

DIAGEO

Corporate Citizenship
Report 2004

Diageo is...
acting with integrity

Highlights

Launched anti drink-driving campaigns in 35 markets in support of WHO World Health Day

Took a multi-stakeholder approach to combating alcohol misuse in Australia

Improved scores in corporate responsibility and environmental engagement rankings

Tomorrow's People Trust independently evaluated at its 20th anniversary

US airlift brought relief to flood victims in Dominican Republic and Haiti

Launched Diageo Africa Business Reporting Awards

Published local corporate citizenship reports in East Africa and Korea

Made progress on all priorities set in 2003

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Additional information

For greater detail on the issues raised in this report, particularly those connected with the governance of the business, taxation and financial performance, please refer to the annual report. Further information available in the corporate citizenship report area of www.diageo.com includes:

- > Our journey so far
- > The benefits of good corporate citizenship
- > Stakeholder feedback
- > Performance data summary
- > Focus on Africa
- > GRI content index
- > Detailed assurance statement and commentary
- > The Diageo corporate citizenship report for 2003
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- > Benchmarking links and downloads

Investing in sustainability

This second Diageo corporate citizenship report, which has been prepared for everyone with a stake or interest in our business, has a number of key aims. First, it shows how we have invested resources in ensuring that our business continues to prosper sustainably and responsibly within society and the environment. Secondly, it affirms our commitment to corporate citizenship leadership in our industry and gives examples of the actions we have taken in supporting this position. And thirdly it sets out the importance we place on the involvement of stakeholders in our business – indeed the report itself is a contribution to our engagement with stakeholders and to the public debate on the whole area of corporate responsibility.

Being a good corporate citizen is an ambition enthusiastically embraced at all levels within Diageo. Our board fully supports our actions in working towards sustainability goals – in particular those contained in the UN Global Compact – and endorses the future priorities and specific targets we set out in our report last year. In this publication we have summarised the progress we have made against each of these priorities – in blue 'future priority' boxes throughout the report – and we will continue to follow them up in future reports. For Diageo as a whole, we will report on our corporate citizenship commitments and performance annually. This will be supported by reports focusing on our businesses in important markets around the world, in which we can respond directly to local stakeholder concerns and set out our impacts at a country level.

The response to our first report, published last year, was very positive. Many who shared their views with us appreciated the comprehensive scope of the document and the example it set in our industry by openly discussing the dilemmas we face. For us, the feedback we received was one of the main benefits of publishing the report. It is part of the active conversation with our stakeholders which allows the important issues to be aired, our impacts to be openly reported and the thinking behind our actions to be clearly understood. The work we have been doing to promote and extend this dialogue is described on page 6 of this report.

We have prepared this report in accordance with the 2002 Guidelines of the Global Reporting Initiative and believe it represents a balanced and reasonable presentation of Diageo's social, environmental and economic performance. We hope it shows progress against our objectives and urge you to share with us your views on our report and on the issues it raises.



Lord Blyth of Rowington
Chairman



Paul S Walsh
Chief executive



Our business and our brands

Diageo is the world's leading premium drinks business with an outstanding collection of brands across spirits, wine and beer categories, and serving consumers in some 180 territories on five continents. The company is listed on both the London and New York stock exchanges.



North America

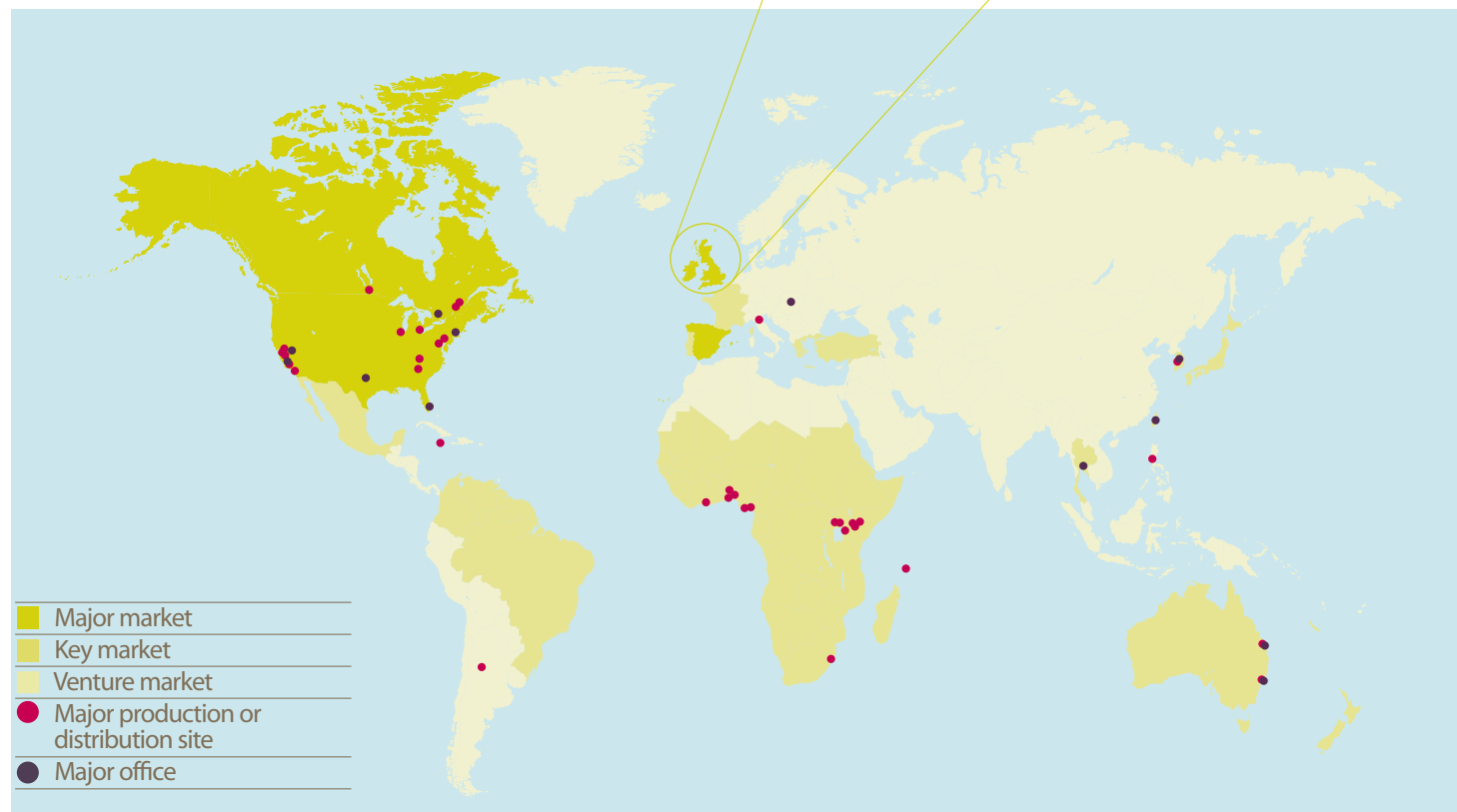
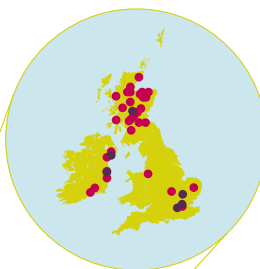
Turnover	£2,701m
Employees	3,742
Equivalent units sold	45.2m

Major brands: Smirnoff, Captain Morgan, Crown Royal

Europe

Turnover	£3,922m
Employees	11,373
Equivalent units sold	42.1m

Major brands: Smirnoff, Guinness, J&B



Latin America

Turnover	£460m
Employees	1,496
Equivalent units sold	8.8m

Major brands: Johnnie Walker, Smirnoff, Baileys

Africa and Middle East

Turnover	£812m
Employees	4,694
Equivalent units sold	14.9m

Major brands: Guinness, Smirnoff, Malta

Asia Pacific

Turnover	£996m
Employees	2,415
Equivalent units sold	11.1m

Major brands: Johnnie Walker, Bundaberg, Smirnoff

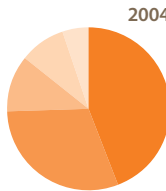
Diageo brands are manufactured by subsidiary businesses, joint ventures and licensed operators in many parts of the world. This report focuses mainly on those businesses in which we have a controlling share – 35 distilleries, 13 breweries and four wineries supported by 20 blending and packaging plants, 18 warehousing and ancillary sites and around 150 offices. Eight global priority brands head a wide range of products in all beverage alcohol categories. Our markets are designated major, key or venture according to the scale of our operations in those territories and the business model we use there. The four major markets – North America, Great Britain, Ireland and Spain – generate more than 60 per cent of turnover.

Global priority brands millions of equivalent units

	2004	2003		2004	2003
Smirnoff	24.2	23.0	JeB	6.0	6.0
Johnnie Walker	11.7	10.8	Captain Morgan	6.0	5.3
Guinness	11.6	11.4	José Cuervo	4.2	4.2
Baileys	6.6	6.2	Tanqueray	2.0	1.9

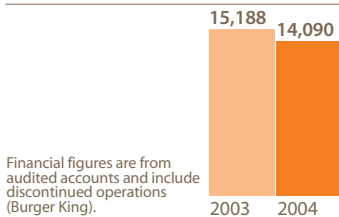
Turnover by region %

	2004	2003
Europe	44.1	42.2
North America	30.4	33.6
Asia Pacific	11.2	10.3
Africa and Middle East	9.1	8.3
Latin America	5.2	5.1



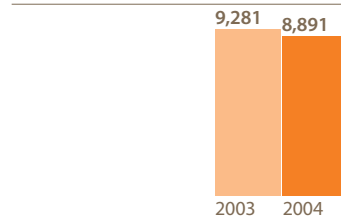
2002 figures restated for FRS 17, UITF 38 and Application Note (G) to FRS 5.

Total assets £million

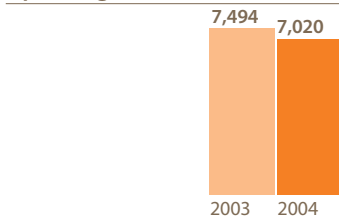


Financial figures are from audited accounts and include discontinued operations (Burger King).

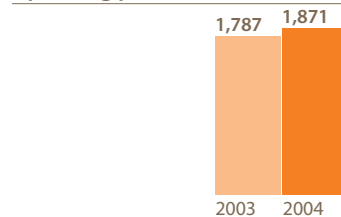
Turnover £million



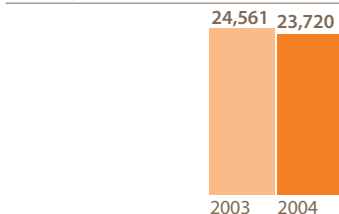
Operating costs £million



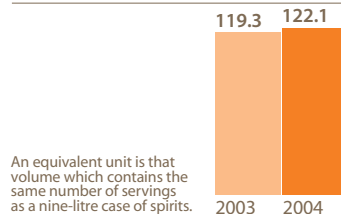
Operating profit £million



Employees



Products sold millions of equivalent units



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

How we compare

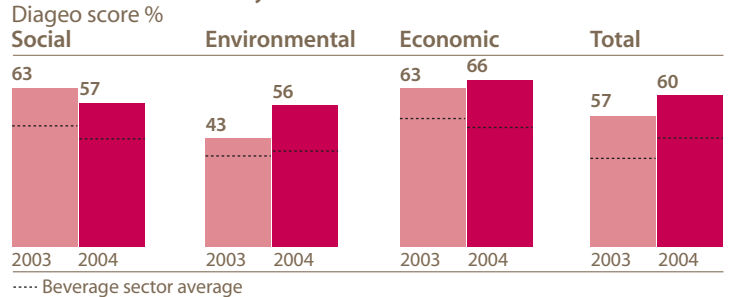
We actively seek means of comparing our corporate citizenship performance with that of other companies – for example, through membership of the Global Leadership Network, the Corporate Community Involvement Index (see page 12) and the London Benchmarking Group. In addition, we try to complete the many questionnaires which are sent to us to assess our performance for the benefit of particular audiences. In some cases, these assessments, with their published indices or rankings, represent a two-way dialogue with a stakeholder group and can influence our policy or decision-making. For example, this year, in response to stakeholder questionnaires, we extended our human rights policy to cover the use of firearms by security guards employed by the company. Our environmental strategy has also been shaped by the priorities of such assessments.

Future priority	Progress report	Assessment
Help establish corporate citizenship benchmarking for our industry	Leading beverage alcohol companies in discussions over industry benchmarking model	 Establish group by Dec 2005

Socially responsible investment indices

Diageo is included in the Dow Jones Sustainability Indices and the FTSE4Good UK, European and Global Indices, listings which help investors select companies with good records of corporate citizenship. To be included, companies must be judged to be working towards environmental sustainability, developing positive relationships with stakeholders, and upholding and supporting universal human rights.

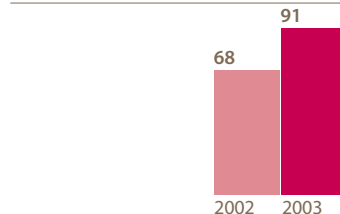
Dow Jones Sustainability Index



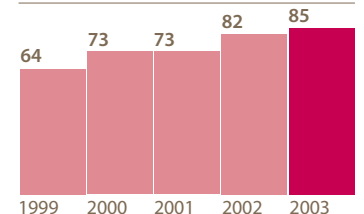
Business in the Community indices

The second annual BITC Corporate Responsibility Index assessed social and environmental management and performance. Based on our worldwide business, Diageo was placed 34th out of 139 participating UK companies. In the Index of Corporate Environmental Engagement which assesses environmental management and performance, Diageo was ranked 68th out of 176 companies.

Corporate responsibility index Diageo score %



Index of Corporate Environmental Engagement Diageo score %



Impacts and responses

Our responsibility is greatest for impacts that are caused directly by our own operations – and these are generally in areas over which we have the greatest control and so have prioritised for improvement. Indirect impacts, caused by other businesses up and down the supply chain, fall within our area of influence, rather than control. The diagram shows where these impacts have their effect and indicates where in the report you can read about our response.

Suppliers

Indirect impacts

- > Ethical, human rights and environmental approach of suppliers
- > Use of materials
- > Transport impacts
- > Relations with small suppliers
- > Employment and business created by suppliers
- > Taxes paid by suppliers and employees

Responses

- > Environmental criteria for packaging materials (page 22)
- > Work to improve supplier standards (page 26)
- > Ensure quality and sustainability of raw materials (page 27)
- > Support small suppliers in many markets (page 27)

Production and packaging

Direct impacts

- > Health and safety of employees
- > Release greenhouse gases through use of energy
- > Use water and discharge waste
- > Generate spent ingredients
- > Purchase goods and services from suppliers
- > Support employment
- > Pay salaries and pensions

Responses

- > Community investment (pages 12-15)
- > Optimise working conditions (pages 16-19)
- > Long-term energy strategy (page 20)
- > Target water efficiencies and treat effluent (page 21)
- > Re-use spent ingredients as animal feeds (page 22)

Marketing and distribution

Direct impacts

- > Our ways of doing business
- > Nutritional content of products
- > Product quality
- > Turnover of £8.9 billion
- > Direct taxes paid of £2.6 billion

Responses

- > Responsible marketing and innovation (page 8)
- > Quality management (page 11)
- > Provide consumer information (page 11)
- > Protect consumer privacy (page 11)
- > Traceability of products (page 11)
- > Code of business conduct (page 29)

Sales and consumption

Indirect impacts

- > Social harm from misuse
- > Consumer safety
- > Disposal of waste packaging

Responses

- > Promote responsible consumption (page 9)
- > Tackle drink-driving (page 9)
- > Bartender training (page 9)
- > Employees as ambassadors (page 10)
- > Combat counterfeiting (page 11)
- > Reusable bottles where infrastructure exists (page 22)
- > Reduce packaging and use recyclable materials (page 22)

Vision and strategy

Our vision for our business is based on a set of simple and clearly-stated values. These describe and guide our actions and ensure that, by acting with integrity and responsibility, we can achieve continuing success.

