



DIAGEO

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


blueprint



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EXECUTIVE SUMMARY

Water stress is on the rise in many parts of the world. Already today, one person in five has no access to safe drinking water and 2.3 billion people lack access to basic sanitation services.¹ At Diageo, we recognise the water crisis affecting communities, cities, and companies around the world and are working to be part of the solution, actively contributing to ultimately achieve shared value for Diageo and our stakeholders.

Water stress is complex and varied by location. Everywhere, however, water is a shared resource with interdependencies between often competing users. In light of this situation, sound business management in today's world requires both data-driven water risk assessment as well as investment in long term water resilience plans.

Diageo is committed to rising to the challenge, fully analysing and understanding our impacts on water, and adopting an integrated strategy to address them.

The Diageo Water Blueprint lays out our path to addressing the global water challenge along our entire value chain – in our sourcing, within our own operations, in the communities where we operate, and through local and global advocacy.

To drive performance in our priority impact areas and deliver our strategy, in 2014 we made ambitious commitments and set targets (using a 2007 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 that 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 that demand collective action and collaborative initiatives.

We believe that 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

Sourcing:

- 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.

¹ For additional information please see the [World Health Organization's Drinking-Water Fact Sheet](http://www.who.int/dietphysicalactivity/factsheet_drinking_water), Reviewed March 2018 and <https://washdata.org/>

CHIEF EXECUTIVE'S INTRODUCTION



Water is an essential resource and a thoughtful approach to its management is central to ensuring that the communities and environment where we live and work can thrive.

Our aim is to protect scarce natural resources and enable a sustainable future for everybody. Approximately one-third of our volume is produced in water stressed regions and so, for many years we have invested in our own operations and technology to carefully manage our water use, as well as in supporting our communities.

I am very proud of Diageo's strong track record on this critical issue. Our Diageo Water Blueprint includes stretching commitments and targets, and focuses on priority areas where we have the most impact and influence. We have improved managing water in our own operations and our Water of Life programme brings clean, safe water and sanitation to millions of people.

There is more work to be done, however, to further understand the role business can play in sustainable water management, particularly in the face of increasing water scarcity through climate change.

We know we cannot address these complex issues on our own and as we work to meet the world's collective Sustainable Development Goals, we will continue to share our experience and work with suppliers, governments, and strategic partners to implement leading approaches.

Effective water stewardship is essential for the environment, for the economy, for communities and most importantly for future generations. Managing water responsibly is key to achieving our performance ambition and we are absolutely committed to finding better ways of managing water sustainably in each part of our value chain, wherever we operate.

Ivan Menezes

Chief Executive

WATER IN CONTEXT

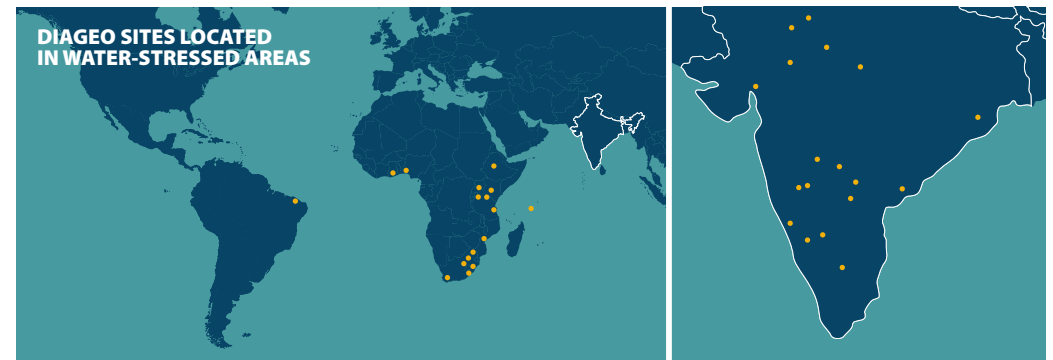
As a beverage company, water is an essential ingredient in all Diageo's brands – over 90% of beer and 60% of spirits is water. We also use water to clean, cool, lubricate, convey, heat, pasteurise, germinate and steep. It is essential for growing our raw materials, and for the manufacture of our packaging, and its efficient management is of the utmost importance for our local communities.

