

DIAGEO

Celebrating life, today
and tomorrow

Sustainability &
Responsibility Report 2012



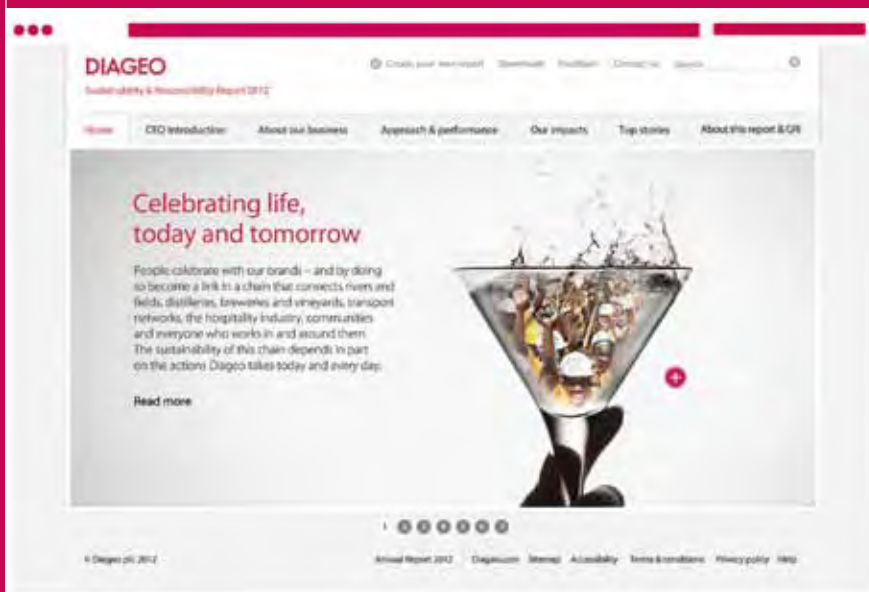
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www.diageoreports.com



Diageo plc is incorporated as a public limited company in England and Wales. Diageo was incorporated as Arthur Guinness Son & Company Limited on 21 October 1886. The group was formed by the merger of Grand Metropolitan Public Limited Company (GrandMet) and Guinness PLC (the Guinness Group) in December 1997. Diageo plc's principal executive office is located at Lakeside Drive, Park Royal, London NW10 7HQ and its telephone number is +44 (0) 20 8978 6000.

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Chief executive's introduction



Diageo is a strong business, growing stronger. In what remain most challenging economic conditions, I am proud that we have delivered excellent growth. We have built a business which is increasingly recognised for the strength of its brands, its growing focus on high-growth markets and its agility in managing resources. As detailed throughout this report we are also known for our strong commitment to sustainability and responsibility.

That commitment is important for many reasons. It is closely aligned to our company values and it creates long term value for the business. It helps build our reputation with stakeholders and protects our licence to operate. It delivers business efficiencies and security of supply. It helps us engage suppliers, customers, consumers and employees. Very significantly, it drives competitive advantage with key stakeholders in the emerging markets which are increasingly important for our business.

Our purpose is 'celebrating life, every day, everywhere'. We are proud that our brands are a part of celebrations around the world, but our purpose goes broader. It is underpinned by respect for all those our business touches.

Much of my time is spent in our businesses in market. I have the chance to see first-hand the beneficial impact our work has had on our stakeholders around the world. For example, I have talked to small-scale farmers in Africa who are part of the network

of tens of thousands that supply our business. I have seen first-hand how our partnerships – which combine commercial contracts and financial support and training – have improved livelihoods and secured the resources we need for our business to grow.

In Nottingham, England I saw the success of a programme that we support to create a responsible night-time economy. Today, the number of programmes that we support to tackle alcohol misuse totals more than 300 in 49 countries.

I've visited many of our operations where we drive our environmental targets – which are among the most challenging in the consumer goods sector. This year we recorded progress on all our operational targets. In particular, our work to reduce greenhouse gas emissions by nearly 10% while increasing production year on year is a significant achievement.

Other highlights include our Water of Life programme in Africa, where we aim to bring water to eight million people by 2015; our Learning for Life programme in Latin America,

“ Paul S Walsh, Chief executive

“Driving strong performance in sustainability and responsibility is in the long term interests of our company. It helps ensure that we can both deliver returns to shareholders and benefit the communities whose lives we touch. It is my firm belief that the most genuinely strategic and forward-looking businesses treat sustainability as a core component of business delivery.”

where we have trained more than 63,000 people to enter the job market; and the Diageo Bar Academy in Asia Pacific, where we have trained almost 20,000 bartenders how to serve alcohol responsibly.

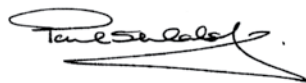
Of course, we have also had some disappointments. For example, while we have made progress in promoting a Zero Harm culture, I am saddened to report that one of our employees died following a road traffic accident in Nigeria. One death is one too many. Our sympathies go to his family and our efforts to stop any recurrence are redoubled. We will place even more emphasis on preventing accidents in the workplace: our people’s safety is our number one priority.

As our business grows, making a positive contribution to local communities demands a clear understanding of the differing needs of each of those communities.

This year we completed the reorganisation of our business, devolving operational decision-making and responsibility to 21 business units. We will now sharpen

our focus on a local approach to sustainability and responsibility. Our global strategy remains the same – along with our commitments to important international frameworks such as the UN Global Compact and CEO Water Mandate. We are increasingly geared to ensure greater responsiveness and flexibility, prioritising those issues that are most important to our local businesses and their diverse stakeholders.

I am proud of what we have accomplished to build a responsible and sustainable company, though I recognise that there are many opportunities and challenges ahead of us. We will continue to drive these efforts and look for solutions that benefit both Diageo and the many communities in which we work and live around the world.



Paul S Walsh,
Chief executive

About our business

In this section:

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Our brand range includes 29 of the world's top 100 premium spirits brands, and eight of the top 20

117 

We have 51 distilleries, 19 breweries, 11 wineries, 14 packaging and blending operations, eight warehouses and 14 other sites

180 

We trade in over 180 markets



25,000 

We employ over 25,000 people around the world

30,000 

We source materials from approximately 30,000 direct suppliers



This year, leading UK business magazine, Management Today listed Diageo as the second most admired company in its annual ranking

Pictured here, an employee inspects Buchanan's Special Reserve at our Shieldhall packaging plant in Glasgow, Scotland. Shieldhall is the world's largest Scotch whisky packaging plant.

Diageo is the world's leading premium drinks business. Our great range of brands – spirits, beer and wine – and our geographic breadth allow people around the world to celebrate with our products on every occasion. This is why 'celebrating life every day, everywhere' is at the core of what we do.

We are proud to own seven of the world's top 20 premium spirits brands, including Smirnoff, the number one brand by volume, and Johnnie Walker, the number one brand by value. In addition we manage Jose Cuervo which is also a top twenty brand. In beer, Diageo owns Guinness, the number one stout by volume in the world, as well as a range of leading lager brands in Africa. We also sell a number of leading wine brands in North America and Great Britain.

We sell our brands in more than 180 markets, and at a wide range of price points. In the super-premium sector, we have our reserve brands, including Johnnie Walker Blue Label, Ciroc vodka and Tanqueray gin. We also have more affordable brands, such as VAT 69 and Rowson's Reserve in India, White Horse in Russia and Senator Keg in Kenya.

As a producer, distributor and marketer of great brands, Diageo has an effect on many different people. Beyond the consumer experience, we affect the lives of our employees, customers, suppliers and those living in the wider communities in which we operate, and we want our contribution to be a positive one. An important part of that is working to understand the interests and concerns of all our stakeholders. This approach is integral to our development as a sustainable and responsible business, and will help us ensure that our purpose of celebrating life is something we do not only today, but also tomorrow.

Beyond the consumer experience, we affect the lives of our employees, customers, suppliers and those living in the wider communities in which we operate, and we want our contribution to be a positive one.

Diageo at a glance

We market and distribute spirits, beer and wine in more than 180 markets, and manufacture and package hundreds of products at 117 sites. Here is a snapshot of our operations and financial performance by region.

Group performance

As the world's leading premium drinks business, Diageo is balanced through a strong presence in the world's most profitable beverage alcohol market, the United States; an integrated Western European business; and a large and increasing presence in the faster growing markets of Asia, Africa, Latin America and Caribbean, Russia and Eastern Europe.

A full report of our operational structure and performance can be found in our 2012 Annual Report.

North America

North America is our largest region by net sales and operating profit, and the largest market for premium drinks in the world.

We sell and market our products through four operating units within the United States and Canada: US Spirits & Wines; Diageo-Guinness USA; Chateau & Estate Wines; and Diageo Canada. From the year ended 30 June 2012, North America also includes the North American operations of Global Travel.

Europe

Our European business comprises Western Europe, Russia and Eastern Europe, and Turkey and the European operations of Global Travel. It also includes more than 60% of our total supply sites around the world, as well as our global head office in London.

Financial Performance Snapshot 2012

	2012 performance ¹	Improvement from 2011 (%) ²
Volume (m of equivalent units)	156.5	6
Net sales (£m)	10,762	8
Operating profit (£m) ³	3,198	11

Operational Snapshot 2012⁴

	2012
Full-time employees	25,698
Distilleries	51
Breweries	19
Wineries	11
Packaging and blending sites	14
Warehouses	8
Other sites	14

Financial Performance Snapshot 2012

	2012 performance ⁵	Improvement from 2011 (%) ²
Volume (m of equivalent units)	53.0	1
Net sales (£m)	3,556	6
Operating profit (£m) ³	1,354	6

Operational Snapshot 2012

	2012
Full-time employees ⁶	3,512
Distilleries	4
Breweries	0
Wineries	7
Packaging and blending sites	5
Warehouses	1
Other sites	1

Financial Performance Snapshot 2012

	2012 performance ⁵	Improvement from 2011 (%) ²
Volume (m of equivalent units)	45.2	12
Net sales (£m)	2,949	9
Operating profit (£m) ³	925	16

Operational Snapshot 2012

	2012
Full-time employees ⁶	11,108
Distilleries	44
Breweries	4
Wineries	2
Packaging and blending sites	5
Warehouses	7
Other sites	10

(1) Group figures include £70 million net sales and £186 million operating loss before exceptional items relating to Corporate.

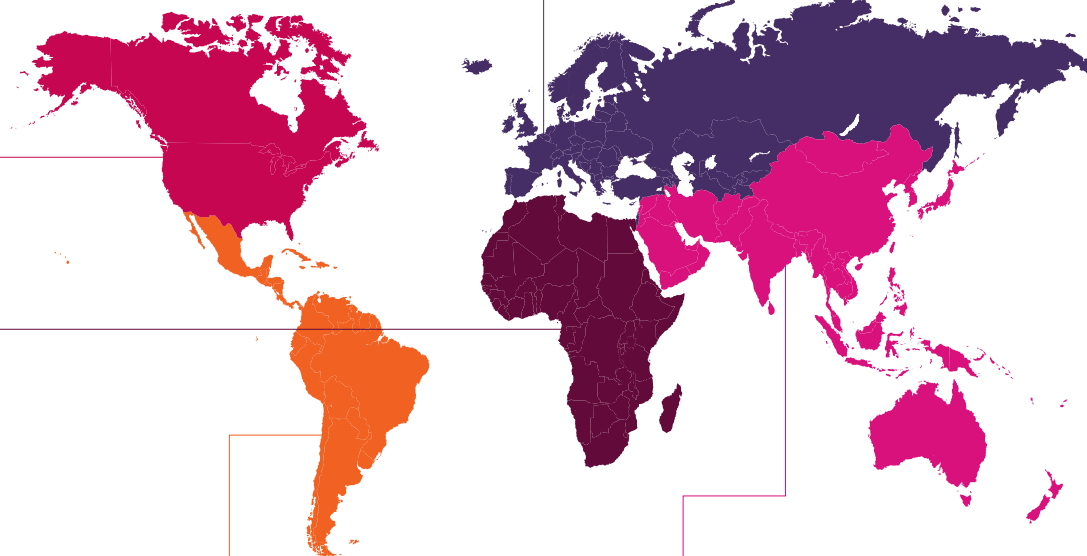
(2) Reported movements.

(3) Operating profit before exceptional items.

(4) Includes 10 sites for which we did not have operational control for the year ended 30 June 2012.

(5) On 25 May 2011 Diageo announced changes to its regional structure. From 1 July 2011 two autonomous regions, Africa and Latin America and Caribbean, replaced the International region. The Global Travel and duty-free operations are now reported within the five geographical regions in which the external sales take place. The Middle East business has become part of Asia Pacific. As a result of these changes, Diageo now reports the

following operating segments externally: North America, Europe, Africa, Latin America and Caribbean, Asia Pacific and Corporate. In addition, for the year ended 30 June 2012, changes were made to the allocation of specific corporate items better reflecting the geographic segments to which they relate. As a consequence of these changes the figures for the operating segments for previous years have been restated.



Africa

Our Africa business comprises Nigeria, East Africa (Kenya, Uganda, Tanzania, Rwanda, Burundi and South Sudan), Africa Regional Markets (Ghana, Ethiopia, Cameroon and Indian Ocean and southern African countries), South Africa and the African operations of Global Travel. It has some of the longest established and largest markets for Guinness, which we brew in a number of countries, either through subsidiaries or through third parties under licence.

Financial Performance Snapshot 2012

	2012 performance ⁵	Improvement from 2011 (%) ²
Volume (m of equivalent units)	24.9	8
Net sales (£m)	1,447	7
Operating profit (£m) ³	380	14

Operational Snapshot 2012

Full-time employees ⁶	6,433
Distilleries	0
Breweries	14
Wineries	0
Packaging and blending sites	3
Warehouses	0
Other sites	3

Latin America and Caribbean (LAC)

Our Latin America and Caribbean business comprises Paraguay, Uruguay and Brazil (PUB), West LAC, Andean, Mexico and the LAC operations of Global Travel.

In Latin America and Caribbean, we sell our brands through a network of Diageo companies and third-party distributors. Diageo also owns a controlling interest in Desnoes & Geddes Limited, the Jamaican brewer of Red Stripe lager.

Financial Performance Snapshot 2012

	2012 performance ⁵	Improvement from 2011 (%) ²
Volume (m of equivalent units)	17.2	10
Net sales (£m)	1,239	17
Operating profit (£m) ³	383	20

Operational Snapshot 2012

Full-time employees ⁶	2,245
Distilleries	1
Breweries	1
Wineries	2
Packaging and blending sites	0
Warehouses	0
Other sites	0

Asia Pacific

Asia Pacific comprises South East Asia (Vietnam, Thailand, Philippines, Indonesia, Malaysia, Singapore), Australia, North Asia (Korea, Japan), Greater China (China, Taiwan, Hong Kong, Macau), India and Global Travel and Middle East, a business unit including duty-free sales along with middle eastern markets. In a number of markets such as China and Thailand, we distribute most brands through an agreement with Moët Hennessy.

Financial Performance Snapshot 2012

	2012 performance ⁵	Improvement from 2011 (%) ²
Volume (m of equivalent units)	16.2	2
Net sales (£m)	1,501	9
Operating profit (£m) ³	342	14

Operational Snapshot 2012

Full-time employees ⁶	2,400
Distilleries	2
Breweries	0
Wineries	0
Packaging and blending sites	1
Warehouses	0
Other sites	0

(6) Segmental split of employees in this report reflects geographical locations, whereas in the 2012 Annual Report employees are disclosed within the segment in which the employee provides the majority of his or her services.

Strategic focus by region

We aim to create long term value for shareholders by driving sales and profit growth in a responsible and sustainable way. While our culture, strategy and commitment to sustainability and responsibility apply to our entire business, our economic, social and environmental impacts around the world vary by market.



North America

North America is our largest region by net sales and operating profit, and the largest market for premium drinks in the world. This business focuses on four things: using its scale to reduce costs; continuing to grow the on-trade (restaurants, hotels and bars); delivering industry-leading brand innovation; and broadening its reach to the multicultural consumer.

Operating in the most profitable alcohol market, Diageo North America continues to promote responsible drinking along with the industry – including addressing underage consumption and drink driving through consumer-facing brand campaigns and customer partnerships. Through the carbon reduction initiatives of our environmental programme, we have reduced costs in the region. Overall Diageo North America has a strong culture of compliance and ethics, health and wellness and diversity and inclusion. Our employee-focused culture won the company the best place to work accolade from the Human Rights Campaign, and Diageo was listed as one of *Working Mother* magazine's top 100 companies this year. Diageo Canada was also awarded the prestigious 'Best Places to Work' designation by *Fortune* magazine for the fourth year in a row.



Europe

In Western Europe, our country directors' focus is on sales delivery, while we have made considerable efficiencies by consolidating back office and marketing functions regionally. We have invested resources into the remaining emerging European markets to capture the opportunity presented by the growing number of middle-class consumers.

With our biggest production footprint, Europe leads our environmental agenda – pushing innovative investments such as the new bio-energy facility at our Cameronbridge distillery, where we make Tanqueray gin and grain whisky for Johnnie Walker, Buchanan's and Windsor. In Europe we focus on promoting responsible drinking particularly through partnerships with large retail customers such as Sainsbury's, Metro and Carrefour. Importantly, we've also played a role in leading the development of responsible standards for the industry – such as the European Responsible Marketing Pact, where we pledged with others to agree, implement and monitor common standards for responsible advertising and marketing to adults. In Russia we have launched some highly innovative responsible drinking programmes aimed at tackling excessive drinking.

Our consistent growth in net sales and profit has been driven by our work to build outstanding brands, strengthen our sales and marketing capability, improve market access, increase efficiencies in our operations, and develop strong relationships with our customers and suppliers. We increasingly focus resources on the fastest growing countries and categories, including making investments and acquisitions around the world, most recently in new growth markets such as Turkey, Vietnam, Ethiopia and Brazil.

In everything we do, we aim to work sustainably and responsibly – whether that means adhering to rigorous marketing standards; managing social, ethical and environmental risks in our supply chain; creating local jobs; or using resources efficiently. In some cases, such as our environmental initiatives, this creates cost savings. In others, such as promoting a positive role for alcohol in society, this helps us build a lasting social licence to operate.

What this means in practice differs by region, depending on their different operating environments. Below are summaries from each region.



Africa

In Africa, we are a large-scale brewer, producing and distributing Guinness, Africa's leading premium beer brand. We also own many strong local lager brands and are the region's leading international premium spirits company. During the year, we acquired Meta Abo Brewery, the second largest beer company in Ethiopia.

Our success in Africa depends on our role as a leading private sector company to stimulate economic growth and contribute to sustainable development. With 20 operational sites – including breweries, glass manufacturing, blending, malting and cider plants – we aim to create wealth directly through employment, and indirectly through partnerships in our supply chain, such as working with and supporting local farmers.

Twelve of our sites in Africa are considered 'water stressed', so we focus particularly on water – whether that is investing in community programmes such as our pan-Africa Water of Life programme, or setting ambitious environmental targets, against which we made great strides this year. We also won the Good Corporate Governance award at the Africa Business Awards 2012 for our responsible business ethics and practices.



Latin America and Caribbean

In Latin America and Caribbean, we sell our brands through a network of Diageo companies and third-party distributors. Our primary focus is to continue to lead the scotch market while increasing our category breadth to include vodka and liqueurs. Diageo also owns a controlling interest in Desnoes & Geddes Limited, the Jamaican brewer of Red Stripe lager. This year we expanded our production footprint in the region with our acquisition of the Ypioca distillery business in Brazil.

Our sustainability and responsibility strategy in this region focuses on initiatives that harness the impact of our business partners. For example, a partnership with Carrefour in Brazil that encourages consumers to recycle bottles improves our environmental footprint while helping create jobs through the development of recycling co-operatives. Other customer programmes, for example those with Walmart in Mexico and Puerto Rico, fight issues such as underage drinking. Our brands are also connecting with consumers in a sustainable and responsible way, for example Buchanan's has engaged consumers in volunteering and charitable efforts. Finally, a region-wide programme, Learning for Life, provides skills and training to equip people better for employment, in particular in our own value chain.



Asia Pacific

In a number of markets in Asia Pacific, such as China and Thailand, we distribute most brands through an agreement with Moët Hennessy. Our strategy is to drive net sales growth by continuing to develop super and ultra premium scotch and to capture the opportunities presented by emerging middle-class consumers.

Here our sustainability and responsibility strategy remains an important focus and we aim to grow social enterprise through our Champions for Change programme which encourages individuals to tackle the region's social and environmental issues. However, where we can, we also use our influence to promote sustainable principles. For example, as part of improving the consumer experience at restaurants, bars and hotels across the region, we trained almost 20,000 bartenders on how to be responsible servers of alcohol. In Australia, which is home to our largest blending and packaging site in the region, we have developed some of our most innovative, award-winning sustainable manufacturing.

Our brands

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



	Johnnie Walker	Crown Royal	J&B	Buchanan's	Windsor	Bushmills	Smirnoff
Category	Scotch whisky	Canadian whisky	Scotch whisky	Scotch whisky	Scotch whisky	Irish whiskey	Vodka
	No.1 Scotch whisky in the world ¹	No.1 Canadian whisky in the world ²	No.5 Scotch whisky in the world ¹	No.2 Premium Scotch whisky in Latin America ¹	No.1 Super Premium whisky in Asia Pacific ¹	Distilled at Ireland's oldest working distillery	No.1 Premium vodka in the world ²
Volume	19m 9 litre cases	5m 9 litre cases	5m 9 litre cases	2m 9 litre cases	1m 9 litre cases	1m 9 litre cases	26m 9 litre cases
Key markets	United States Global Travel Asia & Middle East Brazil China Thailand Mexico Australia	United States Canada France	Spain France South Africa United States Portugal	Venezuela Mexico United States Colombia Brazil	Korea China	United States Ireland Russia France Great Britain	United States Great Britain Canada Brazil South Africa Australia
Sustainability & Responsibility Fact	About 850,000 have given their commitment never to drink and drive via Johnnie Walker's 'Join the Pact'	Crown Royal's 'Heroes Projects' supported first responders – police officers, firefighters, and local volunteers – as well as military heroes in North America	J&B's first global marketing campaign, 'Start A Party', prominently features its responsible drinking ambassador 'Mirrorball Man' to ensure celebrations are enjoyed around the world	The Buchanan's 'Time to Share' programme recruited over 6,500 consumers in Latin America to donate four hours of their time each to volunteer to local causes	Grain whisky blended for Windsor Premier is matured in one of 16 of Diageo's sites in Scotland which send zero waste to landfill	As part of the 'Safe Rides Home' campaign, Bushmills partnered with New York City's Department of Transportation to offer free rides home during spring festivals	Smirnoff's 'Nightlife Exchange' project contributed proceeds from ticket sales to the Watermark fundraising efforts to support communities affected by floods in Thailand

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



Ketel One vodka	Ciroc	Captain Morgan	Baileys	Jose Cuervo	Tanqueray	Guinness
Vodka	Vodka	Rum	Liqueur	Tequila	Gin	Beer
No.2 Super premium vodka in the United States ³	No.2 Ultra premium vodka in the world ¹	No.2 Brand in the rum category in the world ²	No.1 Liqueur in the world ²	No.1 Premium tequila in the world ²	No.1 Imported gin in the United States ⁴	No.1 Stout in the world ⁵
2m 9 litre cases	2m 9 litre cases	10m 9 litre cases	7m 9 litre cases	4m 9 litre cases	2m 9 litre cases	11m 9 litre case equivalent units
United States Canada Brazil Australia Great Britain	United States Brazil	United States Canada Great Britain Germany South Africa	United States Great Britain Germany Canada Italy	United States Canada Spain Greece Great Britain	United States Spain Canada Great Britain Greece	Nigeria Ireland Great Britain United States Cameroon Indonesia
Ketel One is currently launching its campaign 'A Gentleman's Call: In Pursuit of an Idea that Matters' that will award the person with the best idea for making a positive impact on society with \$100,000 (£63,000)	Ciroc funded more than 1,500 safe rides home during the winter holidays in Atlanta, New York, Chicago and Miami	Captain Morgan's 'First Mate Fund' has donated over \$750,000 (£475,000) to good causes across the US including a home-based call centre for veterans recovering from alcohol abuse	Our partnership with our Baileys cream supplier, Glanbia, is helping make the Irish cream industry in Ireland more sustainable	Jose Cuervo's 'Mural Project' will give a winning artist who best displays his/her sense of Mexican heritage \$30,000 (£19,000), half of which will be given to a charity supporting a project in their community	The world's supply of Tanqueray is made in Cameronbridge, where we are commissioning a renewable energy facility which combines a waste-water treatment plant, biomass boiler and steam and electrical generation plant	The Arthur Guinness Fund has invested £6.3 million across 13 countries to support more than 50 social entrepreneurs across the world

1 IWSR; 2 Impact Databank; 3 IRI; 4 Adams Market Research Alcohol Beverage Industry; 5 Plato Logic

Our history

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



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



1930s
Seagram runs first ads promoting responsible drinking



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

1608
 Licence granted to Bushmills area of Country Antrim, Ireland



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

1758
 José Antonio Cuervo produces tequila on local land in Mexico granted to him by the King of Spain

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



1830
 Charles Tanqueray opens a gin distillery in London



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

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

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

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

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

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

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

DIAGEO



1997
Diageo is established as a merger between Guinness UDV and Grand Metropolitan

2002
Diageo signs the UN Global Compact

2011
Diageo launches its Sustainability & Responsibility Strategy

2012
Diageo gained control of Shuijingfang in China (principal brand: Shui Jing Fang Chinese white spirit)

1994
Grand Metropolitan is a founder member of the London Benchmarking Group which aims to improve the measurement, management and reporting of community investment

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

1997
Diageo launches the Diageo Foundation

Diageo signs the Dublin Principles providing ethical guidance to all concerned with alcohol consumption (industry, public health officials, researchers, and others)

2003
Diageo writes its first social/environmental report, leading the industry

2006
Diageo joins the Carbon Disclosure Project (CDP) and makes its first annual submission

2008
Diageo publicly launches challenging environmental targets

Diageo launches DRINKiQ.com

Diageo signs the CEO Water Mandate

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

2010
Diageo commits, together with other international beverage alcohol producers, to Global Actions on Harmful Drinking, a consortium of global and local initiatives dedicated to helping reduce the harmful use of alcohol with an emphasis on low- and middle-income countries

2011
Diageo signs the Cancun Communiqué

Diageo joins the CDP Supply Chain Project

Diageo acquires 100% of the equity share capital of Mey İçki in Turkey (principal brands: Yeni raki, Terkirdâraki, and Istanbul vodka)

2012
Diageo acquires 100% of the equity share capital of Meta Abo Brewery in Ethiopia (principal brand: Meta beer)

Diageo acquires 100% of the equity share capital of Ypióca Agroindustrial Limitada in Brazil (principal brand: Ypióca cachaça)

Our values

At the heart of everything we do are our company values. We stand by them and expect all our people to embrace them by reflecting them in everything they do. This will further our ambitions for our business, our people and our communities.

Our values are:

- We're **passionate about customers and consumers** – our curiosity and customer and consumer insights drive growth. We care for our brands. We're courageous in pursuing their full potential. We're innovative, constantly searching for new ideas that drive growth and spinning them across our business.
- We give ourselves and each other the **freedom to succeed** because this fosters an entrepreneurial spirit. We trust each other, we're open and challenging. We always behave as a team – when we're together and when we're apart.
- We're **proud of what we do** – we act sensitively with the highest standards of integrity and social responsibility. We enjoy and benefit from diversity.
- We will strive to **be the best** – we are restless, always learning, always improving. We constantly set high standards and then try hard to exceed them. We deliver results, win where we compete and celebrate our success.
- We **value each other** – we seek and benefit from diverse people and perspectives. We strive to create mutually fulfilling relationships and partnerships.

To demonstrate how serious we are about our values we carry out an annual employee values survey. We ask every one of our people how they believe our behaviour measures up against our values – as an organisation, as leaders and as teams. The feedback we receive from our Values Survey helps drive Diageo and shape our business.



Approach and performance

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100 

For the second year in a row Diageo was selected as the FTSE4Good Supersector Leader for Food and Beverage with a score of 100

1st

In February 2012 we held our first investor conference on sustainability and responsibility



We launched local Sustainability & Responsibility Strategy workshops in Kenya, China and the United Kingdom this year

100 

This year Diageo was added to Nasdaq's Sustainability Index of 100 sustainability leaders

Pictured here, Learning for Life™ Project Entrepreneur students in Haiti celebrate their role in rebuilding the country. We have trained 63,638 people in Latin America and the Caribbean through the programme since its launch in 2008, with a focus on providing skills in the areas of hospitality and tourism.

Approach and performance

As the leading premium drinks business, our social and environmental impacts are diverse, affecting the livelihoods of many people from the farmers who grow our raw materials all the way through to the consumers of our brands.

Our company's future success depends on our ability today to contribute positively to society and the environment. We call this 'celebrating life, today and tomorrow'.

At each stage of the value chain, we seek to maximise our positive impacts, creating value for our stakeholders while improving our own performance. For us, the two are inextricably linked – our company's future success depends on our ability today to contribute positively to society and the environment. We call this 'celebrating life, today and tomorrow.'

We know this commitment to sustainability and responsibility supports our financial ambitions – whether it's building the trust of our stakeholders, particularly as we grow into new markets; finding cost savings from environmental efficiencies; or engaging our employees and our consumers.

Because our success relies on the stability and wellbeing of the communities in which we operate, we aim to focus on programmes that address local stakeholder and business needs. Understanding that local issues vary, we are increasingly customising our global Sustainability & Responsibility Strategy to reflect the diversity of social and environmental issues in our local markets.

Sustainability & Responsibility Strategy

Putting the principles of sustainability and responsibility into practice means accounting for our most material social and environmental impacts in every aspect of what we do – from sourcing the raw materials we use to make our brands, to running our manufacturing safely and efficiently, to influencing how our brands should be served in a bar or restaurant.

Our strategy covers five key social and environmental impacts across all channels in our value chain. Within each broad impact area, there are many specific programmes prioritised by their ability to address stakeholder needs and business ambitions. For a list of these programmes, please see the section outlining activities across our value chain ([page 20](#)).

‘Shared value’

The success of our strategy relies on our ability to create ‘shared value’, by which we mean bringing benefits both to the stakeholders who are affected by our operations, and to our company. When launching programmes, we consider the extent to which they create this double-sided return.

Localising our strategy

Our global sustainability and responsibility strategy framework highlights those impacts and programmes that are relevant to the majority of our markets.

However, it has been important for us to recognise that there is no one-size-fits-all strategy relevant to all local markets since our business, and the social and environmental context within which we operate, vary around the world. Our impacts as a manufacturer in one area will be different from our impacts as an importer in another. Similarly, the needs of our stakeholders and broader communities vary across our markets. While our markets are guided by our global strategy, it has been important to keep local flexibility in their implementation. Read more about our strategic focus by region on [page 8](#).

This approach is aligned with last year’s restructuring of the business, which shifted more commercial and operational control to local markets. Moreover, the restructuring resulted in a new model of 21 business units, with greater focus on and investment in emerging economies. For example, this has meant acquiring businesses in Ethiopia, Brazil, Turkey and Vietnam where we are now manufacturers of local brands.

Given these changes, we have begun to reassess our local approaches to sustainability and responsibility through a series of strategy workshops, starting in some of our largest markets in each region. These aim to identify our material economic, social and environmental impacts – considering local stakeholders’ interests and needs as well as factors relating to the success of our business. We recognise that as our business continues to grow, we must include any new markets in this approach. Read more about our progress on determining material impacts in the following section.

Determining our material impacts[^]

In deciding where to focus across our markets, we look both at what’s important to our own success, and at what our stakeholders need. By doing so, we can have confidence that our development as a business will be truly sustainable.

Over the years, helped by strong relationships with our stakeholders in our various markets, we have built up a good knowledge of our main sustainability and responsibility impacts and risks. In the past, we based our strategy on that knowledge.

In certain markets, we are testing our knowledge through a more analytical process to evolve our priorities and plans for sustainable development. Core to this is ensuring that all our programmes clearly deliver shared value. Of course, this will vary from market to market – what matters most in water-stressed parts of East Africa, for example, will be different from what matters most in the United Kingdom. Revisiting our local strategies is all the more important as our operating model, and accordingly our social and environmental impacts, change.

Local strategy assessments

To address this, in February 2012 we launched strategy workshops in China, Kenya and the United Kingdom, some of our largest markets within their region. These workshops aimed to determine or confirm what constitutes shared value for Diageo and our local stakeholders by analysing and cross-referencing stakeholders’ interests and concerns with our own.

As far as possible, the workshops included representatives from across Diageo so that every part of the value chain was represented. From each workshop we created a materiality matrix for that market which we aim to validate by engaging directly with stakeholders. The process we have followed thus far has been independently assured as part of the materiality principle of the Global Reporting Initiative.

Our strategic framework: Celebrating life, today and tomorrow

Our purpose



Our value chain



Our impacts



[^] The information contained in the section ‘Determining our material impacts’ has been assured by KPMG to a limited level in accordance to ISAE3000 standard.

Results so far – what is material?

With only three workshops completed to date, it is still very early days. However we can conclude that, as expected, what it means to be a responsible company differs from market to market, according to the unique dynamics in each.

In all workshops, addressing alcohol abuse and promoting responsible drinking was consistently the most important issue for stakeholders as well as to us as a company. Our tax contribution as well as general governance and ethics also commonly ranked highly in all assessments. After these, priorities varied by market. Among the remaining high-ranking issues were: wealth creation, water, carbon, local hiring and local sourcing.

The next steps are two-fold. In the markets themselves, we aim to validate the results with key local stakeholders and then use the results to help plan and resource local programmes. At the global level, the results will roll up to be considered as part of our global strategy and programmes. Since we are still piloting the process, global and local teams are working together on an approach that will deliver the best outcome.

Over the coming year, we will expand the criteria for choosing which markets should go through the next stages of this process. We will consider growth opportunities as well as size, and we will include newly acquired companies.

Our response to last year’s assurance

In addition to creating value for our business and our stakeholders, having a strategy that addresses our material impacts, and reporting against them appropriately, is part of the Global Reporting Initiative (GRI). Having our materiality process externally assured helps give us confidence that we are following best practice.

Last year we commissioned KPMG to assure our reporting, focusing on the following three areas:

- Diageo’s alignment with the AA1000APS (2008) principles in our 2011 Sustainability & Responsibility Report.

- Diageo’s self-declared GRI application level in our 2011 Sustainability & Responsibility Report.
- The reliability of global carbon emissions and water usage data included in both Diageo’s 2011 Annual Report and Sustainability & Responsibility Report.

In their public assurance statement, KPMG outlined a number of recommendations. The table below sets out these recommendations and explains how we have worked to address them.

Response to 2011 assurance recommendations

Topic addressed	Recommendations	How we responded
Stakeholder engagement	In relation to the principle of inclusiveness: the approach to stakeholder engagement and the level of formalisation of activities varies across the different regions and functions. While recognising the need for flexibility in the planning and execution of stakeholder engagement to ensure local needs are met, we recommend that Diageo develops a principles-based global stakeholder engagement framework to ensure a more consistent and robust approach.	Our focus this year has been on engaging global and local teams to introduce our framework for materiality – which includes stakeholder engagement. As part of this, we developed a stakeholder engagement toolkit for markets to use in later stages of our materiality process outlining our expectations and principles of best practice. We piloted elements of this toolkit with local markets, in particular planning.
Materiality process	In relation to the principle of materiality: we recognise that Diageo’s materiality assessment process is relatively new and not yet fully formalised. Diageo would benefit from documenting materiality assessment criteria and establishing regular management reporting mechanisms from local to global levels. Local operations should report on the current and emerging issues identified.	This year we developed a process for local markets to identify material issues. We trained teams in three markets this year on the process, and created draft materiality matrices. In future stages of this process, we will determine appropriate ways for the markets to report current and emerging issues internally.
Sustainability and responsibility management – co-ordination between markets and global	In relation to the principle of responsiveness: we have seen evidence of Diageo responding to stakeholder concerns especially at a local level. As Diageo increases its presence in emerging markets, we recommend that Diageo increases the level of integration of oversight of sustainability issues at the global level in order to share knowledge effectively across the Group.	A key piece of our approach to assessing our materiality impacts this year is to co-ordinate global and local analysis. Our global team responsible for sustainability and responsibility impacts will use the outputs of local materiality workshops and assessments to inform global strategy and programming.

The business case for sustainability and responsibility

We know that our commitment to being a sustainable, responsible company supports our ambitious revenue and margin growth targets. In this way, we can work to have a positive impact on society while sustaining our commercial success.