Our values

We put our values at the heart of everything we do:

- > **proud of what we do** – we act sensitively with the highest standards of integrity and social responsibility
- > **be the best** – we set high standards and try hard to exceed them. We deliver results, win where we compete and celebrate our success
- > **passionate about consumers** – we're innovative, constantly searching for new ideas that drive growth and developing them across the business
- > **freedom to succeed** – we give ourselves and each other the freedom to succeed because this fosters an entrepreneurial spirit
- > **valuing each other** – we seek and benefit from diverse people and perspectives. We strive to create mutually fulfilling relationships and partnerships.

The fifth Diageo value

A new Diageo value – valuing each other – was added in response to the recommendations of a group of managers from across the business who came together in early 2004 to look at the question: how can we create mutually fulfilling and enduring relationships that inspire all employees to fully unleash their talent? The group concluded that we needed three things to create such relationships – inclusion (recognition of the unique contribution of each individual and their differences), partnership and respect for personal lives – with inspirational leadership underpinning and connecting all three. The new value shows how we expect these elements to be reflected in the way we work at Diageo.

Our approach to corporate citizenship

Diageo's business activities directly affect the lives of millions of people around the world – as consumers, employees, investors, neighbours and business partners. This brings a responsibility to be a good corporate citizen and seek to ensure that all those with a stake in Diageo may benefit from the relationship.

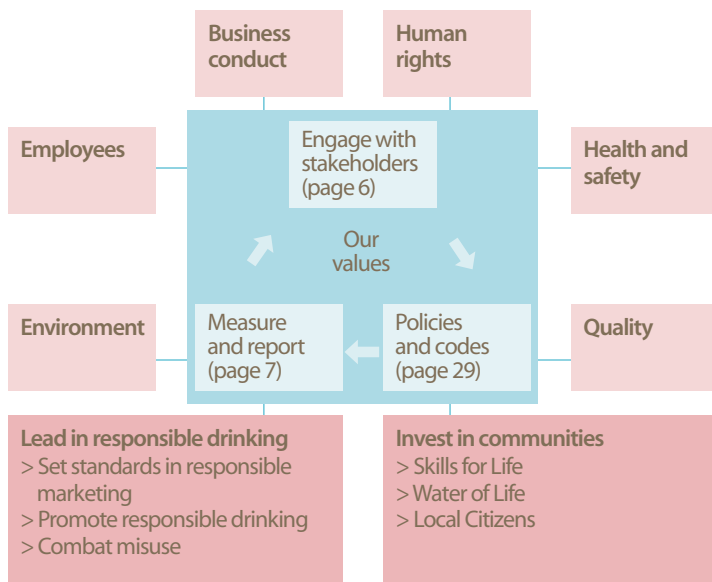
Being a good corporate citizen balances acting responsibly with the right to trade freely, and is essential to the sustainability, or long-term viability, of our business. Its value lies in our conviction that Diageo will be more successful in the long term – and consequently provide greater benefits for employees, investors and other stakeholders – if we trade in communities in which our company is trusted and respected, social issues are addressed and a healthy environment is maintained.

We want to be noted for our responsible approach to all the issues that confront our business. With all of our actions underpinned by our values, the key elements of this approach are:

- > engaging with stakeholders on the issues that concern them (page 6)
- > measuring and reporting our performance (page 7)
- > compliance with a comprehensive set of challenging policies (page 29).

Acknowledging that we cannot advance at the same pace in all areas, we focus our efforts where our impacts are greatest and where our actions can make the most positive difference. The result is a primary emphasis on issues around responsible drinking and on carefully targeted investment in the communities in which we do business.

Good citizenship



Engaging with stakeholders

Our stakeholders are those individuals and groups with an interest in, or affected by, our business or our operations. Key stakeholders are investors, employees, commercial partners, government, community, the media and consumers. The continuing goodwill of each of these groups is essential to the future of our business and so it is right that our actions are influenced by the interest they have in particular issues. By maintaining a continuous and open dialogue with stakeholders, we share with them the dilemmas we face and keep informed about the issues that concern them. These sometimes conflicting interests are considered and balanced to form part of the input to the Diageo policy development process. We monitor our performance against these policies and report back to stakeholders in our corporate publications.

The means by which we maintain contact with stakeholder groups include meetings, publications and websites. To strengthen and add value to stakeholder relationships, this year we began to develop a more systematic process of engagement. Business units have identified key stakeholders and drawn up engagement plans, and successful partnerships and alliances are being established across our business.

For example, in Ireland we work closely with MEAS, the industry body which promotes responsible drinking and which now embraces all stakeholders in the sector. In addition we are forging strengthened alliances with key tertiary educational institutions in Ireland to understand drinking behaviour and citizenship issues generally. During the year we completed an extensive survey of our stakeholders' perceptions and expectations of Diageo in Ireland. Building on this, a robust, formalised and comprehensive stakeholder engagement plan is under development.

A further example is given by Diageo in Greece. After training our marketing employees and advertising agency partners in the principles of the Diageo code of marketing practice (see page 8 for more detail on the code), we distributed a publication setting out the purpose and principles of the code to the media, government and opinion leaders from the business community in Greece, following it up with answers to questions that may have arisen. The code was the subject of an interview given by the managing director of Diageo Hellas to a major Sunday daily and has formed the basis of the industry's principles of self-regulation, which have been positively acknowledged by MPs and ministry of health officials.

Our objective is to establish a means of building effective relationships with stakeholders that will enable us to:

- > actively listen, seek out concerns, discuss contentious issues, exchange ideas and, where appropriate, form partnerships
- > gather early warning of issues and stakeholder concerns to make better-informed business decisions
- > communicate who we are, where we focus, how we work, and what we stand for
- > establish trust which will enable us to test plans and approaches before decisions are made.

Future priority	Progress report	Assessment
Improve systematic processes to monitor stakeholder concerns	All major and some key markets have processes to prioritise stakeholders for consultation	<div style="width: 25%; background-color: #0070C0; height: 15px;"></div> Completion by June 2007

In May 2004, as a contribution to a high-level engagement with stakeholders on a topic of primary importance, we hosted on behalf of the Institute for Public Policy Research a forum to discuss how the UK government's alcohol harm reduction strategy could be advanced. Addressed by the prime minister, the Rt Hon Tony Blair MP, and by Diageo chief executive Paul Walsh, the event brought together 60 concerned senior individuals from government, our industry, non-governmental organisations (NGOs) and the voluntary sector to discuss and find policy solutions for what Mr Blair called the 'growing problem of anti-social behaviour arising from irresponsible alcohol consumption'.

The benefits of taking a leading role in reaching out and actively engaging with stakeholder groups with potentially opposing agendas can similarly be seen from the case study of Diageo Australia, below.

Following publication of our first corporate citizenship report last year, we invited a group of expert stakeholders to an externally-facilitated meeting to provide feedback on what we had published. Their comments and challenges, which we have tried to accommodate in this year's report, are available at www.diageo.com, together with our responses.

The impacts in areas identified by stakeholders through means such as these are covered in the next three sections of the report under social, environmental and economic headings. Each stakeholder group may be concerned with issues which fall under more than one of these headings – for example, our impact on the supply chain has social, environmental and economic implications – but we have structured the report according to where we believe our impacts are greatest.

Action on Alcohol in Australia

In 2004 the managing director of Diageo Australia participated in a New South Wales alcohol policy summit which opened up a dialogue with a wide range of stakeholders on issues relating to the impact of alcohol on society. In partnership with other industry players, we consulted government ministers, community leaders, NGOs and others with an interest in alcohol policy to identify issues of concern and find areas of common ground.



As stakeholders responded to this message, the Action on Alcohol initiative grew. A representative group, including Diageo Australia and other industry and community representatives, took part in a study tour to examine best practice at the Portman Group in the UK, DISCUS and ICAP in the USA and Educ'Alcohol in Canada. Following this, two summit meetings were held of Australia's major beer, wine and spirits producers, the


leading alcohol beverage retailers and their industry associations. At the first, it was agreed to work together to bring long-term change to Australians' attitudes towards alcohol, promoting responsible drinking whilst minimising the harm of misuse. At the second, it was decided to establish an Australian social aspects organisation to achieve this mission. With funding from Diageo and others, it is expected that the SAO will be operational by the end of 2004.

Measuring and reporting

An important part of implementing our policies is monitoring progress and reporting regularly and publicly to our stakeholders.

Key performance indicators

Measuring performance is an essential part of improving it. To ensure that we are measuring all the aspects of performance that interest our stakeholders, in 2003 we drew up a list of over 60 key performance indicators (KPIs). Major inputs to this process were the core and additional indicators of the Global Reporting Initiative, KPIs published by peer companies, benchmarking questionnaires and surveys from socially-responsible investors and others, and consultations with senior people within Diageo responsible for our relationships with particular stakeholder groups. We are now developing data collection systems to track these KPIs. The complexity and geographical spread of Diageo's operations means we cannot cover all countries straightaway. While we can show progress in data collection in the last year, we are still short of reliable information in some areas – a situation expected to improve in time for next year's report.

Future priority	Progress report	Assessment
Ensure Diageo-wide collection of key performance indicators	39 out of 65 indicators now regularly measured	 Completion by June 2005

Targets

During the year we set new three-year environmental targets for our production sites, using a new systematic method which allows for the fact that some sites have more room for improvement than others. Underlying the whole-company targets published in this report are targets tailored for groups of similar sites which will ensure that individual locations continue to be stretched in improving their performance.

Future priority	Progress report	Assessment
Ensure targets are set for all appropriate performance indicators	New targets set for major environmental indicators	 Completion by Dec 2006

Reporting globally and locally

This report sets out our whole-company approach to important issues and includes consolidated performance data and improvement targets. The report is in addition to the coverage given to corporate citizenship issues in our financial reporting documents.

To understand our business fully, it is necessary to view our social, environmental and economic impacts not only globally but at a national level. Contributing to the prosperity of communities, sustaining jobs, serving consumers and working with customers and suppliers are examples of issues with considerable local significance. At this level, we aim to understand our impacts and contribute further to our dialogue with local stakeholders and decision makers by measuring and reporting individually on our performance and progress in some of the major countries in which we operate. Last year we published reports on Diageo in Australia, Nigeria, Poland and Scotland. This experience has helped us devise a programme of country reporting under which all our major markets and our key markets with production facilities will publish corporate citizenship reports approximately every three years. Reports are now available or in preparation on Diageo in Canada, East Africa, Ireland, Korea and Spain. All reports are made available on the website and in print.

Future priority	Progress report	Assessment
Publish country-level corporate citizenship reports covering important markets	Programme of triennial reporting agreed. Reports for 2003 published on East Africa and Korea; others are in production	 Continuing priority

Reporting standards

We aspire to best practice in corporate citizenship reporting and have prepared this report in accordance with the Global Reporting Initiative (GRI) 2002 Guidelines. A GRI content index, locating information within the report against GRI indicators, may be found on the website. The more companies adopt a standard approach to reporting, the easier it will be for stakeholders to compare their performance. During the year Diageo became a GRI Organisational Stakeholder which will allow us to be more closely involved in advancing this aim.

We have sought to complete the report in accordance with the three principles of the assurance standard AA1000 – materiality, completeness and responsiveness. These are explained in the external assurance statement on page 32.



Promoting responsible drinking and reducing harm

'Our goal is to set world-class standards for responsible marketing and innovation, to promote a shared understanding of responsible drinking and to combat alcohol misuse in all its forms.'

Rob Malcolm
President, global marketing, sales and innovation



Leadership in responsible drinking

Beverages containing alcohol have been consumed in most parts of the world for many thousands of years. Treated responsibly, alcohol is associated with enjoyment and celebration and we can be proud of the role that our brands play in the lives of so many people. However, we also acknowledge that excessive or inappropriate consumption of alcohol may cause health and social problems. We want to be at the forefront of industry efforts to promote responsible drinking and to combat alcohol misuse. Our approach to this is based on the following key principles:

- > set world-class standards for responsible marketing and product innovation
- > combat alcohol misuse, working with others on initiatives to reduce alcohol-related harm
- > seek to promote a shared understanding of what it means to drink responsibly.

We focus our efforts on areas where we can use Diageo resources and expertise most effectively, taking into account the expectations of consumers, commercial partners, governments and employees.

Responsible marketing and innovation

Setting world standards in responsible marketing and innovation are essential components of our strategy. Global in application, the Diageo code of marketing practice sets minimum standards of practice for all our marketing and innovation activities and applies over and above compliance with local laws and industry codes. The code was launched in 1998 and updated most recently in 2002, following an independent audit and consultation with external stakeholders.

Compliance with the letter and the spirit of this code is mandatory for all our employees and marketing agencies. Every advertisement, promotion, event and new product is required to go through a formal sign-off process before it is released to help ensure that it fully complies with our standards of responsibility. Diageo takes complaints and code breaches extremely seriously and is committed to ensuring issues are fully reviewed and addressed.

Over the year, we have put significant emphasis on strengthening the capabilities and the processes required to further embed responsible marketing practices in the day-to-day work of our marketers and marketing suppliers. Full-day training workshops have been run for our marketing directors, their teams and key marketing agencies in over 65 countries and we have trained over 80 marketing code champions worldwide.

Compliance with the code is now also formally reviewed at the business unit level and incorporated in our new annual global business audit process. At the employee level, compliance with the code and performance in the area of responsible marketing is now part of our marketers' individual performance assessments.

Despite the comprehensive nature of these systems and processes we are not complacent. The administration of this large and complex issue requires constant monitoring to ensure that our brands continue to be marketed everywhere to the highest standards of responsibility.

In Catalonia, Spain we ran a J&B responsibility campaign (pictured) which delivers a very strong 'drink with moderation' message, using a style designed for J&B consumers. The campaign integrates advertising messages with a wide range of initiatives in licensed premises.



In Ireland, a corporate television and outdoor campaign depicts how responsible choices about alcohol consumption ensure that an enjoyable social occasion is not ruined by embarrassing incidents. Early consumer research indicates that the memorable and powerful message is challenging irresponsible drinking attitudes and behaviour.

We voluntarily include responsibility messages on promotional materials and packaging in a number of

countries. For example, in the UK, Gordon's promotional table displays carry clear alcohol unit information and UK government daily drinking guidelines to remind our consumers to make responsible choices.

Actively promoting responsible consumption

We have developed a range of branded advertisements whose core objective is to deliver a responsible consumption message. These advertisements use our marketing expertise to remind consumers to make responsible decisions about alcohol beverages. The messages have covered a range of topics, including 'make it a night you won't forget' and 'don't ever drink and drive'. Different advertisements have been developed for different cultures, including the UK, Thailand, Ireland, Australia, the USA, Spain and the Netherlands. In the USA, we spent 20 per cent of our broadcast advertising budget on branded responsibility advertisements, amounting to more than £12 million.

Although we already evaluate responsibility campaigns, our challenge for the medium term is to ensure that this assessment is detailed enough to measure their impact and ensure future initiatives make a significant contribution to making real shifts in attitudes to responsible drinking and the behaviour that results.

Drinking and driving

We believe all governments should set maximum blood alcohol concentration levels for drivers and we support tough penalties for those convicted of drink-driving. We have a long track record of supporting anti drink-driving initiatives in many countries. In South Africa we launched an anti drink-drive campaign with a difference during the 2003 holiday season. The 'Double Vision' initiative involved sticking 75,000 magnetised replica keyholes on car doors beside the real keyhole to make drivers stop and think. The campaign was backed up with radio ads and coasters with the strapline 'Should you really be driving? Be responsible, if you drink, don't drive.' In addition, for minibus drivers, who carry thousands of people home for the holidays, we produced music cassettes which included reminders to rest between long journeys.