We recognise that the world's water stress is significant – currently three in 10 people worldwide lack access to safe, readily available water at home, and six in 10, or 4.5 billion, lack safely managed sanitation.²

We also see that the demand for water is growing at twice the rate of population increase.³ This sharply rising water demand is being driven by the growth in agricultural production, urbanisation, demand for energy, the rising middle class in emerging markets, and the global economy. At the same time, there is wide recognition that the impacts

of climate change are increasingly affecting changes in the water cycle, with significant consequences in many of Diageo operating geographies. Climate change related droughts and other natural disasters present a risk to our operations, supply chains, and surrounding communities. Investors are aware of these risks and are therefore demanding improved disclosures.³

In light of this situation, Diageo is committed to acting as a leading water steward, following international best practices guidelines for water management and sustainable development, and supporting the United Nations Sustainable Development Goal (SDG) 6 – to ensure availability and sustainable management of water and sanitation for all. Diageo's global reach, spanning 180 markets with offices in 80 countries and more than 150 manufacturing facilities in over 30 countries, enables us to leverage our scale to address water issues in our production, communities and supply chain. Diageo communicates our progress in addressing these risks in our annual report and broader communications.



Our Sourcing and Production

We currently have 41 operational 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 but also includes environmental, social, and economic needs of the surrounding community. Recently we have completed a water risk assessment of third parties manufacturing our products of which over 20 sites in 18 countries are located in water stressed areas.

We are identifying areas of water stress and where climate change is impacting water availability and weather patterns and working to improve water efficiency in our processes in those locations. More recently we have also focused on understanding how we can better evaluate and address water issues at a watershed level across our supply chain. Diageo is working with the CEO Water Mandate, the Beverage Industry Environment Roundtable, the Alliance for Water Stewardship

² World Health Organization [News Release](#), July 2017

³ The [Task Force on Climate related Financial Disclosures \(TCFD\) Final Recommendations](#)

Water in Context

and others to develop a context-based approach that is informed by local priorities for local catchments.

This context-based approach emphasizes the need to generate and share more and better data on water, particularly at the basin level. A more scientific-data driven approach to basin management will be key to collectively ensuring a sustainable supply of freshwater.

In developing our water strategy, Diageo has undertaken a detailed, data-driven assessment of our impact on water throughout our value chain, which included assessing the water embedded in our products, through to water used to grow the raw materials that we use ([Diageo Environmental Footprints](#)). This assessment confirmed that the most significant impacts on water are in the growing of the agricultural crops that are used in our products, which are over 90 percent rain fed, as well as in the use of water in our own operations.

Based on this work, we identified and prioritised a set of activities that would have maximum positive water impact while supporting the growth of our business.

Our communities

People around the world lack access to water, sanitation and hygiene. This has clear implications for waterborne disease, but in addition this lack of reliable access to clean water results in a situation where women and children spend a significant amount of time in search of clean drinking water, undermining economic empowerment, participation in community governance, and access to education. SDG 6 calls on all of us to ensure the availability and sustainable management of water and sanitation for all. Our Water of Life programme, which is predominantly focused on Africa and increasingly in India, is providing access to safe drinking water for people in need. This programme has brought clean, safe water and sanitation to over 10 million people through 250 projects in 18 countries over the last 10 years supporting a range of interventions including boreholes, hand-dug wells, rainwater harvesting and domestic filtration devices. Many of these projects are in partnership with development organisations and, in some cases, other private sector companies, collaborating 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

The SDGs and the Paris Climate Agreement present an ambitious framework for action related to water. Diageo partners to expand positive impacts related to water stewardship, such as supporting the UN Global Compact's CEO Water Mandate, participating in the CDP Water Programme and collaborating through (among others) the Beverage Industry Environmental Roundtable (BIER) and the Alliance of Water Stewardship (AWS). Diageo also partners with WaterAid and others to advocate for universal access to safe water, sanitation and hygiene (WASH) at the local, national and global level. All these international advocacy efforts are integral to Diageo's water strategy.

