

A high-speed photograph of water splashing, with a large, dense column of bubbles rising from the bottom right towards the center. The water surface is visible at the top, with several large, rounded droplets. The background is a light, clear blue.

DIAGEO'S WATER BLUEPRINT: OUR STRATEGIC APPROACH TO WATER STEWARDSHIP

EXECUTIVE SUMMARY

The world's water crisis is significant – the supply of fresh water is running out. Already one person in five has no access to safe drinking water.

Water is a shared resource with complex interdependencies between often competing users. This is increasing pressure on companies to build long term resilience to water availability into their businesses and work with others to address a wide range of water-related issues, both locally and globally. Diageo is committed to rising to the challenge, adopting an integrated strategy to managing our impact on water – the Diageo Water Blueprint.

Building on our tradition of promoting sustainable water stewardship, Diageo's commitment is to increase our efforts to address the global water challenge along our value chain – in our sourcing of raw materials, within our own operations, in the communities where we operate, and through local and global advocacy – these are the four platforms on which our strategy is based.

Diageo's strategy is based on understanding the impact the business has on water through the complete value chain and prioritising our activity accordingly. It aims to reduce our overall impact, particularly in water stressed areas.

To drive performance in our priority impact areas and to deliver our strategy, we have made ambitious commitments and set targets (using 2007 as the baseline) to be achieved by 2020. These are an integral part of our broader Sustainability & Responsibility targets for 2020. Visit www.diageo.com for more information.

Our Water Blueprint is designed to effect substantial, sustainable and measurable change. It is an ambitious strategy which reflects our increasing prioritisation of water. It responds to our growth in emerging markets, an increased understanding of our broader supply chain water impacts, and the fast changing external policy agenda. We are committed to progressing our ambition, incorporating the complexities which demand collective action and collaborative working. It is only with this ambition and commitment that, working together for future generations, we can have a meaningful positive impact on the global water crisis.

Key Water Blueprint targets for 2020

Raw materials:

→ Equip our suppliers with tools to protect water resources in the most water stressed locations.

Production:

- Reduce water use through a 50% improvement in water use efficiency.
- Return 100% of waste water from our operations to the environment safely.
- Replenish water stressed areas with the equivalent amount of water used in our final products made in water stressed areas.

Community:

- Develop a Water of Life community project in the water stressed watersheds where our production sites are located.
- Ensure appropriate access to safe water, sanitation and hygiene for all employees in all premises under Diageo's control.

Advocacy:

- Increase positive contribution, locally and globally, to collaborative efforts to address the water crisis.

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CHIEF EXECUTIVE'S INTRODUCTION



Water is vital, fundamental to all forms of life. As a drinks company, we understand that water is an essential resource, and therefore its careful management is a business priority.

For many years, we have invested in our own operations and in technology to carefully manage our water use, as well as in supporting communities where we work. Our aim is to protect scarce natural resources and enable a sustainable future for everybody. As a leading global business, we encourage others to take similar bold steps.

We are absolutely committed to making sure that we find better ways of managing water sustainably and encouraging others to do the same by sharing our valuable experience and best practice. We know there is work to be done on further understanding the role businesses can play in safeguarding water. As we grow, particularly in emerging markets, I firmly believe that managing water responsibly is key to achieving our performance ambition and the future success of our business.

I am very proud of Diageo's strong record on this increasingly important global issue, particularly through our improving performance on managing water in our own operations, and through our Water of Life programme which brings clean, safe

water and sanitation to millions of people. Building on this foundation, I recognise that we have a responsibility to enhance our commitment and continue to develop our programmes so that we make an even more meaningful impact.

We are extending and strengthening our strategy across our whole supply chain, driving greater innovation and finding new ways of working with new partners. We know we cannot do this on our own. We will need to collaborate with others, experts in this field, and I encourage our suppliers, partners, customers and others to work with us. Our own teams are passionate about water and will continue to play an important part in helping drive change.

I firmly believe that the new Diageo Water Blueprint will enable us to achieve our goals and those of others. It is an integrated approach along each part of our value chain – focusing on the priority areas where we have the most impact and influence. It is rightly ambitious with some very stretching commitments and targets. Only with this leadership and inspiration, can we all make a real difference – for the environment, economy and communities in so many countries where we operate, and most importantly for future generations.