In Thailand we sponsor Care4Friends, part of the Thammasat Foundation, which promotes responsible drinking with a specific focus on drink-driving. During the year Care4Friends was involved in 30 activities to create awareness about the issue, primarily amongst college students (for example, the Drink Smart, Drive Safe campaign at the Pattaya Music Festival and at the Thammasat University freshman week). The organisation also runs a course for the Thailand Department of Probation to raise awareness among people convicted of drink-driving. During the year 3,000 probationers completed the programme.

World Health Day
Safe Roads was chosen by the World Health Organisation as the theme for World Health Day 2004, the start of a year of activities on the issue. In support of the initiative we have run a large number of awareness-raising projects on drinking and driving which in many countries is a significant factor in traffic accidents and fatalities. So far 35 Safe Roads projects have been launched around the world, with more activities planned:



> In Greece, in conjunction with the city of Athens, we launched an Easter campaign (pictured) which included road safety tips and 'don't drink and drive' messages on posters, leaflets distributed at road tolls, magazines, newspapers and postage stamps.

> In 15 countries in Latin America and the Caribbean, for 'Designated Driver Awareness Week' we launched a programme of banner adverts in leading national newspapers to coincide with the Semana Santa celebrations, a peak holiday period.

> We ran a 'Safe Roads in the Canaries' campaign with the Canaries Health Department, the Road Safety Authority and the Spanish Association of Driving Schools. Awareness raising activities included posters and television appearances by a leading local celebrity who reinforced the 'don't drink and drive' message.

> In the UK we launched a safe driving policy to promote road safety awareness issues among employees.

> To discourage drink-driving in Swedish and Norwegian ski centres and Danish holiday resorts during the Easter holiday, we launched a poster and leaflet campaign in the most popular bars and hotels.

> In India we worked with the Institute of Road Traffic to launch a 'don't drink and drive' awareness campaign which will include bus and truck driver training and provide infrastructure to improve some of the most accident-prone roads.

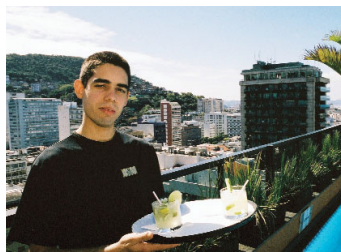
> In Poland our 'Safe Return Home' campaign, launched with the police and Integracja Association, raised awareness about the influence of alcohol on people's ability to drive safely.

See the leaflet inserted in this report for further details.

Responsible serving

Those who serve alcohol in bars can often influence the way in which it is consumed. Diageo is a strong supporter of responsible bartender training that helps to put this influence to good use. In the USA, we have supported the TIPS (Training for Intervention Procedures) server training initiative for several years; in 2003 we began Spanish-language training in US cities with large Hispanic populations. When this was introduced to the Los Angeles area at a 'Cuatro de Mayo' event, California governor Arnold Schwarzenegger signed a proclamation commending the programme. Through our membership of the Irish social aspects organisation MEAS, we support a responsible serving programme in partnership with the Department of Health and CERT, the Irish hospitality industry training body. Over 2,000 bartenders have now been trained through a Diageo-funded scheme in Kenya and the Johnnie Walker School in Seoul, Korea has graduated 7,000 bartenders since it was founded 14 years ago. Programmes have also been established in Brazil, Nigeria, Scotland, Seychelles and Thailand.

The Responsible Retailing Forum (RRF), the goal of which is to establish and evaluate best practice in reducing underage access to alcohol, was formed with funding from Diageo North America and the Diageo Foundation. Demonstration projects have been launched in four US cities to distribute a retailer planning tool, establish community groups to study the problem locally, and rigorously evaluate the process using 'mystery shopper' inspections, surveys and interviews with retailers and other community partners. Participants at the first RRF meeting in Orlando included six national retailers, six state attorneys-general, nine state alcohol control agencies and industry and government representatives. RRF was the only



The Diageo Brazil bartender project prepares students for serving alcoholic beverages responsibly at the SENAC training agency in São Paulo.

underage access programme cited by the Federal Trade Commission in its 2003 report to Congress on alcohol advertising and marketing.

Also in the USA, funds from our business and the Diageo Foundation recently helped relaunch the Responsible Hospitality Institute, which works to solve problems in the on-premise trade relating to hospitality, safety and development.

Future priority	Progress report	Assessment
Ensure that there is an alcohol education initiative in every Diageo market	Initiatives have been run in over 40 markets	<div style="width: 100%; height: 20px; background: linear-gradient(to right, #00a0e3, #00a0e3);"></div> Continuing priority

Young people

We share widely expressed concerns about underage and binge drinking by young people. Young people sometimes experiment with alcohol and can encounter problems if not given appropriate guidance. Parents and teachers, as role models, need to be reminded of the facts about drinking and should lead by example. The industry has a role to play and we have helped develop world-class educational materials for use with young people and have campaigned to prevent sales of alcohol to those underage.

The marketing practices of the beverage alcohol industry are often cited as contributing to underage drinking and abusive drinking patterns in young adults. However, independent research suggests that many influences besides advertising shape young people's drinking attitudes and behaviour, especially parental and peer influences.

In June 2004 Diageo participated in a meeting of experts on young people's drinking, organised by the International Center for Alcohol Policies (ICAP) – an industry-funded not-for-profit organisation which works to help reduce the abuse of alcohol and promote understanding of the role of alcohol in society through dialogue and partnership – and hosted by Institut de Recherches Scientifiques sur les Boissons in Paris. Participants came from different regions of the world and different sectoral interests, including government, public health, epidemiology, psychology, education and the private sector. The objective was to identify areas for synergistic action by a number of sectors, including industry. The meeting received reports on four regional focus groups of young people that had been held in Bolivia, Nigeria, Scotland and the USA. The conclusions of the meeting will be presented at a special symposium at the 18th Congress of the World Association of Social Psychiatry, to be held in Kobe, Japan later this year. Further information about this experts' meeting is available at www.icap.org.

Five putative class actions have been filed in the USA against Diageo, some of its American subsidiaries and a large group of other beverage alcohol manufacturers and importers. The suits allege that the defendants have intentionally targeted the marketing of certain brands to minors. Diageo is strenuously defending itself against these claims.

Our employees

As our ambassadors, we expect our employees to demonstrate a responsible attitude to drinking both in and out of the workplace. During the year, we updated and relaunched our employee alcohol policy, which sets the standards of behaviour we expect from our employees. The relaunch was supported by a comprehensive toolkit, giving advice on how to communicate the policy in the most effective way. For example, within the UK, the government's Sensible Drinking Message and the recommended daily benchmarks for alcohol consumption are displayed in company bars and on posters, passes and leaflets. We encourage all our companies to train their bar staff in responsible serving skills and promote familiarity with the employee alcohol policy.

Partnerships

We regularly work on responsibility initiatives in partnership with other organisations. These include not only other drinks producers and industry bodies but also a wide range of external organisations representing many different sectors, including government departments, NGOs and other bodies ranging from police and licensing authorities to road safety institutes and the hospitality industry. We are committed to open dialogue with public health authorities, research and academic communities and others with an interest in alcohol's impact on health. We are a signatory to the Dublin Principles (www.icap.org), which set out the ethical basis for co-operation between governments, scientific researchers and the public health community. Diageo was a founder sponsor of ICAP and currently chairs the organisation. A Diageo representative acts as joint vice-chairman of the Developing People and Organisations Committee of the Alcohol Education Research Council (AERC) in the UK, which seeks to increase awareness of alcohol issues and bring about a reduction in alcohol-related harm in society. The AERC council includes representatives from industry, and the research and health communities.

We are also founders and members of many social aspects organisations (SAOs) around the world – industry-funded bodies that focus on tackling alcohol misuse and promoting responsible drinking. During 2004, Diageo was instrumental in establishing a new SAO in Thailand.

Diageo memberships of social aspects organisations

Godå, Denmark	FAYs, Spain
Entreprise et Prévention, France	TBAF, Taiwan
MEAS, Ireland	REACT, Thailand
FISAC, Mexico	The Portman Group, UK
STIVA, Netherlands	The Century Council, USA
ARA, South Africa	

Diageo is also a member of the Amsterdam Group, an alliance of leading European drinks companies which work together as well as with governments and other interested groups to address social problems associated with alcohol misuse.

Diageo in context

Diageo accounts for less than three per cent of the alcohol sold in the world. This estimate doesn't allow for the significant, but not easily quantifiable, home-produced and illicit production which is common in many countries. If this were included, our share of total alcohol consumed would be lower. Despite this, Diageo is the world's largest beverage alcohol company by turnover and we are committed to lead the industry in setting standards for responsible marketing and in finding a sustainable place for alcohol in society.

Understanding and serving consumers

We make it a priority to know exactly what our consumers want – from developing new products and delivering consistent high quality to supplying product information.

We invest heavily in research to stay abreast of social and consumer trends. Applied to our brands, the understanding we gain helps us develop consumers' trust, build loyal, two-way relationships and drive brand growth. This understanding is also increasingly useful in influencing consumers to drink responsibly.

Product quality

We want to provide customers and consumers with excellent service, value and quality consistent with the premium nature of our brands. Quality management begins with incoming raw materials and continues through manufacture, warehousing and distribution to the point of sale and aims to ensure that our products reach consumers in optimum condition, always tasting their best. We review, challenge and continuously improve quality processes and responses across our markets. A new internet-based 'track and trace' system in Europe will make Diageo products fully traceable along the supply chain, audit manufacturing sites against quality and risk standards and maintain compliance with legislation. During the year there were no market recalls and no significant reported breaches of food safety regulations.

Consumer satisfaction

We value consumers' views about our brands. If there are issues, they are resolved wherever possible to the satisfaction of the consumer. Comments are shared with our production and distribution staff to build in continuous improvement along the supply chain. Recently established 'careline' phone services have improved consumer satisfaction and provided consumers with information about our brands. This year, the number of complaints has fallen from 36 to 22 per million cases and the time taken to resolve problems reduced from 7.2 to 5.1 days.

Product information

We aim to ensure that consumers have access to the information they need about the ingredients and contents of our brands. Where required, our labels indicate the percentage of alcohol by volume. In some countries, Diageo labels also state the number of units or standard drinks.

In December 2003, we announced that, in North America, and ahead of others in the industry, we would begin to provide more information on alcohol content, serving size, macro-nutrients, carbohydrates and calories. This data will be included on websites, in printed promotional materials and ultimately on packaging. In extending this initiative to other markets, we are currently developing a global policy on beverage alcohol information which will set out our commitment to provide content information, as well as responsible drinking reminders, on packaging and through other appropriate channels.

During the year there were no reported breaches of product labelling regulations by our products.

Genetic modification

As part of our commitment to best practice worldwide, we regularly monitor scientific, agricultural and regulatory developments relating to genetic modification (GM) as well as consumers' concerns about the subject. The attitudes of the authorities and consumers to this

topic vary across the globe (for example, the positions in the EU and USA are different in some respects) and we are committed to continue to address such differences in approach.

Consumer privacy and data protection

We work to build long-term relationships with consumers, based on respect for their privacy. We do not contact people unless they give us permission to do so and each message sent – by e-mail, text or direct mail – includes an opportunity to opt out of future communication. We take steps to ensure that communications are sent only to people over the legal drinking age and we do not sell or trade consumer information.

Counterfeiting

Brand forgery can involve illicit manufacture or, in bars, the refilling of labelled bottles with inferior brands. In the worst cases, illegally-produced drinks can present a health hazard. A black market in counterfeit alcohol also impacts on the taxes recoverable by governments, damages our brand values and loses our business an estimated £70 million a year.

Our first response is prevention and we employ covert pack markings, anti-refill fitments and other measures to foil counterfeiters. In Taiwan, such measures have reduced the incidence of off-trade counterfeiting by almost 90%.

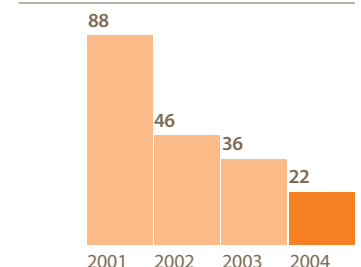
Another measure is to add trace indicators to spirits to aid in verifying their authenticity. Such indicators are barred from Scotch whisky and suspect batches of Scotch have, until now, had to be tested in a laboratory – a process which can take up to two weeks. Research by scientists at Diageo's Brand Technical Centre in Menstrie, Scotland and an investment of £100,000 has led to the development of the Authenticator, a hand-held spectroscopic testing kit which can be used in the field and produces results in less than a minute. This brings cost benefits and means that action against counterfeiters can be swift. We hope the kits will be used by trading standards officers and other companies in our industry, acting as a powerful new deterrent to fraudsters.

This year we scored a major success against a big pan-European counterfeiting gang. Work with police and customs officials in many countries resulted in the closure of two illegal plants producing fake versions not only of our spirits brands but those of other companies. It is known that, before our detective work closed them down, drinks containing high levels of methanol from these sites had caused harm to a number of unsuspecting consumers.

The Authenticator in action
The developers of the Authenticator demonstrate the speed at which it can detect counterfeit Scotch whisky.



Consumer complaints in Europe and North America per million cases



Community investment and partnership

For us, community investment means taking action for positive and sustainable change within the community.

Investing in our communities

With significant businesses on every continent, the communities in which we work encompass a wide diversity of human society. We are proud of our record of supporting these communities since Diageo's creation and, before that, through our predecessor companies. For us, community involvement is a vital part of corporate citizenship and complements the important actions we take on responsible drinking described in the preceding pages. The key is 'involvement'; it marks the difference between simply making charitable donations and taking action for positive and sustainable change within the community.

When Diageo was created, we committed to invest one per cent of overall operating profit, through our businesses around the world, in our communities. In 2004, the total came to nearly £18 million. The Diageo Foundation was established to help channel this money and support the community activities of our businesses. Our approach is highly focused. By committing our resources to a relatively small number of projects, concentrating on key themes and working in partnership with others, we aim to maximise the effectiveness of our community investment.

Future priority	Progress report	Assessment
Continue to commit one per cent of operating profit to community investment	In 2004 we invested £18 million – 0.9 per cent of operating profit	 Continuing priority

Diageo's community activities fall into three focus areas, chosen to reflect where our business has the greatest impact on society and where we can make the most difference:

- > **Skills for Life** – working with unemployed or disadvantaged people to help them find worthwhile work or start new business ventures
- > **Water of Life** – projects that protect the environment or improve access to safe drinking water in developing countries
- > **Local Citizens** – supporting our businesses and employees in community activities and responding to disasters with emergency relief.

Initiatives taken in these focus areas contribute to the achievement of the UN Millennium Development Goals which are described on page 30.