We have set many targets to quantify our social and environmental impacts, from reducing our carbon emissions to investing in the communities in which we operate. As well as being beneficial to our stakeholders, these programmes contribute directly to Diageo's delivery of consistent revenue and profit growth over the long term.

The business benefits of our programmes come in many forms. A rigorous approach to sustainability and responsibility is part of good risk management – whether securing the supply of raw materials or creating effective regulatory policies. It also supports our competitive advantage – whether delivering business efficiencies or engaging our consumers, customers, suppliers and our own employees. And today it is an important driver of growth, particularly in building a social licence to operate in markets that expect companies to contribute to their own, broader sustainable development.

Saving money

Using fewer resources usually translates into lower costs, and by encouraging efficiency in our use of resources, our environmental strategy is helping to contribute to savings of millions of pounds. Some of our investments start paying dividends very quickly.

For example, at our Cameronbridge distillery in Scotland, we have implemented a systematic programme of energy efficiency projects using a range of technologies. Taken together over the last two years these projects cost £700,000 and will reduce our carbon emissions by 3,000 tonnes (the equivalent of taking around 800 family cars off the road). But the annual savings of £1.4 million represent a payback period of just six months – an attractive return on investment which we can replicate in our other production facilities.

Similarly at our Tusker brewery, a water-stressed site in Kenya, a water recovery project also started paying returns in just six months. It cost £200,000 with savings of £500,000 per annum, while improving water efficiency by 5%. And a pasteuriser replacement at Kumasi Brewery, a water-stressed site in Ghana, cost £3 million with a seven-year payback generating savings of

£400,000 per annum. Other investments have longer payback periods, but we view each of them as investments in our future.

Building loyalty and sales

External research has shown that consumers' interest in sustainability and responsibility is growing fast in some sectors although it is still just beginning with alcoholic beverages. Nevertheless, we run a number of branded campaigns for social change and have found that they are engaging consumers.

As well as marketing campaigns, certain products themselves have created shared value – direct revenue for Diageo along with a beneficial social or environmental impact. One good example is Senator Keg, which was created to compete with illicit and sometimes dangerous brews in Kenya.

Securing our supply

Ensuring we have the natural resources such as water and barley that we need to make our brands and grow our business is a central tenet of risk management. Reducing our dependency on those raw materials – such as conventional fuel – which are supply-constrained or may become so, is important for our future success. Working with our agricultural suppliers to help them improve yields helps create sustainable business for them and a more secure supply chain for us.

Engaging our people

Experience tells us that our sustainability and responsibility programme is of increasing importance for retaining and recruiting the best talent, one of our most important resources and an area of increasing competition in emerging markets. In this year's Values Survey, approximately 85% of employees told us that they believe we are effective in our sustainability and responsibility efforts. The total included answers to questions about responsible drinking, contributions to communities, environmental sustainability, governance and ethics as well as diversity. We know that this belief relates directly to how engaged our employees are with the business.

Building relationships and our reputation as we grow

It is imperative that the stakeholders on whom we rely trust and believe in our ability to operate in a sustainable and responsible way. This is true whether we are talking about governments supporting marketing self-regulation or our customers trusting the practices in their own supply chain, such as those to do with sustainable packaging, carbon emissions or human rights.

In emerging markets, a leading position on sustainability and responsibility issues can be a competitive advantage. Many countries in these markets look to the private sector, particularly to global companies like Diageo,

to demonstrate an ability to contribute positively to sustainable development.

For example, we believe that our strong reputation as a sustainable and responsible company helped us secure our acquisition of the Meta Abo brewery from the Ethiopian Government. The British Ambassador to Ethiopia supported our investment and said: '... Diageo will bring its track record of ethical business, good governance, diversity, transparency and sustainability to the deal – including clean water projects that benefit a million Africans annually.'

Value chain

Living up to our purpose of celebrating life every day, everywhere means considering every aspect of how our brands are made, marketed, sold and disposed, who they affect and how.

For Diageo, the value chain starts with our suppliers and goes through every aspect of our operations and the way we do business to the way our products are sold and consumed, and the disposal of their packaging.

Our suppliers

At the procurement stage, we primarily look at the standards and practices that our principal suppliers are using – such as the agricultural community that produces our main raw materials as well as those producing the other materials and energy we purchase.

Our operations

In operational terms we examine the impacts of every aspect of how our products are made, from innovation and branding through to production in our distilleries, wineries and breweries, and beyond that to bottling, packaging and distribution.

Our customers

Following this stage, our value chain includes how we sell our products to our customers – such as global retailers, convenience stores, bars, restaurants and in some cases, governments – and how they in turn sell our products to shoppers and consumers.

Our consumers

Finally we look at drinking patterns among our consumers themselves and increasingly how they dispose of our products.

The social, economic and environmental impacts that our business and brands have at every stage of this chain vary. Below you can see which areas of our Sustainability & Responsibility Strategy are most relevant to which parts of our value chain.

Impacts across Diageo's value chain

Our impacts	Our suppliers	Diageo plc – our people & operations	Our customers	Our consumers
Alcohol in society				
Responsible marketing and consumer information		●	●	●
Programmes to address alcohol misuse		●	●	●
Stakeholder dialogue and alcohol policy		●	●	
Water and the environment				
Water efficiency	●	●		
Water quality	●	●		
Carbon reduction		●	●	
Waste elimination	●	●	●	●
Sustainable packaging	●	●	●	
Sustainable agriculture	●	●	●	
Other	●	●		
Socio-economic development				
Local wealth creation	●	●	●	●
Community investment	●	●	●	●
Advocacy for positive change	●	●	●	●
People				
Safety		●		
Health and wellbeing		●		
Diversity and inclusion		●		
Developing talent		●		
Reward and recognition		●		
Other		●		
Governance and ethics				
Code of Business Conduct and other policies	●	●	●	●
Partnering with suppliers	●	●		

Key risks

A thorough understanding of risk allows us to make more informed and better decisions and thus deliver better business performance.

Diageo has a robust framework of internal controls and risk management, which we describe in detail in our annual report. Our structured approach to addressing social, environmental and economic impacts helps us manage risk more efficiently, strengthen our reputation and brands, avoid or reduce occurrences that could cause profit loss and build trust with stakeholders. Our ability to manage such impacts well today is crucial to our ability to thrive in the future.

Risk factors by impact area

Our annual report contains the full list of risk factors we consider to be material to the business. Here we list the risks we consider to be particularly relevant in terms of our sustainability and responsibility impacts.

Risk to the company was one of many indicators included in our materiality assessments to determine social and environmental priorities for the company. For more information, see determining our material impacts.

How we manage sustainability and responsibility

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

Governance structure

The corporate citizenship committee is responsible for making decisions or, where appropriate, recommendations to the board or executive committee concerning our Sustainability & Responsibility Strategy policies and issues. This includes performance, measurement and reporting for the following impacts across Diageo's value chain: alcohol in society; water and the environment; socio-economic development; our people; and governance and ethics.

Two executive working groups (one on alcohol in society, chaired by the director of corporate relations, and one on environmental performance, chaired by the president of Global Supply) support the corporate citizenship committee with decisions on specific issues. Additionally, a cross-functional leadership team, chaired by Diageo's global director of corporate social responsibility, advises on the development of strategy for each of our key social and environmental impacts at every stage of the value chain, including supplier management, operations, and relations with customers, consumers and investors.

Beyond this global management, the regions and local markets manage those sustainability and responsibility areas most material for them given their specific operational footprint. This year, we began a project to reassess materiality for key markets in three of our regions.

Diageo risk factors related to sustainability and responsibility

Risk	Risk mitigation
The social acceptability of our products is challenged	Alcohol in society Customers and consumers
We do not adequately address stakeholder concerns about alcohol misuse or responsible marketing	Alcohol in society Customers and consumers
Unwarranted regulatory restrictions damage our licence to operate	Alcohol in society Customers and consumers
Stakeholders' expectations about our contribution to socio-economic development are not met	Socio-economic development
The impacts of climate change on resource scarcity including the availability and quality of water and the price of raw materials drive up costs and affect production	Water and the environment
We face increased regulation of our business	Alcohol in society Water and environment Socio-economic development Our suppliers Governance and ethics
Our ability to attract and retain talent, especially in emerging markets, is compromised	Our people

“ Deirdre Mahlan, Chief financial officer

“Diageo’s investment in environmental sustainability has multiple paybacks: improved risk management around resource scarcity, increased efficiencies and cost savings, while importantly reducing our environmental impact.”

Policies and standards

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

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

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

Engaging stakeholders

Understanding how our business affects our stakeholders is essential for determining what our key impacts are and how we need to manage them.

Our approach

Engagement is a process that ranges from sharing information with stakeholders on key business issues (including but not limited to sustainability and responsibility) to, at its best, working in partnership on projects of mutual interest.

We engage with our stakeholders on two principal levels, local and global. At a local level, employees across many functions engage with our people, local governments, customers, media and community groups on issues of immediate concern to them. At a global level, we engage with our investors, global customers, suppliers and multi-national organisations such as United Nations agencies or NGOs that have a broad remit.

At both levels, engaging with stakeholders has helped to inform our activities around the world. We run surveys with certain stakeholders – such as employees, investors and customers – to seek feedback on our programmes. In some cases we hire third parties to seek feedback since we feel that using external researchers can encourage stakeholders to be more open and honest.

Engaging more widely on sustainability and responsibility issues

This year we have begun to engage more broadly on sustainability and responsibility issues with certain stakeholders, notably with our first investor conference. We also launched an updated reputation survey, which, as we published this report, was being piloted in the United Kingdom, Ireland, Germany and Denmark. We will use the results of these surveys, along with other stakeholder engagement activities, to help us prioritise our sustainability and responsibility programmes. For more information about the process we are undergoing to define what is material to our business and stakeholders see determining our material impacts.

Diageo codes, policies and standards related to sustainability and responsibility

Document type	Title	Sustainability and responsibility programme
Code	Code of Business Conduct	All
Policy	Anti-Corruption	Governance and ethics
Policy	Anti-Discrimination & Human Rights	Our people
Policy	Anti-money laundering	Governance and ethics
Policy	Competition & Anti-trust	Governance and ethics
Policy	Employee Alcohol	Alcohol in society
Policy	Environment	Water and the environment
Policy	Marketing	Alcohol in society Customers and consumers
Policy	Occupational Health & Safety	Our people
Policy	Quality	Customers and consumers
Policy	Tax	Governance and ethics
Standard	Partnering with Suppliers	Our suppliers

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

Our stakeholders

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

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

Membership of codes and charters

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

UN Global Compact and CEO Water Mandate

We signed the UN Global Compact, the world's largest corporate citizenship initiative, in 2002. In 2008 we endorsed the CEO Water Mandate, a UN-sanctioned private/public partnership that aims to address the world's growing water crisis as pressures intensify from climate change, population growth and development.

Cancun Communiqué

Diageo signed the Cancun Communiqué urging governments to make rapid progress on a number of key issues during the 16th UN Climate Change Conference of the Parties (COP16) in Cancun, Mexico in 2010.

Dublin Principles

We are a signatory of the Dublin Principles, which provide guidance for mutually-acceptable means of co-operation, based on ethical principles, for all those concerned with alcohol consumption and its effects, including the beverage alcohol industry, public health officials, researchers, and others. The Principles were adopted by consensus by an international group of experts in 1997.

Diageo's stakeholder engagement programme

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

Performance and key metrics

It's been a year of good progress, both internally against our own key metrics, particularly for our environmental programme, and externally, with leading rankings from FTSE4Good, the Dow Jones Sustainability Indices (DJSI), the Carbon Disclosure Project (CDP) and the Nasdaq Global Sustainability Index.

Awards and rankings

Being benchmarked against our peers and the wider business community is important for understanding how our approach to sustainability measures up to prevailing standards and attitudes. This year, we were delighted to see that the progress we've been making on sustainability and responsibility issues is being recognised externally.

- **FTSE's Supersector Leader for Food and Beverage**
This year, Diageo was selected as the FTSE Supersector Leader for Food and Beverage with a score of 100.
- **Awarded second in Britain's Most Admired Companies list**
This year, leading UK business magazine, Management Today, listed Diageo as the second most admired company in its annual ranking.
- **Joined the Nasdaq Global Sustainability Index**
This year, we were added to this Index which picks out 100 sustainability leaders from the US exchange's 3,500 listed companies.
- **CDP score improved by a third**
Our 'disclosure score' in the CDP, which measures our reporting, increased by 33% to 89 in 2011 from 67 in 2010, and our performance band jumped from 'B' to 'A-' this year. Out of 50 of the largest consumer staples companies in the world, only four scored better than Diageo, and we beat all our direct competitors.
- **Top environmental score by sector in the DJSI**
Diageo was again selected as a member of the World and Europe DJSI, improving by 5% from 76 to 80 – just two points below the best sector score and 29 points above the average. Our environmental performance score improved the most from 80 to 90 – achieving the top score in our sector.
- **BRAVO reporting award**
Diageo Greece received BRAVO award from the Quality Net Foundation, a network of Responsible Companies and Active Citizens, for the best approach to market issues in their local Corporate Citizenship Report as well as the best approach to the implementation of global reporting standards.
- **Business in the Community**
In Australia and Greece, Diageo participated in the Business in the Community (BITC) corporate responsibility index survey and received top rankings. Diageo Australia was granted the highest 'Platinum' status while in Greece Diageo was granted 'Gold'.

Key metrics

We have a number of performance targets in our impact areas. These will continue to be refined to ensure they reflect our most material sustainability and responsibility impacts.

Alcohol in society

Target by 2013	2012 performance	Achievement
Ensure that Diageo marketing is 100% compliant with the Diageo Marketing Code (DMC)	Approximately 99.8% of marketing activity globally complied with the DMC	On track
Responsible drinking reminders (RDRs) are included in 100% of above-the-line advertising material	Included in 100% of our global approved above-the-line advertising	Achieved
DRINKiQ.com is included on all renovated and new brand labels	Included on the majority of renovated and new brand labels: <ul style="list-style-type: none"> • Spirits and ready-to-drink products – 95% • Beer products – 90% • Wine products – 45% 	On track
Responsible drinking initiatives are in place in our top 40 countries (by value)	We support responsible drinking programmes in 49 countries including 37 of our top 40 countries	On track
Effective industry self-regulatory or co-regulatory codes in place in our top 40 countries (by value)	In place in 37 of our top 40 countries	On track

Water and the environment

Operational targets by 2015	2012 performance (%)	Cumulative performance (2007-2012) (%)	Achievement
Reduce carbon emissions by 50%	9.4	22.0	On track
Improve water efficiency by 30%	7.2	19.0	On track
Reduce water wasted at water-stressed sites ¹ by 50%	8.6	14.5	On track
Reduce polluting power of wastewater by 60%	9.0	-11.2	On track
Eliminate waste to landfill	20.5	56.8	On track

Packaging targets by 2015	2012 performance (%)	Cumulative performance (2009-2012) (%)	Achievement
Reduce average packaging weight by 10%	1.6	4.8	On track
Increase average recycled content across all packaging to 42%	0%	35	Off-track
Make all packaging 100% recyclable/reusable	0.3	98.3	On track

(1) According to the United Nations Department of Economic and Social Affairs, water stress occurs when annual water supplies drop below 1,700 cubic metres per person. When supplies drop below 1,000 cubic metres per person per year, a country faces water scarcity for all or part of the year.

Socio-economic development

Target by 2012	2012 performance	Cumulative performance (2011-2012)	Achievement
Contribute 1% of operating profit ¹ to charitable causes every year	Contributed 0.9%	n/a	Not achieved
Target by 2015			
Locally source 70% of raw materials used in African operations from Africa	Achieved 56%	n/a	On track
Improve access to safe drinking water for eight million people in Africa	Approximately 1 million people benefited	We have supported 200 water infrastructure projects since 2006, and are currently re-evaluating our measurement of this programme	On track
Target by 2016			
Train 100,000 people through the Learning for Life programme worldwide	12,639 people trained	63,638 people trained since 2008 70-80% of Learning for Life students secure employment upon graduation	On track

Our people

Target by 2012	2012 performance	Cumulative performance (2010-2012)	Achievement
Reduce our lost-time accident frequency rate ² by 40% against a 2010 baseline	43%	57%	Achieved

Governance and ethics

Target by 2012	2012 performance	Achievement
New operating model embedded with CC&E managers in all markets and business units	CC&E managers in all markets and business units	Achieved
Improvement versus last year in positive responses to Values Survey question: 'I would feel comfortable raising any concerns about compliance or ethics with my line manager, or through SpeakUp.'	84% versus 83% in 2011	Achieved
Improvement versus last year in positive responses to Values Survey question: 'My manager helps me understand how the Diageo Code of Business Conduct applies to my role.'	81% versus 79% in 2011	Achieved
100% of new joiners completing Code of Business Conduct training on induction	83% within first 30 days	Not achieved
100% of middle managers and above complete the Annual Certification of Compliance	100%	Achieved
1% of employees report breaches through SpeakUp (global benchmark)	242 (1% of employees)	Achieved


(1) Before exceptional items.

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

Alcohol in society

In this section:

- 28 Performance and outlook
- 29 Communicating about alcohol responsibly
- 32 Tackling alcohol misuse effectively
- 35 Getting policy right

49 

Diageo funds more than 300 responsible drinking programmes in 49 countries

DRINKiQ.com

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

21/5 

Diageo supports alcohol interlocks for repeat drunk drivers – breathalysers that stop the car starting unless the driver is sober; these have now been introduced in 21 US states and five European countries



850,000 

Around 850,000 people worldwide have signed the Johnnie Walker pact never to drink and drive

1:5 

Multinational drinks company brands like ours make up about one in every five drinks consumed globally; drinks produced in the informal sector – untaxed, unregulated and sometimes unsafe – make up one in three

Pictured here is an advertisement from the 'cool drinker' programme in Korea promoting responsible drinking through public messages.

Alcohol in society

Alcohol has been part of the social and cultural fabric of communities around the globe for centuries. As the world's leading premium drinks company, Diageo is privileged to own iconic brands enjoyed by millions every day, and we work hard to help ensure alcohol is enjoyed responsibly. Tackling alcohol misuse is not only the right thing to do, but addresses our business interests over the long term. We want our consumers to celebrate life today – and tomorrow.

Our approach

Creating a more positive role for alcohol in society means encouraging adults always to make responsible choices about whether, when and how much to drink. So we work with others to seek to influence consumers' attitudes and behaviour. Different communities, cultures and faiths have a range of views on the role of alcohol and some people make a personal choice not to drink – we recognise and respect that. We also acknowledge that, of course, some people should not drink as a matter of their own safety and wellbeing. This includes children and young people under the legal purchase age, pregnant women, people who cannot control their drinking or who have a specific medical condition where drinking is likely to cause an adverse reaction.

A minority of people drink too much and cause harm to themselves and to others. We believe that efforts to reduce the misuse of alcohol are likely to be most effective when government, civil society, individuals and families as well as the industry work together to tackle the problem in partnership. On our part, we are committed to:

- Communicating about alcohol responsibly and promoting rigorous company and industry-wide marketing standards.
- Tackling alcohol misuse by supporting effective programmes to raise awareness and working with others to seek to change attitudes and behaviour.
- Getting policy right by arguing for effective regulation based on evidence, and which doesn't result in unintended consequences.

Performance and outlook

Diageo wants great brands like Smirnoff, Johnnie Walker and Guinness to be widely enjoyed, responsibly. We have a long track record of leadership in promoting responsible drinking. As we expand in emerging markets, ensuring our approach remains effective is a business priority. That means bringing to bear our experience of diverse cultural attitudes to alcohol.

We are pleased that we continued to perform strongly against our public targets on alcohol in society, demonstrating excellent compliance with our own and industry codes, and supporting a wide range of innovative responsible drinking initiatives.

2012 has proved a truly milestone year for alcohol industry self-regulation, with the development of internationally-agreed standards for responsible marketing, the European Responsible Marketing Pact, a new set of digital guidelines for Europe and the United States and the establishment of alcohol marketing codes in a number of countries. In fact, since 2008, new codes for responsible alcohol marketing have been developed in 20 countries. We are also proud to be supporting over 300 responsible drinking programmes in 49 countries around the world.

Performance against Alcohol in society targets

Target by 2013	2012 performance	Achievement
Ensure that Diageo marketing is 100% compliant with the Diageo Marketing Code (DMC)	Approximately 99.8% of marketing activity globally complied with the DMC	On track
Responsible drinking reminders (RDRs) are included in 100% of above-the-line advertising material	Included in 100% of our global approved above-the-line advertising	Achieved
DRINKiQ.com is included on all renovated and new brand labels	Included on the majority of renovated and new brand labels: <ul style="list-style-type: none"> • Spirits and ready-to-drink products – 95% • Beer products – 90% • Wine products – 45% 	On track
Responsible drinking initiatives are in place in our top 40 countries (by value)	We support responsible drinking programmes in 49 countries including 37 of our top 40 countries	On track
Effective industry self-regulatory or co-regulatory codes in place in our top 40 countries (by value)	In place in 37 of our top 40 countries	On track

In addition, we are supporting a major international industry conference in October 2012 to showcase programmes backed by the alcohol industry, and to discuss how alcohol producers can best continue our efforts to help national governments successfully implement the World Health Organization (WHO) Global Strategy to Reduce the Harmful Use of Alcohol.

Outlook

Despite progress in improved self-regulation and other areas, there has been growing debate over the past 12 months about the role of alcohol in society, with a focus on interventions like minimum pricing and discussion of the role of alcohol producers in promoting public health.

With the European Union (EU) refreshing its approach to alcohol in 2012 and the WHO due to review its agenda-setting Global Strategy in 2013, Diageo will continue to play its part, working with others to implement effective programmes and policies to address alcohol misuse.

This includes promoting the role of industry, and leveraging the trusted relationship we enjoy with customers and consumers to ensure that our drinks are enjoyed sensibly. It also means arguing for effective policies and regulations targeted at those who misuse alcohol.

Communicating about alcohol responsibly

Tackling alcohol misuse and promoting sensible drinking are responsibilities shared by a wide range of stakeholders. But when it comes to communicating about its products, we believe that the alcohol industry plays a leading role.

Not only do we take seriously our own obligations to market our brands responsibly to adults but, in a business where everyone's reputation suffers if one player doesn't do the right thing, we work in partnership to drive common industry standards.

Our approach

Three principles embody our approach to establishing rigorous standards for marketing and helping consumers make informed decisions about drinking – or not drinking:

- Following our own codes – the Diageo Marketing Code (DMC) and Digital Code of Practice
- Promoting and abiding by rigorous industry codes
- Making clear and accurate information available to consumers to help them make responsible choices including www.DRINKiQ.com.

Performance

The highlight of the year for Diageo has been refreshing the Diageo Digital Code to reflect our ongoing commitment to ensuring that online marketing is as responsible as that in traditional media. To this end, we have designed and delivered a company-wide training course for all relevant marketers and third-party agencies.

2012 has also been a landmark year in industry self-regulation, with the agreement of global responsible marketing standards, European and US digital guidelines for distilled spirits and the European Responsible Marketing Pact.

Following our own codes

Governing us and the third parties with whom we partner, the DMC is our mandatory minimum marketing standard. It applies across all our markets and guides every aspect of our activities, from research and development to marketing, promotion and packaging. We review it every 12 to 18 months to ensure it addresses evolving issues in the marketplace. It is complemented by our Digital Code of Practice, which sets out ten core principles ranging from ensuring our

marketing is directed at adults over the legal purchase age to monitoring user-generated content.

We strive for strict compliance with our own codes and in general we have sustained a strong performance, tracked via an online tool that governs all our marketing campaigns. We work hard to help ensure that 100% of our marketing fully observes the DMC and Digital Code and this year we achieved 99.8% compliance. While this is a good achievement, we nevertheless continue to aspire to total compliance.

An important mandatory aspect of the DMC is the extent to which responsible drinking reminders are included in our above-the-line marketing material – so much so that we monitor it as a target. This year, an audit revealed excellent results, with 100% of our above-the-line marketing material complying with the Code.

Promoting and abiding by rigorous industry codes

We believe that the industry as a whole should follow standards of a similar level to those we set within Diageo. We seek to abide by industry self- or co-regulation codes in every market where they exist and work with industry bodies to establish them where they don't. For example, this year alone self-regulatory codes for beverage alcohol have been agreed in countries as diverse as Thailand, Vietnam, Mexico and Ghana. This means that since 2008 more than 20 new national responsible marketing codes for alcohol have been introduced.

We manage our business with strict observance of all local regulations and laws, including those governing marketing. Some countries don't allow advertising of alcohol – and we respect that rule.

Five of the industry bodies that have established self-regulatory codes publicly report breaches, and Diageo was responsible for two out of a total of 27 of those publicly reported across the industry this year. These are outlined in the table on the next page. The industry bodies that monitor these self-regulatory codes do not impose fines, so we aren't reporting on any here. Nevertheless, removing the offending marketing can be a costly lesson for any company. The consequences include reputational damage and, in some instances, additional controls, such as being subject to mandatory pre-clearance for future advertising. In these two cases outlined here we took corrective action to ensure the mistakes were immediately addressed, and also tried to learn wider lessons – for example, taking offending material down, and retraining the agencies and internal departments responsible.

Complaints about advertising upheld by industry bodies that report publicly (2012)

Country	Industry body	Complaints upheld	Notes
Australia	Alcohol Beverage Advertising Code (ABAC)	Diageo brands 1 All alcohol beverages 4	August 2011, Bundaberg Five rum advertisement found in breach of the code for implying that drinking Bundaberg Five rum would lead to a significant change in mood and environment.
Ireland	Advertising Standards Authority for Ireland (ASAI)	Diageo brands 1 All alcohol beverages 4	July 2011, Guinness found partly in breach of the Code in its SURGE TOWARDS GREATNESS advertisement. The complaint was upheld on the grounds that the advertisement could be interpreted as suggesting a causal link between drinking Guinness and achieving greatness.
United Kingdom	The Portman Group	Diageo brands 0 All alcohol beverages 6	
United Kingdom	Advertising Standards Authority (ASA)	Diageo brands 0 All alcohol beverages 8	
United States	Distilled Spirits Council of the United States (DISCUS)	Diageo brands 0 All alcohol beverages 5	

Making information available to consumers

Ensuring that consumers have the information they need remains a priority for us. The Diageo Alcohol Beverage Information Policy (DABIP) stipulates that all new product launches, packaging renovations and promotional packaging changes include responsible drinking reminders, allergen information, alcohol by volume and a link to DRINKIQ.com, Diageo's responsible drinking website, on the primary packaging. We also publish key nutritional information about our products on DRINKIQ.com, and on packaging where this material is required by law. Our process for implementing DABIP is organic and we are rolling out the policy as brands are renovated or launched.

Last year we reported that we were in the process of developing a comprehensive compliance report for DABIP. This has now been completed and has helped to reveal that while we are on track with implementing the policy with our spirits and beer brands, some of our wine brands are putting DRINKIQ.com on their websites rather than on the label. We will seek to rectify this next year.

Following our own codes

Diageo has two codes that govern our marketing standards: the Diageo Marketing Code (DMC) and the Digital Code of Practice.

The Diageo Marketing Code

The DMC is a mandatory minimum standard applying across all markets and governing every aspect of our activities – from research and development to marketing, promotion and packaging.

The DMC comprises common sense rules on responsible marketing such as: only targeting adults, both through the content of our creative material or by its placement in media outlets; avoiding presenting moderate consumption or abstinence negatively; not encouraging irresponsible drinking or promoting brands based on strength; and not implying that our brands have any health or therapeutic benefits.

The DMC is regularly reviewed and embedded across Diageo by ongoing training, with advertising campaigns required to go through an online approval system.

The Digital Code of Practice

The Code extends our commitment to responsible marketing to the digital space. It governs Diageo and third parties, setting out 10 core principles covering age affirmation, transparency, privacy and user-generated content.

It means, for example, that similar to traditional media, marketing communications must be placed only in places where at least 70% of the audience is over the legal purchase age (LPA). It requires that – where there is direct interaction with users – websites or other communications channels controlled by our brands have to require them to affirm their age before they can access the site. It also specifies that Facebook pages for our products must be set up using the 'Alcohol Related' setting to ensure those who are younger than the LPA cannot access our branded content. Finally, it means that user generated content on Diageo-controlled sites must be reviewed every working day and inappropriate content removed within 48 hours of appearing on the site.

The Code has been fully rolled out via weekly webinars to marketing staff and the agencies with which they work. Given the fast-moving nature of the digital environment, we also work hard to keep the Code up to date. Our internal cross-functional digital governance leadership team (DGLT) meets regularly to review emerging marketing trends and to set policy that governs our marketing activity in new channels. The DGLT comprises representatives from marketing, corporate relations, legal and information systems teams so it ensures these standards are embedded at the heart of our business.

Supporting industry codes

We believe that the alcohol industry as a whole has a shared reputation, and inappropriate marketing has the potential to damage trust in our brands and threaten our licence to operate.

So the success of our business in part depends on the industry as a whole abiding by responsible standards, similar to those applying within Diageo. Consequently, not only do we abide by industry self- or co-regulation codes in markets where they exist, but we also work with industry bodies to establish them where they do not. 2012 has been a landmark year for industry self-regulation with real progress in developing rigorous codes. Highlights include the Responsible Marketing Pact in Europe, the launch of global guiding principles, the advent of digital guidelines for distilled spirits in Europe and the United States, and the creation of new alcohol codes in a number of countries.

Responsible Marketing Pact

In an important step forward for self-regulation, the World Federation of Advertisers and the eight most important beverage alcohol marketers in Europe came together in 2012 and agreed common minimum standards. These will be independently audited by Accenture and publicly reported.

ICAP Global Principles

Meanwhile, the International Center for Alcohol Policies (ICAP) announced the release of Guiding Principles for Responsible Beverage Alcohol Marketing in September 2011, a significant move towards common global standards on alcohol marketing.

The Guiding Principles highlight the common global values that underlie responsible advertising and marketing practices across different parts of the alcohol industry. The idea is that they will serve as a reference point for anyone developing a new code or seeking to assess an existing code in what are hugely diverse markets. They were developed through analysis of existing codes, including those of regulatory agencies, companies themselves and industry trade associations.

The Guiding Principles have been adopted by the sponsoring companies of ICAP who are committed actively to disseminate and promote them. In addition, ICAP will work with partners to develop training and workshops for advertisers, media, and regulators to help raise awareness of the principles internationally.

Global Actions

The milestone development of the ICAP Global Principles comes about as a result of the self-regulation initiative of Global Actions on Harmful Drinking (www.global-actions.org). This is a collective commitment made by the chief executives of major international beverage alcohol producers to make a significant effort between 2010 and 2012 to address harmful drinking through a combination of global and local actions, with an emphasis on low- and middle-income countries.

In addition to establishing global guiding principles for responsible alcohol marketing, the Global Actions encompass the following activity:

- In markets where self-regulation structures do not yet exist – and other cultural and market conditions permit – the firms concerned are working with local partners to develop and implement industry-specific responsible marketing codes.

- In countries where self-regulation efforts are already underway but could benefit from further development or refinement, major international beverage alcohol producers are working with fellow stakeholders to ensure that cross-industry self-regulation systems operate effectively, reflect international standards of good practice, and are recognised publicly.

European and US digital guidelines

The web, social networking sites, blogs and mobile applications have created new opportunities for alcohol producers to interact with consumers and customers. In September 2011, the leading spirits companies in both Europe and the United States came together to agree shared standards for the marketing of spirits like whisky, vodka, rum and tequila online.

Self-regulatory codes

This year self-regulatory codes for alcohol marketing have been agreed in Thailand, Vietnam, Mexico and Ghana. This means that since 2008 more than 20 new national responsible marketing codes for alcohol have been introduced. Codes are regularly updated, and may relate to particular types of alcohol or specific sectors.

For example, the Asia Pacific Travel and Retail Association launched a self-regulatory code of conduct for the sale of alcohol in duty free and travel retail in March 2012. Although alcohol business operators already adhere to existing codes of practice, the duty free environment has a very different customer base compared to ordinary domestic retailing. Its distinctive features include individuals arriving at different times and wanting to shop, often unable to speak the local language and potentially unfamiliar with the national laws on age of purchase and opening hours. This code of conduct gives more flexibility to meet customer needs, including different opening hours, while also emphasising the importance of responsible drinking.

Making information available to consumers

To make responsible choices, consumers need clear and accessible information to be readily available. We work hard to make sure our consumers can easily get hold of the up-to-date information they need.

Diageo Alcohol Beverage Information Policy

Diageo operates what we call the Diageo Alcohol Beverage Information Policy (DABIP) to provide consumers with the right information to help them make sensible choices in an accessible easy-to-use format.

DABIP stipulates that all new products, packaging renovations and promotional changes include responsible drinking reminders, information on allergens, alcohol by volume and a link to our responsible drinking website DRINKiQ.com on the primary packaging.

We also publish nutritional information about our products on DRINKiQ.com, and on packaging where such information is required by law. Where legislation prohibits any alcohol website, including our DRINKiQ.com site, we include nutritional information on our packaging. We are implementing this policy organically, rolling it out to all brands as packaging and labels are renovated.

DRINKiQ

DRINKiQ is one of the ways that Diageo uses its skills as a world-class marketing company to promote responsible drinking. It is a website referenced across Diageo products that aims to raise the 'collective drinkiQ' by increasing public awareness and dialogue on alcohol issues.

It is available in nine languages and has 22 specific country pages, with Brazil and Uruguay pages launched this year. The site contains experts' views, facts about alcohol, responsible drinking tips, nutritional information about Diageo brands, and sets out our approach to responsible drinking.

Diageo also uses a DRINKiQ programme to engage employees – both to help them make their own responsible decisions about drinking, or not drinking, and to give them the confidence to be DRINKiQ 'ambassadors'. The DRINKiQ employee engagement programme is a formal part of new employee inductions in more than 20 countries.

This year, we have continued running the DRINKiQ sessions with external stakeholders as an alcohol awareness course.

For example in China, Diageo partnered with others to deliver training to industry groups, media and bartending students. In India, DRINKiQ workshops have been organised for Diageo's trade and business partners. In Colombia, we have trained over 1,300 adult university students, bar staff, parent groups and drivers and 1,200 adult college students were trained in Venezuela.

We also use the course to influence role models. In South Africa, we partnered with the South African Football Players Union to run DRINKiQ workshops. In Australia, Diageo continued to work with the National Rugby League to run DRINKiQ sessions with 'rookies', young adults entering the professional sport. We have run sessions for rookies at their annual camp for five years, engaging over 1,200 young men in alcohol awareness during that period.

Finally, we are exploring new ways of using DRINKiQ to give consumers the tools they need to make responsible choices about drinking, or not drinking. In Korea, Diageo has developed a DRINKiQ application for smart phones that allows consumers to calculate how much alcohol is contained in different drinks and keep track of what they've consumed, as well as providing helpful basic facts about alcohol.

Tackling alcohol misuse effectively

A minority of drinkers misuse alcohol, causing harm to themselves, to others and their communities. We want to help tackle alcohol misuse because it is bad for our consumers, their families and society. It also damages our licence to operate and the reputation of our brands.

Alcohol misuse covers a range of complex problems including excessive consumption, drink driving, underage drinking, and drinking by pregnant women. Tackling these challenges requires everyone to work together – government, companies, non-governmental organisations and individuals. We take our role in this very seriously.

Our approach

We support effective programmes that aim to prevent, target and address alcohol misuse – whether by raising awareness, or by working with others to seek to change consumer attitudes, or ultimately to influence behaviour.

However, there is no one-size-fits-all approach to tackling alcohol misuse. Diverse cultures and societies require different interventions, and there are many effective strategies, whether educating the public, training retailers, helping pass and enforce laws, or supporting employees.

We try to maximise our impact by working with partners, or piloting innovative approaches. For example, we are particularly excited about the new opportunities created by social media channels to influence consumer attitudes. This year we launched a competition to challenge our marketing teams to come up with innovative ideas to harness peer-to-peer influence on Facebook to address excessive drinking.

Below are highlights of some approaches we have taken to help ensure our consumers are able to enjoy alcohol responsibly and to 'celebrate life, today and tomorrow'.

Preventing excessive drinking

This work ranges from support for advertising campaigns that raise awareness of the risks of binge drinking through to harnessing peer influence by encouraging individuals in at-risk groups to understand what can go wrong and communicate it to their friends.

Tackling drink driving

This activity includes backing public information campaigns, encouraging designated drivers or providing safe rides home and targeting commercial drivers where they are especially prone to breaking the law.

Addressing underage drinking

This work includes liaising closely with others to enforce minimum purchase ages, and funding programmes to help adolescents resist unwelcome social pressure to drink.