Ivan Menezes
Chief Executive

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WATER IN CONTEXT

The world's water crisis is significant – four in ten people worldwide already live in areas of severe water stress, and 2.5 billion people live without basic sanitation.

The demand for water is growing at twice the rate of population increase. This is being driven by the growth in agricultural production, in urbanisation, in the demand for energy, in the rising middle class in emerging markets, and in the global economy. At the same time there is wide recognition of the impact of climate change on water issues.

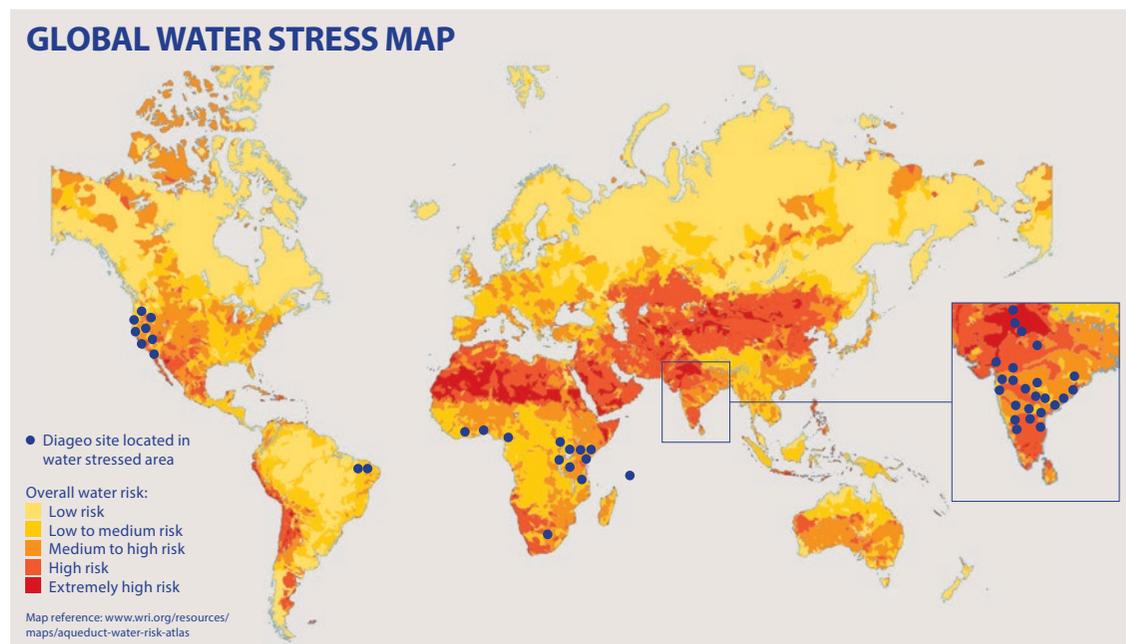
Water is a shared resource. There are complex interdependencies between often competing users – communities, ecosystems and companies – with significant local variations and many facets and influences, including scarcity, access, quality, energy, soil, biodiversity and flooding. This is increasing pressure on companies to build long term resilience to water availability into their businesses and to work with others to address a wide range of water-related issues, both locally and globally. Diageo is committed to rising to the challenge – adopting an integrated approach to managing our impact on water across our global business.

Diageo has a proud tradition in water stewardship and sustainable development. We have made important contributions in the regions in which we operate.

As a beverage company, water is an essential ingredient in all our brands – over 90% of beer and 60% of spirits is water. We also use water to clean, cool, lubricate, convey, heat, pasteurise, germinate and steep. It is essential for growing

our raw materials, and for the manufacture of our packaging, and its efficient management is of the utmost importance for our local communities.

Diageo's global reach, spanning 180 markets with offices in 80 countries and more than 130 manufacturing facilities in over 30 countries, enables us to leverage our scale to address water issues in our production, communities and supply chain.



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Our production

We have worked extensively to improve water efficiency in our processes, particularly in areas of water scarcity. More recently we have also focussed on understanding how we can better manage our total supply chain demand for water and collaborate at a watershed level. Since 2008 we have removed six billion litres of water from our production process reflecting an improvement of over 20% in water efficiency – much of this in water stressed regions. We have rigorous internal standards for water management which are audited regularly.