Future priority	Progress report	Assessment
Empower our community partners to develop sustainable programmes	Milestones achieved with major partners – eg, Tomorrow's People, Youth Business International and bartender training programmes	 Continuing priority

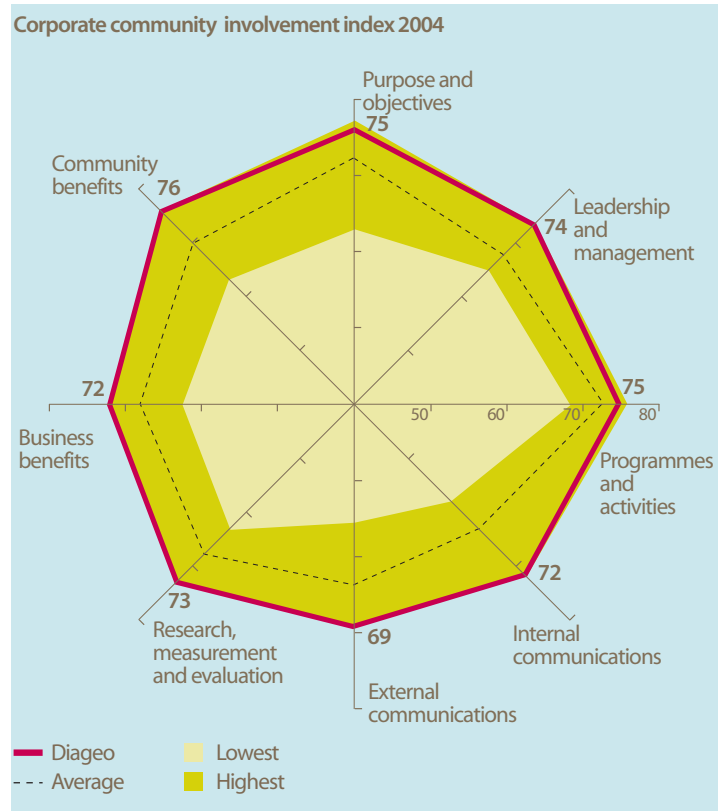
Working in partnership

Our guiding principle is to ensure that community projects are carefully targeted, proactive and professionally managed. For each focus area we have produced a toolkit to help our businesses and community partners address the challenges they may face in creating and managing community projects effectively. There is guidance on:

- > researching and understanding our impacts on the local community
- > seeking out and engaging with partners to ensure that projects are in tune with local needs and cultural sensitivities
- > striking a balance for mutual benefit between Diageo and its community partners
- > agreeing at the start of a project an exit strategy that will prevent over-dependence and ensure that the project's benefits are sustainable
- > building awareness of projects among our teams, external opinion leaders and community audiences; providing partners with communications support.

Benchmarking our performance

This year we participated once again in an independent assessment of corporate community involvement (CCI) which benchmarked our performance against five other leading UK firms. The results are summarised in the diagram. In the assessors' report, Diageo's performance was described as 'one of the strongest that has been achieved in the CCI Index.' Diageo was rated 'one of the top few companies' in the community benefits category and a 'leading company' in the seven remaining categories. Two areas were identified for attention: ensuring that commitment to active community engagement extends throughout the business; and enhancing employee involvement. We will be working on these over the next year. The full report is available at www.diageo.com.



Skills for Life

The Diageo Liberties Learning Initiative in Dublin, Ireland (pictured) is a programme of the government-backed Digital Hub, whose aim is to create a digital enterprise centre and thus contribute to the regeneration of the Liberties area of Dublin. Supported by £1.6 million funding from Diageo Ireland, the initiative delivers digital education courses to schools and provides a test-bed for innovative community learning projects.



Diageo works with Youth Business International (YBI) to help disadvantaged youngsters become entrepreneurs with start-up loans. This year, supported by the World Bank and UN, we have helped YBI develop Youth Development Bonds as a vehicle for providing the necessary start-up loans and mentoring assistance.

Water of Life

Over 100 households in the Kabale district of Uganda will benefit from a Water of Life project to harvest household rainwater via gutters and store it in newly built tanks (of the type pictured) next to each home.



In Kenya we teamed up with the United Nations Environment Programme to construct two boreholes to deliver a potable water supply in the Nyatigo community of Kisumu. Management training has been given to local residents to provide the skills necessary to deal with emergency maintenance and general repairs.

10 projects are being managed in the area and we are working in the capital Ouagadougou to fund a more reliable infrastructure around boreholes and public standpipes to ensure a safer supply of water.

Diageo was asked to support a water initiative in Burkina Faso by the international charity WaterAid. A total of

Local Citizens

We encourage the involvement of our businesses and employees in community initiatives because it not only adds value to each project but also enhances our employees' capabilities and experience, fosters team spirit and promotes the Diageo core value 'proud of what we do'.



In June a team from Diageo North America delivered 25 tonnes of relief supplies (pictured) including rice, beans, cooking oil and powdered infant formula to the Dominican Republic and Haiti in response to the humanitarian disaster caused by flooding and worsened by an earthquake.

on the Canary Islands has put pressure on water supplies. Many springs and streams have dried up in the last 50 years, and there is a pressing need to extend tree cover to prevent soil erosion. As well as the direct benefits that the trees will bring to the environment, the area chosen for the planting is designated an official 'outdoor classroom' by the council, and is used for educational field trips, so will help to spread the ecological message.

For one of many projects completed during the year, Diageo volunteers spent a day planting 600 indigenous trees in an area of Gran Canaria protected by the local council. With virtually no rainfall, increasing tourism

The Diageo Foundation

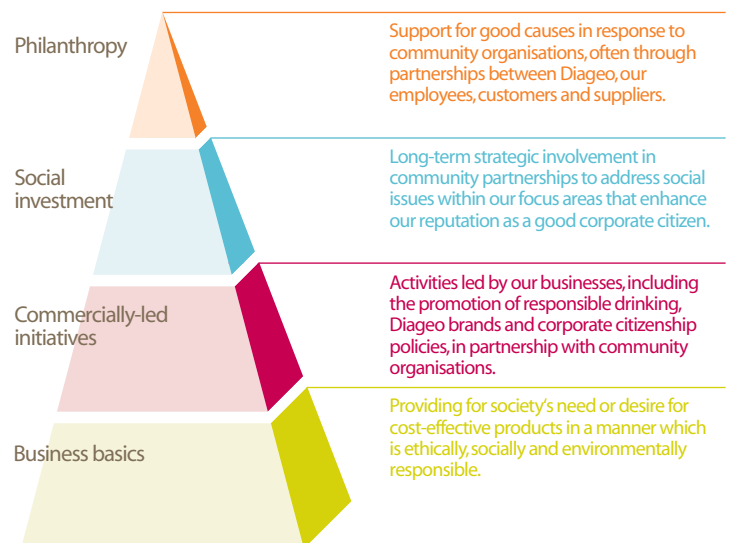
The Diageo Foundation was established to support the company's community involvement activities around the world. Its annual budget of approximately £2.4 million (which is included in the total figure for community investment) provides kick-start funding and expertise in establishing projects, some of which are run in partnership with our local businesses. The Foundation makes charitable donations, matches employee fundraising in the UK and provides longer-term social investment in areas where we can make the most difference.

The Foundation's incorporation under UK charity law ensures that its funds cannot promote the direct commercial interests of the business. The independence of the Foundation is maintained by the trustees who are appointed by the Diageo board from around our businesses and functions and who work closely with external advisers and not-for-profit organisations with specialist expertise in our focus areas.

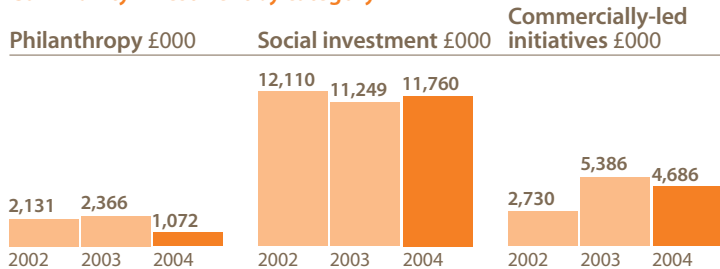
The Foundation plays an important role in developing the principles, disciplines and processes through which Diageo engages with its communities globally. Its evaluation modelling, its promotion of best practice and its skilled team of advisers are on hand to offer counsel and support to our businesses and their community partners. Stretching the Foundation's investments further allows us to achieve more and we have developed systems for replicating successful programmes from one location to another. By providing seedcorn finance, the Foundation leverages additional support such as third-party matched funding, employee volunteering, the transfer of business skills and product donations from our businesses.

Projects supported by the Foundation are run with community partners and, where appropriate, also involve our local businesses and employees. During the year, the Foundation received 34 fully-developed new project funding proposals and 535 external enquiries. These were assessed according to our funding criteria and the successful projects approved by the Foundation trustees. When a community project involves a partnership between an NGO and one of our local businesses, the Foundation's grant supports the community aspects of the project, any promotional activity involved being paid for separately by the local Diageo business.

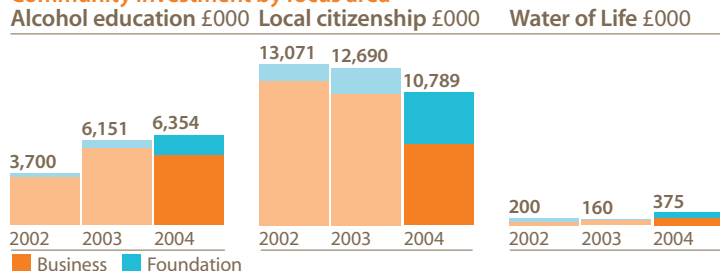
Levels of community investment



Community investment by category



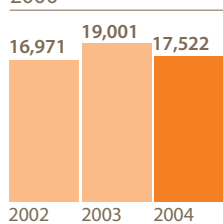
Community investment by focus area



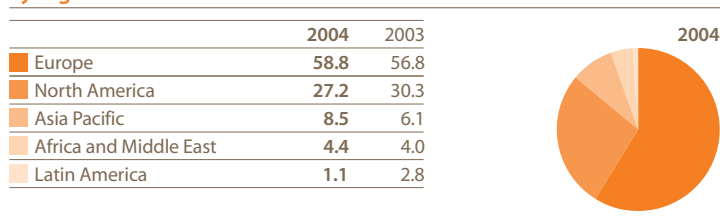
Community investment by type



Community investment total



New community investment by region %



Evaluating community investment

We want to make sure that the money our businesses invest in community activities, and the grants contributed by the Diageo Foundation, result in the maximum benefits for the community and, in the longer term, for our business. We work closely with our charity partners to assess the changing needs of projects and track their outcomes. We also commission independent research to evaluate some of the key projects we support. For a quantitative analysis of our total community investment, we use the London Benchmarking Group (LBG) model – which we helped to pioneer in 1994 – to put a realistic, conservative value on our investment (inputs), and to measure the benefits (outputs) of our community involvement.

The pyramid on page 13 shows the three levels of community investment used in the LBG evaluation with responsible business basics underpinning these activities.

The overall investment during the year amounted to nearly £18 million, which was 0.9 per cent of operating profit. The reduction since last year's total of £19 million and compared with our objective of investing 1.0 per cent of operating profit was mainly due to the refocusing of social funds to finance responsible drinking initiatives. At present, the LBG methodology partly excludes these initiatives from our community investment total, though this practice will be examined by LBG during the coming year as part of a wider review of measuring and reporting on the effects of 'mainstreaming' social responsibility.

Tomorrow's People

In the early 1980s, inner-city unrest, stagnating local economies and high long-term unemployment led our company to create a specialist UK charitable trust that later became known as Tomorrow's People. We have invested £25 million in the trust over 20 years and also dedicated a significant amount of management time and resources to helping Tomorrow's People achieve its very worthwhile objectives. This year, the Diageo Foundation commissioned Oxford Economic Forecasting to undertake an independent study to evaluate the social and economic impact of Tomorrow's People over its 20-year history. A summary of the report is available on the website; its main findings are:

- > **overall outcomes** – around 382,000 people have been helped in their quest to move out of long-term unemployment, welfare dependency or homelessness through education, training, mentoring and full-time work
- > **economic and social return on investment** – the total benefits to society are calculated to be in the region of £450 million, made up of savings in state benefits, additional taxation receipts and reductions in expenditure on health, crime and administration
- > **cost-effectiveness** – the net cost per job created is calculated at £500 (compared with £5,000 to £8,000 for the UK government's New Deal programme); job retention has been 90% after three months (compared with 75% for New Deal)
- > **distinctive approach targeted at the hardest to reach** – the study identified a number of success factors: innovation, staff quality and dedication, stakeholder trust, one-to-one contact, community outreach and after-care, independence from government and good links with employers.



Examples of Diageo's community investment evaluations using the LBG model

Motivations	Inputs		Outputs	
	Diageo Foundation and corporate centre	Leverage	Community benefits	Business benefits
Philanthropy Spirit of America Airlift (Dominican Republic and Haiti)	£34,800	£34,800 from Diageo USA. Co-ordination across North America, venture and key markets as well as the Johnnie Walker brand team.	Provided humanitarian aid in the form of an airlift, in the immediate aftermath of devastating floods and an earthquake, to save as many lives as possible.	Employees, customers and consumers felt proud of Diageo's involvement. Celebratory events were held in Miami and New York, as well as locally. Diageo was given a citation from the United States Congress.
Tree Planting (Canary Islands)	£5,000	£5,400 from Diageo Canaries. Sixty employees planted the trees, contributing a day's volunteering (valued at £90 per employee) as well as transport costs.	Other environmental initiatives have taken place in Tenerife and La Palma. Most recently 600 trees were planted in Gran Canaria and Tenerife as part of government projects to prevent soil erosion and protect native species such as the Canary pine and acebño. Tree cover helps prevent streams from drying up, as well as improving the appearance of the environment.	Employee pride and team-building. Diageo invited partner companies, distributors and suppliers to participate in both activities, thus enhancing our reputation and strengthening relationships with partner companies.
Social investment Tomorrow's People Trust (UK)	£20 million in donations and £5 million other assistance over 20 years	An independent evaluation has calculated that the financial return on job investment totals £195 million. Diageo employees have been involved with Tomorrow's People as volunteers for over 20 years.	Around 382,000 unemployed people have been helped by Tomorrow's People: 165,000 have been helped into employment and 50,000 into education, training or voluntary work. The economic benefit to society using UK government appraisal techniques is estimated to be approximately £450 million.	Innovative programmes have been developed to tackle unemployment and bridge the gap in deprived areas between job-seekers, employers and government. The pioneering work has also inspired a number of national projects that have been replicated in other Diageo markets around the world.
Water of Life – Thika (Kenya)	£7,000	£16,416 from Kenya Breweries Limited.	Many people in Thika walk three to eight kilometres each day to safe water collection points. A water gravity scheme is being set up with a 25km pipeline and five shallow wells. Once fully commissioned, the new water facility will benefit over 20,000 residents of Thika.	Diageo's environmental work with its African businesses has increased its local reputation as a good corporate citizen and strengthened links with local communities and government.
Bar Skills (Venezuela)	£83,000	£82,100 from Diageo Venezuela. A cross-functional working group from Diageo was appointed to manage and evaluate the project.	Specialised hospitality courses at the prestigious Simon Bolivar University help students from low income families compete in the difficult labour market. Thirty students have graduated from the programme, which promotes responsible drinking as well as helping to alleviate unemployment and contribute to Venezuela's fledgling tourism industry.	Diageo enhanced its reputation as a company committed to the welfare of the community. The project has also strengthened relationships with key on- and off-trade clients.
Commercially-led initiatives Bundy Bush Fund (Australia)	Start-up funding of £250,000	A percentage of sales from special cans of Bundaberg Rum and Cola at Bundy Bush Fund events held throughout rural Australia is contributed to the fund.	The fund provides long-term funding for water conservation projects in drought-stricken, rural Australia. Through special events it encourages mates to get together to do something for their local community.	Regional communities in Australia strongly support the Bundaberg Rum brand. The company is proud to return this support by investing in projects to secure the supply of water and conserve local waterways, vital to sustain regional communities.
Keep Walking (Taiwan)	£250,000 over three years	Employees from Diageo Taiwan are involved with monitoring and evaluating the initiative.	The fund works on three levels to inspire young entrepreneurial individuals in Taiwan – to give financial awards; to provide scholarships for a mini-MBA programme at Cambridge University; and to provide information to all applicants via a website.	The initiative has improved relations with the Taiwanese government and people.

Releasing the potential of our people

'We are committed to releasing the potential of all our employees, so they can fully contribute to Diageo's business goals and meet their career and development aspirations.'

Gareth Williams
Human resources director



Society

Releasing the potential of every employee is an imperative that determines the direction and priorities of our organisation and people strategy. Put simply, we must attract the very best talent, from the widest possible range of backgrounds, to provide the ideas, innovation and results necessary to achieve our ambitions for the company and its stakeholders.