Our commitment

We recognise that we have additional responsibilities with a significant proportion of our business in emerging markets, where water stress 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, WASH, and water in agricultural supply chains – all of which have driven a steady commitment to water stewardship. Given the risks that the company faces on water, it is sound business management to set ambitious goals.



WATER BLUEPRINT IN ACTION

Diageo is committed to deepening and expanding our water stewardship work throughout our business – in our sourcing, our production, the communities where we operate, as well as through advocacy.

Our Water Blueprint helps us create a more efficient business and support our ambition to be one of the most trusted and respected consumer products companies in the world. We remain focused on achieving annual progress towards our 2020 targets.

Throughout this journey we are driving continuous improvement. We review our plan and targets on a regular basis and refresh them as needed. In practice, this means adopting a scientific, context-based approach to our water stewardship and ensuring we regularly revisit our understanding of sustainable water use from the perspective of our stakeholders. This strategy update reflects our commitments to continually assess our impact and to ensure our strategy reflects the evolving needs of our value chain.

Our Integrated Strategy

In working to meet our 2020 targets, as presented in our Water Blueprint, Diageo will:

Address water issues in our sourcing, including:

- Facilitate improved water stewardship and catchment management in key agricultural communities supplying our operations.
- Work with suppliers and third-party manufacturers to improve their water efficiency and quality impact by equipping them with tools to protect water resources in the most water-stressed locations.

Address water issues in our production, including:

- 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, provision of clean water and sanitation, wetland recovery, and improved farming techniques.

Address water issues in the communities where we work, including:

- Provide access to safe drinking water and sanitation for communities in water stressed areas, leveraging employee engagement.

Advocate for water stewardship, including:

- Collaborate locally and internationally to address the global water crisis and support better water governance.



Targets for 2020

Sourcing:

- 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.

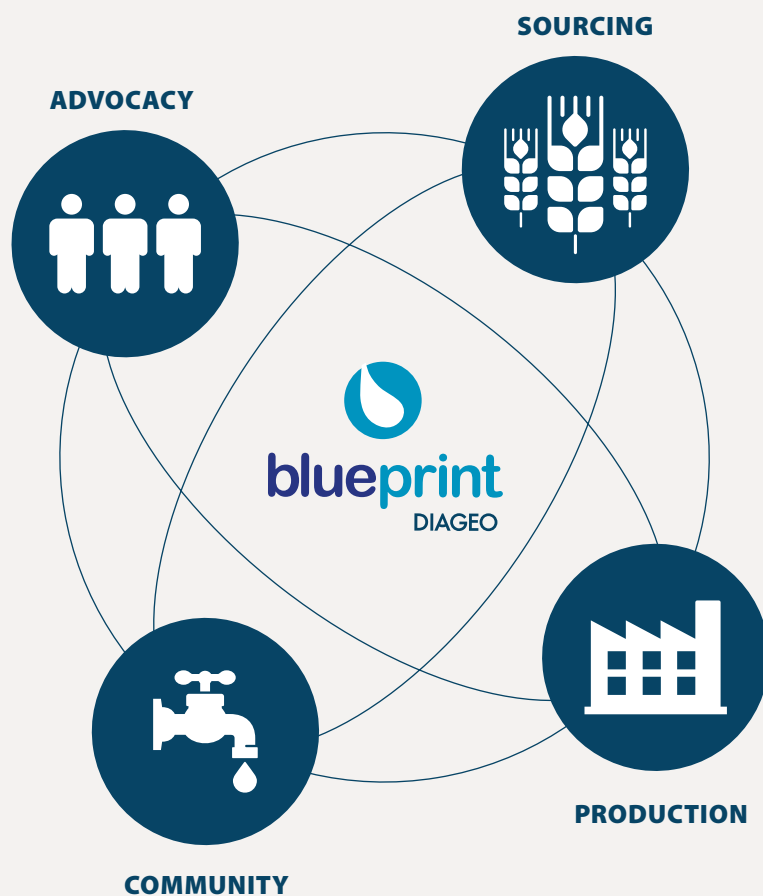
Community:

- 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.