Working with retailers to ensure responsible sales

This includes training retailers and working in partnership with them to develop their own training programmes to ensure that – whether it's bar staff serving drinks, or shopkeepers selling alcohol over the counter – staff on the front line have the skills they need to promote responsible drinking.

Performance

Last year we backed more than 300 responsible drinking programmes in 49 countries, including 37 of our top 40 countries by value. In line with Diageo's general decentralised approach, countries select programmes for themselves so that what gets funded is relevant to local needs.

Preventing excessive drinking

Whether as Diageo, through a brand, or via collective industry efforts, we run campaigns to encourage our consumers to make it a night to remember – and not one to forget.

Our work in this area reflects our commitment to using the strong relationships we enjoy with our customers and consumers, and our world-class skills in marketing to help shape attitudes and behaviour. Below are some examples of our work locally and globally this year.

Drinkaware makes an impact in Great Britain

In Great Britain, Drinkaware, an independent alcohol education charity funded by Diageo and other industry players, has been running a multimedia campaign 'Why let good times go bad?' to raise awareness of the need for responsible drinking among young adults. Its communications explicitly dramatise the good and bad sides of a night out and highlight the risks associated with drinking too much. The campaign offers tips and tools that aim to reduce drunken behaviour such as pacing consumption, eating before drinking, and alternating alcoholic drinks with soft drinks.

In 2011, the campaign extended to over 50 partners with a total in-kind value estimated at £33.5 million. It has been notable too for its use of innovative communications channels including a mobile phone app and viral media like a video featuring a parody of the pop singer Katy Perry. Twenty-seven per cent of the audience stated that they found the campaign memorable with 80% adopting the tips and 56% saying it would 'make them consider drinking differently'.

Fighting binge drinking on US college campuses

In the United States, The Century Council (TCC), a not-for-profit group funded by distillers, has been fighting college binge drinking by getting students to generate their own communications campaigns, harnessing their power to influence their peers. The idea is that students can speak to other college-goers in their own language, making the case for responsible drinking in a credible and relevant way.

At the University of Alabama, the four-month Less Than U Think campaign focused on raising awareness of the problems of overconsumption. The percentage of students who thought alcohol was important to college culture fell by 12% and over 40% of students said they were more likely to think about the negative consequences of binge drinking.

At George Washington University (GWU), Diageo backed a campaign encouraging friends to recognise when and how to intervene with their fellow students to prevent alcohol misuse – and they did. Over the course of the campaign there was a 29% increase in GWU students who paid for a cab ride home, a 20% increase in students who reported starting their night out a little later and 18% who ended their night a little earlier.

Promoting responsible drinking at universities in Korea

In Korea, Diageo has run its Cool Drinker programme for young adults for many years. The programme promotes responsible drinking through public messages, mobile applications and deploying responsible drinking ambassadors at universities. This year, we expanded the programme to 21 universities and developed an innovative booth that allows adult students to try 'fatal vision' goggles to simulate drinking conditions and to participate in an online survey to give feedback on the campaign.

Tackling drink driving

Drink driving is a serious problem. But the impressive progress made in reducing its prevalence in many countries in recent years shows that, with the right programmes and policies in place, it can be tackled effectively. Diageo is committed to ensuring that the lessons learned are shared more widely.

In Europe, road deaths attributed to drink driving have decreased by 34% in the last ten years. In the United States, alcohol-related traffic fatalities went down 52% between 1982 and 2010. Diageo wants to build on this greatly encouraging progress. That is why, in addition to backing programmes targeting alcohol misuse, Diageo advocates the following good practices as an essential part of addressing drink driving:

- Legislation on blood alcohol concentration (BAC) limits, with high visibility enforcement.
- Lower blood alcohol concentration limits for new and commercial vehicle drivers.
- Rehabilitation programmes and alcohol interlocks – breathalysers that stop the car starting unless the driver is sober – for repeat drink drivers.
- A consistent and stringent penalty system with tougher penalties for repeat or high BAC offenders.
- Campaigns to raise awareness and change attitudes like designated driver campaigns and pacts against drinking and driving.

Much of the progress in reducing drink driving fatalities and accidents has occurred in high-income countries which have more developed road safety policies. In many low- and middle-income countries these advances have yet to take place. To address this disparity, alcohol producers and others are helping to implement the International Center for Alcohol Policies' (ICAP) Global Actions on drink driving in countries as diverse as China, Colombia, Mexico, Nigeria, Russia and Vietnam. To read more about these programmes see www.global-actions.org. Diageo remains dedicated to playing a significant role in tackling drink driving and we recognise that by working in partnership we can often achieve more. The following examples show how we work together with others to tackle drinking and driving.

Around 850,000 Join the Pact

Join the Pact is a major global programme to commit consumers never to drink and drive, run under the Johnnie Walker brand and promoted using its links to Formula 1 motor racing. Roughly 850,000 consumers in 30 countries have now signed up, spurred in part by a series of innovative films highlighting the importance of staying in control behind the wheel. The campaign's latest production was the most shared content on the Johnnie Walker Facebook page this year. The share rate – the number of people passing it on – was over 75%.

Italian drink driving programme strives to change attitudes

In Italy, a partnership between Diageo Italy and the Automobile Club d'Italia has sought to raise awareness of drink driving among 25,000 young adults by publishing video interviews on road safety and promoting the use of designated drivers via a popular Facebook page. This initiative builds on the country's long-running Diageo-backed drink driving programme, run with the endorsement of the Ministry of Youth and several other local institutions, which have now supported it for six years in a row. Between 2007 and 2011, the percentage of participants who say they do not drink and drive has increased from 30% to 53%.

Nigerian project targets commercial drivers

In Nigeria, Diageo is funding a multi-faceted project with ICAP to reduce alcohol-related traffic fatalities and accidents in the Lagos-Apapa thoroughfare. The initiative targets drivers of petroleum tankers for breath testing and educates restaurateurs on the hazards of selling alcoholic drinks to commercial drivers and motorists more broadly. It also mobilises public support for stricter laws on drink driving by informing Nigerians about the dangers to road users, pedestrians and drivers themselves.

Working with bus drivers in Vietnam to prevent drink driving

In Vietnam, Diageo was part of a coalition with ICAP, the Ministry of Transport's Traffic Safety Department and the Directorate for Roads of Vietnam aimed at preventing bus drivers from drinking and driving. This November 2011 project combined training sessions for bus station managers and drivers across the Dak Lak and Khanh Hoa provinces with advertising campaigns and enforcement activities at specific bus stations – all in an effort to encourage higher levels of enforcement and raise individuals' awareness. The project is now being considered for expansion nationwide.

Addressing underage drinking

Diageo strongly opposes underage drinking. We work with multiple partners, including families and retailers around the world, to develop and implement programmes to tackle this complex social problem.

Strengthening Families programme helps underage drinkers

The Strengthening Families programme is a life skills course for parents and young people, with a proven track record of success in reducing underage drinking. Originally developed by the University of Iowa, it aims to reduce the risk of adolescents starting to drink at a young age by training teenagers to cope with the pressure exerted by their peers. Diageo has supported pilots of the programme in Great Britain, Spain, Poland, Greece and Russia, with overall monitoring and quality control provided by Oxford Brookes University.

Spanish manifesto on drinking agreed with government

In Spain, concern about high levels of underage drinking and a growing problem with binge drinking has led to a historic agreement between alcohol manufacturers and the Ministry of Health and Social Affairs. Among a range of commitments, it seeks to encourage families to discuss risky drinking with young people more openly.

Partnership with Walmart tackles sales to children and young people

In Brazil, Puerto Rico and Mexico, Diageo has launched an initiative with Walmart to remind shoppers that the sale of alcohol is only permitted to over 18s. The 18+ campaign includes point of sale material, age verification at the check-out and training for staff.

Working with retailers to ensure responsible sales

The hospitality industry – Diageo’s retail customers – plays a critical role in advancing a culture of responsible drinking, and we work closely with bars and pubs to provide the resources to support them in this effort.

Helping retailers can involve direct training, working with them to devise their own programmes or making materials available.

Sahabat Guinness builds bartender skills

In Indonesia, the bar staff training programme ‘Sahabat Guinness’ (Guinness is my good friend) has provided expert instruction and insurance for over 4,500 bar staff across four key cities in 330 outlets.

Bite-size online training helps staff in Mexico

In Mexico, Diageo has followed up on priorities raised in stakeholder forums profiled in the Sustainability & Responsibility Report 2011, by funding a programme of online bartender training. It is carefully designed to be short, accessible and full of useful practical advice – for example, techniques for dealing with people who have had too much to drink.

Practical tips for Australian bar staff

In Australia, Diageo’s Better Nights training package has been distributed to more than 4,000 venues. It helps to support bar staff in promoting responsible drinking. Independent research among venues showed that the training package has proven to be effective in raising the awareness of and confidence of bar staff and managers in ways to deal with potentially difficult situations.

Responsible Hospitality Institute (RHI) shows positive impact of nightlife business

In the United States, Diageo continues to support the RHI, a not-for-profit organisation which works to help the hospitality industry in cities make a positive economic and social impact. It has carried out research showing how collaboration between city governments and representatives of nightlife businesses can regenerate and sustain the vitality of city centres while also improving safety and protecting quality of life for residents and clientele. The RHI’s first economic impact study of three areas in Washington, D.C. revealed that these zones generated almost 2,000 jobs, produced an estimated \$150 million (£94.937 million) in sales including \$5 million (£3.165 million) sales tax, and provided places for more than 10,000 people at any one time to dine and be entertained.

Purple Flag helps improve city centres

In the United Kingdom, Diageo continues to fund the Purple Flag award, a non-branded programme that brings councils and city centre partnerships together to help ensure that town centres are safe and welcoming at night. To gain the coveted Purple Flag, towns and cities must be open to everyone, offer safe ways for visitors to travel home, provide a good mix of venues and be appealing after dark. Purple Flag towns and cities benefit from more visitors, lower crime and anti-social behaviour and improved perceptions. This year towns and cities including Lincoln, Sheffield, Aberystwyth and Ipswich have succeeded in gaining the award.

You can read more about our work with customers in the customers and consumers section on [pages 91 to 98](#).

Getting policy right

To ensure alcohol continues to play a positive role in society, we need an effective, evidence-based regulatory framework. Diageo makes the case for a balanced approach where industry and government work together for culturally appropriate solutions to target alcohol misuse.

Our approach

The alcohol industry is already one of the most highly regulated in the world. As a responsible business, Diageo supports policy where it is evidence-based, accounts for drinking patterns, targets at-risk groups, treats all forms of alcohol equally and involves all stakeholders.

That is why, in addition to arguing for effective industry-wide standards in responsible marketing and selling, providing helpful information for consumers, and supporting effective programmes to tackle alcohol misuse, we publicly advocate for governments to adopt a minimum legal purchase age of not less than 18 and a maximum blood alcohol concentration (BAC) level of no more than 0.08mg. We also support lower BACs for novice and commercial drivers, high visibility enforcement of drink driving laws and alcohol interlocks – car breathalysers that mean the car only starts when the driver is sober – for repeat drunk drivers.

We oppose measures that are not evidence-based and that are likely to have unintended consequences. These include harsh restrictions on availability and heavy-handed use of high taxes to control consumption. While we fully support measures to tackle harmful drinking, higher taxes are a blunt instrument that often have the most impact on moderate consumers rather than reducing demand among those who misuse alcohol. In countries with significant informal sectors they can also have the unintended consequence of driving consumers into non-commercial, unregulated markets where beverage alcohol is untaxed and sometimes unsafe. Read more about minimum pricing.

Performance

In 2012, Diageo continued to partner with our stakeholders to make the case for alcohol policies that are effective. For example Diageo Mexico recently organised a marketing summit bringing together government representatives and global experts. The result was the agreement in January 2012 of a stronger self-regulatory code – one which ensures that alcohol advertising is targeted at adults and can't be linked to athletic prowess, among other provisions.

We have also continued our dialogue with government bodies on developing appropriate strategies to tackle harmful use of alcohol. Highlights include:

- Dialogue on the World Health Organization's (WHO) 2010 Global Strategy to Reduce the Harmful Use of Alcohol
- Supporting the European Union's new alcohol strategy.

An ongoing priority is to demonstrate that the role of business is broader than manufacturing and selling products, and that we can build on the strength and trust of our relationships with consumers to promote responsible drinking. So we continue to work closely with others in different countries around the world to make the positive case for alcohol in society (see [page 37](#)).

“ Ivan Menezes, Chief operating officer

“As a responsible company, we want to ensure that drinking alcohol continues to play a positive part in the lives of our consumers and society. This is core to Diageo's purpose to celebrate life every day, everywhere.”

Minimum pricing – a policy best buy?

Minimum pricing is being advocated by some campaigners as a possible measure to tackle harmful drinking. Diageo strongly supports the objective of trying to tackle alcohol misuse but we are concerned that minimum pricing is unproven, unlikely to work and runs the risk of serious unintended consequences.

An approach that affects the moderate drinker

Putting up prices might seem a superficially plausible means of tackling alcohol consumption. The key problem is that those who misuse alcohol are not very sensitive to price, while the purchasing decisions of more moderate, sensible drinkers are affected. Our concern is that, where minimum pricing policies are implemented, those who want to drink excessively will continue to do so, switching to cheaper brands and types of alcohol or outlet. Meanwhile, the ordinary consumer who wants to enjoy a cocktail or a glass of wine or beer will be unfairly penalised.

And that worsens the problem of informal alcohol

Efforts to control harmful alcohol consumption by price are even more problematic in emerging markets where in some countries, more than half of alcohol consumed is in the informal sector.

Globally, these kinds of product – unregulated, untaxed and sometimes unsafe – account for one in three of every drink consumed. By way of comparison, multinational producers of spirits, wine and beer account for just a fifth of the alcohol produced around the world.

Where informal alcohol – unadvertised, untaxed – is widely available, tools like tax increases, price controls or advertising restrictions on the regulated sector don't reduce harm. Rather, they are likely to cause people to switch from legal, safe, regulated products into illicit, unregulated and potentially dangerous ones.

Diageo is proud that our brands provide a safe, high quality alternative to informal alcohol. In Kenya, a country where illicit alcohol is thought to account for about half of all consumption, we have worked with the government to introduce a new affordable beer, Senator Keg, which is estimated to have replaced 600 million servings of unregulated drink. Not only is this a safer alternative to sometimes toxic brews consumers otherwise turn to, but it has positive economic effects, formalising and improving standards in small businesses that sell alcohol, employing more farmers and increasing government income from additional taxes.

The World Health Organization's (WHO) 2010 Global Strategy to Reduce the Harmful Use of Alcohol

It has been two years since the WHO adopted the Global Strategy to Reduce the Harmful Use of Alcohol, which sets out a menu of policy options that countries can choose from to address alcohol misuse. We welcome the Global Strategy's acknowledgement of the need for the involvement of all stakeholders, including the beverage alcohol industry and civil society organisations, in tackling harmful drinking.

We think the Global Strategy's approach is a sensible one because it recognises that there is no one-size-fits-all solution to tackling the harmful use of alcohol when national circumstances, the religious and cultural context, priorities and available resources differ locally. It also embraces all stakeholders in making progress toward its goals.

Since WHO's adoption of the Global Strategy, the industry has continued to support a range of initiatives, especially in low- and middle-income countries through its Global Actions on Harmful Drinking and individual company efforts as described in this report. An international conference in October 2012 'Global Actions: Initiatives to Reduce Harmful Drinking' will offer an opportunity comprehensively to take stock of what has been accomplished by all industry efforts, some of which are being implemented in partnership with governments, civil society and other stakeholders.

This comes against the backdrop of growing interest in non-communicable diseases (NCDs) including heart disease, cancer and diabetes and their links to risk factors including the harmful use of alcohol. WHO has been developing its work in this area following the UN High Level Meeting in October 2010 and Diageo has contributed to those efforts through our involvement in the Global Alcohol Producers Group.

The European Union's Alcohol Strategy

The European Union (EU) is currently reviewing its 2006 Strategy to Support Member States to Reduce Alcohol-Related Harm, and this year we contributed our views to the European Commission.

In our submission Diageo argued for a reinforced strategy to cover the period 2013-20, affirming our support for an approach that combines actions at EU and member state level, and proposing that the Commission adopt a 'role matrix' as a tool to reinforce the Strategy by helping clarify who is responsible for what.

As a result of progress under the existing Strategy, 22 member states now have a marketing code – compared with just one in 2005, and three-quarters of TV adverts now carry a responsible drinking message.

The priority now should be for the Commission to focus all stakeholders on delivering partnership programmes tackling alcohol misuse, accompanied by policy guidance and best practice to member states as they develop and refine national alcohol policies.

Membership of industry bodies

Over the years, we have helped establish many social aspects organisations (SAOs). These are industry-funded organisations that work with government, the private sector and non-governmental organisations to promote responsible drinking and tackle alcohol misuse.

Diageo's SAO memberships in 2012

SAO	Location	Website
DrinkWise	Australia	www.drinkwise.org.au
Educ'alcohol	Canada	www.educalcohol.qc.ca
Forum-psr	Czech Republic	www.forum-psr.cz
GODA	Denmark	www.goda.dk
European Forum for Responsible Drinking (EFRD)	European Union	www.efrd.org
Entreprise & Prévention	France	www.preventionalcool.com
DrinkAware	Ireland	www.drinkaware.ie
Mature Enjoyment of Alcohol in Society (MEAS)	Ireland	www.meas.ie
Fundación de Investigaciones Sociales A.C. (FISAC)	Mexico	www.alcoholinformate.org.mx
STIVA	The Netherlands	www.stiva.nl
Romanian Forum for Responsible Drinking	Romania	
Industry Association for Responsible Alcohol Use (ARA)	South Africa	www.ara.co.za
Fundacion Alcohol y Sociedad (FAS)	Spain	www.alcoholysociedad.org
Taiwan Beverage Alcohol Forum (TBAF)	Taiwan	www.tbaf.org.tw
Thai Foundation for Responsible Drinking (TFRD)	Thailand	www.thinkb4drink-tfrd.com
The Portman Group	United Kingdom	www.portman-group.org.uk
The Century Council	United States	www.centurycouncil.org

Diageo brands help people stay safe when celebrating good times



Vodafone McLaren Mercedes driver Lewis Hamilton supporting Diageo GB's New Year campaign December 2011.

We want party-goers to enjoy themselves during the festive season – it should be a night to remember, not one to forget. So on both sides of the Atlantic, Diageo brands have been making it easy for people to make the decision not to drink and drive by providing free transport during holiday periods.

Case study:

This year Formula 1 driver Lewis Hamilton helped launch Diageo's three-year New Year anti-drink driving campaign in London.

We sponsored free travel on London Tubes, buses, trams and some trains from 23:45 on New Year's Eve, while Tube travellers at the busiest stations also benefited from responsible drinking tips and free bottles of water.

Meanwhile, across the Atlantic, Diageo's core Irish brands – Guinness, Bushmills and Baileys – teamed up with New York City's Department of Transportation. Together we launched a month-long Safe Rides initiative marking St Patrick's Day and the National Collegiate Athletic Association (NCAA) basketball tournament in March. Throughout the month, thousands of free taxi, livery car and public transit rides were given away to legal drinking-age adult consumers,

encouraging New Yorkers and visitors to the city always to plan for a designated driver. Local sports radio personalities also joined the initiative, spreading the importance of responsible celebration.

We made similar efforts in Washington, D.C. where, through Guinness, we supported the Washington Area Regional Alcohol Program's SoberRide programme; in California where we partnered with distributors to remind consumers to celebrate safely; and in New York, Chicago and Miami where, through Ciroc, we ran safe rides programmes.

In all these cities, free transport and safe rides help our consumers to celebrate life today, and tomorrow.

For more case studies from around the world, please visit <http://srreport2012.diageoreports.com>

A multifaceted approach to promoting responsible drinking in Thailand



Alcohol misuse is a complex problem that manifests itself in many different ways. So encouraging responsible drinking needs a broad approach, where everyone works together in partnership.

Case study:

In Thailand, Diageo operates through a joint-venture partnership with Moët Hennessy – Diageo Moët Hennessy Thailand. We have sought to raise awareness and shift attitudes by taking a comprehensive approach to alcohol misuse, supporting a suite of initiatives that aim collectively to be greater than the sum of their parts.

These include the landmark agreement of the country's first self-regulatory marketing code for alcohol; the funding of a significant drink drive programme; the provision of bartender training; and the voluntary inclusion of standard drink measures on product labels.

Diageo jointly funds the Thai Foundation for Responsible Drinking (TFRD), a new independent organisation focused on creating a more responsible drinking culture in Thailand. Its 'Know Your Limit' targeted educational campaign has sought to raise awareness about responsible drinking

behaviour and to educate consumers about standard drink measurements. TFRD also partnered with the Thailand Retail Association and sales outlets to deliver an 'Are you 20?' campaign, encouraging employees to seek age confirmation before selling alcohol, and raising awareness among consumers.

To improve standards for bar staff, Diageo worked with the Vocational Education Commission, training 200 teachers in responsible drinking awareness, who in turn delivered the programme to 6,000 students in training schools across six areas of Thailand.

We also ran a seasonal campaign during Thailand's traditional New Year – Songkran – via a partnership with the Thai Police to encourage road safety and raise awareness of the risks of drinking and driving.

For more case studies from around the world, please visit <http://srreport2012.diageoreports.com>

Water and the environment

In this section:

- 40 Performance and outlook
- 42 Water
- 45 Carbon
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- 48 Sustainable packaging
- 48 The wider environment

9.4%

This year we reduced our absolute carbon emissions by an industry-leading 9.4% despite increased production

24

24 of our sites around the world sent no waste to landfill

1/2

We halved the amount of waste sent to landfill in Aba, Nigeria, by supplying farmers with spent grains and spent yeast, thereby benefiting local communities



99%

Our Gimli Crown Royal whisky distillery in Manitoba, Canada, sources more than 99% of its energy from renewable biomethane, recovered from landfill sites

23%

Improvements at our Guinness brewery in Lagos, Nigeria, improved water efficiency by 23% in one year

64

64 of our sites receive 100% of their electricity from renewable or low-carbon sources

200,000

Total water use has been reduced by 4.1 million m³ since 2007, despite increased production; this is equivalent to the domestic water needs of 200,000 people

Pictured here is our Roseisle Distillery in Speyside, Scotland where we distil malt whisky and where currently 50% of total energy demand is being met from on-site renewable energy generation. We want to be a leader in environmental sustainability. By 2015 we aim to further safeguard precious water resources, halve our carbon footprint, eliminate waste to landfill and create more environmentally friendly packaging.

Water and the environment

Our products have been part of celebrations for centuries. But if we are to continue this tradition, we must think carefully about the sustainability of our operations, recognising and reducing our impacts on the natural world and the people with whom we share it. Stewardship of the environment is not only the right thing to do, it is essential for the continuity of our business.

Our approach

Every time a consumer enjoys one of our products, he or she becomes a link in a long value chain that connects rivers and fields, distilleries, breweries and vineyards, transport networks, packaging manufacturers and retailers. At every link in that chain, there is an impact on the environment, and we believe it is our responsibility to minimise that impact as far as possible and work actively to protect the resources that our business and our communities need.

Some impacts are global – we are making good progress, for example, towards halving carbon emissions from our operations by 2015, and are committed to making the packaging of our brands more sustainable.

Some impacts need local solutions – like the problem of landfill, which we are on course to eliminate from our operations by 2015, and which 24 sites around the world have already eliminated.

One of our most critical environmental impacts of all is on water – a necessity for individuals, families, communities, and local economies, as well as fundamental to the sustainability of our business. Recognising that this challenge is most acute in some of the regions where we are growing fastest, we have continued to focus extra attention on those of our production sites that are in areas that are ‘water-stressed’, all of which are found in Africa – where we have made encouraging progress this year.

Ultimately, we aim to be a business which does not deplete natural resources, and causes no lasting damage to species, habitats, biodiversity or the climate. We want to continue to be the world’s leading premium drinks maker – and a leader in environmental sustainability.

(1) According to the United Nations Department of Economic and Social Affairs, water stress occurs when annual water supplies drop below 1,700 cubic metres per person. When supplies drop below 1,000 cubic metres per person per year, a country faces water scarcity for all or part of the year.

Performance and outlook

We’re committed to safeguarding precious water, reducing our carbon footprint, creating sustainable packaging, and managing waste sustainably.

When we set ourselves environmental sustainability targets in 2008 we were determined that they should be challenging – and meaningful. With the exception of water efficiency, we opted to set absolute commitments for 2015 which acknowledged that our existing impacts should be reduced in real terms, regardless of the future size of the business.

We focused on the main impacts of our operations – water, carbon, and waste to landfill. In 2009, we expanded our approach to include sustainable packaging, recognising its impact throughout the value chain, from our suppliers through to the consumers who drink our brands.

While recognising that there is still a long way to go, it is encouraging to report this year that we have made progress against all of our operational targets, and against two out of our three packaging targets – all while our business has continued to grow.

Reviewing our targets

In 2008, we set environmental targets based on baseline data from the financial year ending 30 June 2007, with the aim of achieving these targets by 2015. Since setting these targets and reporting our performance against them, we have included acquisitions and disposals and reset our 2007 baseline data applying the principles of the WRI/WBCSD Greenhouse Gas Reporting Protocol.

Until 2011, these acquisitions had relatively minor implications for our overall impact on the environment – typically less than 5%. However, in 2011 we announced plans to buy several larger businesses. In our 2011 Sustainability & Responsibility Report we said we would review the implications of these proposed acquisitions for our Environmental Reporting Guidelines, in terms of the total volume of production and overall impact on the environment. This review was completed in January 2012, and concluded that there would be no change to the Environmental Reporting Guidelines, and that we would continue to incorporate new acquisitions in our 2007 baseline with no change to our 2015 environmental targets – thus reaffirming our commitment to absolute reductions in key environmental impacts despite continued business growth.

Progress against operational targets

Targets by 2015	2012 performance (%)	Cumulative performance (2007-2012) (%)	Achievement
Reduce carbon emissions by 50%	9.4	22.0	On track
Improve water efficiency by 30%	7.2	19.0	On track
Reduce water wasted at water-stressed sites by 50%	8.6	14.5	On track
Reduce polluting power of wastewater by 60%	9.0	-11.2	On track
Eliminate waste to landfill	20.5	56.8	On track

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

	2012 performance (%)	Cumulative performance (2007-2012) (%)
Reduce carbon emissions by 50%	11.6	25.2
Improve water efficiency by 30%	7.2	19.0
Reduce water wasted at water-stressed sites by 50%	20.9	28.0
Reduce polluting power of wastewater by 60%	11.3	-6.7
Eliminate waste to landfill	22.5	58.6

(1) Carbon emissions (grams CO₂/litre of packaged product); water efficiency and water wasted (litre/litre of packaged product); wastewater (grams/litre of packaged product); waste to landfill (grams/litre of packaged product).

Progress against packaging targets

Targets by 2015	2012 performance (%)	Cumulative performance (2009-2012) (%)	Achievement
Reduce average packaging weight by 10%	1.6	4.8	On track
Increase average recycled content across all packaging to 42%	0	35.0	Off track
Make all packaging 100% recyclable/reusable	0.3	98.3	On track

Outlook

While we are making good progress towards meeting our commitments, the future is always uncertain and the environmental challenges facing all businesses are likely to become more, rather than less, difficult. Further, as the world's leading premium drinks business, we have committed ourselves to absolute reductions, in the knowledge that each new gain becomes incrementally harder to achieve the closer we get to our targets.

We recognise that our targets do not cover every aspect of our business and value chain, so our task of becoming truly sustainable is not limited to these commitments alone. With this in mind, we will continue to innovate where necessary, and continuously improve the environmental management of our value chain, which includes developing a better understanding of the environmental impacts of our key suppliers.

Diageo sites located in water-stressed areas



Ghana

- 1 Accra Achimota
- 2 Kumasi Kaasi

Uganda

- 3 IDU – Uganda Distilling
- 4 UBL – Uganda Brewing

Kenya

- 5 Nairobi KBL – Kenya Brewing
- 6 Nairobi CGI – Kenya Glass Manufacturing
- 7 Nairobi KML – East Africa Maltings

Nigeria

- 8 Lagos – Ogba

Seychelles

- 9 Seybrew

South Africa

- 10 SA Cider

Tanzania

- 11 Dar Es Salaam
- 12 Moshi

Water

The word whisky comes from the Gaelic for 'water of life'. And water is life – for the communities where we operate, for the natural world, and for our business. Using this precious resource wisely is a high environmental priority.

Our approach

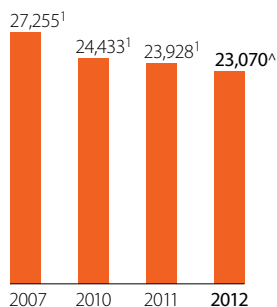
Water is vital to us – it is our most important ingredient, it is essential to our production processes and fundamental to our brands, and it is used widely throughout our supply chain. It is also, of course, vital to everyone else – essential for the health and economic security of humankind, indispensable for all life on earth. Stewardship of water is integral to the sustainability of our business.

While water is a global necessity, water supplies are more stressed in some places than in others. We work hard to improve water efficiency around the globe, but place particular emphasis on stewardship at our production sites in water-stressed areas, which are often in regions where our business is growing.

According to the United Nations Department of Economic and Social Affairs, water stress occurs when annual water supplies drop below 1,700m³ per person. When supplies drop below 1,000m³ per person per year, a country faces water scarcity for all or part of the year.

Our three operational targets for water reflect our responsibilities – to use water more efficiently throughout our business, to improve the quality of the wastewater we discharge, and to minimise the water wasted in water-stressed sites. Increasingly, we also directly engage with our suppliers in agriculture to encourage sustainable water use.

Total water use by year (1,000s m³)



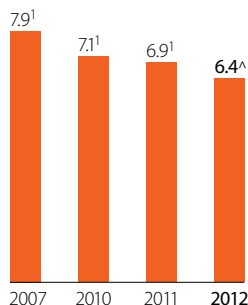
Water use by region, by year (1,000s m³)

Region	2007	2010	2011	2012
North America	4,342	3,187	2,749	2,429
Europe	11,291	9,756	9,467	9,186
Africa	9,762	9,938	10,355	10,181
Latin America and Caribbean	1,351	967	854	761
Asia Pacific	343	252	269	279
Corporate	166	333	234	234
Diageo (total)	27,255 ¹	24,433 ¹	23,928 ¹	23,070 [^]

Total water withdrawn by source 2012 (1,000s m³)

Region	Mains water ²	Ground water (borehole/well)	Surface water (river/lake)
North America	1,240	610	579
Europe	4,338	3,894	954
Africa	3,245	6,389	570
Latin America and Caribbean	–	761	–
Asia Pacific	266	–	13
Corporate	232	3	–
Diageo (total)	9,321	11,657	2,116

Total water efficiency by year (l/l)



Water efficiency by region, by year (l/l)

Region	2007	2010	2011	2012
North America	6.6	6.0	5.5	4.9
Europe	7.6	6.8	6.7	6.6
Africa	9.4	7.6	7.6	6.9
Latin America and Caribbean	14.2	11.9	11.3	10.7
Asia Pacific	2.3	2.0	2.1	2.0
Diageo (total)	7.9 ¹	7.1 ¹	6.9 ¹	6.4 [^]

(1) 2007 baseline data and data for the four years ended 30 June 2011 have been restated in accordance with Diageo Environmental Reporting Guidelines.

(2) Data includes 234,000m³ of water given to communities.

[^] Total water use for the year ended 30 June 2012 is covered by KPMG's independent assurance report on [pages 107-109](#).

But because water is uniquely valuable, our approach goes beyond the footprint of our value chain. Our Blueprint Water Framework outlines three main pillars for addressing water challenges: our global operations; community involvement; and collective action. Our community investment is particularly focused in Africa, where a range of our own programmes – providing boreholes, hand-dug wells, rainwater harvesting and domestic filtration – help increase access to clean water. More information on our programmes to provide access to clean water is available on [page 56](#). As a signatory of the CEO water mandate, we also advocate for collective and innovative solutions to help solve the global water crisis. For example, this year, we lobbied the US government to direct more aid to water problems in Africa.

Performance

Last year, we improved water efficiency by 7.2%, while the amount of water wasted at water-stressed sites fell by 8.6%. The polluting power of wastewater was reduced by 9.0% compared to the previous financial year. These results indicate that, year on year, we made good progress against all our water targets and are mostly on schedule to meet our 2015 commitments. They are particularly encouraging because, since two of these three targets are absolute figures, they show continued progress even as production has increased.

The following sections describe our progress against these targets in more detail:

- Improving water efficiency worldwide
- Reducing water wasted in water-stressed areas
- Reducing water pollution

Improving water efficiency worldwide Water is invaluable to our business – and to the environment and communities around us. We're improving the water efficiency of our operations all over the world.

We aim to improve water efficiency across our operations by 30% by 2015. We are currently ahead of schedule, having made improvements of 19.0% since 2007, with 7.2% improvements in the past year – but we know that efficiencies will get progressively harder to find.

While some savings are the result of major investments, most come from diligent improvements to equipment, processes and behaviour. For example, at our Achimota brewery in Ghana, water efficiency improved by 29% through a programme of continuous improvement initiatives including water recovery from bottle washers and water recycling from pasteurisers. Many of these best practice approaches were adopted from our Huntingwood packaging plant in Australia, which was a finalist for the 2010 Prime Minister Water Wise Award. Across both our sites in Ghana, we saved 154,000m³ of water in 2012 compared to the previous year. At our brewery in Uganda, water efficiency increased by 20% in 2012 through improvements to our packaging lines and the implementation of better water recovery systems at various stages in our process and packaging operations.

For information about the impact our water use has on local sources, see the wider environment section on [page 48](#).

Reducing water wasted in water-stressed areas

Water is too precious to waste. We've made a particular priority of reducing water wasted at production sites in water-stressed areas.

This year we built on the findings of a water-stress assessment first conducted in 2008 to re-assess the extent of water stress in areas where our operations are located. By applying United Nations (UN) and World Business Council for Sustainable Development databases and specific site survey methodologies, we designated 12 production sites where we had full operational control for the full year as being located in areas which are 'water-stressed', compared to nine in the original 2008 survey. All 12 sites are in Africa. We are developing plans to reduce that stress and risk in a systematic and structured way.

In these water-stressed sites, our goal is to reduce water wasted by 50% by 2015, compared to a 2007 baseline. Our progress this year – an 8.6% reduction from the previous year, contributing to a 14.5% reduction against our 2007 baseline – is the result of a combination of investment in equipment and better practices. For example, at our Kaase brewery in Ghana, where we brew Guinness, investment in a water improvement initiative and the replacement of a pasteuriser improved water efficiencies by 2.4% and reduced absolute water use by 14,000m³. At our brewery in Uganda, our water-use ratio improved by 20% during the year, which resulted in an absolute reduction in water use of 9.5% or 57,000m³, against a backdrop of volume growth.

However, we need to accelerate the rate of improvement if we are to meet our 2015 target. We are optimistic that intensifying our investment in water recovery and water re-use, and improved water conservation at sites in water-stressed areas, will accelerate our progress in 2013. This strategy has already enabled our Kenya Glass and Kenya Maltings facilities to achieve their 2015 targets.

Reducing water pollution

Clean water is essential to our business and to the habitats and communities around us. It is our responsibility to reduce as far as possible the polluting power of the water that leaves our operations.

By 2015, our target is to reduce the polluting power of wastewater (measured in biochemical oxygen demand or 'BOD') by 60% against a 2007 baseline. This year, we achieved a 9.0% reduction. Despite this reduction, however, overall there has been an 11.2% increase in the BOD polluting power of wastewater since 2007.

Nonetheless, we have cause for optimism in 2013. Our Cameronbridge distillery in Scotland, where we make Tanqueray gin and grain whisky for Johnnie Walker, Buchanan's and Windsor, was responsible for 60% of our BOD in 2012. In the last quarter of 2012, the distillery's new bio-energy plant began to produce positive results, reducing BOD by 34% compared to the last quarter of 2011. With the plant becoming fully commissioned during the next financial year, we hope to achieve significant BOD reductions and be on track to meet our 2015 target.

Across all our operations, we are concentrating on ensuring that products such as yeast and spent grain are eliminated from our wastewater and instead used for positive purposes. We are also seeking ways to reduce the use of brewing filtration process aids like kieselguhr. At our Ogba brewery in Lagos, Nigeria, for example, we implemented a new filtration system which eliminates kieselguhr, with consequent benefits for wastewater. We are looking to replicate this new technology at other sites.