Employees	2004	2003
Europe	11,373	11,625
Africa and Middle East	4,694	5,025
North America	3,742	3,914
Asia Pacific	2,415	2,681
Latin America	1,496	1,316
Total	23,720	24,561

Inclusion and diversity

A highly diverse workforce in which the unique characteristics, perspectives and experiences of each employee are embraced creates an environment which releases the potential of each individual and encourages their creativity and performance. Over the last few years we have taken a number of actions to increase diversity in our business. We now have a coherent strategic point of view on the value of inclusion and diversity which is rooted in our mindset and approach to talent growth and development. Although our diversity profile shows some improvement since last year, we recognise that there is significant room in Diageo to increase the diversity of our employee community and encourage their inclusion. We are in the process of setting ourselves objectives to achieve this goal, and will report progress against these in future reports. We will also provide more extensive information on diversity.

Future priority	Progress report	Assessment
Establish diversity action plan and set targets for progress	Action plan and global targets in place for gender and nationality. Targets set for each business area	 Achievement of 2007 targets

Diversity by gender	2004		2003	
	Men %	Women %	Men %	Women %
Senior managers	78	22	80	20
Other employees	69	31	68	32

Employee engagement

High levels of employee engagement are an essential component of sustainable business performance and we encourage our employees to express their views through an annual values survey. Developed with the employee opinion research company ISR, we use the survey to monitor views on living the Diageo values. The survey also provides us with feedback on the quality of our leadership and confirms the critical role that leaders play in inspiring our people. ISR derives 'high performance norms' from leading global companies, against which we benchmark our results.

Global values survey

Our values	Diageo	2004	Diageo	2003
	score*	High		score*
	%	performance	%	performance
		norm		norm
		%		%
Proud of what we do	76	84	84	74
Be the best	73	66	–	–
Passionate about consumers	81	–	70	77
Freedom to succeed	77	64	78	55

Survey results

People in my team are good ambassadors for our brands outside the workplace	85	–	82	–
People in my team can question whether we should keep doing things in the same way	83	61	81	55
My manager generally understands the problems we face in our jobs	75	66	74	55
How satisfied are you with your freedom to get on with the job?	75	–	73	–
Diageo is seen as a responsible member of the community	79	81	79	67
I have stretching objectives agreed with my manager	76	–	70	–
People in my team are focused on results	92	–	90	–
My manager tells me regularly how I'm doing my job	67	65	62	57
I am proud to work for Diageo	91	87	90	81

*Employees responding favourably.

Of the 18 questions in the survey, we report on the nine core questions and have ensured that additional questions reflect the essence of the new Diageo value, 'valuing each other' described on page 5. All Diageo businesses participated in the survey, up from 70 per cent in 2003. The overall response rate was 68 per cent.

Overall, the results are very positive and indicate that across our organisation our people truly live the Diageo values. Our employees are ambassadors for our brands and enjoy working in an environment that encourages freedom to succeed. We recognise that we need to focus on providing regular feedback and encouraging our people to celebrate success. In turn this will help ensure that our scores on being proud to work for Diageo improve in future surveys.

Inspiring and developing our people

A focus on talent is at the heart of our strategy and helps release the potential of every employee to contribute to business performance goals and meet their own career aspirations. We are simplifying our performance management and development planning process to emphasise the partnership focus we believe is necessary to develop people to their full potential. This enhancement of our existing process is being progressively rolled out across Diageo and will be fully in use by 2006.

We see the role of our leaders as vital. Inspirational leadership will deliver superior performance by engaging the hearts and minds of our employees. Employees have told us that to give their best, they need to work for someone who inspires them, and they want to build a career in partnership with a company that respects their changing needs and allows them to have the personal lives they want. The 'High Performance Coaching' programme, which was designed to enhance the quality and depth of performance and development

conversations between managers and employees, was rolled out across Diageo over the past three years and has supported the rigorous attention that is being paid to this area.

In every part of Diageo, regular organisation and people reviews are carried out to monitor progress against action plans. These include progress against capability development and training plans.

Some examples of development initiatives during the year:

> **Great Britain** – employees can be involved in a number of training and development activities to address needs identified in their development plans. The GB Academy, as it is known, provides online access to information and other coordinated activities. In the past year 1,000 employees attended a range of programmes from induction and time management to facilitation and coaching skills and marketing training.

> **Santa Vittoria** – at our manufacturing site in Italy we have been working on capability development, support for releasing the potential of everyone and setting stretching performance targets for the plant. The focus was on 'how to make the impossible become possible' through teamwork and recognition of individual contributions. Following a team adventure challenge and 'drumstorming' using musical instruments, project management training was delivered to 148 employees.

> **London** – a group of volunteers identified the career development needs of HR administrative support staff. Successful actions from the exercise included: standardising role titles and profiles, common capabilities used for performance management, an organisation and people review for administrative staff, a newsletter and a series of training workshops attended by 132 employees.

The focus on world-class marketing programme development and best practice has continued through the 'Diageo Way of Brand Building'. To date more than 8,000 have attended these programmes. Almost 4,000 have been trained in a new complementary programme, the 'Diageo Way of Brand Building with Customers', which extends brand building practices to include customers and outlets, and maximises our ability to create and satisfy customer demand.

Careers Shop is a global online recruitment system that supports both internal and external job applications. Since its launch in 2003 we have posted 1,200 internal and 800 external jobs (including graduate roles), filled more than 700 vacancies and have 20,000 external applicants' details registered on the database. Hits to the site are averaging in excess of 60,000 per month. Priorities for the coming year are to ensure that all markets are able to post internal vacancies in English and that more businesses can also advertise vacancies externally. By September we also intend to have Spanish and French capability in posting both internal and external vacancies.

The international development of our employees is essential for a truly global business. We currently have 265 international assignments and currently 56 per cent of that population are British (66 per cent in 2003). Our goal is that by June 2007 more than 50 per cent will be of other nationalities.

Recognition and reward

We see employee recognition as a range of activities, from the more formal to the simple 'thank you', all of which can have a powerful impact. Practised regularly, recognition is a key factor in releasing employees' potential.

We benchmark the compensation packages we provide for our employees against other relevant employers in all our markets to ensure that we remain competitive. Our benefits packages, when added to cash remuneration, are designed to attract and retain talented people, and increasingly feature flexibility of choice from a range of options.

We have a variety of plans in place to promote share ownership which enable employees to share in the achievements and future growth of the business.

Employee share ownership	2004	2003
Employees (past and present) owning shares	17,800	18,000
Countries operating sharesave plans	16	16
Employees holding more than 1,000 shares	43%	44%
Highest participation rate (Korea)	82%	94%
Eligible employees participating in UK share purchase scheme	46%	51%

Creating inspiring work environments

We believe in offering a variety of working arrangements that enhance quality of life, get the best from our employees and allow flexibility in the way people work.

Although not provided universally, we offer flexible working arrangements at many locations. Many of our sites and offices are designed to provide flexible layouts and inspiring working environments with a range of on-site facilities. Increasingly, our businesses select from a menu of innovative options including flexible hours, part-time working, job sharing, career breaks, sabbaticals, annualised hours and flexible compensation.

Employment by category	2004	2003
Full-time	95.1%	95.4%
Part-time	4.9%	4.6%

Employee relations

The sense of pride that employees have in working for Diageo is fostered through a wide range of communications including team meetings, newsletters, email, intranet and posters.

This has been a significant year of change in many of our businesses. We always aim to handle changes in a manner which is fair, transparent and supportive to those impacted. We have an obligation to consult openly and regularly with our employee representative forums and/or trade unions and have ensured that we have done this during recent reorganisations.

In Ireland, developing new ways of working with customers led to a reduction of around 135 in the workforce. A joint management and human resources team worked with union officials and representative groups to agree a timetable and to challenge and build on initial company proposals. There was a dedication to achieve the changes within the timescales and there were high levels of communication and engagement.

In Great Britain an effectiveness review led to headcount reductions of around 70. The rationale and proposals were shared with the GB Forum and the Diageo Staff Association and feedback and suggestions were received over a four-month period. Finally, the process resulted in only 55 redundancies, due to natural turnover during the period.

Occupational health and safety

The Diageo occupational health and safety policy, which includes compliance with our risk management standards, local legislation and codes of practice, was revised and implemented at all UK sites. This will be repeated at all sites globally by June 2005. To monitor the benefits of the policy, a fuller range of health and safety performance indicators is being collected and will be reported in the future. Injuries reported in the table are those resulting in lost time of at least a day, beginning the day after the incident.

Health and safety	2004	2003
Fatalities	–	–
Regulatory notices received	10	6
Fines imposed	1	2
Injuries per million man-hours*	16.1	NA

*Reckoning 1,920 hours worked per year.

Helping Hands

Diageo encourages all employees who want to give something back to their community. In the Australian 'Helping Hands' programme, employees contribute to charities through payroll deductions and the company matches these donations dollar for dollar. Employees volunteer their time to be involved in fundraising and profile building projects and supporting activities for charities. During the year, employees cleaned parks, worked at charitable fundraising festivals and taught English to adults from non-English-speaking backgrounds. Funds were raised for causes such as the Breast Cancer Foundation, the Smith Family, LIFE Australia and Cleanup Australia.



'Big-Up' meetings and the creation of 'positive vibes'

To boost motivation ahead of the holiday season sales drive, Diageo in Jamaica introduced the concept of 'Appreciative Inquiry' to focus employees' attention on what gives life to the organisation at its best. Employees identified and gave recognition to the good things they had achieved in day-to-day workplace activities and took the opportunity to 'big-up' (a Jamaican term meaning appreciate) their colleagues. A 'great wall' was painted on one of the buildings, and on each brick an achievement was recorded. The creation of 'positive vibes' and the energy with which employees



embraced the approach are regarded as key factors in making the best season ever for Red Stripe, the beer brewed at the site.

Future priority	Progress report	Assessment
Deploy new health and safety risk management standards at all locations	Work plan in place and roll-out on track. UK completed	 Completion by June 2005

Workers at the George Dickel whiskey distillery in Tennessee, USA have not had a lost time accident since 1999, earning them a Diageo Gold Safety Reward. Along with the recognition went a \$200 savings bond for each full-time employee and lunch with senior executives. Employees credit the success at least partly to an exercise programme introduced by the plant manager which helped the senior workforce tackle physical work activities without injury.

The Red Stripe brewery in Jamaica, where several years of learning, adjustment and vigilance in maintaining the highest standards resulted in significant improvements, was presented with a Health and Safety Award.

HIV/Aids

Under our HIV/Aids policy in Africa we provide workplace programmes that cover non-discrimination, awareness and prevention and employee support. We provide, free of charge for Diageo employees and their immediate dependants, access to voluntary counselling and testing and, when appropriate, treatment with anti-retroviral drugs. Our businesses in Africa ensure that the drugs are administered as part of an overall healthcare treatment regime and, because it is proven that anti-retroviral treatment can prolong life expectancy significantly, support for HIV-infected employees continues even when they leave the company. Where appropriate, treatment programmes for Diageo employees are located in the host communities, allowing us to help those communities build their infrastructure and capacities for combating the disease.

In our biggest African markets – Nigeria and East Africa – our HIV/Aids awareness and prevention programmes are reaching a target group of over 11,000 employees and dependants across 10 locations. In South Africa the success of such programmes has already been demonstrated with 71 per cent of employees participating in a voluntary counselling and testing programme as a result of a workplace 'Know your Status' campaign.

Employer of choice awards

Diageo's reputation as an employer continues to develop around the world, as shown by the many awards we have received during the year:

- > **Australia** Top 18 in Best Employers in Australia
- > **Canaries** Third in Best Workplaces in Spain study
- > **Ireland** Top 50 in Best Companies to Work for in Ireland survey
- > **Italy** Seventh in Great Place to Work award
- > **Hungary** Budapest office the Best New Shared Service Centre in Europe

- > **Jamaica** First in governor-general's award for excellence in manufacturing and good citizenship
- > **Kenya** First in Most Respected Company in East Africa awards
- > **Mexico** 28th in Best Company to Work For awards
- > **Portugal** 13th in Best Places to Work award
- > **Scotland** Renewal of Investors in People accreditation for supply business
- > **Spain** Fourth in Best Workplaces in Spain study
- > **Venezuela** 21st in Best Employers in Latin America.

Cartons of Hope

In December, we held celebrations in three offices in South Africa in support of World Aids Day. Through our successful 'Know your Status' campaign, staff became more aware of the HIV/Aids pandemic and the 'Cartons of Hope' project was created by employees to help children in local communities infected and affected by HIV. Cartons were placed in all offices and staff encouraged to fill them with practical clothing, food and books. At Diageo-hosted parties, the cartons were handed over together with gifts for the children.



Hands on Miami

In November, a team from Diageo's Miami office joined more than 3,000 volunteers for the largest one-day volunteering event in the city's history. They painted, planted trees and cleaned up the neighbourhoods of the city as part of 'Hands on Miami', an annual day of community service designed to make it a better place to live and work. Team Diageo was dispatched to Overtown in Miami's inner city to work on 'Roots in the City', a garden oasis hidden under an overpass. With paint brushes, rakes, clippers and shovels in hand, the team spent an enjoyable day working with local residents to beautify the garden.



Health and safety in Korea

Diageo Korea boosted health and safety awareness by:

- > managers being trained in London, then transferring knowledge and skills to all employees
- > establishing a 'Caring Initiative' to increase awareness, with recognition awards voted for by employees
- > maintaining health and safety in all personal objectives
- > more effective use of risk assessment, machinery maintenance planning, safe working procedures, spillage containment and machinery guarding.



Crisis management plans were developed for a range of scenarios and the local fire department used the Diageo site for their annual emergency exercise (pictured).

Environmental management and performance

'The environment continues to advance on the corporate agenda and we have set our strategic priorities to reduce risk and benefit the natural world.'

David Gosnell
Managing director, global supply




Environment

We aim for continuous improvement in environmental performance, concentrating our efforts on areas of greatest impact at our manufacturing, packaging and distribution sites, in particular the use of energy, water management and waste. In setting our strategy we have prioritised: the full implementation of an environmental management system at all production sites; a long-term plan for energy; a systematic approach to the impacts of packaging; and further engaging employees in environmental initiatives.

Environmental management

The Diageo environmental policy ensures that all our production facilities are challenged to keep improving their performance. Of our sites, 75 per cent are now fully or nearly compliant with the policy. Environmental management systems are implemented or being implemented at all production sites. At four, the EMS is certified to the international standard ISO14001, while 14 more facilities plan to achieve this level of recognition within the next three years. Over 80 per cent of sites have undergone an environmental audit in the last two years.

Future priority	Progress report	Assessment
Extend environmental programme to all parts of the business	Impacts of office sites identified for monitoring. Next steps: engage employees and set baseline measures.	 Completion by Dec 2005

Performance

Of the five performance targets we set in 2001, those for reducing water use and the amount of waste landfilled have been met while those for reducing energy, greenhouse gases and effluent volume have been missed. In each of the cases of missed targets, performance has improved over the last three years, but not by as much as we had planned. This is partly a factor of data collection. In 2001 we collected data from 66 production sites. This year it was 97. But we also believe that further improvements are possible and have set new targets to be met by 2007.

This year we have begun to collect information from office sites with more than 50 employees. The graphs on page 23 show performance of production sites alone for comparison with the targets we were aiming for; and for all sites as the baseline for the new 2007 targets. Some previously published figures have been restated to reflect improvements in data capture; we have also changed some units of measurement in line with GRI guidelines.

Energy and climate change

The main environmental impact of using energy is that it releases greenhouse gases (GHGs) – directly from fuels used on site and indirectly from electricity generated from fossil fuels. We constantly look for ways of improving energy efficiency. For example, at the Red Stripe brewery in Kingston, Jamaica this year we have achieved electricity savings of 4.8TJ a year by measures which included installing a new thermal storage air conditioning system. Creative thinking and new technology have saved 765 tonnes of CO₂ emissions from two Scotch whisky distilleries: at Port Dundas new water vapour treatment equipment has been installed, while at Auchroisk a new regulation that required the distillery – which includes 10 duty-free warehouses – to store a large volume of water for fire-fighting purposes presented the opportunity of using the reservoir to dissipate heat from the distilling process, allowing the existing cooling towers to be shut down, providing energy and water savings.

