 62) Codes and policies (page 67) Monitoring, auditing and reporting (page 70)
Criterion 14	Effective monitoring and evaluation mechanisms for the integration of anti-corruption	Monitoring, auditing and reporting (page 70)
Taking action in support of broader UN goals and issues		
Criterion 15	Core business contributions to UN goals and issues	Approach and performance – entire section (page 12) CEO global commitments to reduce harmful drinking (page 21)
Criterion 16	Strategic social investments and philanthropy	Socio-economic development – entire section (page 47)
Criterion 17	Advocacy and public policy engagement	Advocacy and awareness (page 53)
Criterion 18	Partnerships and collective action	CEO global commitments to reduce harmful drinking (page 21) Advocacy and awareness (page 53)
Corporate sustainability governance and leadership		
Criterion 19	CEO commitment and leadership	Chief executive's introduction (page 2)
Criterion 20	Board adoption and oversight	How we manage sustainability and responsibility (page 16)
Criterion 21	Stakeholder engagement	Sustainability & Responsibility Strategy (page 13) Engaging stakeholders (page 15)

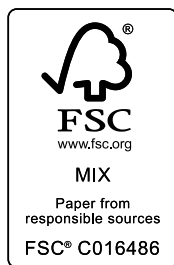
Diageo plc is incorporated as a public limited company in England and Wales. Diageo was incorporated as Arthur Guinness Son & Company Limited on 21 October 1886. The group was formed by the merger of Grand Metropolitan Public Limited Company (GrandMet) and Guinness PLC (the Guinness Group) in December 1997. Diageo plc's principal executive office is located at Lakeside Drive, Park Royal, London NW10 7HQ and its telephone number is +44 (0) 20 8978 6000.

Cautionary statement regarding forward-looking statements

This report contains certain forward-looking statements relating to the plans and objectives of Diageo. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as 'anticipate', 'seek', 'target', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', 'hope', 'aims', 'continue', 'will', 'may', 'should', 'would', 'could', or other words of similar meaning. These statements are based on assumptions and assessments made by Diageo in light of their experience and their perception of historical trends, current conditions, future developments and other factors they believe appropriate. 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 and circumstances could cause actual results and developments to differ materially from those expressed in or implied by such forward-looking statements. Although it is believed that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct and you are therefore cautioned not to place undue reliance on these forward-looking statements which speak only as at the date of this document. Diageo assumes no obligation to update or correct the information contained in this report (whether as a result of new information, future events or otherwise), except as required by applicable law.

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