WATER BLUEPRINT: OUR STRATEGIC APPROACH



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

SOURCING



SOURCING

We are working closely with suppliers to reduce water impacts in our supply chain.

Water stewardship is integral to business continuity and maintaining quality in our supply chain. Given the overall impact of water use by suppliers – particularly agricultural operations and our third-party operators – supply chain water management is an increasing priority for Diageo and our stakeholders. Water stewardship is also an important component of our broader sustainable agriculture strategy and our focus on skills and female empowerment in the supply chain. We recognise the challenges of farm level water stewardship and are increasingly working with smallholder farmers to help them manage their water risk (as part of broader farmer support programme). In addition, we are working to promote sustainable water management through our Sustainable Agricultural Guidelines and via engagement with the Sustainable Agriculture Initiative (SAI) and their Farm Sustainability Assessment (FSA) tool.

Our approach is to leverage our influence with key suppliers to encourage reduced use and better management, and to focus on agricultural raw materials.

Specifically, our work with supply chain partners includes:

- Working with third party operators on how to measure, manage and improve water stewardship, with a focus on operators located in water stressed areas.
- Understanding, planning, and building greater resilience for the impact of climate change on water resources for key production sites and across our raw material supply chains.
- Working with key suppliers with water risk to report their water use, risks, and management and to drive improved performance and reduce impacts.
- Requiring that sustainable water stewardship practices are employed where we have operational control of agricultural land.
- Reducing environmental impact and improving livelihoods in the communities where we source, using our agronomic advisory services and our Sustainable Agriculture Guidelines to encourage sustainable agriculture practices.
- Promoting increased sourcing of local agricultural raw materials well adapted to their local conditions (climate, soil, water availability), such as sorghum and cassava which are more drought tolerant.



Sourcing targets for 2020

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



PRODUCTION

We will reduce the water impacts of our production facilities.

Diageo is committed to best practice water stewardship in our direct operations, through improvements in 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. This stewardship approach encourages our teams to address water holistically, in the community and catchment level, beyond our own direct operations.

Specifically, for our direct operations, Diageo will:

- Reduce the volume of water used by improving water efficiency by 50%, relative to 2007 levels, in direct operations.
- Focus on the quality of waste water by returning 100% of waste water from operations to the environment safely.
- Address water stress locally by replenishing water stressed areas with the equivalent amount of water used in our final products which are made in water stressed areas through independently verified approaches.
- Conduct water risk assessments for all sites globally and reduce risks as a core element of our long-term business strategy.
- Ensure that all operations comply with internal standards governing water and waste water stewardship.

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



COMMUNITY

We will work to reduce water stress and water poverty in the areas where we operate and source agricultural raw materials through our collaborative and comprehensive community investment programme.

This work, principally delivered through our Water of Life Programme, is underpinned by our support for the human right to water and sanitation, as stated in SDG 6, the WHO/UN joint declaration, as well as collaborative work on water, sanitation and hygiene (WASH).

We work with development organisations to ensure the long-term sustainability of our programmes and evaluate and report on the impact they have within communities. For example, in India, where there has been severe drought, we have combined water stewardship initiatives with programmes designed to improve communities' access to clean water and sanitation, promote gender equality and empower women and girls, and promote better health and well-being.