From next year, industry in the European Union will be required to help meet commitments under the Kyoto Protocol to reduce CO₂ emissions. The EU Emissions Trading Scheme, which will impact six

Diageo sites in the UK and Ireland, is currently being developed and we will outline its impact on Diageo in future reports.

The logistics required to carry raw materials and finished products represents a significant environmental impact, due to emissions of GHGs and other air pollutants and the contribution to traffic noise. Following a pilot project with contracted hauliers in the UK, we have developed a set of standards for assessing transport companies in the future. These cover indicators such as fuel consumption, door-to-door road and rail kilometres and CO₂ and particulate emissions. Data from our two biggest hauliers in the UK (which are responsible for more than half of distance travelled) show that, overall, 21 per cent by distance was covered by rail during the year. On long distance routes this figure increased to 83 per cent. In total, the use of rail by these two firms saved 8,740 road trips by trucks which would have emitted 1,840 tonnes of greenhouse gas.

Business travel is an activity with similar impacts. We have worked this year to improve systems of data collection and can now track distance travelled by car in the UK and USA and air travel by employees in most of Europe and the USA. Greenhouse gas emissions from these sources amounted to 22,800 tonnes.

During the year we carried out a review to assess our approach to energy management and are now working on a long-term global energy strategy that will create benefits for the environment, operational efficiency and risk management through reducing our dependency on fossil fuels.

Water management

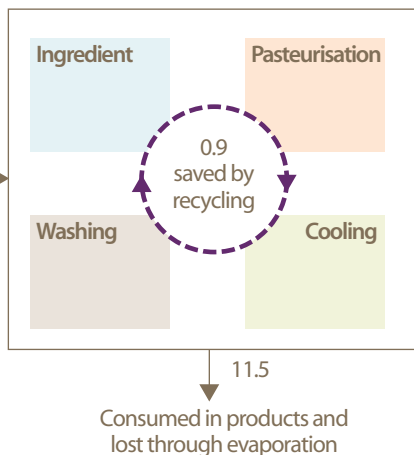
Water is a major requirement of our business, as an ingredient and for washing and cooling; its quality is crucial to the character of our brands. With resources under pressure from development in many parts of the world, we look for opportunities to reduce the amount of water we use, many of which require investment to achieve savings. For example, at the Red Stripe brewery in Kingston, Jamaica, we recently installed a new wort cooler and a new bottling line. This, the recovery of surplus water from brewing and increased awareness around conservation, have resulted in annual savings of 240,000 cubic metres – a reduction in the water needed to produce each litre of beer from 17 to 14 litres.

We obtain water from a variety of sources – boreholes, mains supplies and, to a lesser extent, rivers and lakes – and treat it before use. Some is incorporated into drinks or is lost through evaporation.

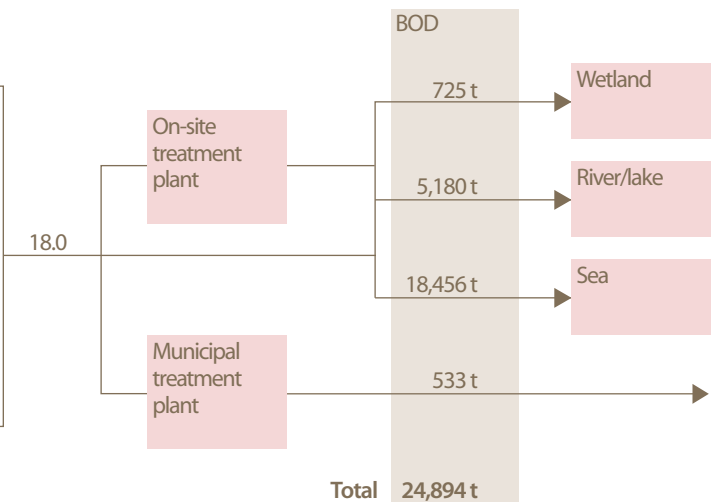
Water sources
million m³



Use of water in manufacturing



Effluent



With local government and industry partners, volunteers from Diageo Philippines participated in a river survey organized by the Save Silang-Santa Rosa River Foundation under the title 'Buhay na ilog, tubig ng buhay' – or 'living river, water of life'. The Diageo team then led a clean-up of the river, collecting debris – mostly plastic wrappers – from the riverbank. To ensure the sustainability of the project, the foundation asked the Silang authorities to put up signs to remind visitors not to throw rubbish in the river.



The new brewery effluent treatment plant in Nairobi, Kenya will reduce BOD emissions by 80 per cent. The project will be complete in 2005 and cost £2.16m.



Employees at our brewery in Kampala, Uganda refer to poster-sized versions of Diageo environmental policy documents.

The balance, used in the manufacturing process, is discharged as waste. Where suitable, the same water is used for more than one task.

The quality of discharge has an impact on the body of water that receives it. Effluent from drinks manufacture typically has a high BOD (biological oxygen demand – a measure of its organic content or polluting power) and contains undissolved matter. Waste water is treated on site or at an external treatment plant to reduce the organic content and adjust for other characteristics before discharge to surface water or on to agricultural land; alternatively it is discharged untreated where consents allow. The largest BOD outputs are to sea from our Scottish distilleries.

At a number of sites in Africa, effluent outflows fell short of Diageo standards. A programme of corrective action, involving the construction or improvement of treatment plants, is well underway,

with the bulk of the work scheduled for completion by December 2004. In the past we have measured our impact on surface water in terms of effluent volume, an indicator which does not reflect its organic content. From this year, with improved systems of measurement, we will monitor the polluting power of effluent as BOD, and track the success of our £18 million capital investment programme in Africa against a new reduction target.

At our Huntingwood packaging and blending plant in Australia, involvement in the Diageo Earthwatch programme has led to 'Project H₂O' to improve water management which has resulted in water use per litre of production being cut from 1.9 to 1.5 litres. Employees identified a means of recycling previously wasted water which, with capital investment of A\$95,000, will save around 100 cubic metres of water a day. In addition, Huntingwood has reduced phosphorus levels in effluent by 75 per cent over the last two years and now plans to invest some A\$700,000 in a new effluent treatment plant.

Materials and recycling

The bulk of the materials we use are ingredients. Being organic, these provide opportunities for the reuse of residues. After extraction, spent grain is usually sold for processing into animal feed. Grape pulp is composted and used as agricultural mulch. Excess yeast is processed for use in animal feed, as is waste from the malting process. Overall, 91 per cent of all solid waste is reused or recycled.

Our packaging incorporates a variety of materials including glass, metals, plastics and cardboard. Some of these are derived from recycled sources and most are recyclable by consumers where facilities exist. Initiatives to lessen the impact of packaging materials concentrate on the type, recycled content and quantity of packaging. Our bottles have an average recycled content of around 30 per cent, varying between about 12 per cent in colourless bottles to over 50 per cent in green or amber ones. Recycling glass reduces the bottle makers' energy consumption by up to a quarter and emissions by up to a fifth. In many markets we use bottles that can be returned and refilled. In Africa, for example, all our beer is packaged in this way and over 80 per cent of bottles are returned. We are supporting a voluntary agreement in the Netherlands between government and a group of manufacturers that encourages recycling bottles through deposit and refill requirements, and we are looking at adopting a returnable bottle system there. In Belgium we already have such a system for all on-licence bottle sales.

Over the last five years we have been 'lightweighting' bottles, usually by around 20 per cent. Lighter bottles use less raw material and take less energy to make and transport. Recently, we have reduced the weight of the Smirnoff Ice bottle by around 10 per cent, saving nearly 15,000 tonnes of glass a year. Aluminium cans, too, have been lightweighted over the years and are a prime candidate for recycling. Reforming a can from recycled aluminium takes only five per cent of the energy needed to make it from raw materials.

In America we have completed a project to identify more environmentally friendly packaging for our spirits and RTD brands and have reduced the thickness of the board used in secondary packaging without compromising its performance. This will result in a 10 per cent reduction in waste material each year – about 150 truck loads.

At our St James's Gate site in Dublin a material recycling facility was established in 2001 to collect and sort general waste and pass it to specialist operators for recycling. Even plastics and building materials that were previously uneconomic to recycle are now reprocessed. The facility has been so successful that no waste is now sent to landfill.

Environment

Air emissions

Maturing whisky loses a certain proportion of its volume each year by evaporation. In this process, essential for creating the desired flavour, ethanol is released – in 2002 an estimated 4,500 tonnes were emitted from our two key maturation sites in North America. Though ethanol is water-soluble and removed from the air by rainfall, it can lead to ground level ozone formation which can present a health hazard.

Some man-made chemicals, released as gases into the atmosphere, can damage the protective ozone layer, allowing harmful ultraviolet radiation to reach the earth. The chemicals chiefly implicated are halons, used in fire suppression equipment, and CFCs and HCFCs, used in refrigeration and air conditioning equipment. Ten sites were made free from halons and CFCs during the year, leaving 14 where one or the other is still present, usually in very small quantities. We will continue to replace these materials with less harmful alternatives.

Spills and other incidents

Nine notices of non-compliance were received, all but one concerned with the contents or volume of effluent. Where appropriate, measures have been taken to prevent recurrence. Our plant in the Philippines was fined £1,500 for breaches in effluent consent levels. Seven sites reported spills of liquid raw materials, process chemicals or product, none of which resulted in a fine.

Biodiversity

Diageo encourages biodiversity by protecting habitats within its control and through Water of Life projects. 2004 was the second year of the Diageo Earthwatch programme and a second group of 15 employees joined environmental projects all over the world. Last year's champions have now begun to implement their own action plans to reduce impacts at their workplace. The Diageo Foundation has awarded grants totalling £9,000 to six such projects in Jamaica, Ireland, Nigeria and Italy and a further £11,000 of funding is under consideration. Our Earthwatch reports provide many excellent examples of what has been achieved.

Earthwatch reports

Roberta Magliano, packaging technologist from Santa Vittoria D'Alba, Italy (pictured) travelled to the rainforests of Australia to study threatened species. Back in Italy, Roberta has promoted awareness of the dangers of pollution and the implications of current packaging techniques. She will also start a scheme to recycle plastic bottles at the site.

Since returning from her project in the Pantanal wetlands of Brazil, Amy Harmon, quality control technician from Relay, USA, has been engaging her fellow employees in improving the Maryland site for wildlife. Amy is also working to increase the use of recycled materials in production at the plant.

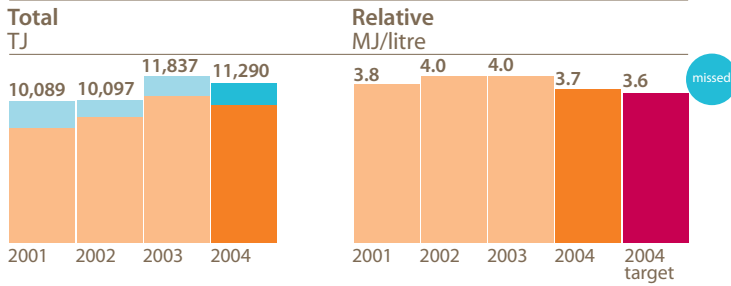
Maeve O'Connell made, in her own words, 'one of the most amazing journeys' to the wetlands of Brazil. Promotions development manager in Dublin, Ireland, Maeve is now working with the local residents association to raise awareness of environmental issues and minimise the number of trees felled and habitat disturbed by the construction of a railway, road widening and bicycle lanes.



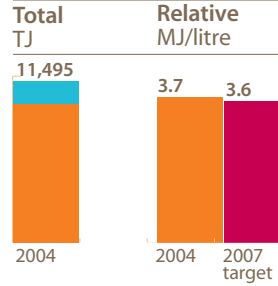
Brand support co-ordinator Linda Mellis from Elgin, Scotland spent two weeks in the forests of Costa Rica. Returning home, Linda has researched types of habitat across 12 Diageo distilleries and is producing leaflets for employees and visitors to promote the wealth of biodiversity to be found at the sites.

Bundaberg brand manager from Huntingwood, Australia, Jessica Wallace went to the Czech Republic to research the environmental effects of acid rain and commercial forestry. On her return, Jessica initiated Project H₂O, the results of which are described on this page.

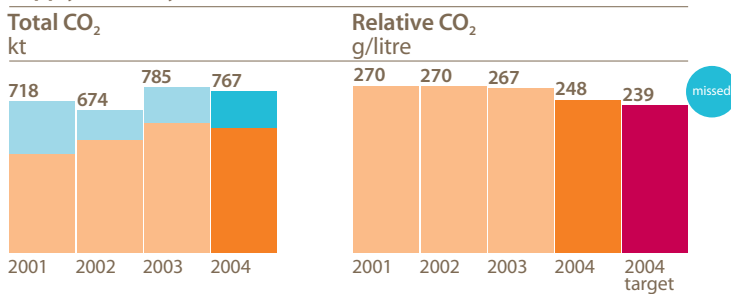
Energy used
Supply sites only



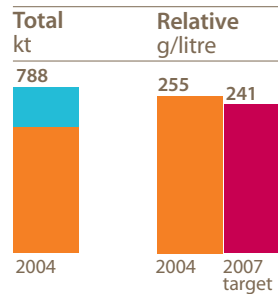
All sites



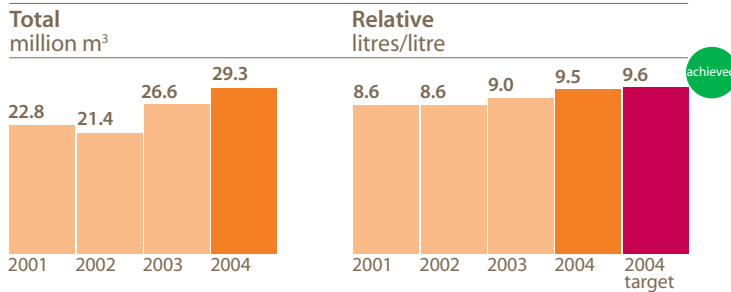
Greenhouse gas emissions
Supply sites only



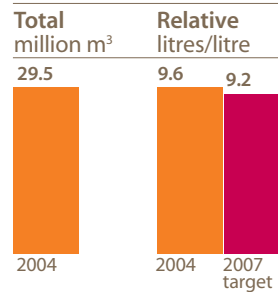
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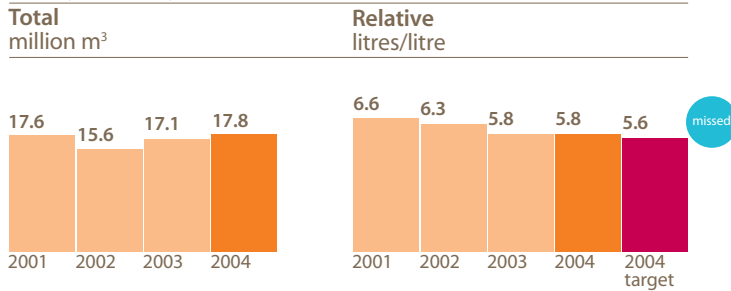
Water used
Supply sites only



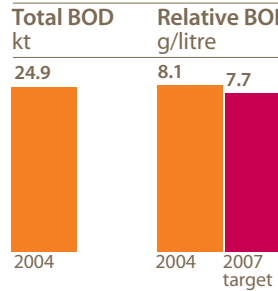
All sites



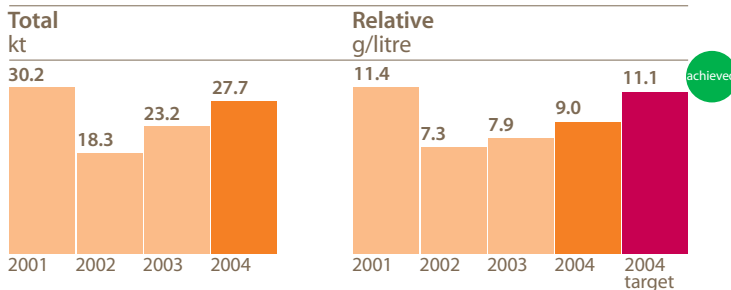
Liquid effluent
Supply sites only



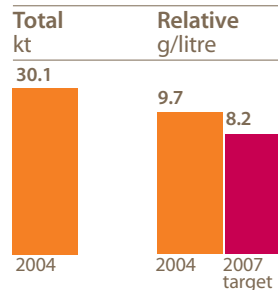
Effluent polluting power
All sites



Solid waste landfilled
Supply sites only



All sites



Direct Indirect

One megajoule (MJ) = 3.6 kWh
One terajoule (TJ) = 1,000,000 MJ
One kilotonne (kt) = 1,000 t
One cubic metre (m³) = 1,000 litres
BOD: biological oxygen demand

Relative figures relate performance to a litre of beverage produced. 'Supply sites only' indicates performance at production sites. From 2004 we have also collected data from major office locations and these are included under 'All sites'.