Globally, our facilities handle and treat effluent in three ways:

- On-site effluent treatment facilities, where anaerobic and/or aerobic microbial growth reduces BOD.
- Direct routing to off-site third-party municipal treatment facilities, where anaerobic and/or aerobic microbial growth reduces BOD.
- Direct disposal to the environment, where wastewater is discharged under licence and local regulations and relies on dispersal to minimise impacts.

Effluent disposal routes from our sites are various and sometimes complex, but can be summarised in the following table.

Water discharge by quality and destination (2012)

The immediate receiving medium after leaving Diageo site	As a % of total Diageo effluent volume	The % of the final BOD to the environment
Lake	7.9	0.8
Third-party municipal	32.5	0.6
Land	1.0	0.0
River	33.5	20.7
Sea	25.0	77.9
Wetland	0.1	0.0
Diageo (total)	100	100

Wastewater polluting power by region, by year (BOD/kt)

Region	2007	2010	2011	2012
North America	330	286	30	18
Europe	21,812	26,275	30,258	28,438
Africa	9,831	6,958	9,471	7,716
Latin America and Caribbean	561	52	10	6
Asia Pacific	0	0	0	1
Corporate	1	2	3	1
Diageo (total)	32,535	33,573	39,772	36,180

Carbon

We want to cut the link between the manufacture of our products and the fossil fuels which contribute to climate change, reducing our carbon emissions and ensuring the long term sustainability of our business.

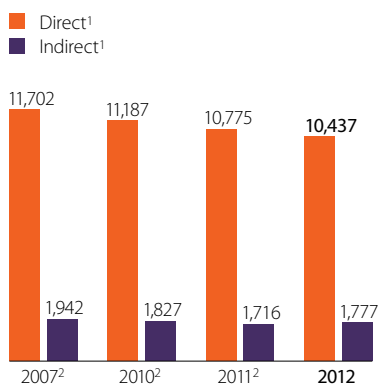
Our approach

Making and distributing spirits, beer and wine uses energy – but we do not ignore the risks posed by carbon emissions to the environment, and to our business. We are aiming to reduce our carbon emissions by half in absolute terms, which has meant changing the relationship between production and the use of fossil fuels.

Through a variety of activities, we have been able to grow our business while reducing the carbon emissions associated with our value chain, as well as our risk exposure to energy insecurity and rising costs:

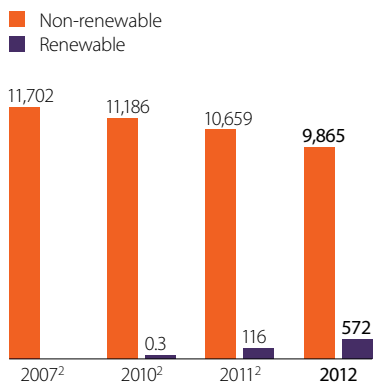
- Improving energy efficiency in our operations
- Generating renewable energy at our sites
- Sourcing renewable or low-carbon energy
- Working with business partners to reduce carbon from distribution.

Sources of energy consumption (TJ)



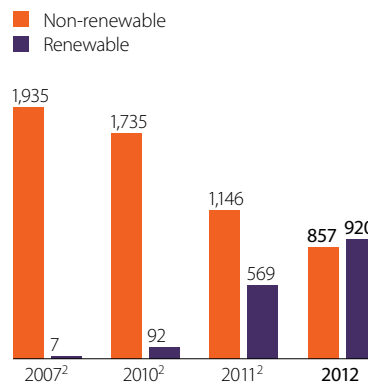
(1) Direct and indirect energy sources refer to those that generate Scope 1 (direct) and Scope 2 (indirect) emissions as defined by the World Resources Institute (WRI)/World Business Council for Sustainable Development (WBCSD) Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, Revised Edition.
 (2) 2007 baseline data and data for the four years ended 30 June 2011 have been restated in accordance with WRI/WBCSD Greenhouse Gas Reporting Protocol and Diageo Environmental Reporting Guidelines.

Direct energy consumption split by renewable and non-renewable (TJ)¹



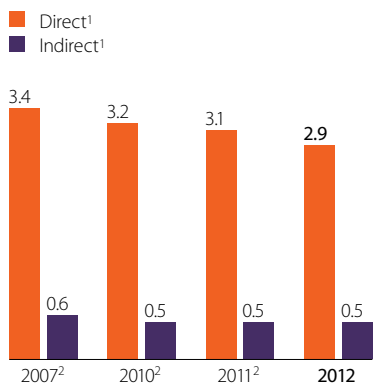
(1) Direct energy consumption refers to energy sources that are owned or controlled by the company and generate Scope 1 emissions as defined by the World Resources Institute (WRI)/World Business Council for Sustainable Development (WBCSD) Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, Revised Edition.
 (2) 2007 baseline data and data for the four years ended 30 June 2011 have been restated in accordance with WRI/WBCSD Greenhouse Gas Reporting Protocol and Diageo Environmental Reporting Guidelines.

Indirect energy consumption split by renewable and non-renewable (TJ)¹



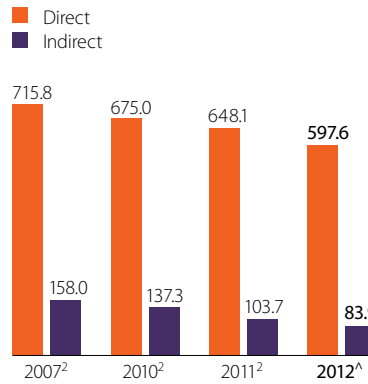
(1) Indirect energy consumption refers to the energy used from purchased electricity consumed and generated Scope 2 emissions as defined by the World Resources Institute (WRI)/World Business Council for Sustainable Development (WBCSD) Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, Revised Edition.
 (2) 2007 baseline data and data for the four years ended 30 June 2011 have been restated in accordance with WRI/WBCSD Greenhouse Gas Reporting Protocol and Diageo Environmental Reporting Guidelines.

Energy efficiency (MJ/l packaged)



(1) Direct and Indirect energy sources refer to those that generate Scope 1 (direct) and Scope 2 (indirect) emissions as defined by the World Resources Institute (WRI)/World Business Council for Sustainable Development (WBCSD) Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, Revised Edition.
 (2) 2007 baseline data and data for the four years ended 30 June 2011 have been restated in accordance with WRI/WBCSD Greenhouse Gas Reporting Protocol and Diageo Environmental Reporting Guidelines.

Direct and indirect carbon emissions by weight (1,000s tonnes CO₂)¹



(1) CO₂ figures are calculated using the kWh/CO₂ conversion factor provided by energy suppliers, the relevant factors to the country of operation or the International Energy Agency, as applicable.
 (2) 2007 baseline data and data for the four years ended 30 June 2011 have been restated in accordance with WRI/WBCSD Greenhouse Gas Reporting Protocol and Diageo Environmental Reporting Guidelines.
[^] Total tonnes of CO₂ included in this table in respect of the year ended 30 June 2012 are covered by KPMG's independent assurance report on [pages 107-109](#).

Carbon emissions by weight by region (1,000s tonnes CO₂)¹

Region	2007 ²	2010 ²	2011 ²	2012
North America	217.2	171.3	130.4	66.6
Europe	362.5	347.0	321.9	316.4
Africa	231.9	247.8	258.4	258.3
Latin America and Caribbean	25.5	20.3	19.5	18.3
Asia Pacific	15.4	10.2	10.5	10.2
Corporate	21.3	15.7	11.1	11.7
Diageo (total)	873.8 ²	812.3 ²	751.8 ²	681.5 [^]

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

(2) 2007 baseline data and data for the four years ended 30 June 2011 have been restated in accordance with WRI/WBCSD Greenhouse Gas Reporting Protocol and Diageo Environmental Reporting Guidelines.

[^] Total tonnes of CO₂ included in this table in respect of the year ended 30 June 2012 are covered by KPMG's independent assurance report on pages 107-109.

We monitor and measure our greenhouse gas (GHG) emissions in accordance with the World Resources Institute (WRI)/World Business Council for Sustainable Development (WBCSD) Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, Revised Edition.

Performance

On course to meet challenging targets

Our strategy for reducing the carbon emissions of our operations by 50% by 2015 is on course, with a reduction of 9.4% in the past year, and 22.0% compared to the 2007 baseline. We are particularly proud to have made this significant reduction in absolute terms at the same time as production volume has grown.

The savings this year represent a reduction of Scope 1 direct emissions by 7.8%, and Scope 2 indirect emissions from purchased energy by 19.1%. Our 2015 target does not apply to Scope 3 emissions from other indirect sources.

Our commitment to absolute reduction in our emissions means that every incremental saving becomes more challenging. The challenge is frequently most acute in emerging markets, like Africa, where some elements of a low-carbon infrastructure have yet to develop.

Nonetheless, it is encouraging that the pace of emissions reduction increased significantly last year – we made considerable savings through a variety of energy efficiency initiatives, and the use of low-carbon energy at our sites – and we are committed to pursuing the remainder of our journey to a 50% reduction in absolute emissions.

Improving energy efficiency in our operations

Reviewing and improving the energy efficiency of our operations reduces carbon emissions, cuts energy bills, and reduces our exposure to energy risks. This year, measures like process redesign, equipment improvements and retrofitting, and cultural and behavioural changes created global savings of 2.2% of total energy or 270TJ.

Our energy efficiency results represent the sum of many small improvements. Across the business, we implemented over 100 energy-efficiency and GHG emission-reduction initiatives this year. These included projects aimed at improving insulation on cookers and stills, the installation of variable speed drives and low energy lighting systems, and improvements to air condensers and boilers.

Generating renewable energy at our sites

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

In September 2011, we submitted proposals to Moray Council for a new, £6 million bio-energy plant at our Glenlossie distillery complex in Speyside, Scotland, which will harness the potential of burning draff (the spent grain remaining after whisky distillation) to create steam for the distilling process. The Glenlossie project, which is projected to save approximately 6,000 tonnes of CO₂ per year, follows similar investment in renewable energy in 2010 at the nearby Roseisle distillery, where currently 50% of total energy demand is being met from on-site renewable energy generation.

Sourcing renewable and low-carbon energy

Renewable and low-carbon energy from wind, hydro, nuclear and bio-energy sources contribute significantly to reducing emissions. This year we sourced 52% of our electricity from low-carbon sources, with some regions, like the United Kingdom and Ireland, approaching 100%.

Finding innovative sources of renewable energy is a key part of our carbon reduction plans. For example, one of our biggest drivers of carbon reduction this year was at our Gimli distillery in Canada, where we make Crown Royal. Here a project began this financial year to use green biomethane gas which has reduced our fossil fuel carbon emissions at that location by more than 99%.

Reducing carbon from distribution

We set our carbon emissions target partly to improve the efficiency of the parts of our business over which we have most control – production. But we are also committed to reducing emissions associated with distribution – both of raw materials and packaging to our sites, and of our brands to market. For example, our estimated CO₂ emissions in NA for distributing finished goods in 2012 were 122,000 tonnes.¹

A number of initiatives are aimed at reducing these emissions. For example, we have established ourselves as leaders in energy-efficient distribution in the United States through our use of trucks fuelled by compressed natural gas (CNG) and our three-year membership of SmartWay, a public/private collaboration between the US Environmental Protection Agency and the freight transportation industry. SmartWay helps freight shippers, carriers, and logistics companies improve fuel-efficiency and save money.

We are also helping our employees reduce their carbon footprint, by encouraging them to use video- and tele-conferencing instead of travelling to meetings; to work from home when it makes sense to do so; and to take part in bike-to-work schemes. We've also set up a car-sharing scheme – for example at our Leven packaging facility, where 88 employees registered, saving a projected 44,618 road miles, equivalent to a reduction in emissions of 14.7 tonnes of CO₂.

(1) For North American-based distribution, we use the US EPA SmartWay programme calculation methodology. For transport in the rest of the world, we developed an in-house modelling programme. This programme applies specific emission factors for each mode of transport (road, rail, inland waterways, deep sea, and ferry) calculated against number of cases shipped and kilometres travelled.

Waste

We're committed to reducing and reusing whatever we can – and eliminating waste to landfill.

Our approach

As with any product, making alcoholic beverages generates waste at every stage of the product lifecycle. Where possible we want to reduce the materials we use, and then we work to make the best use of the waste we can't avoid. Above all, we want to ensure that nothing is simply thrown away. Landfills are more than just an eyesore: they cause the contamination of ground- and surface-water; they emit the greenhouse gas methane; they take up land that could be used more beneficially; and they have negative impacts on biodiversity.

We're committed to eliminating waste to landfill entirely from our operations by 2015 through a variety of measures, which we outline below:

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

Performance

Eliminating waste sent to landfill from our operations entirely by 2015 remains a challenging target. But, after a setback in 2011, we are back on track, with a reduction of 20.5% this year and an overall reduction of 56.8% against a 2007 baseline.

This amounted to 94.8% of our total waste being reused or recycled in 2012. In terms of hazardous waste, 0.9% was disposed of to landfill or recycled.

Because waste is generally a localised issue, the way that we improve our waste-handling varies significantly from site to site, and region to region. But globally, we are encouraging increased awareness and better practices, which, combined with a willingness to make the best use of available local infrastructure, are helping us meet our target.

We are proud of the fact that 16 of our sites in Scotland, for example, sent zero waste to landfill this year – taking the number of sites in this category to 24 globally. We have also made significant reductions of waste to landfill across our brewing operations in Africa. In particular, waste to landfill has been halved at our operations in Aba and Benin City in Nigeria, with considerable progress at other locations throughout the region.

Below are some of the ways in which we have worked towards our target.

Total weight of waste by type and disposal in 2012 (tonnes)

Region	Total waste reused or recycled	Total waste to landfill	Total waste
North America	22,322	16,549	38,871
Europe	371,692	181	371,873
Africa	197,327	18,360	215,687
Latin America and Caribbean	11,973	925	12,898
Asia Pacific	58,510	5	58,514
Corporate	799	178	977
Diageo (total)	662,622	36,199	698,821

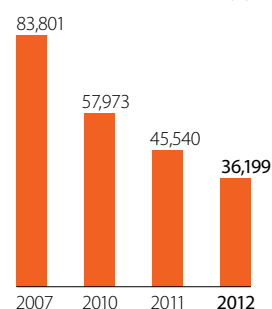
Hazardous waste, reused, recycled and sent to landfill in 2012 (tonnes)

Region	Hazardous waste reused or recycled	Hazardous waste to landfill
North America	79	1
Europe	226	54
Africa	5	16
Latin America and Caribbean	7,697	–
Asia Pacific	–	–
Corporate	–	–
Diageo (total)	8,008	71

Total waste to landfill by year (tonnes)

Region	2007	2010	2011	2012
North America	40,828	40,494	20,517	16,549
Europe	3,627	1,107	579	181
Africa	33,492	14,068	21,790	18,360
Latin America and Caribbean	4,694	1,648	686	925
Asia Pacific	588	89	1	5
Corporate	571	567	1,967	178
Diageo (total)	83,801	57,973	45,540	36,199

Total waste to landfill by year (tonnes)



Reducing materials

The primary way that we can reduce the amount of waste going to landfill is reducing the materials we use in the first place. For example, at our brewery in Ogba, Nigeria, we eliminated waste kieselguhr by using an alternative filtration system.

Finding agricultural uses for waste

Some material previously sent to landfill can be put to good use by farmers. At our Aba brewing facility in Nigeria, a project to make spent grains and yeast available to farmers reduced waste to landfill from this site by over 50% in 2012.

At our maltings facility in Kenya, we have begun composting wet grain waste within the site, which has reduced waste to landfill by 32 tonnes.

Recycling packaging and other materials

We seek to ensure that as much material as possible is recycled. At our Tusker brewery in Kenya, initiatives including training for technical operators and contractors in waste segregation, and the recycling of polyethylene bags and cartons from the packaging department, have contributed to a reduction of waste to landfill of 15%. And at our Isipingo blending and packaging site in South Africa, 13 tonnes have been diverted from landfill by recycling paper and packaging straps.

Recovering waste for energy

Where materials cannot be recycled, as a last resort we explore their potential for energy recovery through incineration. In some areas, we didn't send any waste for use as energy, but where this is the only feasible option, we work with trusted partners using advanced technology to minimise the impact of converting waste to energy.

Types of waste

Our operations generate both hazardous and non-hazardous waste.

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

Hazardous wastes, including oils, acids, and bases, are used subject to government regulations and environmental consents, and are disposed of through specialist contractors. Last year, a total of 71 tonnes of hazardous waste from 14 sites went to landfill – a figure we are seeking to reduce.

We are exploring ways to reuse or recycle all of our waste streams – often in ways that bring benefits to our business, the environment, or local communities.

Sustainable packaging

We believe we make some of the best drinks in the world, but we're also proud of the packaging that protects, preserves and sells our brands. We're committed to addressing the environmental impacts of our packaging while keeping its sense of celebration.

Our approach

People want the brands they enjoy to be in perfect condition when they buy them, and we want them to stand out on the shelf. But the packaging that plays such an important part in protecting and marketing our brands has environmental impacts throughout a chain that stretches from our suppliers, through the retailer, to the consumer and beyond.

We want to use packaging which combines the lowest possible environmental impact with protecting, delivering and presenting our products and brands – and we have adopted a global approach, focusing first on high-volume brands where our savings will have the most impact. In 2010 we set targets, using a 2009 baseline, to reduce average packaging weight, increase the recycled content of our packaging, and make all our packaging recyclable or reusable by 2015. This year, alongside steady progress against these targets, we published guidelines to reinforce this message.

Performance

Reducing packaging

We have set ourselves the target of reducing the average packaging weight of our products by 10% against a 2009 baseline.

This year, we saved 13,374 tonnes in packaging weight, a reduction of 1.6%. Since 2009, we have reduced the average weight of our packaging by 4.8%.

As an example, we saved more than 2,500 tonnes of packaging by replacing 10 million 200ml and 375ml glass bottles for our Captain Morgan brand with collapsible polyethylene (PET) containers at our Plainfield facility in Illinois, United States. And for the United Kingdom market, we lightweighted Blossom Hill wines from 415g to 390g per bottle, reducing total weight by 2,000 tonnes. Weight reductions not only affect how much material we need to package our products, but also create other savings, especially in transport and associated carbon emissions.

Increasing recycled content

By 2015, we aim to increase the average recycled content across all packaging by 20% to 42%. Currently, average recycled content across all packaging is 35%, as reported last year.

80% of our cardboard packaging and 52% of aluminium cans are made from recycled material. However, glass makes up the majority of our packaging and the recycled content varies according to factors including the availability of 'cullet' – recycled glass which has been crushed and is ready for re-melting – and local recycling practices. The use of cullet reduces the energy required to make bottles as well as the impacts on virgin resources, and this is an area in which we recognise that we need to make further progress.

Our aim is to use more recycled and sustainably sourced virgin content in all our packaging, through better technology and by working with our suppliers.

Making packaging recyclable and reusable

Making our packaging recyclable reduces the risk that it will end up adding to the landfill problem. Levels of recycling infrastructure and awareness vary from market to market, so we tailor our approach to recycling according to what can be achieved locally, while globally we aim to eliminate the use of any materials that are harmful to the environment.

We are aiming to make all packaging 100% recyclable or reusable by 2015. This year, the proportion was 98.3%, compared to 97.7% in 2009.

For example, this year we redesigned the cartons for Johnnie Walker Red Label in the Asia Pacific region, removing an oil-based metallised plastic film (met-pol) that limited recycling in local facilities, and diverting 1,500 tonnes of cardboard from landfill.

The wider environment

The complexity and variety of the natural world is something to celebrate. We want to support, not harm, the biodiversity of the places where we work – and to minimise all our impacts on the wider environment.

Our approach

Our distilleries, breweries, wineries and other sites are all surrounded by complex eco-systems which support a wide range of plant and animal species. We are committed to safeguarding biodiversity around our operations, with a particular emphasis on the impacts caused by the use of our main ingredient, water.

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

Addressing our impacts on biodiversity

Healthy eco-systems support more than the diverse species that comprise them – they are often essential to the local economy, supporting agriculture and providing a resource to communities. While we have a responsibility to the environment and the communities we share it with to preserve and support biodiversity, we are also, as a user of natural ingredients in our products, dependent on it for the sustainability of our business.

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

Water and biodiversity

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

We have identified 14 water sources used by our operations as being sensitive. Three of our production sites are associated with wetlands designated as being of international importance under the Convention on Wetlands of International Importance, or the 'Ramsar Convention', an inter-governmental treaty agreed in Ramsar, Iran in 1971. They are:

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

In each of these protected wetlands we are monitoring the local issues specific to our sites, and implementing innovative technologies which improve water efficiency and improve the quality of wastewater. We are also exploring the potential for collaboration with other industries and stakeholders to encourage the spread of more effective management practices.

The water that leaves our operations also has potential impacts on rivers, lakes, streams and the ocean. Currently we do not have sufficient information to understand our impact fully when it reaches these water bodies but overall we believe it is relatively small. For information on how we deal with effluent, see our reducing water pollution section on [page 44](#).

Sites or owned land adjacent to areas of biodiversity value

Site	Type of operation	Biodiversity value of adjacent land	IUCN Red Data Protected species or local designations
St Croix US Virgin Islands	Distillery	The St Croix ground lizard, mainly found in beach areas and upland forest, is indigenous to the island of St. Croix and three other islands	St Croix ground lizard
Kilkenny Ireland	Brewery	Designated as a candidate Special Area of Conservation (SAC) on the basis of terrestrial and freshwater ecosystems	Freshwater pearl mussel
Uganda Brewery Uganda	Brewery	Uganda Breweries Limited is located in Port Bell Luzira, adjacent to the Muchison Bay wetland at the shores of Lake Victoria	None
Mwanza Tanzania	Brewery	Adjacent to the wetland at the shores of Lake Victoria	None
Jamaica – Red Stripe Jamaica	Brewery	Approximately 3.2km from Kingston Harbour – National Environment Protection Agency Water Resource Authority	None
Blair Athol Distillery Scotland	Distillery	Freshwater Natura 2000 site; Site of Special Scientific Interest (SSSI)	Atlantic salmon, otters, sea lamprey, river lamprey, brook lamprey and pearl mussels
Burghead Maltings Scotland	Maltings	Maritime ecosystem (Sea) Natura 2000 site; SSSI	Dolphins
Cardhu Scotland	Distillery	Freshwater Natura 2000 site; SSSI and SAC	Atlantic salmon, otters, sea lamprey and pearl mussels
Cragganmore Distillery Scotland	Distillery	Freshwater Natura 2000 site; SSSI and SAC	Atlantic salmon, otters, sea lamprey and pearl mussels
Dailuaine Distillery Scotland	Distillery	Freshwater Natura 2000 site; SSSI and SAC	Atlantic salmon, otters, sea lamprey and pearl mussels
Dalwhinnie Distillery Scotland	Distillery	Freshwater Natura 2000 site; SSSI and SAC	Atlantic salmon, otters, sea lamprey and pearl mussels
Dufftown Distillery Scotland	Distillery	Freshwater Natura 2000 site; SSSI and SAC	Atlantic salmon, otters, sea lamprey and pearl mussels
Glen Ord Distillery Scotland	Distillery	Maritime ecosystem (Sea) Natura 2000 site; SSSI and SAC	Goosander, greylag goose, merganser
Glen Spey Distillery Scotland	Distillery	Freshwater Natura 2000 site; SSSI and SAC	Atlantic salmon, otters, sea lamprey and pearl mussels
Gleneagles Hotel Scotland	Hotel	Raised dome sphagnum peat mire – SSSI which is managed in conjunction with Scottish Natural Heritage	None
Glendullan Distillery Scotland	Distillery	Freshwater Natura 2000 site; SSSI and SAC	Atlantic salmon, otters, sea lamprey and pearl mussels
Knockando Distillery Scotland	Distillery	Freshwater Natura 2000 site; SSSI and SAC	Atlantic salmon, otters, sea lamprey and pearl mussels
Mortlach Distillery Scotland	Distillery	Freshwater Natura 2000 site; SSSI and SAC	Atlantic salmon, otters, sea lamprey and pearl mussels

Protected areas and threatened species

As shown on the preceding page, we have identified 18 operational sites and/or vacant owned land to be near or adjacent to areas designated as having biodiversity value by the United Nations or national conservation lists, with a total area of approximately 15 km².

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

Reducing ozone-depleting and other air emissions

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

This year, 10,170kg of HCFCs were present in our refrigeration and air-conditioning systems, of which 563kg were emitted.

Halons have been almost eliminated from all our manufacturing sites while CFCs are present in extremely small quantities.

HCFCs and CFCs (2012)

	Present kg	Emitted kg
Halons	0.50	0
CFC	16.1	0.50
HCFC	10,170	563.0
HFC	3,501.0	290.0

Other air emissions

The use of fuel and the distillation of alcohol generate emissions which have impacts on the environment. In 2012, we emitted 1.262kt of nitrous oxides (NOx) and 1.313kt of sulphur dioxides (SOx).

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

Accounting for spills and other incidents

There were three incidents of non-compliance with environmental consents this

year, resulting in a total of \$68,300 (£48,623) in fines. There were 12 spills or other incidents during the reporting year, totalling approximately 27,000 litres of spilled material.

Our approach to genetically modified organisms (GMOs)

Scientific knowledge and public acceptance of GMOs varies between regions and countries. We believe that the government agencies responsible for public health and the environment should guide public policy in these areas.

In general, we aim to use materials that are not genetically modified in the production of our brands. We have a policy of not using genetically modified material for the European domestic and duty-free markets, and currently use very few genetically modified materials in Asia Pacific or Africa. However, this policy cannot be applied in the United States and Canada, where there is a high proportion of genetically modified material in the supply chain.

We comply with all local labelling legislation, including any requirement to identify GMOs. We will continue to monitor and respond to scientific and regulatory developments, as well as to consumer attitudes, and keep our policy under regular review.

NOx and SOx emissions (2010–2012)

	2010	2011	2012
NOx (kt)	1.171	1.269	1.262
SOx (kt)	1.265	1.319	1.313

Where there's muck, there's gas

The use of renewable energy will play an essential part in our drive to reduce carbon emissions. An innovative scheme in Canada is harnessing an unlikely source of green energy – rubbish.



Case study:

Our distillery in Gimli, Manitoba, is at the forefront of our drive to use renewable energy. The plant, where we distil Crown Royal whisky, has replaced its entire supply of the fossil fuel natural gas with biomethane, a form of green gas.

The biomethane is captured from the decay of organic matter in landfill sites – a renewable source that has a neutral impact on carbon emissions. Using biomethane instead of fossil fuel gas will have a dramatic impact on Gimli's carbon footprint, reducing the CO₂ emissions from Gimli by more than 99%.

The Gimli initiative, which began as a concept earlier this year and is now fully operational, is an initial three-year partnership with provider Bullfrog which has great potential for our business. Converting to biomethane in this one location will reduce our overall CO₂ emissions by 3%, a significant contribution to our global carbon strategy, which is designed to halve the overall CO₂ emissions of our operations by 2015.

For more case studies from around the world, please visit <http://srreport2012.diageoreports.com>

Socio-economic development

In this section:

- 52 Performance and outlook
- 53 Local wealth creation
- 55 Community investment
- 59 Advocacy

63,638 

63,638 people in Latin America and Caribbean have been trained through our Learning for Life programme since its launch in 2008

8 million 

Our goal is to provide access to water for 8 million people in Africa by 2015; in the past six years we have run over 200 projects

£2.6 million

Diageo invested £2.6 million in social entrepreneurs across the world this year through Champions for Change and the Arthur Guinness Fund



25,698 

We employed an average of 25,698 people in 2012, with 39% from emerging markets in Africa, Latin America and Caribbean, and Asia Pacific

£28.7 million

£28.7 million (0.9% of our operating profit) went to our community investment programmes this year

Pictured here, a woman stands in front of the Zenu water purification plant in Ghana, one of our many community investments this year. Creating jobs, paying taxes, investing in skills development, providing access to clean water, supporting social entrepreneurs, and helping when disaster strikes are some of the ways we contribute to our communities.

Socio-economic development

Celebrating life, every day, everywhere is about contributing to the lives of our employees and business partners, and to the wider community through all our activities. Helping to maximise our social and economic impact builds trust with our stakeholders, boosts employee engagement and supports the stable operating environment we need to succeed.

Our approach

At Diageo, giving back to our communities has been a part of our history dating back to the founders of our legacy companies. In the nineteenth century, for example, Arthur Guinness provided parks and housing for Dublin's poor at a time when governments relied on private beneficence to fund public services. Meanwhile Grand Metropolitan was closely linked with projects tackling unemployment before it merged with Guinness to become Diageo.

Our approach has expanded since we made a meaningful assessment of the potential impact of our entire value chain, including but not limited to our corporate philanthropy. Specifically, our strategy is defined around three pillars:

- **Local wealth creation** – contributing to economic development through a range of business activity, including tax contributions, local hiring, local sourcing and fostering an enterprise culture.
- **Community investment** – establishing investment programmes through corporate-wide or brand-led charitable activity.
- **Advocacy for positive change** – working with other companies, governments, industry bodies and NGOs to address sustainable development.

Performance and outlook

Whether through our direct operations, our local investment or our advocacy for change, we are proud of the contribution we make to our communities.

Our stakeholders expect global companies like Diageo to demonstrate a contribution to socio-economic development in the communities in which they operate. This is especially true in markets that may not have well-developed regulatory environments and look to the private sector to collaborate through good business practices. In this way, our strong commitment to our communities helps us build relationships with the stakeholders we rely on, and directly supports our growth strategy.

Key metrics

We measure our impact on our communities in a variety of ways, but primarily have used targets to measure the impact of our community investment. As we continue to expand our approach to socio-economic development, we will further consider how best to measure our short and long term impacts.



Progress against Socio-economic development targets

Target by 2012	2012 performance	Cumulative performance	Achievement
Contribute 1% of operating profit to charitable causes every year	Contributed 0.9%	n/a	Not achieved
Target by 2015			
Source 70% of raw materials used in African operations from Africa	Achieved 56%	n/a	On track
Improve access to safe drinking water for eight million people in Africa	Approximately 1 million people benefited	We have supported 200 projects supporting water infrastructure since 2006, and are currently re-evaluating our measurement and evaluation of this programme	On track
Target by 2016			
Train 100,000 people through our Learning for Life programme worldwide	12,639 people trained	63,638 people trained since 2008 70–80% of Learning for Life students secure employment upon graduation	On track

Local wealth creation

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

- Diageo employed an average of 25,698 people in 2012, with 39% from emerging markets in Africa, Latin America and Asia Pacific. This percentage is expected to grow as we expand our business in emerging markets.
- We are one of the largest tax contributors in Kenya.
- We recognise the importance of local sourcing and actively measure our progress against a target to source 70% of raw materials for African production sites from Africa by 2015; this year we sourced 56%.
- Some of our subsidiaries are publicly listed on local stock exchanges, where investors receive dividend payments and potential capital growth. In total we have over 100,000 local shareholders in emerging markets through the following companies: Guinness Nigeria, East Africa Breweries Ltd, Guinness Ghana Breweries, Seychelles Breweries and Red Stripe in Jamaica.

Community investment

As shown in the key metrics table on [page 52](#), our impacts in community investment are measured through progress against targets managing inputs such as investment, or outputs such as the number of people benefiting from a given programme.

This year, we invested around £28.7 million which amounts to 0.9% of our operating profit excluding exceptional items. While just shy of our 1% target, our community investment increased each year and currently excludes investment in the socio-economic development activities that we run without charitable partnerships.

Contributions were given through a variety of means including long term corporate-wide flagship programmes, brand-led or cause-related marketing, foundation grants or local donations of time, money and product.

The key areas of investment focus on responsible drinking, access to clean water, education and training and social entrepreneurs. We measure performance of these longer-term investments through targets shown in the table for all programmes except social entrepreneurship. This year we financially supported 82 social entrepreneurs and delivered training to 70. We are developing formal targets for this programme, and will report progress against them next year.

Other investment is split by a variety of causes, important to our local markets and communities. It includes contributions to The Thalidomide Foundation Ltd in Australia and the Thalidomide Trust in the United Kingdom in support of a legacy commitment. These contributions are distinct from the litigation settlement achieved in July 2012 in Australia.

Advocacy

This year we worked with others to promote change on a range of issues from anti-corruption to food and water security to accountability and transparency in business journalism. For example, in Nigeria, we signed up to the Convention on Business Integrity (CBI), a Nigerian organisation that asks businesses to adhere to and be measured by its Code of Business Integrity to move Nigeria towards a 'visible zero tolerance' for corruption. We are also signatories of important mandates such as the CEO Water Mandate, endorsed by the United Nations, and the New Alliance for Food Security and Nutrition, endorsed by the African Union, the World Economic Forum and the G8. Finally, for the ninth year in a row, Diageo ran the Africa Business Reporting Awards (DABRA), aimed at strengthening local business media by encouraging openness, accountability and transparency.

Outlook

In the coming years we aim to improve our methods for measuring our impact on local sustainable development, both how we measure our community investment and how we measure the overall impact of our operations.

While measuring the overall impact our operations have on local communities is challenging, we are exploring methodologies, particularly with regard to our economic impact. We plan to start measuring this in certain markets, beginning in Africa with Ghana, Kenya and Nigeria.

Moreover, we will continue to focus on establishing socio-economic development programmes that meet the needs of our stakeholders. To help inform this work, we aim to extend the sustainability and responsibility strategy workshops we launched this year to new markets to understand what issues are important both to local stakeholders and to Diageo. For 'Determining our material impacts' see [page 17](#).

Local wealth creation

We have a commercial, strategic and ethical interest in including our communities in our value chain – allowing the success of our business to support the stable economic environment of our communities, as well as our business needs.

Our approach

For us, wealth creation means ensuring our business has a beneficial impact on local economies. We directly create wealth for local stakeholders through:

- Providing local jobs and building local talent
- Sourcing from local businesses
- Fostering economic opportunities for new parties in our value chain
- Paying local duties and taxes
- Creating wealth for local shareholders.

To maximise the economic impact of these activities, it is also important to support community programmes that address local concerns such as education and health, or advocacy that challenges the status quo on topics such as setting high standards of governance.

Wealth creation is especially important in emerging markets, which now represent almost 40% of our net sales. Africa in particular provides significant growth opportunities for us as a business, with almost one in four of Diageo's total workforce employed in this dynamic and emerging market.

Performance

The economic value we created this year includes direct flow of cash to our stakeholders through jobs, contracts and investments as well as indirect impacts, which are harder to measure but can be the result of business decisions indirectly opening new economic opportunities.

The diagram below illustrates our total direct cash contribution to the global economy and how our revenue flowed to many stakeholder groups in our value chain.

1. Suppliers (£6,114m)

More than 40% of our cash contribution comes from buying raw materials, packaging materials, logistics and transportation, marketing materials, advertising and information services and business support from tens of thousands of direct suppliers. This year procurement spend increased by 13% compared to last year.

Where possible and economically appropriate, we source locally to support local farmers, communities and economies. In Africa, we aim to source 70% of our raw materials from the region by 2015. At the moment, we work with thousands of farmers across the continent and source 56% of our raw materials locally. Read more about our work with suppliers on [pages 83-90](#).

2. Governments (£4,443m)

Every year, our tax contribution accounts for a significant proportion of the value we contribute to economies around the world. This year it amounted to about 30% of our total contribution, including £3,832 million in alcohol taxes and £611 million in other taxes. This represents an increase of almost 19% compared to last year.