We currently have 47 sites in 11 countries located in water stressed areas. We recognise that water stress has many facets and is not solely defined as physical availability. With new acquisitions and deteriorating water situations in many geographies, we anticipate that this number will continue to increase in the future.

Our communities

Our Water of Life programme, which is predominantly focused on Africa at this stage, is providing access to safe drinking water for people in need. Since June 2007, Diageo has initiated over 200 projects in 18 countries supporting a range of interventions including boreholes, hand-dug wells, rainwater harvesting and domestic filtration devices. By 2015, Water of Life had brought safe water to ten million people in Africa. Many of these projects are in partnership with development organisations and, in some cases, other private sector companies, collaborating together to bring scale and sustainability to projects. Diageo employees are significant contributors to Water of Life, engaging directly and raising funds for projects.

Our advocacy

While Diageo has demonstrated progress and impact through these efforts, we have also led work with other organisations on water stewardship, demonstrating leadership as a member of the steering committee for the UN Global Compact's CEO Water Mandate, participation in the CDP Water Programme and collaboration through (among others) the Beverage Industry Environmental Roundtable.

Increased commitment

Water is a key priority of Diageo's broader Sustainability & Responsibility strategy, which recognises that we have additional responsibilities with an increasing proportion of our business in emerging markets, where water scarcity is often particularly acute. The global water context together with our growth in emerging markets combine to increase our water related risks such as water availability, quality, pricing, infrastructure, regulatory limits, competition for water and water in agricultural supply chains – all of which have driven an increased commitment to water stewardship by the company.



The CEO Water Mandate



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WATER BLUEPRINT IN ACTION

Building on our tradition of promoting sustainable water stewardship, Diageo’s commitment is to increase our efforts to address the global water challenge – in our raw materials, within our production, in the communities where we operate, and through advocacy. These are the four platforms on which our Water Blueprint is based.

The Diageo Water Blueprint recognises that there are many financial and broader business advantages to Diageo from improved management of water resources and it supports our performance ambition to be one of the most trusted and respected consumer products companies in the world. Our business, as well as local communities, economies and the environment, will benefit from our collaboration and direct investment in managing our overall water impact and actively participating in examining the private sector’s role in safeguarding water for the long term.

Diageo’s strategy is based on understanding the impact the business has on water through the complete value chain. Through the analysis of water embedded in our products including in the raw materials we use, we have confirmed that the most significant impacts on water are in the growing of the agricultural crops we use in our products and in the use of water in our own operations. In contrast, the consumer’s enjoyment of our brands has a relatively limited impact on water.

We have prioritised our activity to have maximum impact and have structured our focus and targets to optimise our impact on water while supporting the growth of our business. At the same time, we are also committing to work to address wider community water needs, principally through collaboration at a watershed level, and to address broader global water issues through collective action and advocacy, recognising that much will depend on local delivery by our markets. While this strategy is framed in the context of targets for 2020, we will continue to review it on a regular basis and refresh it to reflect this fast changing agenda.

Key to our strategy is proactively engaging with local communities, governments, regulators, and other businesses, and raising awareness of water issues among our employees and other key stakeholders. Implicit in our commitments and our strategy is a recognition that we will not achieve transformational change without positive collaboration with a wide range of stakeholders.



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WATER BLUEPRINT IN ACTION

Our integrated strategy

Based on four key platforms of activity – **raw materials, production, community, and advocacy** – our Water Blueprint, Diageo’s strategic approach to water use, recognises the full value chain impact of our activities on water, and aims to reduce that impact, focusing on water stressed areas. It includes detail on Diageo’s commitments to water stewardship that support the delivery of this strategy.

Our strategy is based on the following key areas of activity:

- Facilitate improved water stewardship in key agricultural communities supplying our operations.
- Encourage suppliers and third party manufacturers to improve their water efficiency and quality impact.



- Improve water stewardship in our own manufacturing operations through investment in water efficiency and quality, prioritising where our impact is greatest.
- Replenish water stressed areas with the equivalent amount of water used in our final products made in water stressed areas, through projects such as reforestation, wetland recovery, and improved farming techniques.
- Provide access to safe drinking water and sanitation for communities in water stressed areas, leveraging employee engagement.
- Collaborate locally and internationally to address the global water crisis.