Investment and creating value

'By investing wisely in innovation and growth, we ensure the sustainability of our business and the continued economic benefits our company brings to communities across the world.'

Nick Rose
Chief financial officer



Economy

Diageo's businesses impact the economies of the countries in which we operate by generating revenue for governments, providing significant investment and creating value that directly benefits our employees, investors and commercial partners. Last year we generated £3.6 billion of business for the companies that supplied us with goods and services. In addition to the employment supported in those businesses were the jobs sustained further up the supply chain.

We contributed approximately £2.6 billion, in direct taxes and duties, to public spending during the year. On top of this were the less easily quantifiable local and property taxes paid by our businesses and the taxes our operations indirectly generated – employees' income taxes and taxes paid by suppliers and commercial partners. The proportion of the selling price of four of our brands in the UK that goes in taxes and duty is shown diagrammatically below.

Turnover less the amount we pay suppliers represents the value we have added to the raw materials and services we buy. As shown in the cash value added statement opposite, this value is distributed to important groups of stakeholders – employees, shareholders and lenders – to pay for their contributions to the business. We also pay alcohol and corporation taxes to governments which continue to be the main beneficiaries of the added value we generate, receiving 47 per cent overall. The cash value added statements reported by two of our businesses during the year show that this proportion can be much higher in some countries. In Korea, for example, 76 per cent of value added flowed to the government, while from our East African business the figure was 84 per cent. In those businesses, and in Diageo overall, a significant proportion of net cash received (from one-third to a half) is spent on purchases of raw materials and other goods, and services, emphasising the importance of suppliers as stakeholders in our business.

Community projects around the world are another beneficiary with nearly £18 million invested in projects during the year.

Where the money goes %

	Bell's	Blossom Hill	Guinness	Smirnoff Ice
■ Retailer	9	41	17	20
■ Production and marketing*	28	33	46	41
■ Tax	63	26	37	39

*Includes money paid to suppliers, investors, employees, lenders and communities and retained for growth.



Breakdown of prices in an average UK off-licence in 2004 for 70cl Bell's whisky, 75cl Blossom Hill wine, 4x440ml Guinness Draught and 4x275ml Smirnoff Ice.

The balance of added value is retained in our business for investment in growth for the benefit of stakeholders in the future. This includes the purchase of subsidiaries and capital investment in plant and buildings.

Cash value added statement	2004 £ million	2003 £ million
Net cash generated		
From customers	8,891	9,281
Other income	211	1,109
Subtotal – net cash generated	9,102	10,390
Payments to suppliers for goods and services	(3,630)	(3,795)
Cash value added	5,472	6,595

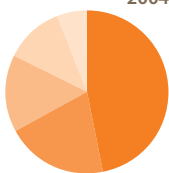
Distribution of cash value added

To governments as alcohol taxes	2,209	2,166
To governments as other taxes	356	177
Subtotal – to governments	2,565	2,343
To shareholders for providing capital	1,106	1,619
To employees as remuneration for services	835	1,157
Retained for growth	638	1,087
To lenders as interest on borrowings	299	355
Research and development	11	15
Community investment	18	19
Total	5,472	6,595

Retained for growth includes, among other items, capital investment and purchase of subsidiaries. 2003 figures have been restated for application note (G), FRS 17 and UITF 38.

Distribution of cash value added %

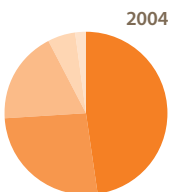
	2004	2003
Governments	46.9	35.5
Shareholders	20.2	24.5
Employees	15.3	17.5
Retained for growth	11.7	16.6
Lenders	5.5	5.4
Community investment	0.3	0.3
Research and development	0.2	0.2



One area where cash spending is relatively discretionary is capital investment. The broad geographic split, shown below, demonstrates how money re-invested is distributed to projects around the world.

Capital investment by region £ million

	2004	2003
Europe	156	175
Africa and Middle East	86	39
North America	60	64
Asia Pacific	18	24
Latin America	7	13
Total	327	315



Excludes disposals of fixed assets £20 million and net purchases of investments £9 million.

Globally, 15.3 per cent of cash value added by Diageo's business is passed to employees, underlining the importance of creating and sustaining jobs in the economies in which we operate. In addition to this 'direct' effect, our business also creates employment with our suppliers and demand for our brands sustains jobs with wholesalers and retailers – the 'indirect' effect. The salaries earned by our employees, suppliers and customers create further employment as

Investment by Bundaberg Rum
The vision for Bundaberg Rum, distilled in the town of Bundaberg, Queensland, Australia was to make it the number one beverage alcohol brand in the country. The strategy included investment in sponsorships and community projects. The story shows how the dynamism of a commercial enterprise can bring benefits to many groups within a community.



Working in partnership with Landcare, the Bundy Bush Fund has made grants of more than £50,000 to Australian environmental groups working on water quality projects.

Bundaberg Rum was already a sponsor of the Australian rugby union team so it was natural to support the Rugby World Cup 2003. This sponsorship took the brand to a new level of awareness both at home and abroad and the results are evident. During the

tournament, Bundaberg Rum overtook its rival Jim Beam whiskey to become the leading spirit in Australia, and has sustained this position since. To support this growth, £9 million capital investment has been committed for expansions at the distillery which will bring increased opportunities for employees and local businesses.

they are spent – the 'induced' effect. By adding these direct, indirect and induced effects together, an assessment of Diageo's total impact on employment can be made. An 'employment multiplier' relates the total number of jobs sustained to the number of direct employees. Employment multipliers vary with industry and market and tend to be greater in developing countries (where estimates as high as 25 or 30 have been published for the beverage sector) than in developed industrial regions where they can be in single figures. We have not yet performed the analysis necessary to estimate the total number of jobs supported by our business worldwide, though we will be able to work towards this as authoritative multipliers become available.

Studies on the spirits industry in Scotland provide an example of what figures we may expect to find, particularly in developed markets. Spirits manufacture there is dominated by Scotch whisky, but gin and vodka are also important products. Diageo accounts for approximately one-third of the industry, a sector which supports four per cent of all manufacturing jobs and contributes more than £1.6 billion in duty and value added tax annually to the exchequer. Scotch whisky is one of the UK's top five manufactured exports, contributing more than £2 billion a year to the balance of trade. Of Diageo's Scottish output, 83 per cent is sold outside the UK.

A study of the industry published in 2000 for the Scotch Whisky Association indicates an employment multiplier of around 6.6. Based on 3,800 direct Diageo employees in Scotland, this would suggest a total of around 25,000 jobs sustained by our Scottish business, around 16,000 of them in Scotland, the balance elsewhere in the UK. Many of these jobs are in rural areas, particularly in agriculture, providing an important source of income in economically fragile regions. Of the £393 million spent with some 2,000 suppliers by our Scottish manufacturing business in 2004, £101 million went on raw materials and ingredients, and 75 per cent was spent locally in Scotland. For a fuller picture see our corporate citizenship report on Diageo in Scotland, available on the website.

Investing for sustained growth

In its Value Added Scoreboard the UK Department of Trade and Industry ranks the largest European-based companies according to the value they add (using a measure slightly different from ours). The ranking shows how effectively these companies create wealth and re-invest to ensure continued growth. The success of Diageo is reflected in the conclusions of the 2004 scoreboard (below). Innovation is key

to achieving sustained growth and shapes the way we re-invest to find new products and improve production processes. After a period of divestiture and acquisitions, Diageo is ranked top of the European beverage sector. The DTI's key ratio of efficiency (value added as a percentage of employment costs plus depreciation), seen over one and four years, demonstrates how Diageo has become increasingly more efficient.

Value Added Scoreboard

European beverage sector ranking	Company	Value added* £ million	Efficiency %	Efficiency four-year average %
1	Diageo (UK)	3,622	272	224
2	Heineken (Netherlands)	2,417	162	160
3	Interbrew (Belgium)	1,917	151	152
4	Scottish & Newcastle (UK)	1,485	160	138
5	SABMiller (UK)	1,459	182	200
6	Carlsberg (Denmark)	1,266	140	141
7	Allied Domecq (UK)	1,193	221	238
8	Pernod Ricard (France)	1,083	198	175
Average			181	174

Source: DTI 2004 Value Added Scoreboard, based on 2003 accounts.

The DTI defines value added as sales less costs of bought-in materials, components and services.

*Diageo cash value added statement includes £2.3 billion taxes and £1 billion cash from disposal of businesses offset by £0.4 billion excluded share of profits received from associates.

Pension schemes

Added to the economic impact of the business itself is the significant contribution of Diageo's pension schemes. These operate in some 30 countries – the three principal plans covering the UK, USA and Ireland – and have combined total assets of approximately £3.7 billion. The UK plan – the biggest – covers nearly 69,000 members and pays about £127 million each year to some 31,000 plan pensioners and dependants. The trustees of the fund have asked their investment managers to take social, ethical and environmental considerations into account when assessing investments for the pension scheme.

Returns for investors

Over 90 per cent of our business is owned by institutional investors, the remainder being held by private shareholders including thousands of current and former employees. We aim to engage actively with the investment community on our corporate citizenship agenda. Some Diageo companies offer a proportion of their shares on local stock markets, providing easier access to employees and others. We value the participation of these shareholders as they bring local knowledge and strengthen direct contacts with the community.

We assess the value provided to shareholders by total shareholder return (TSR) which measures the relative return from the movement in the share price together with dividends received. Diageo ranked 6th in its peer group, outside our target to be in the top five. Detailed results are given in the 2004 annual review.

We are committed to return capital to shareholders in the most efficient way possible. During the year shareholders received £800 million in dividends and £306 million via the company's share buy-back programme.

Paying taxes

Nearly one-half of cash value added by our business goes to governments in the form of corporation and excise taxes. On top of this are the sales taxes, such as VAT, paid on our brands and income taxes and other dues paid by our employees, investors, suppliers and

other business partners, all of which boost the total financial contribution to public wealth.

The prices that international companies charge for products sold between group subsidiaries affects the profitability and consequently the tax liability of subsidiaries in different countries. Diageo operates a global transfer pricing policy that ensures that products are sold at arm's length prices between group companies. These are determined in accordance with OECD guidelines and in compliance with the transfer pricing regulations and requirements in each country where Diageo operates. Our transfer pricing policy enables Diageo subsidiaries to earn fair and reasonable profits for the functions they perform in line with pricing evidence from comparable third-party uncontrolled transactions.

Working with governments

Diageo works closely with governments across the world to help them address problems with their tax systems that may lead to lost revenue. The areas where our help is sought include:

- > **fraud** – high taxes can create an incentive to trade outside formal business channels and thus avoid the full amount of tax due. Both alone and through trade associations Diageo works with governments and with other producers to tackle fraud in a number of markets. For example, we are working with the UK government to ensure that its 'tax stamps' proposal is as effective in combating fraud as possible
- > **illicit production** – high taxes can encourage people to produce and sell their own alcoholic drinks and this can have dangerous consequences for health. A study for the International Center for Alcohol Policies (ICAP) estimated that illicit alcohol accounts for as much as 50 per cent of total consumption worldwide and that it is a growing problem in countries such as Russia, where numerous incidences of alcohol poisoning have been linked to illicit vodka
- > **counterfeiting** – high taxes encourage the counterfeiting of well-known brands, a practice that brings significant health risks. Diageo is at the forefront of attempts to tackle this problem which is covered in detail on page 11
- > **maximising revenue** – many governments fail to maximise their revenue from alcohol by setting the rate of tax too high. Diageo is working with several governments to help them raise more revenue without harming sales. In the Dominican Republic, high levels of taxation led to a 15 per cent reduction in legal sales of alcohol between 2001 and 2003, impacting tax collections as contraband alcohol claimed an estimated 40 per cent of imported spirits consumption. We have worked with the government there to address the problem by reform of the tax system. In Colombia we worked with the government for three years before significant tax reductions were introduced in 2003. Together with the contribution of Diageo's training of more than 4,000 law enforcement officers, results for 2003 versus 2002 show that federal and state revenues from imported wines and spirits both grew by more than 110 per cent.

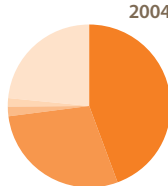
Partnering with suppliers

More than 40 per cent of the cash we generate – over £3.6 billion in the year to June 2004 – flows to our suppliers: the businesses which provide us with ingredients and packaging and the advertising and media we use to promote our brands, in addition to the supplies we use day to day such as telecommunications, stationery, agencies, consultants and a host of other goods and services. This large volume of procurement has a significant impact on many of the local economies in which we do business, providing employment in a wide range of industries.

Our procurement teams around the world ensure that our purchases represent the best value in terms of cost, quality, service and innovation. This is achieved by forging strong relationships with suppliers to secure goods and services which are sustainable in the long term and to ensure that contracts are fair and mutually beneficial.

Purchases by category £ million

	2004	2003
Raw materials	1,609	2,252
Marketing	1,039	1,203
Lease payments	69	81
Maintenance	61	43
Other	851	463
Total	3,629	4,042



An example is provided by Diageo's malting company in Kenya which buys around £7 million worth of barley each year from farms of all sizes in Kenya and Uganda. On about 80 per cent of this business, the company underwrites bank finance that allows smaller farmers without the necessary capital to buy seed and agricultural materials. Further assistance is provided in the form of training in good farming practice. Kenya Maltings invests £70,000 a year in increasing farmers' skills and knowledge in the use of fertilisers, insecticides and seed varieties and supports breeding programmes to develop strains of barley best suited to local climatic conditions.

Because of the diversity of our operations around the world, we have no single standard to cover payments to suppliers. Individual operating companies are responsible for agreeing terms and conditions for their business transactions and these arrangements are adhered to when paying suppliers, subject to their compliance with the terms and conditions agreed.

As well as protecting the sustainability of goods and services, strong relationships with our suppliers also help us meet our corporate citizenship goal of ensuring that those companies with which we do business work to the highest possible standards of ethical business practice, human rights and environmental management. With the appointment of a programme director, plans are now in place to make our suppliers aware of our standards and begin key supplier self-assessment against these in all our markets. During the year, we have made significant progress by:

- > developing policy, standards and tools such as assessment questionnaires
- > devising local, regional and global implementation plans
- > identifying best practice to share within the business and externally.

In support of supplier assessments, we plan to set up verifiable audit processes and reporting mechanisms and introduce training for procurement staff and suppliers where required.

Our approach to the programme is one of partnership with suppliers, a vital stakeholder group for our business. We have consulted suppliers in Asia, North America and Europe. In May 2004, we met with suppliers of point-of-sale materials in Korea to discuss the programme, our intentions, our standards and the self-assessment questionnaires. Suppliers in North America and Europe are also having the opportunity to assist in the development of our questionnaires and to provide us with feedback on our approach.