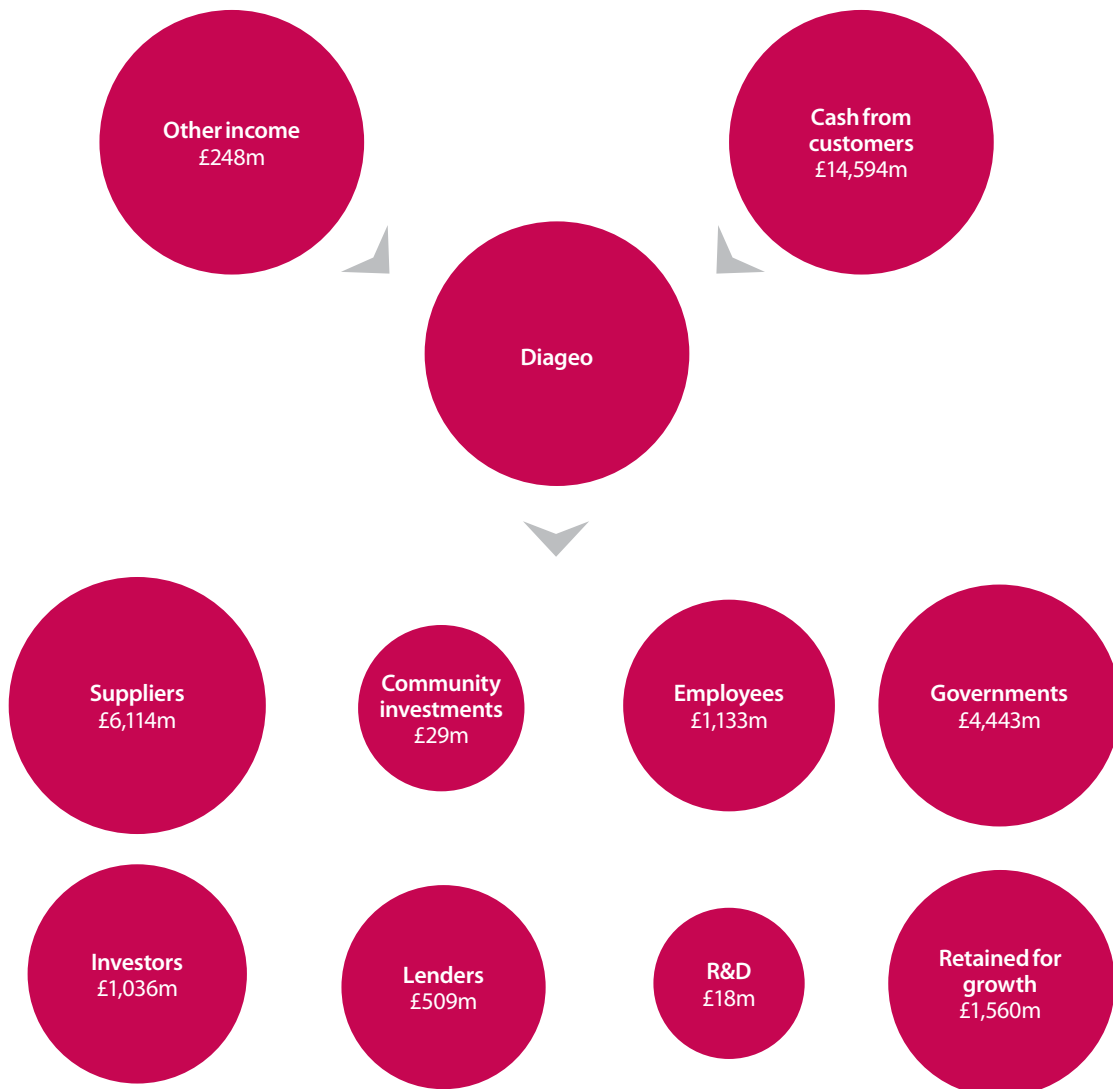
Our tax footprint is made up of direct and indirect tax payments. Direct taxes include corporation tax, local business taxes

and excise duties on our sales, as well as other sales taxes such as VAT. Indirect taxes include, for example, the payment of income and corporate taxes by our employees and suppliers. Read more about our regulatory environment on [page 75](#).

3. Retained/invested for growth (£1,560m)

We are always looking for opportunities that fit with our business – whether new partnerships or new acquisitions – and this year reserved 11% of our total cash for this purpose. These opportunities for growth not only benefit us as a company but also the economies in which we do business. This year we made a number of acquisitions of brands, distribution rights and equity interests in premium drinks businesses, particularly in emerging markets such as Turkey, Ethiopia, Vietnam and Brazil. Read more about changes to our business this year in our 2012 Annual Report.

Cash value added in 2012



4. Employees (£1,133m)

Recruiting, developing and retaining local talent is one of the more direct ways in which we can help develop local communities. We are committed to reflecting the diversity of all our local populations in our leadership teams and consider the long term welfare of our employees in structuring benefits packages. This year we paid our employees £1,133 million or 8% of our total cash contribution in salaries and benefits. Read more about our responsibilities to our employees on [pages 61-72](#).

5. Investors (£1,036m)

We work hard to add long term value for shareholders and are pleased to report that our total shareholder return continues to outperform the FTSE 100. Diageo is committed to a sustainable and progressive dividend policy and this year recommended a further 8% increase in the annual dividend paid to shareholders. Diageo strongly believes in the value of our employees sharing in the company's success and we actively encourage our employees to become shareholders. As at 30 June 2012, 16,531 past and present employees held 1.16% (2011 – 1.17%) of Diageo's ordinary issued share capital. For more information see our 2012 Annual Report.

As well as being listed on both the London Stock Exchange and the New York Stock Exchange, Diageo owns stakes in companies in various parts of the world that are listed on local stock exchanges including Guinness Nigeria, East Africa Breweries Ltd, Guinness Ghana Breweries, Seychelles Breweries and Red Stripe in Jamaica. This is another important catalyst for wealth creation in emerging markets.

6. Lenders (£509m)

Diageo is an active borrower in global debt capital markets. Investing in Diageo debt instruments allows investors to achieve attractive yields, while their capital is guaranteed by our strong cash flow generation and sound business model. This year, about 3% of our total cash was paid to lenders. For more information see our 2012 Annual Report.

7. Community investment (£29m)

We invested £28.7 million this year in community development that aimed to address local interests and needs. In total, this amounts to 0.9% of our operating profit before exceptional items and represents a 3% increase from last year.

8. Research and development (£18m)

Regionally-focused innovation can help create local jobs and support local communities.

In the last financial year, Diageo launched 24 innovations in Africa focused on creating new products that appeal to African tastes and embrace African cultures. One of these brands, Armstrong, is a locally-produced spirit-based drink that is an affordable and credible beer alternative for lower income consumers. It was launched in Ghana in May 2012.

Creating wealth in Africa

With a large production footprint in Africa, we believe that contributing to economic and social development is core to our business success and to our reputation.

We define our economic impact in two ways. First, in terms of the direct flow of cash to our stakeholders through jobs, dividends to local shareholders, contracts, investments and taxes; and second, through indirect impacts, which are harder to measure, but include the contribution we make through our value chains and network of business partners. In both cases, our aim is to include local stakeholders in every aspect of economic opportunity that our business can provide.

Direct impacts

This year alone we recruited 87 graduates in Africa through our three-year Growing Together Pan Africa Early Career Programme. In Ethiopia, where we recently acquired the Meta Abo Brewery in Addis Ababa, we quickly invested in a sales capability-building programme for a new commercial leadership team comprising existing Meta Abo Brewery employees and new employees from the local talent pool.

We make significant tax contributions to governments. Indeed, we are one of the largest tax contributors in Kenya (representing over 4% of total tax income to the government).

Diageo has majority shareholdings in four publicly-listed businesses (Guinness Nigeria, East Africa Breweries Ltd, Guinness Ghana Breweries and Seychelles Breweries) which together have over 100,000 shareholders. The shares of these companies are publicly traded and, in the majority of cases, dividends are paid every year creating a source of income for local investors.

Indirect impacts

Demand for our brands creates opportunities for hundreds of thousands of business partners – from farmers to distributors, bar owners and more. Supporting entrepreneurs and local businesses within our value chain plays an important role in stimulating local private sector growth. As part of executing a sustainable procurement strategy, we work hard to source grain locally in Africa,

purchasing about 180,000 tonnes of grain a year from thousands of farmers across the continent. In many parts of Africa we are working with the farming communities to improve their crop yields, and in some cases helping to provide them with access to financial services. Read more in our sustainable agricultural partnerships section on [page 88](#).

Community investment

Our community investment allows us to go beyond the impacts of our operations to help further enable the sustainable development of the communities we rely on.

Our approach

Diageo has been investing in local communities for generations, building on the legacy of our brands' founders like John Walker and James Buchanan in Scotland who understood that it made business sense to protect and nurture the communities around them.

Our investment includes long term, actively-managed programmes that help serve critical local needs; brand activity and cause-related marketing that engage consumers around charitable causes; local donations of employees' time and money; and investment from the Diageo Foundation, a UK-registered charity with a board of trustees which focuses on emerging markets. Some brands have launched their own longer-term funds, for example, the Arthur Guinness Fund which supports social entrepreneurs or Zacapa Bar 7, a micro-financing initiative in Guatemala.

We define our community investment programmes in five ways:

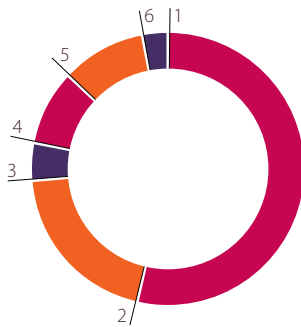
- Promoting responsible drinking through innovative community programmes (reported in the alcohol in society section, on [pages 27-38](#)).
- Providing access to clean water through our Water of Life programme.
- Investing in skills and education through various programmes such as Learning for Life in Latin America and the Caribbean, and Champions for Change in Asia.
- Investing in social entrepreneurship through the Arthur Guinness Fund and Champions for Change.
- Supporting local interests and infrastructure projects through donations, volunteer efforts led by local employees, disaster relief or large-scale infrastructure projects initiated by the company.

Performance

This year we invested 0.9% of our operating profit or £28.7 million, supporting causes as diverse as providing scholarships in Scotland, to funding water infrastructure in poor communities in Africa, to responding rapidly to disasters in Thailand, the Philippines and Australia.

Community investment by type (£000)

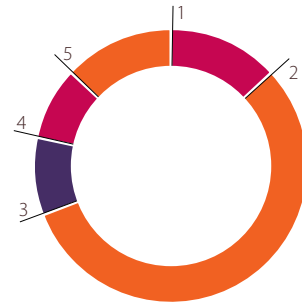
- 1 – Local interests and infrastructure¹ £15,405
- 2 – Responsible drinking projects (charitable projects only) £5,751
- 3 – Access to clean water £1,249
- 4 – Social entrepreneurship £2,573
- 5 – Skills and education £2,846
- 6 – Management costs £863



(1) Note that investment shown for local interests and infrastructure includes £8.1 million (2011 – £7.7 million) to the Thalidomide Trust and £1.5 million (2010 – £3 million) to The Thalidomide Foundation Ltd in Australia in support of a legacy commitment. Thalidomide is a drug which was distributed in the United Kingdom, Australia and New Zealand by the pharmaceutical subsidiary of the Distillers Company Limited (DCL). It was withdrawn after side-effects of the drug on unborn children were discovered. In 1986, Guinness acquired DCL and in 1997 merged with Grand Metropolitan to become Diageo. We are working voluntarily with thalidomide organisations, including making contributions to The Thalidomide Trust in the United Kingdom and to the Thalidomide Australia Fixed Trust in Australia. The contributions listed here are distinct from the litigation settlement achieved in July 2012 in Australia.

Community investment by region (£000)

- 1 – North America £3,763
- 2 – Europe¹ £16,115
- 3 – Africa £2,640
- 4 – Latin America and Caribbean £2,490
- 5 – Asia Pacific² £3,679



- (1) Investment shown for Europe includes £8.1 million (2010 – £7.7 million) to the Thalidomide Trust in the United Kingdom. It also includes the full investment from the Diageo Foundation.
- (2) Investment shown for Asia Pacific includes £1.5 million (2010 – £3 million) to The Thalidomide Foundation Ltd in Australia. The contributions listed here are distinct from the litigation settlement achieved in July 2012 in Australia. It also includes total investment from Global Travel and Middle East.

Access to clean water

Water is an essential ingredient for all our brands. Our responsibility to water is not simply in our operations but in providing clean water to our local communities that need it – particularly in Africa and increasingly in Asia.

Our approach

While water is a global necessity, water supplies are more stressed in some places than in others. Water stress occurs when annual water supplies drop below 1,700m³ per person. When supplies drop below 1,000m³ per person per year, a country faces water scarcity for all or part of the year (United Nations Department of Economic and Social Affairs definition).

Twelve of Diageo's wholly-owned sites are currently classified as water-stressed, all in Africa, representing 60% of our operations in the continent. Within our operations, we are working to reduce water use around the globe, but place particular emphasis on stewardship in water-stressed sites. However, even communities that are not

water-stressed may have restricted access to clean water given the limitations of local infrastructure. This is equally concerning to us because it affects health and livelihoods.

We therefore have a multi-faceted approach to water, set out in our Blueprint Water Framework. It covers aspirations that we have for our own operations, the provision of clean water to communities and how we are working collectively to address water issues. You can read about water management in our operations in our water and the environment section on [pages 39-50](#).

Water of Life

Clean water is essential for sustainable development because it contributes to better health and levels of education, and helps reduce poverty. Our Water of Life programme (WOL) aims to provide access to safe drinking water where it really counts – to communities, families and individuals. Since June 2006, we have supported over 200 WOL projects in 16 countries, mostly in Africa, supporting a range of initiatives including boreholes, hand-dug wells, rainwater harvesting and domestic filtration devices. In the past year, this has benefited about 1 million people. Our aim is to deliver clean and safe water across Africa for an additional 1 million people every year to 2015.

Most of our projects are co-founded with other organisations to ensure a better degree of sustainability or to leverage local knowledge and expertise, whether it's Ecotact, an award-winning social enterprise building sanitation blocks in Kenya, or Coca-Cola, our partner for the Safe Water in Africa initiative that helps communities purify and disinfect contaminated water.

To estimate the number of people who benefit from our programmes, we aim to assess the following criteria. Each beneficiary should:

- Live within 2km of the water source, or 500m if in an urban area
- Be able to get his or her water from:
 - Piped water into a dwelling, plot or yard
 - A public tap/standpipe
 - A tube well/borehole
 - A protected dug well
 - A protected spring
 - Rainwater collection
 - Water filtration and purification.

To help ensure this programme achieves its goals, we are continuing to improve the quality of data we collect on WOL beneficiaries.

As well as providing access to clean water, the projects we support have a variety of goals to maximise their impact on economic development and health. For example, they aim to:

- **Combine safe water with sanitation** – we're helping to eradicate Guinea worm in Ghana, a debilitating disease that is transmitted through unfiltered water. The Diageo Foundation and Guinness Ghana Breweries funded two small town water systems bringing clean and safe drinking water to over 5,000 people. The initiative also trained and employed two caretakers to manage the new water facilities.
- **Educate community on good hygiene and sanitation** – for example, our partnership with social enterprise Ecotact which builds and improves water and sanitation blocks for the urban poor in Kenya.
- **Develop people's skills and communities' ownership of projects** – for example our work in Cameroon has trained the local community in Ntembang to repair, maintain and improve their clean drinking water supply.
- **Be self-financing, to ensure the upkeep of equipment and technology** – such as our Safe Water for Africa initiative in partnership with the Coca-Cola Africa Foundation and WaterHealth International.

WOL in Malaysia and China

Although most of our WOL projects are in Africa, we have also launched projects in Asia. Since 2007, the Diageo China WOL Project has been improving the safety of drinking water for residents in impoverished areas and protecting water resources. In 2011, employees travelled to Sichuan – Huilan Town Ziyang City – and invested over £30,000 to build 100 local wells that bring safe drinking water to villagers.

Similarly, in Malaysia, we invested £50,000 in a roaming interactive mobile education centre designed to teach communities about the importance of urban river conservation. Launched in 2011, it educated 400 people about their local water source and has helped to improve water quality in the local waterways.

In Vietnam's Ninh Thuan province, almost 20,000 community members and school children now have improved access to sustainable, clean drinking water, following Diageo's partnership with East Meets West Foundation to build water filtration systems and hygienic lavatories at local schools.

Investing in skills and education

We want to help people in our local communities build their skills so they can enter the workforce, either in our value chain or through other local industries.

We believe one of the best leading indicators for development is training and education and have historically placed a large emphasis on this around the world.

Vocational training in Latin America

Learning for Life, our flagship community investment programme in Latin America and Caribbean began as a programme to give life skills and training to people in the region's key areas of tourism, retailing, hospitality, entrepreneurship, and teaching. It is designed to give participants a real chance of finding employment and becoming active contributors to their community. In 2012 we ran 59 programmes in 30 countries and trained 12,639 students. This brings the total number of people trained to date to 63,638 since its launch in 2008.

This year Learning for Life has focused on the quality of its vocational training programmes, rather than the quantity of students trained. We have worked with our customers and other stakeholders, as well as engaging our retailers and distributors, to help us identify opportunities for students. This has enabled us to meet market demand and provide more jobs for our graduates. We also want to ensure that the programme links back directly to our own business.

The programme has five themes:

- **Bartending** – this programme offers underprivileged young adults of legal serving age the skills and knowledge to enter a career of bartending.
- **Hospitality** – we develop hospitality courses and provide scholarships which include internships with local hotels and restaurants. The programme currently operates in Argentina, Brazil, the Dominican Republic, Jamaica, Peru, Uruguay and Venezuela.
- **Enterprise** – this gives community members the knowledge and practical tools they need to start their own small business and become productive and self-sustaining in the future. The programme currently operates in Haiti, Brazil, Colombia, Jamaica and Venezuela and can range from two to 12 months in length.
- **Retailing** – this offers disadvantaged, unemployed young people the chance to gain skills and hands-on experience in customer relations and cash management for the retail sector.

- **'Professor'** – this programme trains teachers in marginalised areas in Mexico. More than 14,600 teachers were involved in Project Professor and 80 graduates were awarded a full scholarship to further their studies in Spain, thanks to a partnership with Fundacion Televisa.

Diageo's Bar Academy in Asia Pacific

In partnership with the globally-recognised Wine and Spirits Education Trust, Diageo's Bar Academy aims to provide accredited training and professional certification for bartenders across Asia Pacific. Thus far, the Academy has trained 10,000 bartenders in Asia and a further 9,600 in Australia, raising their skills to develop world class bar training standards and awareness of responsible drinking to benefit local tourism.

University programmes

Diageo funds a variety of scholarship programmes, particularly in the communities in which we have production sites. In East Africa, we have awarded over 200 university scholarships to bright and needy students. Successful scholars receive a complete university scholarship package including tuition, books, accommodation and a monthly stipend. The programme partners with both private and public universities in the region, among them Strathmore University in Kenya, Makerere University in Uganda and Mzumbe Universities in Tanzania.

In Nigeria, Diageo established a scholarship programme in collaboration with the Nigeria Society of Engineers for young engineering students in the Lagos, Edo and Abia states, where we have operational sites. We also promote technical education in the country, and this year sponsored 10 students to enrol in the Institute of Industrial Technology (IIT) in Lagos.

In Scotland, Diageo has also been funding engineering scholarships in Fife for 10 years – supporting students that have demonstrated excellence in their academic career and/or show financial need. The full-time students study various disciplines of engineering and computer sciences.

Other training programmes

A unique recycling initiative in Colombia, called Alianza con la Tierra, created jobs for local 'cooperativas', which are associations of low-income families who work mainly on the collection of all kinds of recyclable materials. This year, in addition to the recycling work, we offered 300 students from six associations access to classes on citizenship and civil rights, business management, commercial skills and organisational management. In Indonesia we support bar staff through the 'Sahabat Guinness' (Guinness is my good friend) programme, providing training and insurance for 4,500 bar staff across four key cities.

Investing in social entrepreneurship

We believe that social entrepreneurs act as catalysts to drive economic, social and environmental improvements in their local communities. We support them through programmes including Champions for Change and the Arthur Guinness Fund.

The Arthur Guinness Fund

It began with one man, Arthur Guinness, creating a legacy of goodness around his brand that has rippled through our local communities for over 250 years. We are very proud of this heritage. And in 2009, to commemorate the 250th anniversary of the original lease of the St James's Gate Brewery, we established the Arthur Guinness Fund to support entrepreneurs who are changing communities for the better.

Since its launch, the Fund has invested over £6.3 million across 13 countries, and funded 50 social entrepreneurs globally. Highlights from this year include:

- Our partnership with Ashoka, a leading association of social entrepreneurs, has grown from strength to strength. We have helped to identify and fund 10 social entrepreneurs, the Ashoka Fellows, from Canada, Europe, Africa, Thailand and Indonesia, who are working hard to make the world a better place.
- In Ireland we are supporting 20 social entrepreneurs working in partnership with Social Entrepreneurs Ireland. We know that the work done by the June 2011 intake of social entrepreneurs has had a positive impact on 10,687 people to date.
- Working with the British Council in Indonesia, we launched the Community Entrepreneurs Challenge, a competition for community-based social entrepreneurs. Since the first programme two years ago, we have received almost 800 social enterprise applications from the community, provided training to over 40 individuals and seed funding to 12 winning ideas. The programme has benefited over 8,000 people.

Champions for Change

In Asia, our Champions for Change programme encourages the development of social enterprise by providing people with the skills and necessary funds to tackle local social and environmental issues. This year we received a total of 1,915 submissions for social enterprise ideas, supported 82 social entrepreneurs and delivered training to 70. This amounted to an investment of £695,000 across seven markets. Next year, we aim to expand the programme further.

In these seven markets, we have worked in partnership with a range of organisations such as the British Council, local government and NGOs to identify and support social entrepreneurs. In addition to Indonesia,

where we ran the Community Entrepreneurs Challenge with the support of the Arthur Guinness Fund, the following are the countries in which we run Champions for Change:

- **China** – joined the Skills for Social Entrepreneurs Training programme organised by the British Council, providing social charity enterprises with financial support and professional consulting services, contributing over £70,000.
- **Vietnam** – in partnership with the British Council and Centre for Social Initiatives Promotion (CSIP), 11 social entrepreneurs were selected to participate in training, and receive support and seed funding.
- **South Korea** – 20 teams of young people with innovative business ideas were selected and trained, with support from Diageo Korea employees acting as mentors. Four winning teams received seed funding and the winning team attended the Global Social Venture Competition in the United States in April 2012.
- **Taiwan** – the Keep Walking Fund invested in 12 social entrepreneurs to deliver positive change across a whole range of community and social issues. The Keep Walking Fund is now in its eighth year.
- **Singapore** – supported the annual Qi Global event which brings together social innovators, creative mentors and corporate supporters to grow ideas for a better tomorrow.
- **Thailand** – a newly-formed partnership with Population and Development International aimed at launching a social enterprise programme in Thailand.

Seven Bar Foundation

In Guatemala, Zapac rum's micro-financing scheme in collaboration with the Seven Bar Foundation will distribute \$100,000 (£63,000) to 200 female entrepreneurs in the country, supporting both the women and their families.

Each individual loan will average \$500 (£316) and will be administered by Génesis Empresarial, a specialist organisation in Guatemala which has been involved in administering micro-finance since 1988. Co-operatives of the women of Santa Cruz in El Quiche, who make 'guipiles', will be the initial recipients of the loans, with other communities and co-operatives to receive funding in the years to come. 'Guipiles' are traditional, tunic-like garments worn by the women of Central America, woven with the same ancient skills as the 'petate' band.

Supporting local interests and infrastructure

The interests and needs of our local communities vary around the world. What is important to stakeholders in Indonesia, for example, will be different in Ireland, and we have a flexible approach to support the diversity of local interests.

Our approach

In addition to our longer-term flagship community investment programmes, we encourage our local markets and brand teams to contribute to locally relevant causes. This includes donations to local organisations, employee volunteer projects and investing in local infrastructure.

Brand activity

Our brands champion a variety of social and environmental causes in order to engage consumers while building their brands. For example, Talisker hosted a rowing race to raise over £2 million for charities. Johnnie Walker's new ultra premium innovation, the Queen's Diamond Jubilee Edition, will donate all profits to the Queen's charities. Read more about investments by our brands in our customers and consumers section on [pages 91-98](#).

Local giving and disaster relief

Diageo local businesses support a variety of projects and local causes. These range from the Helping Hands programme in Australia that has donated more than \$800,000 (£506,000) to charity partners over the last eight years; to Beaulieu Vineyard's Give and Give Back programme to help provide more than 1 million meals to US hunger relief charities; to our commitment in the United Kingdom to match fundraising by local employees.

We also support communities affected by disasters. After a terrible year in 2011 with major disasters affecting many of the regions in which we operate, this year saw fewer disasters, although floods in Thailand and the Philippines were devastating to those regions.

Thailand

The death toll for Thailand's worst flooding in more than half a century passed 600. Our employees in Thailand responded immediately and created the Watermark brand for Thailand to deliver a multi-pronged response programme with the help of £55,000 in funding from our business in the region and from the Diageo Foundation. They donated 20,000 bottles of drinking water, supplied emergency relief items and distributed 3,000 relief packs with support from Habitat for Humanity, the Thai Army and local communities, providing urgent help to over 4,500 families in affected areas.

The Johnnie Walker Keep Walking Project helped to build six mushroom farms supporting 50 households across 12 villages

in the district of Nakhon Pathom to help communities restore their livelihoods quickly. They are working together to find good distribution channels to generate profits from the mushrooms. We are also planning to help certain communities become more resilient in the face of similar disasters through reconstruction projects including water tanks, an evacuation centre and a local school.

The Philippines

Diageo contributed £25,000 to the Philippines Red Cross when floods devastated the southern cities of Iligan and Cagayan de Oro as a result of Typhoon Washi.

Australia

Following the 2010 Christmas floods in Queensland, the Bunderberg Distilling Company invested almost £57,000 to purchase a flood water rescue boat for the Local State Emergency Services of Queensland, which was handed over earlier this year.

United States

In August 2011, Hurricane Irene caused the worst flooding, wind and power cuts of recent memory in the country. Diageo North America responded quickly. The Relay plant and Norwalk office were without power for up to 36 hours. Diageo's Spirit of the Americas crisis team delivered over 7,500 gallons of Diageo's bottled water to communities in Connecticut, New York and Vermont and provided a generator to keep the power on at an old people's home.

Giving for Good

Giving for Good enables us to engage employees who are dispersed geographically but want to feel part of an employee-led community programme. A web-based campaign, it was set up in collaboration with the Diageo Foundation so that each year employees can directly support a carefully researched, sustainable community project in one of our emerging markets. The website also provides advice and support for employees' fundraising activities. Each year Giving for Good focuses on a different community project. This year we completed our roll-out of the water filter programme in Africa, donating water filter kits to schools and health clinics in Ghana.

Local infrastructure

Sometimes we can meet a business need by investing in local infrastructure, which has a much wider benefit to the community. In Nigeria, for example, we built a new road to connect our production and distribution site in Nigeria to the main Lagos road networks.

Thalidomide Trust legacy commitment

Our community investment figures include £8.1 million (2011 – £7.7 million) to the Thalidomide Trust and £1.5 million (2011 – £3.0 million) to The Thalidomide Foundation Ltd in Australia in support of a legacy commitment. Thalidomide is a drug which was distributed in the United Kingdom, Australia and New Zealand by the pharmaceutical subsidiary of the Distillers Company Limited (DCL). It was withdrawn after side effects of the drug on unborn children were discovered. In 1986, Guinness acquired DCL and in 1997 merged with Grand Metropolitan to become Diageo. We therefore inherited this commitment from DCL. We are working voluntarily with thalidomide organisations, including making contributions to the Thalidomide Trust in the United Kingdom and to The Thalidomide Australia Fixed Trust in Australia.

Advocacy

Alone, we cannot make as big a difference as we can if we work with others. We are partnering with governments, NGOs, our suppliers and local people to improve our local communities.

There is increasing recognition – and expectation – among governments and NGOs that the private sector can be a true catalyst for sustainable development. This is especially true in certain countries in emerging markets without well developed regulatory environments which look to the private sector, particularly global companies like Diageo, to facilitate broader change through good business practices. Doing so builds trust in Diageo and makes business sense.

Our growth ambition that emerging markets will account for 50% of our business by 2015 means that advocacy will increase in importance for us. We are advocates on a broad range of initiatives varying from economic development to water, responsible drinking and the environment.

Alcohol in society

First and foremost we recognise that for our business to succeed in promoting sustainable development, we need to create an environment that promotes responsible drinking. To us, efforts to tackle alcohol misuse are most effective when government, civil society, individuals and families as well as the industry work together to tackle the problem in partnership. In addition to our own work in marketing responsibly, providing consumers with information and supporting responsible drinking programmes, we advocate for effective industry-wide standards. Read more about our role in promoting a positive place for alcohol in society on [pages 27-38](#).

Economic development

More broadly, we advocate for innovative and inclusive business models that contribute to economic development. For example, we sit on a World Economic Forum taskforce with many others to share best practice for maximising the impact of the private sector on local sustainable development.

Recently, our newly-acquired Meta Abo Brewery signed a Memorandum of Understanding that aimed to do just that in Ethiopia. Along with the Ethiopian Agricultural Transformation Agency, the Oromia Regional Agriculture Bureau, and the local non-governmental organisation, Farm Africa, we intend to help develop a scalable contract farming model that connects smallholder farmers with large, dependable, commercial markets.

Anti-corruption

Recognising the barrier that corruption has on economic development, we are working on this issue in several countries. In Nigeria, we joined the Convention on Business Integrity (CBI), a Nigerian organisation that asks businesses to sign up publicly to its Code of Business Integrity to move Nigeria towards a 'visible zero tolerance' for corruption. Diageo was one of the key drivers of the Business Coalition Against Corruption in Cameroon, in partnership with over 120 participants from the private and public sector and civil society, including Transparency International and the government. East Africa Breweries Ltd played a leading role in the development of the 'Code of Ethics for Business in Kenya' which was launched in March together with the United Nations Global Compact network.

Water

In addition to the water projects we support, we are a signatory of the CEO Water Mandate. As part of this group, we are partnering with NGOs, governments, investors and UN agencies to help solve the global water crisis and to urge governments to make water a top policy priority. We have lobbied the US government to direct more aid to water problems in Africa.

Food security

We are one of the signatories of the New Alliance for Food Security and Nutrition, which was endorsed by the African Union, the World Economic Forum and the G8 at the latest G8 Summit in May 2012. Through this, we are pledging commitment to growth and transformation in Africa through participation in local agriculture and food production.

Creating jobs while minimising our environmental footprint in Colombia



Working with low-income families and local governments, we've rolled out our bottle collection initiative to seven cities in Colombia – and we're investing in skills for the communities involved.

Case study:

We have rolled out a programme in seven cities in Colombia. So far this year, we have collected 208,073 empty spirits bottles (including but not limited to Diageo brands), saving approximately 23 tonnes of CO₂ and 6,039 cubic feet of landfill.

This is the result of two years of work in Colombia. Our recycling initiative, currently known as Alianza con la Tierra (Alliance with the Earth) has focused on collecting empty bottles at the main regional fairs and festivals throughout the country. Working with us to collect the recyclable materials are 'cooperativas', or associations of low-income families.

'We discovered that these associations could become our long term partners if we also worked with them on improving skills,' said Ximena Renjifo, corporate relations

manager, Diageo Colombia. 'That's why we are currently implementing two Learning for Life Entrepreneur Projects with communities in the cities of Medellín and Barranquilla.'

Through Learning for Life, we have delivered valuable training to 300 students from six associations, in topics such as citizenship and civil rights, business management, commercial skills, waste management and organisational growth.

The programme has been well received by local governments and our on trade clients, and we see the opportunity to grow our glass collections throughout next year and to continue our support for recycling communities.

For more case studies from around the world, please visit
<http://srreport2012.diageoreports.com>

Empowering women in Guatemala



Hundreds of women in Guatemala are employed to weave petate, which adorn bottles of Zacapa rum. Meanwhile, we're working with the Seven Bar Foundation to support female entrepreneurs.

Case study:

Each bottle of Ron Zacapa Centenario is wrapped with a 'petate', a band hand-woven from dried palm leaves by women from Guatemalan communities. Local women have been weaving the petate since the creation of Zacapa in 1976. Today, the craft gives women a constant income and the assurance of a better future.

There are over 900 women involved in petate weaving. By adding the petate band to the bottle, Zacapa has created a market for the work. A full-time weaver can produce 40-50 bands per day, worth more than double the regular income for these communities, and the economic impact is significant. Children can go to school and even university. In Jocotán in 2002-2003 there were only 200 children going to school; now there are 583.

The brand's collaboration with the Seven Bar Foundation – an external foundation which aims to empower women via microfinance – means that a fund of \$100,000

(about £63,000) will be distributed between up to 200 female entrepreneurs in Guatemala. Co-operatives of the women of Santa Cruz in El Quiché who make 'guipiles' will be the initial recipients of the loans with other communities and co-operatives to receive funding in the future. Guipiles are traditional tunics worn by the women of Central America, woven with the same ancient skills as the petate band.


Chris Copeland, global category director, rum, and general manager for Zacapa, said, 'The fact that Zacapa's master blender, Lorena Vásquez is one of only a few women with that title worldwide, and many of the petate weavers are women, underscores our commitment to empowering women through this partnership.'

For more case studies from around the world, please visit
<http://srreport2012.diageoreports.com>

Our people

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25,000 

More than 25,000 people in over 180 markets work for Diageo

21 

Diageo won 21 awards as one of the best places to work around the world

85% 

In this year's Values Survey, an average of 85% of employees said we made a contribution to sustainability and responsibility through answers to a variety of questions



Pictured here, employees celebrate in New York's Pride Parade. For the fifth year in a row, the Human Rights Campaign Foundation gave Diageo North America a 100% score in its Corporate Equality Index, which rates the equality of lesbian, gay, bi-sexual and transgender employees in the workplace.

Our people

We know that our people are key to Diageo's success. Our people policies aim to support a welcoming culture and a safe working environment, giving our employees the freedom to be the very best they can be. Five values – passionate about customers and consumers, proud of what we do, freedom to succeed, be the best and value each other – are at the heart of everything we do.

Our approach

Diageo is a growing business and an employer of choice in many countries around the world. This year, we employed an average of 25,698 people, an increase of 8% from last year. Creating the conditions for our people to succeed starts with safety. Our philosophy of 'Zero Harm' has helped us significantly reduce the total number of accidents in our business in recent years, but we always work to eliminate accidents altogether. This year we added a Severe and Fatal Incident Prevention programme to our overall safety strategy to help us meet our ambition that 'everyone goes home safe, every day, everywhere'.

Empowering our employees, and helping to ensure they are healthy, motivated and engaged with Diageo's strategy and values, will always be a top priority. Our range of health and wellness programmes, engagement policies, training and development, reward programmes and employee resource groups provide the physical, emotional and motivational support that employees need to realise their potential and deliver great results.

Changing organisation, unchanging values

Last year we restructured the business to capture growth opportunities, especially in emerging markets. Change of this kind is essential to the long term success of the company, keeping us agile and competitive and creating growth – but inevitably it has impacts on our employees. Wherever possible, we seek to minimise and mitigate those impacts, demonstrating our corporate commitment to the values we ask our employees to share.

What is important to us is that these values remain unchanged. We want our employees to 'be the best', and we help them through training and career development. We want them to 'value each other', supported by our anti-discrimination and human rights policies and our commitment to diversity and inclusion. We want them to have the 'freedom to succeed', to be liberated to produce their best work, confident that it will be recognised and rewarded. Our annual Values Survey gives employees the opportunity to comment on the extent to which we live our values as a business, and we use it to plan and implement our business objectives.

Performance and outlook
We have a guiding purpose: to celebrate, life every day, everywhere. We want our people to thrive, and are committed to running a business that is safe, fair, diverse and inclusive – and a great place to work.

Key metrics

Our number one commitment to our people is their safety, which we consistently measure, monitor and report at the global level.

It is with great regret that we report that one employee died following a work-related accident in 2012. Our employee was the only fatality in a road traffic accident involving two vehicles in the Jos region, Nigeria, in June 2012. The circumstances of this tragedy are still being investigated. One fatality in our business is one too many, and we are deeply saddened by this loss. We introduced a Severe and Fatal Incident Prevention (SFIP) programme this year as a priority programme in all locations with the express purpose of helping prevent accidents like this from happening.

Across Diageo as a whole, we reduced our lost-time accident (LTA) frequency rate by 43% compared to 2011. Last year, after we exceeded our Zero Harm 2011 reduction target against a 2007 baseline, we reset our baseline to 2010 to continue our trajectory of improvement. For 2012, we set ourselves a target of 40% improvement on the 2010 baseline. We have again exceeded expectations with an overall reduction of 57%. This has been realised with over 70% of our manufacturing sites achieving zero LTAs this year, an increase of 10% on last year.

Despite these improvements, however, we regret each and every accident suffered by our employees and contractors, and continue to look for ways to ensure that everyone goes home safe, every day, everywhere.

Progress against Our people targets

Targets by 2012	2012 performance	Cumulative performance (2010–2012)	Achievement
Reduce our lost-time accident frequency rate ¹ by 40% against a 2010 baseline	43%	57%	Achieved

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

Other performance

Workplace awards

We are proud to say that this year our business was rated highly by various institutions, such as the Great Places to Work Institute, receiving 21 awards across the world, as shown in the table below.