To drive performance in our priority impact areas and to deliver our strategy, we have announced ambitious targets (using 2007 as the baseline) to be achieved by 2020.

Our Water Blueprint is designed to effect substantial, sustainable and measurable change. It is a strategy which reflects our increasing prioritisation of water and the role of our employees. It responds to our growth in emerging markets, an increased understanding of our broader supply chain water impacts, and the rapidly changing external policy agenda.

Key Water Blueprint targets for 2020

Raw materials:

- Equip our suppliers with tools to protect water resources in the most water stressed locations.

Production:

- Reduce water use through a 50% improvement in water use efficiency.
- Return 100% of waste water from our operations to the environment safely.
- Replenish water stressed areas with the equivalent amount of water used in our final products made in water stressed areas.

Community:

- Enable communities through the provision of safe water and sanitation by developing Water of Life projects in the water stressed watersheds where our production sites are located.
- Ensure appropriate access to safe water, sanitation and hygiene for all employees in all premises under Diageo’s control.

Advocacy:

- Increase positive contribution, locally and globally, to collaborative efforts to address the water crisis.

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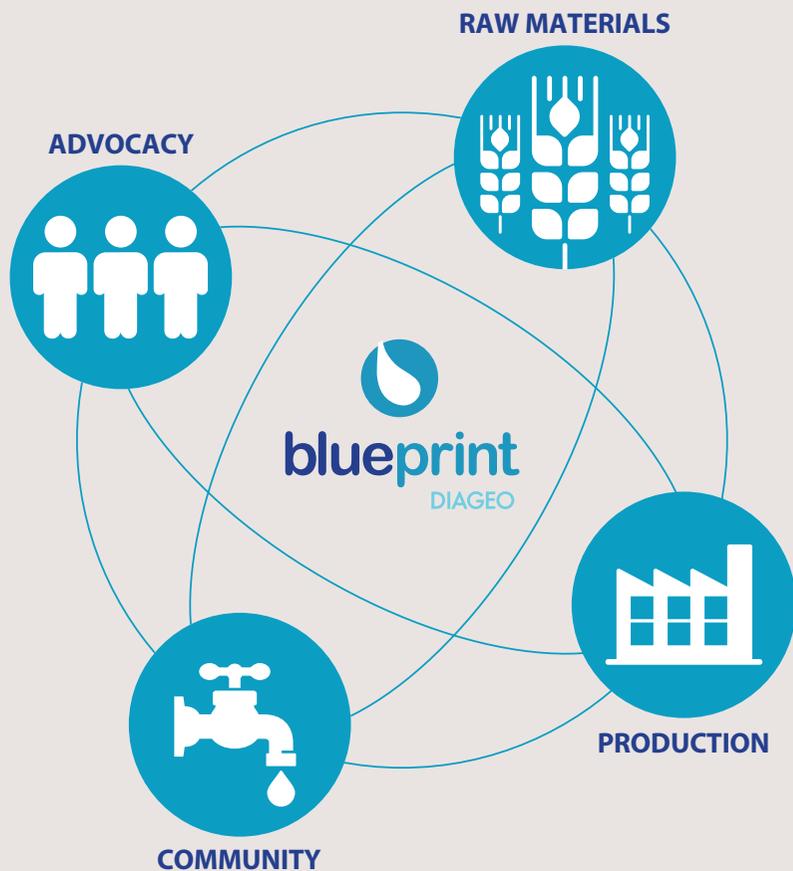
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WATER BLUEPRINT: OUR STRATEGIC APPROACH

DIAGEO WATER BLUEPRINT: AN INTEGRATED STRATEGY ACROSS THE VALUE CHAIN



The following pages detail how we are working to improve our impact on water in each of these key areas, as well as detailing our targets for 2020.

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RAW MATERIALS



We will work with key suppliers to reduce water impacts in our supply chain.

Water stewardship in our supply chain is integral to our strategy and it is an increasing priority given the overall impact of water use by suppliers – particularly in agriculture and by our third party operators. It is also integral to our broader sustainable agriculture strategy and focus on skills and empowerment in the supply chain.

Our approach is to leverage our influence with key suppliers to encourage improved water stewardship through reduced use and better management, and to focus on agricultural raw material supply chains, a significant majority of which are rain-fed.