We have benefited also from the views of other stakeholder groups which have helped us in identifying areas for development. Examples are the benchmarking exercises described on page 3 of

this report and, more specifically, the Gradient Index survey conducted by AccountAbility and Insight Investment.

Because of our very large number of suppliers and the different starting points in different parts of the world, we do not underestimate the size of the task. We plan to focus our efforts where they will make most difference, working first with the largest suppliers and in areas where the challenges are greatest. Our target for the coming year is to complete evaluations of all suppliers identified as potentially high risk and 30 per cent of suppliers identified as high value.

Future priority	Progress report	Assessment
Promote our standards of corporate citizenship throughout the supply chain	Standards reviewed and plans in place for global distribution	 Completion by Dec 2005

Supporting our customers

Our customers are the wholesalers, retailers and distributors of our brands. We create business for our customers by providing them with products that people want to buy. We continually review our range of products and seek to meet consumers' needs through a programme of imaginative and technological innovation. During 2004, Diageo spent £11 million on research and development.

In the United States, suppliers must distribute products through third-party companies, which in turn sell through licensed retailers. We have embarked on a long-term strategy to build more effective and efficient relationships throughout this three-tier system. Our goal of consolidating to a single wholesaler or broker per state allows us to meet consumer and customer expectations by working through highly trained exclusive selling divisions within our chosen distributors. In the long term, we expect this strategy to deliver improved sales, more effective marketing spend and volume growth for suppliers, distributors and retailers.

Turnover by market type	2004 £ million	2003 £ million
Major markets		
North America	2,659	2,759
Great Britain	1,411	1,380
Ireland	961	953
Spain	454	418
Key markets	2,275	2,080
Venture markets	1,131	1,212
Total	8,891	8,802

Premium drinks business only.

Supporting economic development

There is very little press reporting on business in Africa, and what there is often negative. Launched in 2004, the Diageo Africa Business Reporting Awards recognise excellence in journalism on African commercial enterprise in the international media. The awards aim to improve the quality and quantity of reporting on business in Africa to which companies considering investment can have access, establishing a fairer balance, making companies more aware of the business opportunities that Africa affords and helping them make the decision to invest.



The picture shows (right) Robert Guest of the Economist receiving the best journalist award from David Hampshire, managing director for Diageo Africa.

Management and policy

‘Our policies address the risks facing our business and push our performance as a good corporate citizen beyond what is required by regulation.’

Tim Proctor
General counsel



Governance

Diageo is committed to achieving the highest standards of corporate governance, corporate citizenship and risk management in directing and controlling the business.

Our board consists of the non-executive chairman, chief executive, chief financial officer and eight independent non-executive directors. The non-executive directors are experienced and influential individuals from a range of industries and geographies whose skills and business experience are a major contribution to the work of the board. New directors receive training in corporate citizenship policies and practices as part of their induction. The board reviews and approves the corporate citizenship report. Reporting to the board are audit, nomination and remuneration committees, each with clearly defined terms of reference, procedures, responsibilities and powers. The executive committee, appointed and chaired by the chief executive, consists of the individuals responsible for the day-to-day running of the business.

This section represents only a brief summary of the governance of the business. Full details are available in the 2004 Diageo annual report.

Management of corporate citizenship in 2004

Reporting to the board, the corporate citizenship committee is the body with primary responsibility for our approach to the issues covered in this report. The committee is chaired by the chief executive and responsible for making decisions and recommendations to the executive committee or board on policies and codes, social programmes, environmental matters, community affairs, reputation issues and measuring and reporting.

The corporate citizenship committee is supported by specialist groups with responsibility for particular areas, such as the environmental working group whose role is to develop strategies for compliance with the environmental policy and sharing best practice across the business. Additional ad hoc task groups are brought together as required to formulate responses to particular issues.

Future priority	Progress report	Assessment
Specify accountability for corporate citizenship performance in annual business plans	Business performance defined holistically to include non-financial measures	 Continuing priority

Risk management

Our aim is to manage risk and control our activities cost-effectively and in a way that enables us to take up business opportunities, avoid or reduce risks that can cause loss, reputational damage or business failure, support operational effectiveness and enhance resilience to external events. To achieve this, we have a process for identifying, evaluating and managing the risks we face, in accordance with the guidance of the Turnbull committee, which in 1999 made recommendations on the internal control of UK companies.

Business units, groups of business units and the Diageo executive committee each perform a risk assessment at least annually as an integral part of their strategic planning. Business unit risk assessments and the activities planned to manage those risks are reviewed by relevant executives, for example at quarterly business reviews. These risk assessment and management processes are also applied to major business decisions or initiatives such as acquisitions or disposals. The risks considered stretch across a wide range of business risks facing Diageo, some of which are disclosed as risk factors to the business in the statutory accounts.

An emerging issues team identifies technical issues which could impact Diageo's products or manufacturing processes arising from changes in regulation, advances in research, activity in our markets or stakeholder concerns.

Assurance

The Diageo business risk assurance team validates issues that pose a possible threat to the company, including many of those areas covered by this report. Additional sources of assurance are a process of self assessment, which highlights areas of weakness in our procedures, and the programme of environmental audits which evaluate risk at production sites.

For this report we have commissioned a third-party attestation that the report represents an accurate view of Diageo's corporate citizenship performance and progress during the year. The stakeholder consultation held this year and referred to on page 6 strongly endorsed this approach to assurance and praised the detailed commentary provided by our external assurers. Their statement can be found on page 32.

Policy development and implementation

Policies and codes of conduct support the Diageo values and form the framework within which we act on corporate governance and citizenship issues, often going further than local or national legislation. Policy development involves referring to external codes and best practice and consulting widely both outside and within the business. Broad dialogue with external groups ensures that our policies address the legitimate concerns of stakeholders and, where possible, incorporate their expectations as to how we should act on particular issues. Wide consultation within the business secures the support of employees across Diageo and ensures that, despite the size and geographical spread of our business, we can all work towards the same ends.

The Diageo **code of business conduct** provides a means of confirming compliance with the company's main policies and in addition sets out standards on issues such as conflicts of interest, competition law, insider trading, corrupt payments, money laundering and other illegal practices. Each year, all senior managers are required to confirm compliance with the code. This year, the requirement was extended to more junior managers in the UK and USA.

Compliance with code of business conduct %

	2004	2003	2002
	100	100	80

In addition to attending conventional workshops, managers undergo intranet-based training on the code which is supported by a revised compliance programme and an independently-run whistleblowing helpline.

Other policies are described below:

- > the **code of marketing practice** provides marketing and advertising practitioners with guidance on the naming, packaging and promotion of our brands
- > the **human rights policy** covers respect for national sovereignty, community, working environment, dignity at work, life balance, employee engagement, releasing potential and rewarding and valuing people
- > the **environment policy** covers management and standards in each of our main environmental impact areas
- > our **supplier standards** detail our approach to supplier relationships to ensure an ethical basis to business practice, the protection of human rights and the management of environmental impacts through the supply chain
- > the **employee alcohol policy**, which was updated this year, ensures that our people understand the issues around alcohol and sets out the expectations Diageo has for their behaviour
- > the **occupational health and safety policy**, which was implemented in the UK this year, defines standards for risk assessment, occupational health, hazardous materials, first aid, noise, ergonomics, protective equipment, emergency evacuation, work permits, visitors and contractors, and accident reporting
- > the **quality policy** sets a framework for quality management systems and commits every business to continuous improvement in performance.

Diageo policies are regularly reviewed to ensure that they continue to achieve these objectives. The full texts of these documents are available on our website.

Future priority	Progress report	Assessment
Fully embed values, codes and policies into ways of working and performance reviews	Codes and policies communicated and compliance reported annually. Performance reviews include assessment against values	 Completion by June 2006

External codes and charters

In addition to our own policies, Diageo is a signatory to certain external codes that define corporate citizenship principles and standards of conduct.

Business Charter for Sustainable Development

Diageo announced its support for the Business Charter for Sustainable Development in 1997. The charter, drawn up by the International Chamber of Commerce, sets out 16 principles of environmental management which influenced the drafting of the Diageo environmental policy.

Dublin Principles

Diageo is a signatory to the Dublin Principles which set out the basis of ethical co-operation between the beverage alcohol industry, governments, scientific researchers and the public health community.

The UN Global Compact



In 2002, Diageo announced its endorsement of the United Nations Global Compact (UNGC) – the first global drinks company to do so – as a public commitment to leadership in social and environmental responsibility. The UNGC provided

valuable input to the formulation of our human rights policy. Through membership of a reference forum of UK-based signatory companies, we hope to contribute to the development of the UNGC and develop new ways of reporting our progress against its principles.

In June 2004 the UN ratified a tenth principle on corruption. We fully support this final addition to the Global Compact and in the table opposite report on our approach to implementing it.

The Millennium Development Goals

In September 2000, under United Nations leadership, 189 heads of state ratified the *Millennium Declaration*, a commitment to eight Millennium Development Goals focused on reducing poverty, improving the quality of life, ensuring environmental sustainability and building partnerships to ensure that globalisation becomes a more positive force for all the world's people. The main responsibility for achieving the goals lies with governments. However, companies have a role to play in supporting the broader development objectives outlined in the declaration and in addressing some of the specific targets which it sets for achievement by 2015.

Examples of some of the areas in which Diageo is addressing the challenges of the Millennium Declaration in its focus areas include:

- > in support of the goal to eradicate poverty, investing in social entrepreneurs – for example, through our support of Youth Business International which has helped 50,000 disadvantaged young people set up in business in 15 countries
- > implementing workplace HIV/Aids programmes focused on education, prevention, treatment and care in our businesses in Africa
- > in support of the goal to ensure environmental sustainability, understanding and managing our direct environmental impacts and setting challenging targets for improvement
- > Water of Life projects work directly towards one of the Millennium Declaration's specific targets which is to halve, by 2015, the proportion of people without access to safe drinking water.



Reporting progress against the UN Global Compact

Principles	Progress to date
<p>Human rights 1. Businesses should support and respect the protection of internationally proclaimed human rights</p>	<p>Human rights, occupational health and safety and HIV/Aids policies are incorporated into Diageo's code of business conduct and our suppliers are expected to reflect the requirements of this code.</p>
<p>2. Make sure they are not complicit in human rights abuses</p>	<p>A new annual control and risk assessment process mandates annual compliance reporting.</p>
<p>Labour standards Businesses should uphold:</p> <p>3. The freedom of association and the effective recognition of the right to collective bargaining</p>	<p>Changes to businesses and ways of working during the year have been executed in compliance with this principle and in fulfilment of our obligation to consult openly with representative forums and/or trade unions.</p>
<p>4. The elimination of all forms of forced and compulsory labour</p>	<p>Confirmation from all parts of the business is included in the annual control and risk assessment process.</p>
<p>5. The effective abolition of child labour</p>	<p>Confirmation from all parts of the business is included in the annual control and risk assessment process. The only exceptions are approved apprentice or job experience programmes. Written into our supplier standards is the expectation that suppliers will not employ anyone full time under the age of 15 (14 in developing countries specified by the International Labour Organisation) or higher if stipulated by local law.</p>
<p>6. The elimination of discrimination in respect of employment and occupation</p>	<p>Employment data are recorded locally, within the limits of legal restrictions, to ensure compliance. An employee 'speak-up' telephone line and policy is in place for employees and can be used to report instances of discrimination or harassment.</p>
<p>Environment Businesses should:</p> <p>7. Support a precautionary approach to environmental challenges</p>	<p>We have launched projects this year on energy management and packaging design. We have continued to develop our understanding of potential environmental impact through site audits and taken action to mitigate risk from spills and other incidents. We have worked to reduce impacts from manufacturing processes at many sites – for example, there have been valuable initiatives on energy use, water management and waste recycling. And we have developed a new performance indicator for effluent to monitor potential environmental harm more closely.</p>
<p>8. Undertake initiatives to promote greater environmental responsibility</p>	<p>The corporate citizenship committee this year set a target for all production sites to implement an environmental management system by June 2006, with many already in place. We have begun to extend our environmental programme to office sites and have collected performance data from larger locations for the first time. Progress has been made on extending environmental standards to suppliers. We have launched a programme of reporting performance at country level to inform relationships with local stakeholders on environmental issues.</p>
<p>9. Encourage the development and diffusion of environmentally friendly technologies</p>	<p>Manufacturing sites are constantly challenged to improve the sustainability of the technologies, processes and materials employed in their operations and this report includes examples of environmental impacts reduced by such initiatives. The energy management review announced this year will identify improvements in the use of power and fuels and a new packaging review will aim to define the environmental implications of materials and practices in packaging. A major programme to upgrade effluent treatment at more than a dozen sites in Africa is approaching completion.</p>
<p>Corruption 10. Business should work against all forms of corruption, including extortion and bribery</p>	<p>Diageo seeks to support anti-corruption initiatives primarily through our code of business conduct and anti-money laundering policy. These are supported by a varied training programme – which includes workshops and e-learning tools – and monitored by a compliance programme.</p>

External assurance statement and commentary

We have checked and are satisfied that the contents of this report are consistent with underlying company records, mainly data provided by Diageo businesses and obtained from audited financial and other statements.

Introduction

The Corporate Citizenship Company acts as specialist adviser to corporations that seek to improve their economic, social and environmental performance, as well as their social reporting. Information about our capabilities as external assurers and our relationship with Diageo is available at www.diageo.com as part of a more detailed assurance statement and commentary on this, the company's second global corporate citizenship report. It includes an assessment of the extent to which this report has been prepared in accordance with emerging best practice, notably the principles of the assurance standard AA1000 and the guidelines issued by the Global Reporting Initiative.

Assurance statement

Last year we provided a detailed assurance statement and commentary on the company's first corporate citizenship report. In preparation for this year's assurance process, we consulted a cross-section of expert stakeholders about ways to change and improve Diageo's reporting, so it meets their needs more effectively. This material is also provided at www.diageo.com along with the company's response to each substantive point made.

In light of these considerations and the data provided here, in our opinion this report provides a fair and balanced representation of the material aspects of the company's performance. Where there are still gaps in performance and stakeholder views, they are identified as appropriate.

We have checked a selection of company records, data and self-assessment procedures that underly key aspects of the report, but we have not independently verified otherwise unaudited data.

Commentary

The company provides a clear account of the values, management structures and policies which form the basis of its approach to corporate citizenship. It has also provided some data to show its relative position in the totality of the drinks industry around the world and how it engages with stakeholders in respect of different aspects of the business.

Good data are provided here on:

- > promoting responsible drinking and reducing harm both through partnerships and directly by the company including responsible marketing and relations with consumers generally
- > employee satisfaction and development
- > the worldwide community programme, in accordance with the LBG model
- > environmental performance in manufacturing
- > economic impact.

While there is some greater clarity about the nature of and outcomes from various aspects of stakeholder engagement, we believe further development in reporting is needed on how it is conducted systematically, particularly by operating companies. Different societies around the world have different customs and values in relation to alcohol, and other issues such as diversity. Diageo's commitment to expanding country reporting is an important contribution to providing data on its local impacts around the world.

Remaining gaps in performance data include a comprehensive account of how labour and human rights standards are upheld in the supply chain and of social responsibility in diverse distribution chains. Looking forward Diageo will need to respond to evolving expectations that leading companies give full account of their public policy activities, as a company and in partnership with others in the industry.

We believe that Diageo demonstrates a genuine commitment to improving its performance and to transparent external reporting. It is implementing a list of over 60 citizenship key performance indicators which should be clearly identified in subsequent reports and, where possible, contextualised by appropriate benchmarks. Its self-assessment of progress against key priorities is welcome as it provides the reader with a guide to the company's progress towards its target of being a leader in responsible business practice.

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7 September 2004
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