Workplace awards¹

Global:	Diageo ranked 11th in a list of the 'Best Workplaces' in 2012
Argentina:	Diageo ranked 8th in a list of 'Best Small Companies' in 2011
Australia:	Diageo ranked 39th in a list of the best companies to work for in 2011
Brazil:	Diageo ranked 27th in the list of 'Best Companies in Brazil' in 2011
Canada:	Diageo ranked 21st in the list of 'Best Large Workplaces' in 2012. Separately, Diageo ranked 22nd in the 'Best Workplaces in Canada for Women' list
Colombia:	Diageo ranked 8th in the 'Best Companies' in the country in 2011
European Union:	Diageo ranked 8th in the top '100 Best Workplaces in the EU 2012'
Germany:	Diageo ranked 16th in the list of 'Best Workplaces in Germany 2012'
Ireland:	Diageo Ireland ranked as the 9th 'Best Workplace' in the country among large companies (250+) while Europe Beer Supply business ranked 15th in the country on the same list in 2012
Latin America:	Diageo ranked 5th among the '25 Best Multinationals to Work for in Latin America' in 2012
Mexico:	Diageo ranked 4th in a list of 'Best Companies to Work for in Mexico' among large companies (500+) or multinationals in 2012. In a separate list, it ranked 21st on gender equality in 2011
Netherlands:	Diageo ranked 19th in a list of 'Best Workplaces'
Nigeria:	Guinness ranked 1st in the 'Best Place to Work in Nigeria' and 'Best Multinational Company in Nigeria' categories in 2012
Portugal:	Diageo ranked 19th on a list of 'Best Workplaces in Portugal 2011'
Uganda:	In March, our Eabl Uganda business was recognised as 'Employer of Choice' by the Federation of Uganda Employers (FUE) for its excellent talent management programme in 2012, receiving its Silver Award
United Kingdom:	Diageo ranked 13th in the 'Best Workplaces in United Kingdom 2011'
United States:	Diageo North America named among the 100 Best Companies by <i>Working Mother Magazine</i>
Uruguay:	Diageo ranked 9th in the list of 'Best Small Companies in Uruguay 2011'
Venezuela:	Diageo ranked 7th in a list of 'Best Companies in Venezuela 2012'

(1) Rankings are by the Great Place to Work Institute if not otherwise stated.

Employee engagement

We believe that having engaged and motivated people is essential for long term business success. We measure this through our Values Survey, run by external authority, Kenexa. Our goal is to achieve top quartile performance in employee engagement against Kenexa's global database. In 2012, 91% of our people fully completed the Survey and showed an engagement score of 86%. These results are in the top quartile of Kenexa's benchmark group.

Bob Bergman, Consulting Director, Kenexa, commented: 'At Kenexa, we partner with many of the world's most prestigious organisations to measure and improve the levels of their employee engagement. In doing so, we have collected nearly 15 million survey responses over the last three years from over 400 organisations. With this database we are able to determine a best practice/highest performing normative score for employee engagement. One of the partnerships we are most proud of is the one we have with Diageo. It is clear that Diageo places a high level of importance on creating a culture and environment of engagement; in fact, Diageo has had consistently high employee engagement scores and now outscores the best practice normative comparison by two percentage points. One thing for sure, this does not happen by chance.'

Because so many people in our business are classified as 'engaged', in 2006 we set ourselves an aspirational goal against a higher order of employee super-engagement, motivation and morale. To achieve this 'super-engagement' score, employees must give top marks to six core engagement questions. Our aim is for 50% of our people to be 'super-engaged'. In 2012 we achieved 40%. There are no external benchmarks for this engagement category since most companies do not measure it.

Diversity

Our company is becoming increasingly diverse as we expand our presence in Africa, Asia, Latin America and Caribbean and emerging European markets. This is true of our workforce, as well as our leadership, which currently stands at 775 roles. In the past two years all the growth in our leadership population has come from markets in these regions.

One of our goals is to have 50% of our total leadership population based in local geographies by 2015. This will include roles that have global responsibilities and roles that have local responsibilities. To achieve this goal we are developing strong local talent pipelines in all of our markets, while providing international opportunities to help prepare our top talent to become future global leaders. For example, today, our top 21 general manager positions are held by people from 13 nationalities, with just three from the United Kingdom.

Another goal is to improve the gender balance of our business, particularly in our leadership population. Our target is for 30% of this group to be women by 2015. In 2012 women made up 26% of the group.

Outlook

We are proud of Diageo as an employer of choice for a growing number of people around the world – and we want to keep improving our business as a place for talented people to fulfil their potential. We have set new safety targets to achieve a 20% improvement in lost-time accidents each year until 2015. Diversity and inclusion will remain high on our agenda and we will work not only on creating a supportive workplace for women but maintaining all types of diversity in the workplace and leadership. As part of this, we will continue to support local employees and leadership as our business grows to meet opportunities in new markets.

Who we are

Our people make a huge difference to our company every day, everywhere – they are the reason we are successful.

The growth in our workforce is greatest where we see the greatest increase in demand for our brands. Following last year's restructuring of the business, we are becoming an increasingly significant employer in Africa, Asia Pacific and Latin America and Caribbean.

Diversity and inclusion

As a business which operates in countries with varied cultures and consumers all around the world, we see diversity among our employees as a key competitive advantage. Having a diverse workforce increases our scope, speed and effectiveness in seizing growth and other business opportunities, as well as providing a rewarding environment within which to work. Increasing the diversity of our people, at all levels, remains a critical priority for us. This commitment to diversity is encapsulated in our Human Rights policy, which sets out our values in terms of fairness, openness, and equality.

A profile of our people in 2012

Average number of employees by region by gender¹

	Men	Women	Total
North America	2,075	1,437	3,512
Europe	6,937	4,171	11,108
Africa	4,927	1,506	6,433
Latin America and Caribbean	1,342	903	2,245
Asia Pacific	1,511	889	2,400
Diageo (total)	16,792	8,906	25,698

Average number of employees by role by gender

	Men	Women	Total
Managers	5,576	2,222	7,798
Supervised workers	11,393	6,507	17,900
Diageo (total)	16,969	8,729	25,698

New hires² by region by gender

	Men	Women	Total	As a % of regional headcount
North America	262	178	440	13%
Europe	939	624	1,563	14%
Africa	676	232	908	14%
Latin America and Caribbean	246	214	460	20%
Asia Pacific	361	268	629	26%
Diageo (total)	2,484	1,516	4,000	16%
New hire rate by gender (category hires/total)	62%	38%		

Employee turnover

	Total	% of the regional headcount
North America	834	24%
Europe	1,960	18%
Africa	728	11%
Latin America and Caribbean	189	8%
Asia Pacific	513	21%
Diageo (total)	4,224	16%

(1) Employees have been allocated to the region in which they reside. Employees in Diageo's Annual Report 2012 are allocated to the region for which he/she provides the majority of service.

(2) Excludes employees joining the business as part of an acquisition.

Diversity can be illustrated in many ways. For example, currently 26% of our senior management group are women. Our Board contains four women, 40% of the total. As a result, Diageo received the Opportunity Now Female FTSE 100 award, given to the FTSE 100 company with the highest female representation on its board. We also embrace a business model which aims to promote local leaders at a local level: our 21 general managers are drawn from 13 different nationalities.

In addition, for the fifth year in a row, the Human Rights Campaign Foundation gave Diageo North America a 100% score in its Corporate Equality Index, which rates the equality of lesbian, gay, bisexual and transgender (LGBT) employees in the workplace. Diageo North America was also listed as one of *Working Mother Magazine's* top 100 companies this year, as a result of our flexible working, telecommuting, paid maternity leave and employee assistance programmes.

We consider local hiring and capability-building to be part of our commitment to diversity and inclusion. Most of our recruits are local hires, consistent with our goal to build strong local talent pipelines in all the markets in which we operate. For example, in Africa, 96% of our newly-hired employees came from the country in which they were recruited to work. We also recruit local graduates – this year alone we recruited 87 graduates in Africa through our three-year Growing Together Pan Africa Early Career Programme, 43% of whom were women.

As an indicator of our progress in supporting a diverse and inclusive culture, we measure the extent to which people feel comfortable and respected. We are pleased that in this year's Values Survey, 88% of respondents agreed that 'In my team, people can be themselves regardless of their ethnic background, gender, or style'; up from 87% last year.

Employee resource groups

Our employee resource groups are an important part of our diversity and inclusion agenda. They all share in aspiring to make Diageo the very best place to work. They also help us attract and retain the diversity of talent that we need to meet new commercial opportunities. The groups include:

Spirited Women – North America, the United Kingdom, and Ireland

More than 1,000 members in North America, the United Kingdom, and Ireland take part in networking events, charity events, and mentoring with a mission to ensure 'everyone in Diageo is celebrated for their uniqueness and the value that creates'.

The Network – Nigeria

Launched in 2010, the Network aims to support inclusivity, diversity and the development of women across the Guinness Nigeria organisation.

The Women's Wing – Ghana

Launched on International Women's Day 2011, the Women's Wing is open to all female Guinness Ghana Breweries Limited employees, and supports its members in their development as well as raising funds for local charities.

DICHWA – Diageo Cameroon Hub Women's Association

DICHWA is an active network in West Africa, with around 150 members (19% of the workforce), promoting 'empowerment, commitment and advancement' for women in Cameroon through educational, charity and networking events.

Rainbow network – United Kingdom and the United States

Rainbow is a UK and US network that raises awareness of LGBT issues, and identifies ways to reach LGBT consumers.

Originate – United Kingdom

Originate is a UK network focusing on cultural diversity, education and challenging stereotypes.

AHEAD (African Heritage Employees at Diageo) – United States

AHEAD is a North American network celebrating African heritage.

Pan Asian Network (PAN) – United States

PAN brings together employees of Asian Pacific heritage in North America in a range of networking activities.

Liberate – United Kingdom

Liberate is a UK group with around 200 employees in administrative or service centre-based roles, supporting capability, careers and connectivity.

Organisational change

Successful businesses need to evolve their business strategies. We change our organisation when necessary, but always in a responsible way that takes account of our employees' interests.

Sustainable growth, responsible change

In the last two years, we have led our business through an operating model review which has resulted in a new structure, designed to align our resources to markets which show the best prospects for growth.

Although the number of people we employ overall across the globe has increased, the changes to our business have inevitably meant losing people in some areas as their jobs or locations have changed.

We support employees affected by these changes in a number of ways, but whatever the outcome, we aim to act in line with our values – ensuring that people are treated with sensitivity and dignity, and get the help they need. We follow our global 'people principles', which set out our intention to be transparent and fair, to minimise uncertainty for individuals, and to comply with all relevant legal obligations. Our goal is to communicate job reductions with as much notice as possible. Notice periods vary by country and range from two to 12 weeks, during which redeployment options are explored for employees while meeting contractual or legal obligations. Senior executives may have longer periods of notice.

We make great efforts to find new roles for those who wish to stay with us, and where no alternative position exists within Diageo, employees receive full redundancy or severance support in line with local policy. In communities where Diageo is a significant employer, we work with local agencies on regeneration programmes. Training offered during transitional times varies by market but can include interview skills, CV writing, communication skills, financial management, personal income tax training, pre-retirement training, English language training and basic computer skills.

Safety

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

Our approach

The safety of our people is our highest priority. Wherever a Diageo employee or contractor works – whether in a brewery, distillery, winery, hotel or office – our Zero Harm programme is designed to ensure they can go home safe, every day. Safety is central to our values and our culture, and our safety model followed at all our sites is based on strict health and safety controls, robust risk assessments, and a desire to improve safety standards continuously.

The four pillars of Zero Harm

Zero Harm is based on four pillars: **prevention, culture, compliance, and capability**. It requires a partnership between individual employees, managers, and the business as a whole to achieve the objectives of each pillar.

1. Prevention

We take a proactive approach to risk reduction by identifying and controlling hazards through global programmes such as risk assessment, incident reporting, trending, and root cause analysis, as well as our global hazard reporting tool (Safety Improvement Reports).

2. Culture

Zero Harm relies on the engagement and behaviour of every employee. We use the Diageo Safety Culture Framework and consultation processes to assess and influence safety attitudes and behaviour at every site, placing particular emphasis on our leaders being role models for best practice. As required by our global risk management standards, we have a safety committee for every operation/production site and most of our offices.

3. Compliance

Our global risk management standards (GRMS) are designed to ensure that employees at every site have access to best practice guidance on health and safety. Managers at each site are required to ensure compliance with GRMS and legal requirements. This is assured for every site through regular formal independent assurance audits.

4. Capability

To help ensure our people have the skills they need to deliver Zero Harm, we set global competency standards supported by global safety training programmes. Sites are also

required to assess contractors' safety management systems and competencies to ensure they are sufficient to deliver Zero Harm.

Focus on the highest risks

This year we introduced a radical new component to Zero Harm, a Severe and Fatal Incident Prevention (SFIP) programme, specifically designed to identify and eliminate the highest risks in our operations. It is our response to the fact that steady progress in reducing lost-time accidents between 2007 and 2011 was overshadowed by a number of work-related fatalities. SFIP includes a concise list of global protocols specifically intended to prevent severe and fatal incidents, and has been designed as a result of an analysis of our key risks and the root causes of previous significant incidents. It ensures that proven elimination and best practice approaches are implemented globally, thereby removing local inconsistencies in risk assessment and capability and dramatically increasing control effectiveness around these key risks:

- Driving on public roads
- Work at heights
- On-site traffic
- Hazardous energies
- Electrical systems
- Confined space entry
- Explosive atmospheres
- Asphyxiating and toxic gases
- Lifting operations.

This 'root cause analysis' and hazard elimination process, alongside continuous adaptation to emerging best practices, will be an ongoing activity.

Performance

It is with great sadness that we report the death of one of our colleagues in a work-related incident in June 2012. The Guinness Nigeria employee was involved in a head-on collision with another vehicle while driving on a public road. At the time of writing, the local authorities are still carrying out inquiries. Although we await their findings, we have completed an initial internal investigation and we believe that road condition and driver behaviour were key factors.

We recognise that driving on public roads is a key risk to the safety of our people and, in 2012, introduced much stricter standards for safety through our SFIP programme. We cannot control all risk factors on a public road, but we are committed to providing employees with the best practice required to prevent tragedies like this from recurring.

Overall in 2012, our lost-time accident (LTA) frequency rate was 2.14 accidents per 1,000 employees, a reduction of over 40% compared to 2011. LTAs have fallen by 57% since our baseline of 2010, well ahead of our target set in 2011 of reducing LTAs by 20% each year until 2015. We have also seen an increase to 74% in the number of manufacturing sites with no LTAs. While these improvements show good progress, our aim is always to prevent all accidents at our workplaces. Over the next 12 months we will focus on embedding our SFIP programme, the deployment of an updated behavioural-based safety approach, and reviewing our contractor management processes.

Lost-time accident frequency per 1,000 full-time employees (2007–2012)¹

	2007	2008	2009	2010	2011	2012
North America	38	29.3	23.2	9.98	5.06	4.15
Europe	11.1	8.4	5.1	5	5.29	2.41
Africa	22.6	19.91	4.15	2.87	1.48	1.69*
Latin America and Caribbean	8.53	4.87	3.47	2.78	3.42	1.44
Asia Pacific	5	2	1.4	1.97	1.41	0
Diageo (total)	16.5	12.4	7.4	4.96	3.73	2.14

Number of days lost to accidents per 1,000 full-time employees (2010–2012)

	2010	2011	2012
Diageo (total)	190.71	158.79	106.63

Fatalities (2007–2012)

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

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

Health and wellbeing

Working for Diageo should be something to celebrate. We want our people to be healthy, engaged, and fulfilled.

We know that employees who feel healthy and valued in the workplace are more likely to deliver great performance, and ultimately contribute to the company's long term success.

Our approach to the health and wellbeing of employees takes many different forms, driven by a balance of global priorities and assessments of local need. For example, as a drinks company we believe it is crucial that our people understand the importance of responsible drinking. We promote this to our employees globally through a range of programmes including our interactive DRINKiQ sessions.

We also aim to provide health services and medication to help protect all employees and their families from health-related emergencies, such as the bird flu pandemic in 2008. Other health needs are more localised, and are addressed at the level of individual sites or regions, as with our HIV/AIDS prevention programmes across Africa, which provide employees and their families with HIV and AIDS education and treatment.

Our professional occupational health resources are also tailored to the needs of employees at each site, based on a global recognition of the importance of exercise and relaxation to wellbeing. Many larger sites have on-site fitness centres, while employees elsewhere have subsidised access to external fitness facilities or, in some cases, on-site health clinics.

Responsible drinking

Our internal DRINKiQ initiative is designed both to help employees make responsible decisions for themselves, and to give them the confidence to be ambassadors for responsible drinking. In an internal evaluation of more than 1,000 participants in 2009, 85% claimed they felt better equipped to have conversations about responsible drinking as a result of attending the DRINKiQ workshop, and nearly three-quarters claimed the workshop made them more likely to consider drinking differently. DRINKiQ is now part of our employee induction programme in 21 countries.

Combating HIV/AIDS

Since 2003, our operating companies across Africa have adopted HIV and AIDS workplace education and prevention initiatives, and provided treatment for employees and their families, through the Live Life employee wellness programme. Live Life includes:

- HIV/AIDS education and awareness programmes
- Training of peer educators, known as Life Coaches, in additional wellness topics
- Access to free voluntary counselling and testing (VCT)
- Healthy living, fitness and nutrition advice
- Promotion and distribution of condoms
- Treatment and care programmes for opportunistic diseases
- Free anti-retroviral drugs for the management of HIV infection
- Occupational health practice at all operations and on-site medical clinics.

Occupational health

We recognise the importance of exercise and relaxation, and the benefits they bring to productivity and wellbeing in the workplace. Some of our larger facilities have on-site fitness centres which all employees and guests can enjoy. At some other sites, employees can enjoy subsidised memberships to external fitness facilities. Elsewhere, we offer health and wellbeing programmes such as dedicated ambassadors who promote wellbeing in the office, or team competitions encouraging exercise and healthy eating.

In each region and site, we assess the need of employees. At our Tusker plant in Kenya, for example, our staff clinic became fully operational in July 2011, giving employees access to medical treatment 24 hours a day, at weekends, and over bank holidays. In the United Kingdom and Ireland, among a range of other benefits, health surveillance programmes protect employees against noise-induced loss of hearing, hand arm vibration syndrome, work-related skin conditions, and work-related respiratory conditions. New and expectant mothers, night workers, lone workers, vocational drivers, and employees who work in confined spaces or at heights receive pro-active health testing, while our health promotion and health education activities have been recognised by the Scottish Government's Healthy Working Lives awards.

And in North America, the Striding Towards Wellness programme inspires employees to take charge of their total wellbeing by providing information about managing health, access to useful tools and resources, and activities that promote a balanced lifestyle. The programme has prompted wellness fairs, cancer, diabetes, and heart health awareness events, and fitness programmes.

Our talent

Our success as a business depends on the success of our people. We strive to create an environment in which all our employees feel included and able to perform at their best.

Our approach

The people we employ are talented, but we still want to see them learn and grow. Growing the capability of our people, and giving them the confidence and freedom to succeed, powers the future growth of the business.

For us, that means creating a distinctive Diageo culture, one in which every employee feels valued, engaged and empowered, and is passionate about our business, our brands, and our values. That culture should be diverse, inclusive and performance-orientated, but above all, it should be liberating.

To help create that culture, we have developed a rewards structure that recognises performance; we have a career development process that harnesses talent and rewards dedication; and we have built the human rights of our employees into our values.

Although we know that the best measure of an engaged workforce is commercial results, our Values Survey is intended to help us understand the extent to which our values are embedded in Diageo. The feedback we receive from the survey helps shape and drive Diageo as a business.

Over many years, our Values Survey has shown a high level of engagement among our employees. As a result, in 2006 we developed a more challenging ambition, 'super-engagement', which we also measure through the Survey. 'Super-engaged' is our term for someone who gives top scores to six core values and engagement questions. Our aim is for 50% of our people to be 'super-engaged'.

Performance

This year, our annual Values Survey showed that 86% of employees were 'engaged', while 40% of employees were 'super-engaged', an increase of 1% on 2011. Our efforts are also being recognised externally – we won 21 awards this year naming Diageo as one of the best places to work around the world. Read more about how we are supporting and inspiring our people in the following sections:

- **Developing talent** – our growth will be driven by talented people who have been given the right professional and personal development
- **Reward and recognition** – employees' contributions to our success should be celebrated – and rewarded

- **Engaging employees** – employees who are passionate and committed are more fulfilled and more successful
- **Human rights** – we respect our employees' rights, and adhere to the strict ethical standards of our Human Rights and Anti-Discrimination Policy.

Developing talent

Employees who are encouraged to realise their full potential help make Diageo a great place to work and a more successful business.

Our approach to career and performance management is simple: we want Diageo people to fulfil their potential, and so make their greatest possible contribution to our business. We take training, career development and performance management extremely seriously. Employees are given a corporate induction, as well as functional and career development training as a matter of course, while our Partners for Growth programme helps manage performance.

Hiring the right people

It all begins, of course, with recruitment. One of the many benefits of our focus on emerging markets is our increasing ability to tap into new pools of talent in the regions where we are expanding. For example, we have recruited more than 450 graduates worldwide. We have been able to translate our approach to early career recruitment from developed markets to developing ones. This year alone we recruited 87 graduates in Africa through our three-year Growing Together Pan Africa Early Career Programme.

Performance management

Having recruited talented people, it makes sense to invest in them. All full-time, permanent employees are required to go through our holistic performance management programme, Partners for Growth (P4G), designed to allow employees to discuss their aspirations with their managers in an atmosphere of partnership. P4G also involves an annual performance and career development review which links personal objectives to our overall business strategy. Since 2011, personal evaluations have included a commitment by employees to our Code of Conduct and associated policies.

Training

Our training programmes are designed to help employees develop professionally and personally at various stages in their careers.

Corporate induction programme

From day one, we want to help new employees build broad networks. Our corporate induction programme, which we transformed and updated this year, helps them do so, while providing them with information about and experience of key aspects of Diageo, and motivating them to find out more about the business. All new employees (more than 4,000 this year) are invited to take part. They are also required to take a one-hour module on our Code of Business Conduct.

Graduate training

We ensure that graduates receive the best support possible through our early career programmes. These include training for finance, marketing, sales, HR and supply graduates in the United Kingdom, the United States and Africa.

Mid-career training

Identifying and training leaders with the potential for senior management is critical for the growth of our business and takes place worldwide. The Growing Leaders programme, for example, is a pan-African initiative that aims to nurture the best talent in our African operations. The Leaders for Growth initiative, which has taken 90 of the top managers in North America through a programme of events designed to accelerate career development, helps bridge the gap between management and business leadership.

Functional training

Building the capability of all our employees is essential, both to keep talented people with us and for business performance. We are piloting new ways of delivering training, blending classroom learning with social media and simulations, and trialling mobile learning.

Diageo Academy

Diageo Academy is our global online learning and development resource, which allows employees to access either online or classroom training in their native language, with an emphasis on functional learning. We constantly review Diageo Academy to ensure that it delivers fresh and exciting programmes. In addition, our markets generate their own new learning initiatives, like the Open Learning Exchange in North America, where senior managers delivered modules to employees on subjects like 'Building your strategic muscle' and 'Operating margin'.

iDevelop

This year we launched iDevelop, a global capability assessment and development tool.

Supply and procurement

We have developed programmes for employees in our supply and procurement function which are designed to ensure we have consistent standards of procurement, manufacturing, planning, logistics, supply chain and technical skills across the world. For example, we trained more than 350 employees across Europe in the use of our new supply planning tool, 'Project Globe'. We intend to take this programme into Asia, Latin America and Caribbean and North America in the coming year.

Leadership training

Our leadership development programme, the Diageo Leadership Performance Programme (DLPP), has been running since 2007. This year-long programme is designed to create a step change in our individual and collective leadership thinking, behaviour and performance. This year, we continued to expand DLPP to include mid-level managers with the potential to become future leaders.

We also offer a variety of functional-based leadership programmes. Last year in Europe, we launched our Building Manufacturing and Leadership Excellence programme, which helps individuals identify, prioritise, and build the functional and leadership capability specific to their role. This is currently being implemented with middle managers in the United Kingdom and Ireland, offering over 250 different development interventions from classroom-based courses and e-learning to self-managed programmes and reading materials.

In Africa, we continued our Pan-African Engineering Leadership Development Programme, aimed at developing the strengths of our middle managers, focusing on their personal development as leaders in our business, asset care capability and environmental and energy awareness.

We are also investing in functional training to develop leaders in new areas of our business. In Ethiopia, where we recently acquired the Meta Abo Brewery, we invested in a sales capability-building programme for a new commercial leadership team comprising existing Meta Abo Brewery employees and new employees from local businesses.

Reward and recognition

Part of valuing each other is recognising and celebrating the success of our people, and ensuring they remain motivated and satisfied.

We aim to recognise the contribution of every employee to the success of Diageo, and to reward that contribution in a fair, competitive, and sustainable way. Rewards play an important part in attracting, retaining and motivating employees, and we link them to performance that helps us achieve our business goals. Rewards are also linked to an employee's professional development, through the Partners for Growth process.

We have a strong commitment to industrial dialogue, and in 2012, more than 45% of our employees were covered by collective bargaining agreements worldwide. We aim to maintain regular, open dialogue with unions over issues of common interest. For example, this year we welcomed a ground-breaking new pay and conditions deal with GMB, our biggest union in our Scottish manufacturing operations. The agreement replaces traditional wage negotiations with a rolling deal which offers job security, annual inflation-linked pay increases and quarterly bonuses. It also commits both Diageo and GMB to continue to increase focus on capability development and sets a clearly defined disputes resolution process to enable disagreements and issues to be raised, discussed and resolved quickly.

Pay and benefits

Our pay and benefit packages are designed to attract and retain the best talent in the market. Salaries are competitive, and pay rises or annual bonuses are based on the achievement of individual and business objectives.

Benefit packages are designed according to the needs and customs in each region, and may include:

- Retirement benefits
- Long term incentive plans
- Healthcare benefits
- Parental leave.

Executive pay – linked to sustainability

Like those of all our employees, executive directors' rewards are linked to performance. Their performance is measured against individual business objectives (IBOs) which are specifically set for each executive director's area of accountability. These IBOs are set in the context of Diageo's overall business priorities, which include non-financial measures like conformity with our Code of Business Conduct, and sustainability and responsibility policies relevant to an executive director's particular role.

Read executive pay in the directors' remuneration report in our 2012 Annual Report.

Share ownership

We believe that employees and the business as a whole all benefit when the people who work for Diageo are also shareholders, and we encourage employee share plans in our operations across the world. In 2012, 31 countries operated an all-employee share plan. Two additional countries will be invited to participate in Diageo's International Sharematch Plan later in 2012. As of 30 June 2012, 16,531 past and present employees held 1.16% (2011 – 1.17%) of Diageo's ordinary share capital.

Recognition

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

Each market develops its own recognition schemes, highlighting examples of living our values, innovation, excellence in customer service, and ideas or activities which encourage profitable growth. For example, in North America employees can nominate colleagues who have performed outstandingly for the 'Celebrating You' awards. The awards are linked to our business objectives and this year were delivered in a series of 'ambush' awards ceremonies, where recipients were surprised by colleagues and managers.

Employee share schemes by year (2010–2012)

	2010	2011	2012
Countries operating schemes	25	31	31
Employees ¹ holding shares	15,785	16,057	16,531
Employees ¹ holding more than 1,000 shares	48.0%	48.9%	45.1%
Shares held by employees	33m	32m	32m

(1) Past and present.

Engaging employees

Inspiring brands are made and sold by inspired people. Creating a compelling environment for our employees is fundamental to making Diageo a great place to work and to our business success.

The greatest success, and the most fulfilling working environment, comes about when every member of a team is inspired and motivated by the business goals they are helping to achieve. Employee engagement depends on many things: it requires people to believe in our values; to feel their views are listened to and respected, and that their contributions are recognised; to have a passion for our brands and business; and to have confidence in the business strategy and objectives.

We aim for something beyond this level of engagement, for what we call 'super-engagement', where people strongly endorse the company's values and goals, are proud of Diageo, and will not only build their careers with us but would recommend the company to others.

Values Survey

Our annual Values Survey is an essential tool in understanding and building employee engagement. As we look at the responses to our Survey questions, we gather feedback from employees on the extent to which they feel the values are embedded in the business, and build them into our business strategy. This year our response rate was 91%, compared to 89% in 2011 – a total of 20,851 responses, which marked our highest ever response rate. Such a high response rate is extremely helpful in accurately assessing how our employees are feeling.

As part of this Survey, we assessed the level of employee engagement. Our overall employee engagement index score was 86%, which is 2% higher than best practice according to our service provider Kenexa. Our high score was partly driven by employees' positive responses when asked whether they found their leadership inspirational, and whether ours was a culture of 'valuing each other'.

The Survey also showed that 40% of employees were 'super-engaged' – the highest level of engagement we measure. Super-engagement is a challenging measure we set for ourselves in 2006. It is calculated based on employees who respond 'strongly agree' in the Values Survey scale for the following six items in the engagement index.

- I believe strongly in the goals and objectives of Diageo
- I would recommend Diageo as a good place to work

- I am proud to work for Diageo
- I fully support the values for which Diageo stands
- I work beyond what is required in my job to help Diageo succeed
- At the present time, I am seriously considering leaving Diageo (answering 'NO').

Super-engagement has increased by 1% each year. This year, some business units achieved outstanding scores in this area – with North America, and Latin America and Caribbean, achieving 48% and 49% respectively.

The results of the Survey are shared with each business unit, which uses the data to plan ways to improve the level of engagement among employees.

Sustainability and responsibility

To measure our performance in creating a culture that embraces each of our values, we ask a series of questions – some of which relate to our sustainability and responsibility agenda. This year, the results were as follows:

- **Leadership in the responsible drinking agenda:** 91% thought Diageo was effective in promoting responsible drinking.
- **Contribution to local communities:** 81% thought Diageo made a real contribution to the communities in which we operate.
- **Contribution to environmental sustainability:** 85% agreed that Diageo was environmentally responsible.
- **Diversity and inclusion:** 88% said people can be themselves regardless of their ethnic background, gender, or style in their team.
- **A culture that inspires ethical behaviour:** 81% thought their manager helped them understand how our Code of Business Conduct applies to their role and 84% said they would feel comfortable raising any concerns about compliance or ethics with their line manager, or through SpeakUp.

Value Survey results

Values	Favourable responses (%) ¹	Movement from last year (%)
Passionate about customers and consumers	85	1
Freedom to succeed	80	1
Proud of what we do	83	0
Be the best	73	0
Valuing each other	73	1
Engagement indicators		
Engagement	86	1
Leadership index ²	74	1
Super-engagement	40	1

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

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

Employee activism

Not only are our employees proud of our work in sustainability and responsibility, but many actively promote that work beyond their regular roles.

Our DRINKIQ (www.drinkiq.com) programme encourages employees to become ambassadors for responsible drinking. One particularly successful event was held this year in Colombia, where Diageo employees ran a responsible drinking day as part of the Guardian Angels campaign. The initiative reached 3,000 consumers at 80 venues in one night, as employees dressed as 'winged' brand ambassadors and entered bars to remind consumers to look out for friends and family.

Employees are also very involved in our socio-economic programmes through volunteering. This year 4,956 employees formally volunteered with Diageo through initiatives such as building homes for those in need in Canada through Habitat for Humanity; running business skills workshops for Arthur Guinness Fund awardees in Ireland and Indonesia; planting trees in national parks in Poland; and delivering food to families in need in Korea.

Employees also raise money for a range of causes, and our Giving for Good programme encourages all employees around the world to make donations toward a single project in one country. This year we completed our roll-out of the water filter programme in Africa, donating water filter kits to schools and health clinics in Ghana.

GREENIQ

GREENIQ is our company-wide programme to raise awareness of environmental issues and drive improved environmental performance across the business. The GREENIQ programme enables people to share best practice, offers information on its website and a popular medal competition and awards. This year, 12 sites earned 24 medals for environmental performance.

Human rights

A great place to work is a fair place to work. All our employees have the right to expect that their basic human identity and dignity are fully respected in the workplace.

Respecting the human rights of employees

In our Human Rights and Anti-Discrimination Policy, we make clear that our employees should be treated justly, fairly and without discrimination. Among other statements, this policy asserts the right of employees to be dealt with solely according to their ability to meet the requirements and standards of their role, and to be fairly remunerated for their contributions to the company.

An important element of this policy is our commitment to pay wages and benefits for a standard working week that meet, at a minimum, national legal standards, and which should always be enough to meet basic needs and to provide some discretionary income. We do not use any form of forced or compulsory labour, and nor will we work with partners who do. The right of employees to leave the company after giving reasonable notice is of course respected.

A fundamental tenet of our approach to human rights is that we respect all relevant local employment laws with regard to working conditions, training and a duty of general care. In addition, our policy makes clear that we do not employ children under the age of 16. Where young people under the age of 18 work for Diageo companies or their partners, we take special care to protect and promote their interests.

SpeakUp

All our employees are provided with contact details for the independent counselling and whistle-blowing service SpeakUp. We actively promote this service and encourage its use in order to ensure we have an ethical culture. Employees are assured that SpeakUp is confidential, and that we will not condone any reprisals against any employee who raises issues relating to his or her human rights. Read more about SpeakUp in our governance and ethics section on [pages 73-82](#).

Last year we also extended SpeakUp to suppliers. You can read more about how we manage risks in our supply chain, including human rights-related issues, in our supplier section on [pages 83-90](#).

Diageo Human Rights Policy

“We have a broad responsibility, embodied in the expectations of civilised society and in the Universal Declaration of Human Rights, to use our influence to promote and protect human rights and freedoms by establishing clear ethical standards for ourselves and by fostering similar standards in all who act with us or on our behalf.”

The Rainbow Network on parade

A diverse place to work is a great place to work. Our network of employee resource groups plays a vital role in creating an inclusive culture at Diageo. One of the best-established groups, the Rainbow Network, took celebration to the streets for Pride Parade in June.

Case study:

Proud of what we do

The Rainbow Network is Diageo North America's employee resource group for lesbian, gay, bi-sexual and transgender (LGBT) employees and their supporters, founded in 2006 to ensure that we not only respect and value the contribution of LGBT employees, but that we also understand and value the wider LGBT community.

On June 24, Diageo brought together about 150 people to march with the Rainbow Network in New York's Pride Parade. This was a fittingly celebratory end to a reporting year in which Diageo's longstanding commitment to equality was marked by our fifth successive 100% score from the Human Rights Campaign Foundation's Corporate Equality Index – having been the first total beverage alcohol company to achieve this.

As an advocacy and support group for all employees who are LGBT or who have LGBT family members, the Rainbow Network has played an important role in ensuring that Diageo is a workplace which is fair to and supportive of all employees. It is also active outside Diageo, strengthening our reputation as a supportive company and employer, and providing valuable insights for marketing and community relations activities within the LGBT community. Like all our employee resource groups, the Rainbow Network contributes to a working culture in which Diageo people value each other – helping make our business a success.

For more case studies from around the world, please visit <http://srreport2012.diageoreports.com>



Governance and ethics

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Diageo Africa won the award for Good Corporate Governance at the Africa Business Awards 2012



We openly share real stories of breaches of our Code with employees to help them understand how we can do better

84% 

84% of employees said: 'I would feel comfortable raising any concerns about compliance or ethics with my line manager, or through SpeakUp'



We now have full-time controls, compliance and ethics managers in all our markets

81% 

81% of employees said: 'My manager helps me understand how the Diageo Code of Business Conduct applies to my role'



Our behaviours define who we are. Respecting our diversity, promoting human rights and acting with integrity are a foundation of our values, our reputation and our purpose. That reputation is critical to supporting our business and can only be sustained if we try to act with integrity in everything we do.

Governance and ethics

People want to trust the company behind the brands that they love. Diageo’s reputation is critical to supporting the success of our brands and can only be sustained if we try to act with integrity in everything we do, every day, everywhere. Doing business the right way isn’t only the right thing to do, it’s essential for commercial success.

Our approach

To help our employees make the right decisions in their everyday work, we have a comprehensive corporate governance structure and robust compliance and ethics programme, with our Code of Business Conduct at its centre. However, doing business with integrity goes beyond having a good corporate governance framework and compliance with policies, procedures and regulations. It is about creating a culture in which each of us behaves with integrity on behalf of Diageo, every day, in whatever situation we find ourselves. By establishing a culture that demands the very best from all of us, we hope to make Diageo one of the world’s most trusted and respected companies.