Diageo's community investment programme is built on principles of shared value and a foundation of well established strategic partnerships with numerous NGOs including WaterAid, Oxfam, AMREF and United Purpose. Our programme includes:

- Promoting the World Business Council for Sustainable Development's "WASH at the workplace pledge" and implementing commitments in our own operations, ensuring appropriate access to safe water, sanitation and hygiene for all employees in all premises under Diageo's control.
- Providing access to safe drinking water and sanitation for urban and rural communities in key water stressed areas where we operate by developing Water of Life community projects near our sites located in water stressed areas, and in water-stressed agricultural supply chain communities. This programme enables better health, reduces poverty, promotes gender equality and empower women and girls by reducing the time used sourcing

water and enhancing their participation in income-generating activities and community governance.

- Ensuring broad, lasting impact by fostering community ownership of the projects we support, incorporating cost recovery and capacity building elements to help sustain the long-term operation of systems, and exploring innovative models to encourage broader socio-economic development and social inclusion.
- Making certain that natural ecosystems can sustain the flows and functions required by the community.
- Measuring and reporting progress and providing sector case study evidence on the tangible impacts of our programmes using Diageo Social Impact Framework.

Community targets for 2020

- Develop Water of Life community projects in water stressed watersheds where our production sites are located and where we source agricultural raw materials.
- Ensure appropriate access to safe water, sanitation and hygiene for all employees in all premises under Diageo's control.



ADVOCACY



ADVOCACY

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

Diageo supports the United Nations (UN) assertion that access to water is a human right. We also support the SGDs and are focused on access to water, sanitation and hygiene in line with SDG 6. 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 are members of the Alliance for Water Stewardship and support their mission to promote responsible use of freshwater that is socially and economically beneficial and environmentally sustainable. Lastly, we have a strategic partnership with WaterAid UK supporting global policies, practices, and advocacy to promote access to clean water, decent toilets, and good hygiene.

We recognise that water extraction is becoming unsustainable and that 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. We recognise that Diageo has a role to play in helping governments and other public institutions improve their water governance. Ahead of COP21, Diageo was one of 32 companies that launched the Business Alliance for Water and Climate Change that aims to ensure the wider uptake of action by the business community to support the sustainable management of water resources in the face of climate change.

Through our advocacy platform, Diageo will:

- 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 countries.
- Share Diageo experience with a wide range of stakeholders to inform public policy 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 advocate for solutions to the global water crisis, such as through the UN's Global Compact CEO Water Mandate.
- 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.

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.



The CEO Water Mandate



ALLIANCE FOR
WATER STEWARDSHIP



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 and continuously improving our understanding and management of our total impact on water. To that end, we commission third party independent assurance of our water use data to ensure data integrity and support our external reporting. We are also committed to continuously improving efforts to measure the impact of our community investment programmes. Diageo's social impact framework provides a mechanism to better understand our effect on the wider community. In addition, Diageo uses the Alliance for Water Stewardship's standard to drive improved water stewardship, defined as the use of water that is socially equitable, environmentally sustainable and economically beneficial, achieved through a stakeholder-inclusive process that involves site and catchment-based actions.

Strong governance structures and clear lines of accountability ensure the commitments in our Diageo Water Blueprint are met. Diageo's Executive Committee, chaired by our Chief Executive, 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. Diageo gained

recognition as a global leader in response to climate change and water stress, as we maintained our position on the CDP A List for climate and water.

We welcome recent trends in the disclosure of climate change and water risk, in particular the recommendations of the Task Force on Climate-related Financial Disclosure, which aims to improve how companies report on climate change risk.



OUR LONG-TERM COMMITMENT

Diageo's Water Blueprint is ambitious – recognising the critical importance of this resource to our business. Water is central to human life and a key component of the planet's ecosystems.

As a beverage company, Diageo has a clear 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, will be deployed across our worldwide operations, and prioritises work in water stressed areas.

In each of our breweries and distilleries we will continue to ensure that 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 commitment applies equally to our existing sites and those we acquire and build.

As we continue to grow our business, particularly in emerging markets, where sustainable water management is often a critical need, we will accelerate our commitment to addressing the challenge, incorporating the complex interdependencies which demand collective action and collaborative working.

Our 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. 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.

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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Crown Royal



BUCHANAN'S



SMIRNOFF



CÎROC

Captain Morgan



Tangieray