For our supply chain, Diageo will:

- Work with third party operators to help them measure, manage and improve their water stewardship, focusing on those operators located in water stressed areas.
- Encourage key suppliers with water risk to report water use, risks and management and drive improved performance and impact reduction.
- Ensure sustainable water stewardship practices are employed where we have operational control of agricultural land.
- Reduce environmental impact and improve livelihoods in the communities where we source, using our agronomic advisory services and our Sustainable Agriculture Guidelines to encourage sustainable agriculture practices.
- Align key Water of Life investments in communities where we are investing in the agricultural supply chain.
- Promote increased sourcing of rain-fed local agricultural raw materials well adapted to their local conditions (climate, soil, water availability), such as sorghum and cassava which are more drought tolerant.
- Understand and plan for the impact of climate change on water resources for key production sites and across our raw material supply chains.

Raw materials targets for 2020

- Equip our suppliers with tools to protect water resources in the most water stressed locations.
- Partner with major third party operators located in water stressed areas to achieve an improvement in water stewardship.
- Ensure sustainable water stewardship on 100% of owned agricultural land.
- Promote increased sourcing of more drought tolerant local agricultural raw materials in water stressed areas.



PRODUCTION



We will reduce the water impacts of our production facilities.

Diageo is committed to best practice water stewardship in our direct operations, through continuing to improve both water efficiency and the quality of waste water discharged at our production sites. In water stressed regions where we have production facilities, we will work collaboratively with multiple stakeholders to address water stewardship issues in specific watersheds.

For our direct operations, Diageo will:

- Reduce the volume of water used by improving water efficiency by 50% in direct operations.
- Focus on the quality of waste water by returning 100% of waste water from operations to the environment safely.
- Address water scarcity locally by replenishing water stressed areas with the equivalent amount of water used in our final products which are made in water stressed areas.
- Conduct water risk assessments and reduce risks as a core element of our long term business strategy.
- Ensure all operations, including recent and future acquisitions, comply with internal standards governing water and waste water stewardship.
- Stimulate collaboration with industry, government, non-government organisations and development agencies to address scarcity in specific water stressed watersheds where we have significant operations.
- Commission third party independent assurance of our water use data to ensure data integrity and support external reporting.

Production targets for 2020

- Reduce water use through a 50% improvement in water usage efficiency.
- Return 100% of waste water from our operations to the environment safely.
- Replenish the amount of water used in our final product in water stressed areas.



COMMUNITY

We will work to significantly contribute to the reduction of water poverty in the areas where we operate with a comprehensive community investment programme.

Building on a long tradition of investing in local communities, through Diageo's Water of Life programme and involving employees, we will continue to invest in community water projects. These provide access to safe water and sanitation for local communities principally in countries where we operate and from where we source agricultural raw materials, as well as for all employees in all premises under Diageo's control. Our approach is to ensure the projects we support are impactful and sustainable, and are levers to improved health, education, skills development and income security. We work with development organisations to ensure the long term sustainability of our programmes and we will evaluate and report on the impact they have within communities.

This is underpinned by our support for the basic elements of the WHO/UN joint declaration on the human right to water and sanitation, and the development of community collaboration around water, sanitation and hygiene (WASH).

Diageo's community investment programme for water includes:

- Providing access to safe drinking water and sanitation for urban and rural communities in key water stressed areas where we operate.
- Combining safe water provision with sanitation and hygiene training to maximize the health benefit of our interventions.
- Ensuring community ownership of the projects we support to broaden impact and encourage sustainability.
- Incorporating cost recovery and capacity building elements into the projects we support to help sustain the long term operation of systems.
- Exploring innovative models to encourage broader socio-economic development and social inclusion.
- Measuring and reporting progress and providing sector case study evidence on the tangible impacts of our programmes.
- Developing Water of Life community projects near our sites located in water stressed areas, and in agricultural supply chain communities which are water stressed.
- Promoting safe water, sanitation and hygiene at the workplace through the World Business Council for Sustainable Development WASH at the workplace pledge.



Community targets for 2020

- Enable communities through the provision of safe water and sanitation by developing Water of Life projects in the water stressed watersheds where our production sites are located.
- Seek opportunities to invest in Water of Life projects in local agricultural communities in water stressed areas that grow crops which are part of Diageo's supply chain.
- Ensure appropriate access to safe water, sanitation and hygiene for all employees in all premises under Diageo's control.