Performance and outlook

We have made further strides this year in helping employees understand what it means to do business with integrity, through new programmes, simplified policies and procedures and inspiring communications.

Compliance and ethics are difficult areas to measure, given that good performance is about what doesn’t happen – namely no breaches of our Code of Business Conduct. Nonetheless there are some things we can measure that indicate whether our programme is understood and embraced by employees, such as training, reporting, and people’s attitudes as measured by our Values Survey.

Performance

Overall during the last year we continued to raise the bar for our performance in this area, including developing a set of indicators around our key themes, which we report on for the first time below. The work we’ve carried out has resulted in an increase from 79% to 89% of our internal audit reports being rated

‘satisfactory’, and we have remedial plans in place to mitigate any deficiencies. This trend is reflected in the increases seen in both of the ‘compliance’ measures in our annual Values Survey.

We have also had great feedback from employees across the business on the work done to reduce, revise and simplify our policies and Code of Business Conduct. These have been brought to life through regional workshops to engage employees and train them on exactly what acting with integrity and being proud of what we do means in Diageo.

Given the changes to Diageo’s operational structure, during the year we brought together the governance and controls, and compliance and ethics agendas so that there is now a single, dedicated controls, compliance and ethics (CC&E) manager for each of our 21 markets who reports to the general manager.

It’s also been a year of expansion, with our acquisitions of Mey İçki in Turkey, Meta Abo Brewery in Ethiopia, and Halico in Vietnam. In all these we worked closely with the integration teams on due diligence to ensure the compliance and ethics programmes of these businesses align with our high standards.

Progress against Governance and ethics targets

Targets by 2015	2012 performance	Achievement
New operating model embedded with CC&E managers in all markets and business units	CC&E managers in all markets and business units	Achieved
Improvement versus last year in positive responses to Values Survey question: ‘I would feel comfortable raising any concerns about compliance or ethics with my line manager, or through SpeakUp’	84% versus 83% in 2011	Achieved
Improvement versus last year in positive responses to Values Survey question: ‘My manager helps me understand how the Diageo Code of Business Conduct applies to my role’	81% versus 79% in 2011	Achieved
100% of new joiners completing Code of Business Conduct training on induction	83% within first 30 days	Not achieved
100% of middle managers and above complete the Annual Certification of Compliance	100%	Achieved
1% of employees report breaches through SpeakUp (global benchmark)	242 (1% of employees)	Achieved

Outlook

Doing business the right way comes down to each of us making the right decisions at the right moments. We help our employees make good choices for themselves, their colleagues, our customers and our business by giving them clear and simple guidance on our Code and policies which have a close connection with our values. Looking ahead, we want to reinforce this connection to make it even easier for employees to decide what is the right thing to do.

We will continue to find engaging ways to bring the words of our Code and policies to life through reward and recognition incentives, communications around breaches, and effective and tailored training.

Regulatory environment and public policy

Alcohol is one of the most regulated industries in the world. Our ability to create a more valuable role for alcohol in society depends to a great extent on a balanced regulatory framework that provides a strong foundation for our programmes.

Virtually every aspect of our operations is regulated: production, product liability, distribution, importation, marketing, promotion, sales, pricing, labelling, packaging, advertising, labour, pensions, compliance and control systems, and environmental issues. In some markets, such as the United States, much of this regulation is layered at multiple levels of government.

An opportunity for ethical companies

A highly regulated environment can be an advantage for companies with good corporate governance and the right approach to business ethics. This regulation must be balanced to promote economic growth, and, in the case of alcohol, allow the industry to play a positive role in society. It is towards these goals that we pursue our work with governments around the world to develop proportionate, effective regulation.

We believe that the most effective policies to reduce alcohol misuse are those based on the best evidence that account for drinking patterns, that target specific at-risk populations, that treat all forms of alcohol equitably, and that involve all stakeholders working towards a common goal. Therefore, Diageo actively supports effective and targeted alcohol policies at both global and local levels.

Public policy

Government policymaking is a dynamic process which engages a wide range of stakeholders and interests in the formulation of positions, regulations and legislation. Effective policies are made when they are based on good evidence and when the measures they set out are proportionate to the desired outcomes. This is particularly relevant to our industry since alcohol is a highly regulated sector, and at any one time there is always a wide range of issues to do with alcohol consumption and misuse being debated around the world.

Diageo engages fully with policy makers and other stakeholders, either directly or through industry trade associations, on all alcohol-related issues. We firmly believe that policy and intervention should focus on dealing with the minority of people who misuse alcohol, rather than penalising the law-abiding, responsible-drinking majority.

We are therefore committed to evidence-based, balanced policymaking and we aim to ensure our engagement with governments and regulatory bodies is always professional, expert and ethical – and governed by our Code of Business Conduct. As well as our own experts, we retain external specialists as consultants or advisors to advise us on appropriate responses to and positions on policy issues. We try to be consistent in our views and positions wherever we operate around the world.

Tax affairs

Every year, our tax contribution accounts for a significant proportion of the value we contribute to economies around the world. Our aim is to manage our tax affairs in a manner which ensures compliance with all fiscal obligations and which maximises shareholder value. Our approach to tax is based on three key principles:

- We are committed to paying tax in accordance with all relevant laws and regulations in the territories in which we operate.
- We are committed to the effective, sustainable and active management of our tax affairs in support of outstanding business performance in the territories in which we operate.
- We work hard to develop and sustain good and honest working relationships with tax authorities and to encourage the representation of our views on the formulation of tax laws either directly or through trade associations or similar bodies.

Our tax footprint is made up of direct and indirect tax payments. Direct taxes include corporation tax, local business taxes and excise duties on our sales, as well as other sales taxes such as VAT. Indirect taxes include, for example, the payment of income and corporate taxes by our employees and suppliers.

We make decisions on where to locate our operations based on a combination of market factors, commercial strategy, business implications, environmental impacts and taxation. Transactions between Diageo subsidiaries are priced on an arm's-length basis in accordance with the OECD Model Tax Convention.

Developments during the year

The impact of weak economic conditions in some countries has increased the pressure by some governments for higher tax revenues from the alcohol sector. During the year, we worked to promote reasonable and non-distortionary excise duties – considering how duties could affect demand between different types of alcohol beverages, and how they could affect where consumers buy them. We believe it is important to help ensure consumers are not encouraged to turn to unregulated and illicit alcohol alternatives.

As well as seeking to raise revenue, some European countries are proposing minimum unit pricing as a means to reduce alcohol-related harm. In Scotland, the government passed legislation to introduce minimum pricing. We argue against this approach because we do not believe the evidence shows that it will in fact affect heavy drinkers, who are more immune to price increases, and instead will penalise the majority of responsible drinkers. Read more about our views on minimum pricing on [page 35](#) in the 'alcohol in society' chapter.

During the year, Diageo was contacted by a small number of NGOs who are researching the impact of tax incentives on development, and examining tax planning by multinational corporations in emerging markets. We engaged with these NGOs to listen to their issues and answer their queries.

Looking ahead to emerging markets

Diageo's focus is increasingly shifting towards emerging markets, which represent our biggest growth opportunities in the future. Our challenge in new markets will be to develop the kind of relationships we have spent years building with governments and other industry stakeholders in our traditional markets. By doing so we hope to develop a fair and competitive business environment in which value can be created for many stakeholders. To support this work we have trained over 100 of our corporate relations employees, mainly in emerging markets, on the principles of good tax policy, particularly excise, and on how to promote best practice structures and rates which are effective, fair and non-discriminatory.

While we believe good tax policies can create value for a wide range of stakeholders, and play a part in contributing to sustainable development, in certain countries we see barriers to this, such as corruption and bribery. As a result, we have started partnering with others to find solutions to this challenging issue. In Cameroon last year, we launched the Business Coalition against Corruption where we, together with more than 60 other companies, NGOs and government bodies, discussed ways of tackling corruption and signed up to an anti-corruption pact. And this year in Nigeria, Guinness signed up to the Convention on Business Integrity to object publicly to corruption and to pledge to uphold governance standards in the country.

“ Letter from the Executive Committee,
Diageo Code of Business Conduct

“We want Diageo to be recognised as a great place to work. Most of all, however, we want Diageo to become a by-word for acting with integrity and responsibility; a business with values that are demonstrated every day and are deeply embedded in the fabric of our organisation.”

Corporate governance

At Diageo, we believe good governance is not merely a compliance exercise but something that supports the long term success of the company. We also recognise that the quality of corporate governance ultimately depends on how people behave: there is a limit to the extent to which policies and frameworks can deliver good governance.

Our approach

As a UK company listed on the London Stock Exchange and on the New York Stock Exchange, Diageo is subject to corporate governance rules in both the United Kingdom and the United States. In general we follow UK corporate governance practice. More details of these can be found in the corporate governance section of our 2012 Annual Report.

Themes in corporate governance this year

Diversity on boards of directors and elsewhere in corporate life continues to be a significant theme in corporate governance. At Diageo, we have long believed that supporting and respecting all aspects of the diversity of our people is an important contributor to business performance as well as being the right thing to do. There are currently five nationalities represented on our board and four of the 10 directors are women. In addition to the individual skills that each director brings, we continue to believe that their diversity as a group helps to provide an appropriate range of perspectives on business issues and an excellent balance of skills, experience, independence and knowledge of the company.

Governance structure

Following is a summary of Diageo's governance structure at the highest level. For full details, and further information on our board members and governance, please see the corporate governance section of our 2012 Annual Report.

The board

The Diageo board consists of a chairman, chief executive, chief operating officer, chief financial officer and six independent non-executive directors.

The board, in full session and through its committees (audit, nomination and remuneration), makes decisions, reviews and approves key policies and decisions of the company, in particular in relation to:

- Group strategy and operating plans
- Corporate governance
- Compliance with laws, regulations and the company's Code of Business Conduct
- Business development, including major investments and disposals
- Financing and treasury
- Appointment or removal of directors and the company secretary
- Risk management
- Financial reporting and audit
- Corporate citizenship, ethics and the environment
- Pensions.

In line with the Companies Act 2006, which sets out directors' general duties concerning conflicts of interest and related matters, the board has agreed an approach and adopted guidelines for dealing with conflicts of interest and has added responsibility for authorising conflicts of interest to the schedule of matters reserved to itself.

Each year, the board reviews its performance and that of its committees and the individual directors. Following an external review last year, this year the board carried out an internal performance review, which involved a written questionnaire followed by the chairman holding individual meetings with both executive and non-executive directors. For more information on the outcomes of the evaluation, please see the corporate governance section of our 2012 Annual Report.

Non-executive directors

The non-executive directors, all of whom the board has determined are independent, are experienced and influential individuals from a range of industries, backgrounds and countries. Their diverse mix of skills and business experience is a major contribution to the proper functioning of the board and its committees, ensuring that matters are fully debated and that no individual or group dominates the board's decision-making processes. Through the nomination committee, the board ensures that plans are in place for the succession of both executive and non-executive directors. These plans consider gender and diversity as well as business skills and experience.

There is a formal induction programme for new directors; they meet with the executive committee members individually and receive orientation training from the relevant senior executive in relation to the group and our business. This includes training on our assurance processes, environmental and social policies, corporate responsibility policies and practices, and governance matters. Following this initial induction, appropriate business engagements are arranged for the directors on an ongoing basis.

Chief executive

As chief executive, Paul Walsh is responsible for implementing the strategy agreed by the board and for managing the group. He is supported in his role by the executive committee.

Committees and working groups

The chief executive appoints and chairs the executive committee, which consists of the individuals responsible for the key components of the business: the regions where Diageo operates, Global Supply and global functions.

The chief executive has also created other committees with ongoing remits to oversee certain areas and functions. They are:

- **Audit and risk committee:** accountable for internal control and risk management as well as reviewing the effectiveness of the compliance and ethics programme.
- **Corporate citizenship committee:** accountable for managing our Sustainability & Responsibility Strategy.
- **Finance committee:** responsible for advising on funding strategy, capital structure, management of financial risks as well as related policies and control procedures.
- **Filings assurance committee:** responsible for implementing and monitoring the company's compliance with relevant UK, US and other regulatory reporting and filing provisions.

Diageo also has executive working groups that are chaired by an executive member and include senior managers. These create policy to recommend to the executive committee and board when appropriate. The groups relating to sustainability and responsibility matters report to the corporate citizenship committee and include an alcohol in society working group, chaired by the director of corporate relations, and an environmental working group, chaired by the president of Global Supply and global procurement.

For more information on the governance arrangements for sustainability and responsibility issues, please see the approach and performance section of this report on [pages 15-26](#).

Codes and policies

Our Code and policies are written not simply as a set of rules, but to give accessible and helpful guidance to employees on how to bring our values to life and to articulate how we expect them to behave.

Our Code of Business Conduct ('our Code') sets the standard for what is expected of everyone working at Diageo – 'the way we work, every day, everywhere'. All other policies and standards flow from its principles. We bring the words off the page through training, engaging communications, workshops and competitions.

Our Code of Business Conduct

A code of business conduct is only as good as its implementation, which is why all Diageo employees are required to attend training on our Code. We also give refresher training and updates as our Code evolves with changing regulation and best practice. The board once again mandated this year that all middle managers and above must complete an annual certification to confirm their compliance with our Code, and to identify any areas of possible non-compliance.

Applicable to all

Our Code applies to everyone working for Diageo worldwide regardless of location, role or level of seniority. We expect those representing and acting on behalf of Diageo, including temporary and contract employees, consultants, agents and any other third party acting in our name, to do so in accordance with the principles of our Code. We expect all our suppliers to adhere to our Partnering with Suppliers standard, which includes the key principles from our Code that are applicable to them.

Comprehensive and clear

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

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

Other policies

Our Code is underpinned by a number of global policies covering specific areas of our activities in more detail. They are:

- Anti-corruption – introduced in May 2012
- Anti-discrimination and human rights
- Anti-money laundering
- Brand assurance
- Competition and anti-trust
- Corporate security
- Data privacy
- Employee alcohol
- Environment
- External communications
- Information management and security
- Marketing
- Occupational health and safety
- Quality
- Tax.

Updates this year

Making policies easier, simpler, more relevant

For standards and procedures to be effective, they must be easy to understand and relevant to the people who have to follow them. In our review of policies last year, we reduced the number of global policies and ensured they all had the same look and feel as our Code, with a common structure, and were significantly shorter than the old policies.

We launched the new policies in September 2011 along with a 'policy finder' tool on our intranet to help employees find those most relevant to them. We also assigned each policy a subject matter expert 'owner'. If employees are unsure about an aspect of a policy, they can contact the relevant subject matter expert for further guidance. Subject matter experts work closely with the global compliance and ethics team on the annual communications plan around policies, and on deciding on the right type of training for employees to ensure we get the correct balance of education and engagement without overloading them with too much information.

Strengthening the fight against corruption

Corruption is a very serious threat to many companies, and with the evolution of our business, and continuous desire to raise the bar of our performance, we felt it necessary to create a dedicated, stand-alone policy to explain our approach, encourage best practice in this area and keep it top of mind with employees. In May 2012, we launched a new anti-corruption policy. In line with our theme of simplicity and clarity, the new policy pulls together into one place clear guidance on those areas of business activity that may expose Diageo to risks of bribery and corruption:

- Private commercial bribery (as well as that of government officials)
- Relationships with our business partners.
- Charitable and political donations
- Extortion and personal security
- Meals, entertainment, travel and gifts.

Ensuring our Code is clear and consistent

Following our review of policies last year, we updated our Code in July 2012 to be consistent with the new simplified global policies, as well as taking this opportunity to make some minor updates throughout to improve consistency and clarity. The changes to our Code include:

- A new section bringing together guidance on the areas of activity that could expose us to risk of bribery, corruption or improper payments
- 'Doing the right thing' – a new section on ethical decision making
- A simplified and consolidated section on information management and security
- New SpeakUp contact numbers, to encourage employees to report concerns or potential breaches
- A clearer link with our values.

Compliance and ethics programme

Our global programme aims to create an exemplary compliance environment and a culture of integrity that will ensure Diageo always does business the right way.

Our approach

We are committed to conducting our business responsibly and in accordance with all laws and regulations wherever we operate. Our audit committee and audit and risk committee together oversee the operation of our compliance and ethics programme to help us live up to this commitment. The programme is managed by our global compliance and ethics director who reports directly to the chief financial officer and the audit committee on all compliance and ethics matters.

We have a confidential independent whistleblowing service, 'SpeakUp', and we expect anyone who comes across a breach of our Code to report it immediately either through SpeakUp, or to their line manager, or to a member of the compliance and ethics, human resources or legal teams. We have extended our SpeakUp helpline to suppliers so that they can raise any concerns with us, thereby helping ensure we are acting by our Code. More information about how we manage social and ethical risk in our supply chain can be found in the our suppliers section of this report on [pages 83-90](#).

Performance

Our programme focuses on seven areas, each of which has a plan of work for the year. How the programme is implemented, however, is determined by each of our markets, based on their greatest areas of risk, what matters most in any particular area, and what will work best for those employees.

Organisational leadership and culture

Embedding the right culture across the business requires inspirational leadership. It requires managers throughout the company to own the agenda, taking responsibility for implementing it in their area, and to lead by example.

Standards and procedures

We need to have the right standards and procedures in place, and they must be clear, simple and relevant. This year we completed the simplification of our global policies, and redrafted our Code of Business Conduct to reflect this. We also introduced a new anti-corruption policy and refreshed our breach management guidelines.

Training and communications

Employees must be given clear guidance on what is expected of them, and the messages must be reinforced and refreshed frequently. In terms of training this year, we provided face-to-face training for all compliance and ethics managers across the world, trained all new employees on our Code of Business Conduct and gave refresher training in several markets. We also ran tailored training for employees on specific policies depending on the risks associated with their location and role, delivered through regional events around the compliance and ethics agenda.

Enforcement and incentives

We take a positive approach to encouraging people to do business with integrity, balanced by making it clear that unethical behaviour is unacceptable and will be treated with the same severity wherever it occurs. During the course of the last year we continued to embed our breach disciplinary framework across the company to ensure that consequences are consistent everywhere. Our annual performance appraisals have a 70/30 weighting, with 70% based on performance and the other 30% based on how people behave throughout the year, including their commitment to the compliance agenda.

Our aim is to help employees improve, through individual coaching and training, but we will take formal disciplinary action when necessary. This year, 105 people exited the business as a result of breaches of our Code or policies.

Due care in delegating authority

Doing business with integrity also requires us to consider the behaviour of those we do business with outside Diageo, such as our suppliers and other third parties, and we encourage them to adopt our standards as far as we can. The importance of this was heightened recently with the change in the UK Bribery Act making companies directly accountable for the actions of those doing business on their behalf. Read more about how we work with our suppliers in the our suppliers section of this report on [pages 83-90](#).

When looking at growth opportunities, we always consider how to help ensure our values and commitment can be aligned with these potential partners. Following our work last year to integrate compliance into our mergers and acquisitions process, we now have a new and far more rigorous approach that puts compliance right at the heart of our growth plans. This has been particularly important given the number of mergers and acquisitions we completed this year.

All new transactions – including businesses in China, Vietnam, Turkey, Tanzania and Ethiopia – were thoroughly assessed from a compliance and ethics point of view before deals were agreed. A great example is our purchase of Meta Abo Brewery in Ethiopia which you can read more about in our case study.

Monitoring, auditing and reporting

To ensure our programme delivers its objectives, the programme and its performance are frequently reviewed during the year by the audit and risk committee. As part of this, each of our markets must conduct a risk assessment and also report compliance against a consistent set of key performance indicators.

This year we agreed settlement of the previously disclosed US Securities and Exchange Commission (SEC) investigation into potential violations of the US Foreign Corrupt Practices Act.

Response and continuous improvement

Ensuring we do business with integrity as our environment changes and we move into new markets requires constant vigilance and re-assessment of risk. Business leaders receive regular information from the controls, compliance and ethics team on breaches in their area to help them respond and improve performance. We also include compliance and ethics issues in all internal audits.

Empowering our leaders

People at the top of an organisation set the tone for everyone else. Our most senior managers are accountable for compliance and ethics, and, through training and guidance, we help them promote a culture of integrity.

Localising responsibilities

This year marked a big change for us in terms of leadership. While the global compliance and ethics team set the programme and support the local teams on the ground, accountability for compliance and ethics now rests firmly with the general manager for each market.

To help general managers with their responsibilities, we set up a network of controls, compliance and ethics managers, one in each market to reflect the new Diageo operating model. These are full-time roles reporting directly to the general manager and are supported from the centre by regional training and capabilities workshops, regular calls and a dedicated website for sharing best practice.

Our general managers are also expected to include compliance and ethics discussions as part of their performance reviews with their direct reports. This is a very important change, marking a real connection between culture, behaviour and consequences.

For information on how we are localising our Sustainability & Responsibility Strategy more broadly, please see the Sustainability & Responsibility Strategy section on [page 16](#).

Measuring and enhancing the performance of line managers

All middle managers and above complete an 'Annual Certificate of Compliance', answering a set of questions on accountability and confirming that they have read all Diageo's policies. This is to ensure managers across Diageo understand and take seriously their responsibilities for compliance and ethics and ensure their teams do the same. We also monitor their performance in this area through our annual Values Survey – this year 81% of employees said: 'My manager helps me understand how the Diageo Code of Business Conduct applies to my role'.

To take compliance and ethics beyond our middle managers, we developed a compliance and ethics toolkit for all line managers. Launched in February 2012, it focuses specifically on how we expect them to behave, and sets out clearly their responsibilities, how to deal with breaches reported to them, how to prevent retaliation, how to make ethical decisions, and how to create an open culture in which their direct reports can feel comfortable about raising issues.

Embedding our Code, policies and standards

To create a culture of compliance and ethics, it is essential that we make sure people understand what is expected of them and how they should behave.

Training our employees

All employees are required to be trained on our Code of Business Conduct, using a curriculum that we reviewed in light of the UK Bribery Act 2010. As well as covering the key areas of our Code, including human rights and anti-corruption, the training tries to bring our Code to life with engaging scenarios, and also explains how to report breaches and where to get help and advice.

The approximately 4,000 employees who joined us this year were taken through a one-hour induction on compliance and ethics which is the same for all, regardless of geography, role or grade. All new employees must do this induction within 30 days of joining. Moreover, all new recruits are expected to have a conversation with their line manager about our Code and what is expected of them within the first two weeks of joining the company.

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

We have been working closely with our controls, compliance and ethics managers and policy subject matter experts to determine the right training materials and training programmes for employees in different functions and markets. For example, marketing teams have received specific training on our Digital Marketing Code to help them understand how to use social media channels in our marketing campaigns, while in supply we have had a huge focus on health and safety and our Zero Harm programme.

Engaging and relevant communications

We have brought our communications around compliance and ethics up to date, making them far more engaging and relevant. For example, the posters to launch the updated global policies had a humorous side to capture people's attention – picking up on the 'don't be out of date' theme. We also tailor communications to what's going on in the business or for the time of year – for example focusing on gifts and entertainment guidelines during the holiday season.

To help employees understand the link between our Code and values, in February we launched a 'Valuing our Code' competition. Employees watched a video on our Code and values, then aligned areas of our Code to each of our values to be in with the chance to win an iPad. We had a great response with 1,688 correct entries.

Monitoring and improving performance **Dealing with breaches when they occur is essential for ensuring we do business with integrity – but we believe that preventing wrongdoing by encouraging a culture in which everyone feels confident in raising concerns is equally important.**

Assessing our risk profile

This year we deepened and strengthened our reporting in a number of ways. Each of our markets must now report compliance to the board's audit and risk committee against a consistent set of key performance indicators. Moreover, each must now carry out a compliance risk assessment, including consideration of human rights and corruption, and develop mitigation plans for the greatest risks. They did so for the first time this year.

With these market assessments, we were able to build up a risk profile of the company as a whole. Although risks differ by market, certain general themes were common to all. These were to do with anti-corruption and money laundering, working with third parties, conflicts of interest, regulatory issues, anti-trust and competition, health and safety, quality, and alcohol consumption by employees.

Following the analysis of these risks, we will be working with local compliance and ethics managers in our markets to develop training and communications relevant to their particular issues.

Reporting breaches of our Code and policies

Making sure that everyone feels confident about reporting breaches is essential if we are to ensure that unethical behaviour does not go unchallenged and unpunished at Diageo. One part of that lies in people's confidence in speaking to their managers. As reported in the Values Survey, 84% of employees said: 'I would feel comfortable raising any concerns about compliance or ethics with my line manager, or through SpeakUp'.

The other is the use that is made of our whistleblowing service, SpeakUp. During the last year we saw a large increase in the number of cases now being reported through SpeakUp, with 242 calls this year, compared with 119 in 2011. We believe this is due to our work to promote SpeakUp, which has helped increase people's trust in the service. This number is now in line with EthicsPoint Inc's global benchmark of 1% of the total employee population reporting concerns through a helpline. The other breaches were reported via line managers, legal, HR or our network of controls, compliance and ethics managers.

Responding to incidents

SEC ruling

On 27 July 2011, Diageo agreed settlement of the previously disclosed US Securities and Exchange Commission (SEC) investigation into potential violations of the US Foreign Corrupt Practices Act (FCPA). The investigation related to payments involving Diageo's subsidiaries in India, South Korea and Thailand. Under the settlement, Diageo agreed to pay \$13.374 million (£8.464 million) to the SEC in disgorgement of profits and pre-judgment interest, to pay a \$3 million (£1.899 million) penalty to the SEC, and to cease and desist from committing any further violations of the books and records and internal controls provisions of the FCPA.

We regret this matter and take the SEC's findings seriously. We have enhanced our systems and controls in an effort to prevent such issues recurring, and to reinforce, everywhere the company operates, a culture of compliance and commitment to the principles embodied in our Code of Business Conduct.

Following the ruling, our chief executive officer sent a communication to all employees drawing their attention to the incident and reinforcing our Code and the importance of behaving in accordance with our values. All employees were then taken through training by the senior leaders in their part of the business to understand what they needed to do to ensure they protect the company's reputation.

Other breaches

All breaches of our Code and policies are investigated and taken very seriously. Any actions by employees that would violate our anti-discrimination and human rights would result in the termination of the perpetrator's contract.

We also work with third parties to try to ensure that they uphold the same high levels as we do. For more information on our approach to monitoring social and ethical risk in our supply chain, see the our suppliers section on [pages 83-90](#).

Dealing with breaches fairly

When a breach does occur, employees need to feel confident that Diageo has a consistent approach, and that internally it's a level playing field for everyone.

In previous years there have been discrepancies in the way that breaches of our Code have been dealt with, depending on the location and the individuals involved. In February 2011, we revised our breach disciplinary framework to make sure that everyone, everywhere had the same model to follow; this year we've been working to ensure that it is followed consistently. Of course, the framework allows for individual circumstances to be taken into consideration – in the same way that the principles of justice are applied in a court of law – but now everyone can be confident of fair treatment as well as a fair hearing.

We have qualified and experienced investigators who handle every breach reported to us that requires investigation. This year we improved how we handle them, ensuring all were dealt with within our 30-day target period. We deal with them in different ways, depending on the severity of the breach.

Our aim is to help employees improve, through individual coaching and training, but we will take formal disciplinary action when necessary. This year, 105 people exited the business as a result of breaches of our Code or policies.

Learning from experience

A big change this year, which we believe is helping people's understanding and confidence in reporting breaches, is that we now share information about those that do occur.

Historically, Diageo kept confidential all breaches of our Code. However, we decided that to improve transparency and enhance our ethical culture we needed to be more open with employees about breaches and their consequences, so that they could be better prepared to avoid them. By publishing relevant (anonymous) examples of breaches locally when they happen, and globally every quarter through our intranet, we alert our employees to potential issues that might arise given external trends or events and hopefully prevent further breaches. These articles are regularly in the top 'most read' on our intranet, and have had very positive feedback from employees.

It's not just a negative programme, however. We also share examples of where employees have been in circumstances in which they have been asked – or tempted – to do the wrong thing, and yet have made the right decision.

We have also developed a new, more rigorous breach reporting database, which will give us far better insights into what is happening and why, allowing us to analyse issues and come up with plans for dealing with problem areas. Subject matter experts for each policy receive reports on breaches in their areas so they can tailor training accordingly.

We decided that to improve transparency and enhance our ethical culture we needed to be more open with employees about breaches and their consequences, so that they could be better prepared to avoid them.

Award celebrates Diageo's good business practices in Africa

Thanks to our employees' efforts across Africa, in June Diageo won the Good Corporate Governance Award at the Africa Business Awards, becoming the first consumer goods company to win this accolade.

Case study:

The Award recognised Diageo's work over the last few years to foster good business practices in Africa, such as initiating the Coalition against Corruption in Cameroon, our work with suppliers in Kenya on responsible business practices, our work against corruption in Nigeria, and Pathway of Pride, our popular compliance and ethics training programme for employees in the region.

'I am very proud of all our employees for contributing to Diageo being recognised for our responsible business ethics and practices, our transparency and our increasingly public stance on tackling corruption and promoting good business practices,' said Nick Blazquez, President, Diageo Africa. 'For us to win this award is hugely valuable in supporting our agenda to embed our Code of Business Conduct, in building Diageo's reputation with key stakeholders and in us contributing to the leadership of this important agenda across Africa.'

Over the last five years, the Africa Business Awards have become a prominent

platform to celebrate excellence and best practice in the business arena, recognising the leaders and companies that are driving Africa's rapidly transforming economies. Winners have made an outstanding contribution to the development of the continent, the economic aspirations of its citizens and the transformation of Africa's image in international markets.

Anne McCormick, Corporate relations director, Diageo Africa (pictured accepting the award) said: 'This award shows the shift in what good corporate governance means to the business world and to Africa. The long term success and sustainability of our business in Africa is no longer solely dependent on strong assets and financial success, but also on our ability to demonstrate the highest standards of integrity in the way we behave towards each other and to those outside our company.'

For more case studies from around the world, please visit <http://srreport2012.diageoreports.com>



Our suppliers

In this section:

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- 88 Environmental supply chain management
- 88 Sustainable agricultural partnerships

30,000

We have a network of approximately 30,000 direct suppliers in over 100 countries



Baileys' work with our Irish cream supplier has encouraged others in the industry to promote sustainable dairy farming practices

52%

We source approximately 52% of our electricity for supply sites from low-carbon sources

£255 million

In Africa this year, we spent £255 million on raw and packaging materials of which nearly 68% was spent with African businesses

SpeakUp

We extended our whistleblowing service, SpeakUp, to all our suppliers to help manage social and ethical risks in our supply chain



Pictured here, our agriculture team inspects barley grown in Mau Narok, Kenya, where we source 60% of the barley we use in East Africa. Sourcing the many raw materials and packaging supplies from which we create our brands should contribute positively to the communities and economies from which they come. We are working with thousands of small-scale farmers in Africa to improve the quality and yield of crops.

Our suppliers

Our mission of celebrating life every day, everywhere starts the moment a seed or a vine is planted in the ground. We believe that the materials from which we create our brands and build our business should be sourced in a way that contributes positively to the communities and economies from which we source.

Our approach

Given our large network of suppliers in over 100 countries, we are working to develop our understanding of the full range of social and environmental impacts we have throughout our supply chain. We see our role as a catalyst, working in partnership with others to help suppliers embed ethical, social and environmental principles. Collaboration with our suppliers, other fast-moving consumer goods (FMCG) companies and industry associations like AIM-PROGRESS, the Carbon Disclosure Project (CDP) and the Supplier Ethical Data Exchange (SEDEX) is the most effective approach to improving not only the practices in our own supply chain, but in that of the industry as a whole.

Our supply chain includes our direct suppliers, as well as our indirect suppliers – those businesses from which our direct suppliers source. Our supplier management approach focuses mostly on direct suppliers, although we partner with suppliers at all levels, particularly as part of our sustainable agriculture programme.

The way we work with suppliers is based on three principles. We aim to do the following:

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

Performance and outlook

There are many ways in which we can measure progress in our sustainable procurement programme and our approach continues to evolve. This year we report on development in the areas where we historically had specific targets. In all categories, we have moved the agenda forward.

Progress with our suppliers

Topic	Progress in 2012
High-risk suppliers	This year, 875 of our 'potential high risk' supplier sites registered with the Supplier Ethical Data Exchange (SEDEX), up from 734 last year. Of these, 588 filled in SEDEX's self-assessment questionnaire and 105 of the highest risk companies were independently audited during the past three years.
Sustainable agriculture partnerships	<p>Last year, the starting point for Diageo to test our new sustainable agriculture guidelines was a partnership with Baileys' primary cream supplier, Glanbia, in Ireland. Progress is well under way; an audit programme focused on improving the sustainability of 4,300 farms has been developed and began in July 2012.</p> <p>This year, we continued to run a number of sustainable agriculture programmes across Africa. These aim to develop partnerships with farming communities, government and NGOs to fuel growth through sustainable cultivation of crops such as barley and sorghum. We are currently investigating an opportunity around cassava.</p>
Carbon reduction	This year we sourced approximately 52% of our electricity from low-carbon sources, such as nuclear, wind and hydro. We also joined the Carbon Disclosure Project (CDP) Supply Chain programme, further developing our six-year relationship with this independent not-for-profit organisation and allowing us to engage our key suppliers on measuring and reducing their carbon emissions.
Sustainable packaging	<p>We continued to work with our suppliers on sustainable packaging improvements. For example, this year, two of our European suppliers changed their packaging to enable us to send it back to be reused, thereby reducing waste.</p> <p>We removed 340 tonnes of packaging by 'down-gauging' (thinning metal in our cans and can-ends). In North America, our key polyethylene (PET) bottle supplier installed a PET production facility at our Plainfield plant to supply PET bottles on site. The relocation improved both quality and inventory levels, while reducing emissions by eliminating those that would have been produced in delivering the bottles to the site.</p>
Local sourcing	As part of our commitment to local sourcing in Africa, we raised our target to source 70% of raw materials from the region by 2015 to help stimulate economic growth while simplifying our supply chain. This year we are proud to have sourced an estimated 56% from African suppliers.

Outlook

Our vision is to generate long-term business value for Diageo with locally and sustainably sourced raw materials. These should meet high quality standards and have a positive impact on the communities and environment in which we operate. We recognise that we are on a journey and aim to do this properly and thoroughly, in the categories and regions where we can have the most impact.

Building on our progress of improving the sustainability of our Irish cream supply chain, we will next turn our attention to Africa. There we will focus on barley and sorghum, two of our key local raw materials. On ethical sourcing, we will continue to focus on working with our highest risk suppliers to improve standards, increasing audits and building supplier capability through the collaborative platforms of SEDEX and AIM-PROGRESS. On carbon, we will continue to engage with our suppliers through the CDP Supply Chain programme in order to identify opportunities and improve performance.

At a policy level, we will continue to work with governments as they seek to stimulate economic growth further through the development of their agricultural economies. We are talking with agricultural development ministries and a series of NGOs – including the Southern Agricultural Growth Corridor of Tanzania (SAGCOT), the Agricultural Transformation Agency (ATA) and the European Cooperative for Rural Development (EUCORD) – about the introduction and registration of high-yielding grain varieties. Our goal is to unlock the potential of suitable land that is currently idle to provide local communities with genuine opportunities to improve their livelihoods.

Our supply chain

Our business is part of a complex supply chain that begins with farming and continues all the way to the manufacturers of marketing materials as our brands make their journey ‘from barley to bar’.

Our approach

We source materials, ingredients, energy and services from businesses across the world through a mix of global, regional and local supplier relationships. To choose our direct suppliers, we assess a variety of factors including cost, quality, service and alignment with our sustainability and responsibility standards, such as Partnering with Suppliers.

What we buy

The goods and services we buy can be divided into the following categories, listed by spend, with the highest first:

- **Marketing** – media, sponsorship and other promotional materials that promote our brands at retail customers’ business sites and elsewhere.
- **Packaging materials** – these include packaging that holds the final product, such as glass, paper, board, plastic and aluminium.
- **Logistics and manufacturing** – the services for distributing our materials and products around the world, and outsourcing manufacturing.
- **Information services and business support** – the businesses that support the activities of our offices, such as consultants, business services, and travel.
- **Raw materials and utilities** – including agricultural products such as wheat, barley, corn, hops, sorghum, cream, sugar, and grapes, and utilities such as electricity and water used for our manufacturing sites and offices.

How much we buy

Unlike some of our food and beverage peers, we are generally not the largest purchaser of any single item in our supply chain. In total, we spend approximately £6.1 billion on supplied goods and services, with the largest components being marketing and packaging. In terms of the volume of materials used in our final products, we buy more than 1.7 million tonnes of cereals, dairy and sweeteners and more than 900,000 tonnes of packaging such as glass, corrugate, cans, cartons, labels and sleeves.