ADVOCACY

We will work with others to accelerate progress on the global water and sanitation crisis.

Diageo supports the 2015 Millennium Development Goals and the UN's emerging Sustainable Development Goals. We are a signatory to the CEO Water Mandate, a UN supported public-private initiative designed to assist companies in the development, implementation and disclosure of water sustainability policies and practices. We recognise that water extraction is becoming unsustainable. There is an urgent challenge to address this by bringing freshwater withdrawals in key watersheds back in line with sustainable supply and by increasing access to supply through improved ecological and watershed structure and hydrological function. We are committed to working collaboratively with governments, development organisations, civil society and other private sector companies to address this challenge and to promote co-ordination and alignment of policy, priorities and goals.

Through our advocacy platform, Diageo will:

- Mobilise positive action at a local level to address the water crisis through targeted campaigns with our employees, customers and supply chain, using World Water Day and other key dates as a focus for activity.
- Actively support public policy and encourage capacity building as a means to improve water governance and management of watersheds by regulators, particularly where we operate in water stressed markets.
- Share Diageo best practices on water with a wide range of stakeholders to inform public policy, share corporate experience and influence future programmes, including the development of global corporate water stewardship standards.
- Work collaboratively at an international level with multiple stakeholders and initiatives to address the global water crisis, such as the UN's Global Compact CEO Water Mandate, the Beverage Industry Environmental Roundtable, and the UN's Sustainable Development Goals.



Advocacy targets for 2020

- Increase our positive contribution, locally and globally, to collaborative efforts to address the water crisis.
- Build water advocacy into public policy plans for key markets.
- Mobilise positive action at a local level through targeted water campaigns with our employees, customers and supply chain.



OUR LONG-TERM COMMITMENT

Diageo's Water Blueprint is ambitious – recognising the critical importance of this resource to our business. Water is central to all societies across the world and a key component of the planet's ecosystem.

As a drinks company, Diageo has a particular responsibility to promote water stewardship across our operations and our value chain. Water is a global issue, but with significant local focus and impact. Accordingly our Water Blueprint builds on past activity, will be deployed across our worldwide operations, and prioritises work in water stressed areas. As we continue to grow in emerging markets, often where sustainable water management is a critical need, we will accelerate our commitment to addressing the challenge, incorporating the complex interdependencies which demand collective action and collaborative working. It is only with this ambition and commitment that, working together for future generations, we can have a meaningful positive impact on the global water crisis.

In each of our breweries, distilleries and wineries we will continue to ensure we use water efficiently and discharge it safely – and for those located in water stressed areas, we will drive year-on-year improvements seeking to match the most water efficient operations in the world, not just for now but for the long term. This applies equally to our existing sites and those we acquire and build. Our long term commitment stretches beyond our own production sites as we work to explore every means to reduce the impact of our supply chain on the sustainable management of water. Similarly our efforts to support governments and international organisations to deliver the regulatory, policy and infrastructural improvements that are needed will require partnerships and engagement over the long term.

We are proud custodians of global brands, many of which have been around for centuries. Equally, we must be responsible custodians of water to ensure the long term future of these brands, the environment and the communities in which we operate.



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MEASURING OUR PERFORMANCE

Diageo is fully committed to measuring and publicly reporting water-related performance and water risks in our own operations and in our supply chain.

We are also committed to providing independent assurance on key metrics. Separately, we will increase our efforts to measure the impact of our community investment programmes, especially in relation to communities in our value chain.

Diageo's Executive Committee, chaired by our Chief Executive, is accountable for the Diageo Water Blueprint.

The Committee is accountable for the overall strategy and allocates responsibility for implementation of the four platforms to different parts of the business, in particular to the Environment Executive Working Group which is chaired by the President of Global Supply and Procurement (also a member of the Executive Committee). Day-to-day accountability for managing key water-related risks to the business sits with the general managers for each market and the President of Global Supply and Procurement.

We include a detailed update on our water strategy as an integral part of Diageo's annual reporting, including performance against water targets and key drivers and case studies. Each year Diageo also submits a report to CDP's water programme which aims to drive better measurement and transparency of water issues, and contribute meaningful reporting on corporate water practice.

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