Where we buy

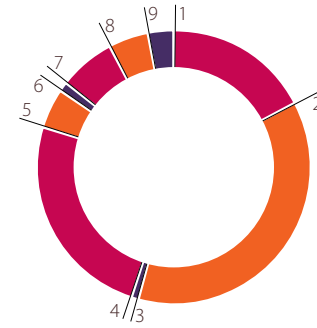
Our network of approximately 30,000 suppliers includes farmers, packaging manufacturers, energy suppliers and transport companies in over 100 countries. Working with local suppliers provides a significant opportunity for us to contribute to local economies while simplifying our supply chain. Where possible, therefore, we try to work with local organisations and farmers. To us, this means sourcing products for each of our five regions from the region itself.

Sourcing locally can help improve conditions for sustainable development. Africa is our second largest region for production volume after Europe and as such is an important area for us. Last year we set a target to source 65% of the raw materials used in our African production facilities from the region. We have since raised this target to 70% by 2015, reflecting our increased commitment to Africa. Today, we source approximately 56% of our agricultural raw materials from Africa, compared to 57% last year.

While local sourcing brings economic and social benefits to the communities in which we work, there are sometimes trade-offs in terms of other sustainability impacts. For example, while we may reduce our carbon impact with less transport, relying on local agriculture in water-stressed areas can have serious consequences if not managed well. Our challenge is to move towards local sourcing while building capabilities to maintain our high standards of quality and sustainability.

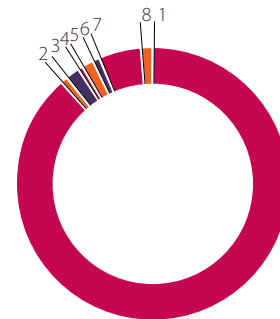
2012 raw material volume (%)

- 1 – Wheat 17%
- 2 – Barley 37%
- 3 – Hops <1%
- 4 – Corn 25%
- 5 – Sorghum 5%
- 6 – Dairy 1%
- 7 – Sugar 7%
- 8 – Molasses 5%
- 9 – Grapes 3%



2012 packaging volume (%)

- 1 – Glass 89%
- 2 – PET 1%
- 3 – Cans 2%
- 4 – Closures <1%
- 5 – Cartons 1%
- 6 – Crowns 1%
- 7 – Corrugate 5%
- 8 – Labels and sleeves 1%



Our standards and guidelines

As the world's leading premium drinks company and the guardian of well-loved brands like Johnnie Walker, Guinness and Tanqueray, we set out minimum requirements that we expect our suppliers to follow, along with aspirational standards to work towards.

We have three main frameworks we use to help us manage the sustainability impacts of our supply chain, our Partnering with Suppliers standard, our Sustainable Agriculture Sourcing Guidelines and our Sustainable Packaging Guidelines.

Partnering with Suppliers

The principal standard for our suppliers, Partnering with Suppliers, sets out the minimum social, ethical and environmental standards we expect them to follow as part of their contract with us. It also outlines aspirational standards towards which we encourage those companies who would like to be our long-term partners to work. It covers the following key sustainability themes:

- **Ethical business practices** – we emphasise our Code of Business Conduct (see our Code of Business Conduct section on [page 77](#)), and require suppliers both to comply with legislation and to commit to working against corruption, extortion and bribery.
- **Human rights** – we recognise International Labour Organisation (ILO) standards for safe working conditions, fair pay and reasonable hours. We expect our suppliers to meet all applicable legislation and the ILO core conventions, while encouraging them to endorse the Universal Declaration of Human Rights.
- **Health and safety standards** – we expect suppliers to maintain a safe working environment including providing access to safety equipment and training. We also encourage them to conduct routine risk assessments, to improve health and safety standards continually, and to adopt health and safety management systems that can be externally verified and certified.
- **Environmental impacts** – we expect suppliers to have an environmental policy; we set out our commitment to reduce energy, waste and water; and we ask them to demonstrate a similar commitment by monitoring and improving their performance.
- **Responsible drinking programmes** – we explain our commitment to responsible drinking, and encourage our partners to make use of our information and experience in creating a more positive role for alcohol in society.

Sustainable Agriculture Sourcing Guidelines

The disproportionate impact of our agricultural suppliers on social and environmental issues makes our Sustainable Agriculture Sourcing Guidelines important. They are designed for our raw material suppliers, and the farmers managing the land. They encourage commitment to good environmental practices, fairness to workers and wider economic benefits for grower communities.

Sustainable Packaging Guidelines

For us, sustainable packaging must strike the balance between packaging designed with the lowest possible environmental footprint and retaining its core functions of protecting, delivering and presenting our brands. We encourage our suppliers to achieve high standards and investigate alternatives to increase the sustainable and ethical production of all our packaging. Published in 2012, our Sustainable Packaging Guidelines are helping us achieve these objectives.

Managing social and ethical risks

As the proud brand guardian of premium brands, we must protect their reputation by carefully managing social and ethical risks.

Our approach

We have a four-stage process for managing social and ethical risks and embedding guidelines into our supply chain.

1. **Initial screening:** a series of key risk-based questions which our procurement team applies to all current and potential suppliers. Criteria for identifying high risks include analysis of country of origin, type of goods or service, potential impact on a global brand and use of temporary or casual labour.
2. **Pre-qualification:** a questionnaire that focuses on any areas of concern raised in stage one.
3. **Qualification:** any potentially high-risk suppliers are required to register with the Suppliers Ethical Data Exchange (SEDEX), and to take the SEDEX self-assessment questionnaire.
4. **Audit:** suppliers who represent the highest risk are independently audited

against the SEDEX Members Ethical Trade Audit (SMETA) audit protocol. We agree corrective actions to address any gaps, and work with suppliers to help raise their sustainability standards. In addition to covering human rights, core labour standards, and health and safety, we have now adopted the 'SMETA 4 Pillar' audit protocol, which also includes business ethics and integrity, and environmental issues.

Working with industry partners and trade associations

In an effort to reduce assessment fatigue for our business partners, we work collaboratively with SEDEX, a not-for-profit organisation that enables global suppliers to share assessments and audits on ethical and responsible practices with their customers. Suppliers pay for their participation as this allows them to own their data and share their reports with many customers.

We are also an active member of AIM-PROGRESS, a forum for leading consumer goods companies to promote responsible sourcing practices and sustainable supply chains. With 31 companies including Unilever, The Coca-Cola Company, Nestlé and Colgate Palmolive involved, AIM-PROGRESS aims to develop and promote the use of common evaluation methods, and drive efficiencies for all companies by collecting, assessing and sharing non-competitive information on supply chain sustainability performance.

David Lawrence, Diageo's compliance and ethics programme director, is the current chairman of AIM-PROGRESS.

Focusing on human rights

We aim to promote and protect human rights and freedoms in everything we do. Our supplier standards set out the minimum we expect from our suppliers, namely that they meet all applicable legislation and the International Labour Organisation core conventions along with standards for safe working conditions, fair pay and reasonable hours. We also encourage them to endorse and promote the Universal Declaration of Human Rights.

Our suppliers have access to SpeakUp, our whistleblowing line, as set out in our Partnering with Suppliers standard. This is a particularly important element of our work to protect human rights, and it helps us uphold our other policies and standards. This year we received 10 anonymous calls from suppliers through SpeakUp, and we are working to address concerns raised about human rights, discrimination and harassment, and fraud.

Building capability

To help ensure compliance with our standards and expectations, we aim to build not only

the capabilities of our own procurement team, but also those of suppliers, through sessions on social and ethical risk management and environmental sustainability. This year, as part of AIM-PROGRESS, we supported a series of webinars for suppliers in North America and Europe as well as workshops in Kenya and South Africa to share best practice in responsible sourcing.

Performance

Initial screening and pre-qualification

All procurement-controlled spend was screened to assess the risk of not meeting our Partnering with Suppliers standard. For all new contracts drafted, we aimed to include a clause that referenced compliance with our Partnering with Suppliers standard or our even more comprehensive Code of Business Conduct for those suppliers who act on our behalf.

Qualification

We asked those suppliers deemed potentially high risk to register with SEDEX. To date, 875 supplier sites have done so and linked to Diageo, the first step in engaging suppliers to complete their self-assessment, up from 734 last year.

This year SEDEX upgraded their system, which meant all suppliers had to re-submit their questionnaires. As such the number of suppliers with completed self-assessment questionnaires increased only slightly this year, from 519 to 588. However, we are confident that this upgrade will increase the efficiency and effectiveness of the process.

Audit

For additional due diligence, over the past three years, 105 of our highest risk supplier sites have been independently audited, commissioned either by Diageo (13 audits) or accessed through SEDEX and AIM-PROGRESS (92 audits). This is up from 64 last year. Suppliers in Asia and Africa accounted for almost two-thirds of these audits, with the most common issues of concern relating to health, safety and hygiene, followed by working hours and wages.

In general, we consider merchandising materials to be one of our highest risk categories due to the fact that manufacturing is often in high-risk countries. We purchase the majority of materials through agents, and therefore lack visibility on the original manufacturing source. We have begun to work with some of our key merchandising suppliers to support the development of their ethical sourcing practices, build capability and drive assurance further down the supply chain.

Environmental supply chain management

The complex global challenges we face – from climate change to resource scarcity – mean that improving the environmental sustainability of our suppliers is crucial for the long-term health and growth of our brands.

Our approach

Beyond our agricultural footprint, which has a large impact on water, one of the largest environmental impacts of our supply chain is carbon emissions.

We believe the best approach to understanding this risk is through collaboration with others, in particular the Carbon Disclosure Project (CDP), an independent not-for-profit organisation holding the largest database of primary corporate information on climate change in the world. Working with the Supply Chain project helps ensure we are not overburdening our suppliers with environmental measures and requests.

Performance

We extended our relationship with the CDP this year, joining their 2012 Supply Chain programme, which is helping us engage our key suppliers on carbon emissions. This year we approached 125 of our key suppliers to work with us on this initiative, a significant step in our effort to reduce the environmental impacts in our supply chain.

Joining this programme will help us understand better the carbon emissions associated with our supply chain. It will also help us capture and report our Scope 3 emissions (which includes those from our supply chain), and identify best practice and opportunities to reduce them. From our initial analysis we decided to focus on six categories where we see the biggest impact: packaging; raw materials; logistics; energy; third-party manufacturing; and information services.

Meanwhile, we continued to make progress against our operational goal to reduce our own carbon emissions by 50%. In 2012, approximately 52% of our electricity for supply sites came from low-carbon sources such as wind, hydro and nuclear, which is on par with our performance last year. In the United Kingdom, 100% of our electricity comes from low-carbon sources.

Sustainable agricultural partnerships

Diageo's brands have always been closely connected with agriculture. In the 1800s, Arthur Guinness, the son of the brewery's founder, served in the Farming Society of Ireland. As our operating environment continues to change and grow, these partnerships are becoming even more important, helping us secure the resources we need while supporting farmers throughout our supply chain.

Food and water security is under threat from rising populations, changing weather patterns and unsustainable farming practices. Approximately 13% of our procurement spend, excluding utilities, is on materials from farms and forests. Our focus on sustainable agriculture is an imperative both to secure access to the materials and to help contribute to the communities we rely on.

Our vision is to generate long term business value for Diageo, using locally and sustainably sourced raw materials which meet our quality standards, and which have a positive impact on the communities and environment in which we operate. Key to our success is our ability to partner with local farmers to help them improve their yields and promote sustainable farming practices.

Our agricultural footprint

We source agricultural products such as cereals, sugar, cream and grapes from about 150 first-tier suppliers, with whom we have direct relationships, and many thousands of second- and third-tier suppliers, with whom we have indirect relationships. These suppliers range from large agri-businesses to smallholder farmers.

Diageo's oldest brands originate in Europe, and this region has historically been the place where we have sourced most of our materials. Our first sustainable agriculture project was with dairy farmers in Ireland, home of Baileys.

As our second largest source of production, Africa is becoming increasingly important in terms of supporting sustainable agriculture and is one of the poorest and most water-stressed regions in the world. Our work with African farmers on sustainable agriculture is critical to ensure a continuing supply of raw materials, while contributing to local economies, communities and environments. We therefore continued to place particular attention in this region.

Reflecting our commitment to Africa, we are one of the signatories of the New Alliance for Food Security and Nutrition, which was endorsed by the African Union, the World Economic Forum and the G8 at the latest G8 Summit in May 2012. Through this, we are pledging commitment to growth and transformation in Africa through participation in local agriculture and food production.

In Africa, we currently source over 50% of our raw materials locally, which approximates to about 180,000 tonnes a year. This provides a sustainable source of income for thousands of small-scale farmers in seven countries, much needed investment in agricultural economies, and further fuels local supply chains. It also provides Diageo with a secure and sustainable source of raw materials, thereby reducing our exposure to increasingly unpredictable changes in availability, and to potentially volatile global commodity markets – true shared value.

Our global priorities

While local priorities may differ slightly, we have identified four global agricultural ingredients through which we can make a significant contribution towards supporting local production. In identifying these materials, we assessed the size and nature of our spend and the risks and opportunities involved. As our business grows, these priority raw materials could change.

- **Barley** (37% of total raw material volume): one of our largest ingredients by spend and volume, we use barley in a number of brands including Guinness and Johnnie Walker. We mainly source our barley from Scotland, Ireland and Kenya, where it is processed locally.
- **Sorghum** (5% of total raw material volume, but 25% of volume in Africa): an ingredient in many of our African beer brands, we source sorghum mainly from Nigeria, Ghana and Tanzania. As a drought-tolerant crop, sorghum offers opportunities for supporting the local market while securing a sustainable supply for our products in water-stressed regions.
- **Sugar** (7% of total raw material volume): we use sugar in a wide range of brands, including Baileys and Smirnoff Ice, and source it from the main sugar-growing areas of the world including Europe, Brazil and Australia.
- **Cream** (1% of total raw material volume): the single largest ingredient for Baileys, we have a very strong cream supply base in Ireland. We acted as a catalyst working in partnership with our supplier to establish a best practice approach to sustainable cream production.

Performance

When it works, a sustainable approach to agricultural sourcing changes lives, communities, business models and impacts. While we have been working closely with farmers across the world for many years, our approach has historically varied depending on the needs of our particular partners.

Last year we aimed to formalise our approach by launching a set of Sustainable Agriculture Guidelines, piloting them in Ireland with a focus on cream – the key raw material in Baileys. Together with our principal cream supplier, we formed an advisory committee, meeting regularly to address issues around quality assurance, animal health and welfare, carbon, biodiversity, water, and health and safety, with a view to carrying out audits on 4,300 farms. From this pilot programme, we have succeeded in integrating a number of lessons into our general approach. The largest was the need to take time to build relationships with suppliers and work in partnership on developing the programme, which allows the supplier eventually to take ownership.

This year, we increased our commitment to sustainable agriculture with the appointment of a sustainable agriculture director for our global beer and Africa supply chain. We are working towards further developing our partnerships with farming communities, government and NGOs to fuel growth through sustainable cultivation of crops such as barley, sorghum and cassava.

This new phase of work has been conducted primarily in Africa, building on past initiatives, and is focused on strengthening existing or building new scalable partnerships that promote commercially and environmentally sustainable practices while supporting local livelihoods. The approach includes a hybrid strategy to work with medium to large agribusinesses which then connect with local smallholder farmers to grow and supply similar crops, sharing best practice, knowledge and resources.

Developing local agricultural economies

In Kenya we have worked for many generations with commercial barley farmers who supply grain to our malting facility. Diageo works with these farmers to improve yields and develop scalable agribusiness models, linking larger farmers with smallholder communities. More recently we have worked with local financial services companies to provide our farmer community with basic insurance against loss of income due to drought. Provision of credit facilities through banks has also enabled farmers to set up bank accounts and save money, to pay for school fees.

In Europe we have worked for many years with our cereal suppliers, who manage and source wheat, barley and malt for us. These partnerships see us working with both farmer groups and government bodies to improve crop quality. Farmers have benefited from better yields and crop management, which has supported the sustainability of cereals in the United Kingdom and Ireland. This year we met with Irish government officials to discuss our support for the Irish farming industry. Aside from revenue from cereal sales, our industry supports jobs, education and research for many small farmers across Scotland and Ireland.

Promoting crops that are less water-intensive

We are working with farmers in Nigeria, Cameroon, Ghana, Kenya and Tanzania to develop a local sorghum supply chain. Sorghum requires less water to grow and needs less water in the brewing process. But there are also other important benefits. Sorghum is known to improve soil quality, which combined with training and technical assistance improves the capacity of small-scale farmers.

In Nigeria, Cameroon and Ghana we invested in the local sorghum supply chain providing smallholders with access to better seeds, hands-on training and advice and support in storage and transport infrastructure. This has also helped to insulate us from unexpected increases in commodity prices and has reduced the overall price of raw materials.

In partnership with the government of Tanzania, we initiated a pilot project aimed at developing and implementing a scalable sorghum value chain project in Morogoro. If this pilot is successful, the project will aim to help provide and sustain economic opportunities for local farmers as well as promote the sharing of environmentally sustainable sorghum cultivation and post-harvest practices. We hope to achieve this through training, financial support and providing physical infrastructure. Success of the project would lead to a \$2 million (£1.266 million) plan to increase cultivation to 20,000 tonnes of sorghum by 2016. The project is closely linked with the Southern Agricultural Corridor of Tanzania, a priority area for development for the Tanzanian government.

Sowing the seeds of sustainability in Kenya

Barley is an important ingredient for Diageo brands like Guinness and Tusker. Recent work at East Africa Maltings Ltd (EAML) has created jobs, improved barley farming, and made a difference to local communities.

Case study:

We are working hard with our barley farmers in Kenya to protect a crucial part of our supply chain and to help them to share best practice and resources. EAML has been working with partners including Moi University, the Ministry of Agriculture and the Cereal Growers Association to improve our operations and conduct research into barley production.

Our work has included research into breeding better varieties, which would be resistant to common barley disease and result in superior brewing. We carried out a pesticide evaluation in the major barley growing areas of Timau, Moiben, Njoro and Mau Escarpment; soil analysis to determine any deficiency in nutrients; improvements to tillage techniques, which reduce costs for farmers; and a herbicide evaluation. We also run an extension support service for farmers, ensuring that any

problems are attended to promptly and any new research is passed on to them, from crop monitoring to land preparation and soil sampling.

Commercial and community benefits

The multiplier effect of this programme is already having an impact on the local economy. Through contract farming, there are now over 100,000 people working in the barley industry including farmers, farm inputs suppliers, contractors and transporters.

The barley financing scheme lends more than 500 million Kenyan shillings (about £3.583 million) to farmers annually at a negotiated low-interest rate. We now have a crop insurance scheme that protects both the financing institution and the farmers in case of crop failure due to adverse weather.

The farmers are paid directly into their bank accounts through Electronic Funds Transfer (EFT) – in total more than over 1.3 billion Kenyan shillings annually (about £9.317 million) has been provided. EAML continues to fund barley research in Kenya and this has seen the yields increase from 1 metric tonne/hectare in the 1970s to over 5 metric tonne/hectare today.

The benefits of the barley programme have also rippled into the local community, with the provision of hospital beds for Molo, upgrades to the Olchoro health centre, trees planted in Mau Narok, and several roads repaired.

For more case studies from around the world, please visit <http://srreport2012.diageoreports.com>




Our customers and consumers


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850,000 

Since 2009, about 850,000 people have given their commitment never to drink and drive via Johnnie Walker's Join the Pact

6,500 

We recruited 6,500 volunteers to donate 26,000 hours to support local causes in Mexico, Colombia and Venezuela

20,000 

We trained almost 20,000 barmen across Asia Pacific to become responsible servers of alcohol

£475,000

Captain Morgan's First Mate Fund donated over £475,000 to good causes across the United States

£6.3 million

The Arthur Guinness Fund has invested over £6.3 million across 13 countries, funding more than 50 social entrepreneurs

At Diageo, we pride ourselves on building and growing brilliant premium brands by understanding what our consumers want, and collaborating with the businesses that engage them directly. At the heart of this work is our commitment to quality.

Our customers and consumers

People celebrate life, every day, everywhere with Guinness, Johnnie Walker, Tanqueray, Smirnoff, and more than 100 other brands – connecting Diageo to businesses, shoppers and consumers around the world. Encouraging positive behaviour through our brands is therefore a powerful tool in our work to manage our social and environmental impact.

Our approach

At Diageo, we pride ourselves on building and growing brilliant premium brands by understanding what our consumers want, and collaborating with the businesses that engage them directly.

At the heart of this work is our commitment to quality – creating delicious, safe drinks in beautiful packaging that consumers love. Beyond this we aim to meet broader expectations, which are increasingly to do with social and environmental performance.

Engaging consumers

External research has shown that consumers' interest in sustainability and responsibility is growing fast in some industries although it is still just beginning with alcoholic beverages. Nevertheless, we believe our current brand programmes around social and environmental issues are engaging our consumers and we think they will become a more important element of a consumer's evaluation of our brands. This is one reason why we are working to maximise our impact throughout our value chain – from grain or vine to glass.

Historically we have focused on engaging our consumers around responsible drinking. For example, in the US, 20% of our broadcast advertising budget has been dedicated to responsible drinking commercials since 2001. And promoting a message never to drink and drive has been embedded in our sponsorship of Formula 1 since day one in 2005.

Working with customers

Driven by the same trends, our customers are beginning to look to suppliers like Diageo to help them improve their own sustainability performance, whether through promoting responsible drinking, contributing to their environmental programme or ensuring human rights in our supply chain practices.

We too see these businesses – our main vehicle to our consumers – as a critical tool to maximise our impact and positively change consumer attitudes, such as reducing secondary packaging, encouraging recycling or, as has been the case historically, promoting responsible drinking. As such, collaborating with these businesses is critical for our Sustainability & Responsibility Strategy.

Performance and outlook

Engaging our customers and consumers on social and environmental issues helps build our brands while promoting positive changes in attitudes and behaviour. We're committed to improving the social and environmental impact of our products and marketing without compromising the brand experience.

Performance

Our work to connect or collaborate with customers and consumers by its nature meets diverse interests and needs around the world. As such, social and environmental programmes tend to be measured at the brand or customer level rather than rolled into global metrics. The one exception is our commitment to quality, which we manage consistently across the business.

Engaging consumers

Ten of our 14 global strategic brands launched consumer-facing campaigns related to sustainability and responsibility this year.

Diageo directly or indirectly funded over 300 responsible drinking programmes this year and many of them used our brands as the main vehicle to deliver the message. These have varying forms of metrics and outcomes. Many of these programmes engage consumers around responsible drinking – for example Johnnie Walker,

along with Formula 1 driver Mika Hakkinen, collected about 850,000 pledges from consumers never to drink and drive (see a film on the programme: <http://bit.ly/GYRJlv>). Others aim to engage consumers on social and environmental causes – for example Buchanan’s recruited over 6,500 consumers to donate four hours of their time each to local causes in Latin America. Read more about how we are engaging consumers through our brands.

Beyond consumer-facing campaigns, our brand teams contributed to our Sustainability & Responsibility Strategy in other ways, referenced throughout this report. These include Captain Morgan’s sustainable packaging renovations or Baileys’ work to develop a sustainable cream initiative in Ireland. Product innovations have also made a contribution, for example Sterling Organic wines made with organic grapes, or Senator Keg beer which offers low-income consumers in Kenya an affordable, safer alternative to illicit, and sometimes harmful, alcohol.

Working with customers

We produce and market our brands, and consumers buy them, through retailers who are our customers. Understanding our customers means taking account of their diversity – from global supermarket chains to small liquor stores to restaurant owners. Understandably, much of our work with customers is local in nature. Globally, however, we have launched nine sustainability and responsibility programmes with our largest global customers around the world, including Walmart, Carrefour and Metro.

The metrics vary by customer programme and primarily focus on responsible drinking. For example, we trained nearly 20,000 bartenders across Asia Pacific to become responsible servers of alcohol. We also partnered with Sainsbury’s, Heineken and Drinkaware in the United Kingdom to create a responsible drinking campaign focused on portions and standard units control in 230 Sainsbury’s stores. Diageo Benelux is working with Carrefour Belgium on improving the way employees communicate responsible drinking to consumers, and the ‘What’s your DRINKiQ?’ game toured Carrefour Planet stores for two weeks in January 2012.

We are starting to work with customers on the broader sustainability and responsibility agenda, for example our recycling programme in Brazil, Glass is Good.

Ensuring the highest quality

Our high quality and food safety standards are designed to address the entire spectrum of quality from the smallest ‘defect’ such as a tiny label tear to an ‘incident’ when a larger batch of product is found to be below the required standard. We want to improve our quality performance continuously and we set ourselves stretching targets every year. This year, we were proud to reduce defect levels by 32% and quality incidents by 75%.

Outlook

We’re determined to ensure that our drive to become more sustainable truly supports the experience and quality of our brands. We have always worked hard to be world-class marketers – building brilliant brands and nurturing our consumer relationships. Based on these relationships and consumer insights, we hope to do even more to encourage our consumers and customers to make more sustainable choices.

We will continue to search for insights into the aspects of quality that matter to our customers and consumers, and we are determined to fulfil the promise we make to them every time they buy our brands. With this in mind, we have set ourselves the following challenging targets:

- To reduce our defect rates to world-class levels by 2015
- To eliminate all customer quality incidents by 2015
- To install externally accredited world-class quality systems at all our sites by 2014
- To build a quality culture based on pride in our brands (based on our quality engagement tool)
- To be rated as best for quality by our customers and consumers (measured through customer satisfaction surveys).

Who we serve

There is a huge diversity in the people who enjoy our brands and the businesses with which we work to sell our products.

We define the people we serve in three groups.

Customers

Our customers are the businesses through which we sell our brands. They fall into two broad categories: ‘off-premise’, where shoppers buy to consume at home, at parties or as gifts; and ‘on-premise’, where consumers are served drinks at the establishment. Approximately 60% of our customers are off-premise, and our biggest accounts include Walmart, Tesco, Metro, Carrefour, Casino and Auchan. In some cases, such as parts of the United States, Canada or India, the government sells our products through state stores. The remaining 40% of our customers are on-premise establishments, such as bars, entertainment venues, restaurants and hotels.

Shoppers

Shoppers are those who buy our products, especially in off-premise stores – they may or may not be the ultimate consumer.

Consumers

Consumers are those who drink our brands. With more than 100 brands from Tanqueray gin to Stirling Vineyards wine helping our consumers in 180 markets celebrate life, every day, everywhere, it’s not surprising that our consumer base, their tastes and the occasions when they drink are highly diverse.

Engaging consumers

Diageo has always excelled at world-class marketing, building brands and nurturing loyal consumer relationships. It is through our brands that we can encourage our consumers to become more sustainable in their behaviour.

Our approach

Our brands have been supporting their consumers and communities for decades, for centuries in some cases, to build a better world. This ranges from Arthur Guinness's philanthropy in 1900s Dublin, to the Joseph E. Seagram company's responsible drinking ads starting in the 1930s, and Grand Metropolitan's foundation of the charity Tomorrow's People in the 1980s. We continue this legacy in many ways, including by engaging consumers in responsible drinking programmes and in cause-related campaigns.

Sustainability also increasingly feeds into our innovation and brand procurement pipelines. For example, Sterling Organic wine and Moon Mountain vodka offer organic options to consumers. Senator Keg beer offers consumers in Kenya a low-priced and often safer alternative to non-commercial alcohol. There are also many changes that we are making to our packaging, as you can read about in our sustainable packaging section on [page 48](#). Some brands such as Baileys have looked into their supply chain and helped to minimise their environmental impact – read more in our sustainable agricultural partnerships section on [page 88](#).

To continue to develop capabilities in this area, our internal marketing training programme, Diageo Way of Building Brands (DWBB), is currently being refreshed. Rather than including a separate module on sustainability and responsibility, the updated programme will have information on sustainability throughout the toolkits, case studies and materials. This reflects our marketers' view that sustainability is not an add-on, but runs through everything we do.

In general, there are two ways that we engage our consumers through our brands around sustainability and responsibility:

- **Promoting responsible drinking:** this includes brand-led responsible drinking programmes
- **Working with consumers as partners for social causes:** this includes cause-related marketing and joint initiatives.

Promoting responsible drinking with our brands

As the guardian of premium brands including Johnnie Walker and Guinness, we are determined to ensure that world-class marketing means not just responsible marketing, but marketing responsibility.

Our responsible marketing is underpinned by a code of marketing practice to mandate minimum global standards for all of our marketing activity, which you can read more about in the alcohol in society section (see [pages 27-38](#)). But beyond ensuring our marketing is conducted appropriately and responsibly, we believe our iconic brands can play a role by promoting responsible decisions about drinking, particularly around drink driving. Here are some of our brands' responsible drinking campaigns this year.

Johnnie Walker's Join the Pact: Led by former and current Formula 1 drivers Mika Hakkinen, Jenson Button and Lewis Hamilton, this campaign has collected about 850,000 signatures from consumers pledging never to drink and drive. Mika has made six appearances at launches in four countries for the campaign, India, the Philippines, Monaco and the United Kingdom. The campaign's recent film (<http://bit.ly/GYRJlv>) was watched by 250,000 consumers over Christmas.

Guinness, Baileys, Bushmills and Ciroc – Safe Rides Home: Four of our brands donated taxi rides and free metro cards to encourage people to use public transport during the holidays.

Captain Morgan's First Mate Fund: launched last year, Captain Morgan continued its highly successful fund established to support responsible drinking initiatives and other programmes that benefit the community. To date, Captain Morgan has donated more than \$750,000 (£475,000) to local causes across the United States, including safe rides on key holidays and a home-based call centre to offer assistance to veterans actively recovering from alcohol abuse and other health conditions. Other beneficiaries include the Responsible Hospitality Institute, which provides resources, training and events for communities to plan for safe entertainment and hospitality, and Sacred Heart University's binge drinking prevention programme.



'Time to Share' in Colombia and Venezuela.

Working with consumers as partners for social causes

Our brands are increasingly connecting with consumers, using campaigns that address social and environmental issues – not just because it’s a good thing to do but because these issues resonate with consumers and help build our brands.

At the heart of our marketing is a focus on each brand’s benefit to consumers. Johnnie Walker, for example, stands for personal progress, just as it did to John Walker when he founded the business in 1820 and built a small grocery store into an international whisky business. Our cause-related marketing is consistent with this approach – engaging consumers on those social and environmental issues that are consistent with a brand’s values. In some cases, this work supports charitable causes and in others it seeks to change consumer attitudes and behaviour. Below are some examples.

Johnnie Walker – Keep Walking project:

This global platform aims to inspire consumers to change their cities. Participants vote for one of three local pioneering projects by donating ‘steps’ that they earn from participation in a social media application. In total, more than one billion steps were collected in Brazil, Spain, Bulgaria, Lebanon, Greece and Thailand. One of the pioneering projects was Pavegen, where paving slabs convert kinetic energy from footsteps into renewable energy, enabling walking to power street lighting.



Crown Royal: Supporting the US military overseas.

The Queen’s Diamond Jubilee Edition of Johnnie Walker: This year we produced just 60 of these special edition bottles, which used the Queen’s artisans and craftsmen including an engraver and calligrapher. All profits will go to the Queen’s charities.

Buchanan’s Time to Share (Tiempo para Compartir):

In Latin America we are continuing James Buchanan’s legacy of making a significant difference to people’s lives. Tiempo para Compartir recruited 6,500 people to donate four hours of their time each to projects in Colombia, Venezuela and Mexico. Their achievements have been celebrated in three concerts – in Mexico a concert with Maroon 5, and in Venezuela and Colombia, concerts with the Smashing Pumpkins.

Arthur Guinness Fund: In 2009 to commemorate the 250th anniversary of the original lease of the St James’s Gate Brewery, we established the Arthur Guinness Fund to support entrepreneurs who are changing communities for the better. Since its launch, the Fund has invested over £6.3 million across 13 countries, funding more than 50 social entrepreneurs.

The Talisker Whisky Atlantic Challenge:

This campaign featured the world’s toughest rowing race with 17 multinational, amateur crews rowing 2,500 nautical miles across the Atlantic for largely charitable causes. This year the race raised over £2 million for charities supporting causes from severely injured ex-army service personnel to tackling human trafficking.

Crown Royal Heroes Project: In the United States, Crown Royal launched a multi-faceted project to honour heroes in need. As part of this the brand provided 5,000 care packages for US military personnel. It also engaged consumers to vote for ‘heroes’ as they defined them. The brand also donated over \$165,000 (£104,000) to a variety of charities honouring heroes including national charity partners Operation Patriot, Honoring Heroes and Packages From Home.



Talisker: Racing for a cause across the Atlantic.

Working with customers

Together with our customers we are working hard on sustainability initiatives to help consumers celebrate life, every day, everywhere with our brands.

Our approach

Our customers can vary from large global retailers and convenience stores, to bars, restaurants, hotels and governments such as ‘control states’ in the United States and state monopolies in certain countries like Sweden and Norway.

As a conduit to our consumers, these businesses and organisations are very important in our efforts to change consumer attitudes especially around responsible drinking.

In a similar way, our customers increasingly see Diageo, alongside their other suppliers, as a conduit to their own sustainability performance. We have found that our customers have different priorities around sustainability. For example, while Brazil places recycling high on the agenda, some US and European customers are interested in our carbon footprint, while others are more focused on local communities or supply chain practices. Nonetheless, our work this year has been primarily with large global retailers on programmes addressing responsible drinking – where we believe we can make significant impact.

Below are some of the key programmes we’ve launched this year.

Responsible drinking

Many of our customers rely on us to provide leadership on responsible drinking and come to us for knowledge and insight. We work in many ways to promote responsible drinking in the on and off trade. For example, we established the Diageo Bar Academy, where this year, we trained close to 20,000 bartenders across Asia Pacific to develop world-class bar training standards, including responsible service of alcohol.

We also convene forums with retailers. For example in Kenya, we signed a partnership pact with the Pubs, Entertainment and Restaurant Association of Kenya (PERAK), which represents over 200 members, to promote all aspects of responsible drinking consistently. PERAK members now help their customers get taxis home as well as advocate for a designated driver when groups come into their bars.

Our most frequent programmes are managed bilaterally with our largest retailers. Below are just a few examples.

Sainsbury's, United Kingdom: Partnering with Sainsbury's (one of the United Kingdom's largest supermarkets), Heineken and Drinkaware, we created a responsible drinking campaign in 230 Sainsbury's stores, educating shoppers about recommended daily limits and the number of units in drinks.

Carrefour, Italy: An estimated six million consumers across Italy made alcohol purchases in 58 Carrefour hyperstores while our responsible drinking leaflets and advertising banners were being showcased. 81% of people interviewed afterwards said the information was very useful while 65% said they were now aware of the standard units in different alcoholic drinks.

Walmart, Brazil: We ran a programme aimed at curbing underage drinking with Walmart, including strong messaging in point of sale materials, coupons and communications to all Diageo and Walmart employees.

Walmart, Puerto Rico: Diageo's Guardian angels, which aim to promote responsible drinking by distributing informational materials to consumers, visited 10 Walmart stores throughout Puerto Rico to spread their message.

Metro, the Netherlands and Germany: Smart Serve helps small shop and bar owners sell and serve alcohol responsibly. Through materials and a training DVD, the initiative shares ways that these small businesses can play a role in enforcing the legal drinking age, preventing drink driving and creating a more enjoyable experience for their consumers. It was piloted in Germany and is now being rolled out to other Metro stores in Western Europe. In June, Diageo and Metro announced the winners of the Smart Serve Competition, which rewarded the best ideas for how to promote responsible selling and serving. The winning bar, Cocktail Bar ONE in Magdeburg, Germany, convinced the jury with a photo story showing how bar staff make sure that alcohol is not served to minors.

Real, Poland: Building on last year's responsible drinking partnership with Real, part of the Metro Group, this year we focused on drink driving. We collected 75,000 signatures of responsible drinkers pledging, 'I drive. I don't drink' in stores, through a website and Facebook application.

Environmental sustainability

Environmental sustainability is increasingly important to our customers, as it is for us. Our best example of addressing this need is in Brazil, where we launched Glass is Good in São Paulo, Brazil last year. As part of this programme, we offer vouchers to encourage participating stores, bars and restaurants to recycle our bottles. We are also supporting recycling co-operatives to recycle bottles in bars, supermarkets and apartment blocks by providing transport, training and safety equipment.

In its first year, the programme worked with 37 partner nightclubs, recycling approximately 1,100 tonnes of glass. We increased the number of collection points by 150% in just six months. The programme also developed a partnership with CEMPRE (Corporate Commitment to Recycling), an important institution in the sector, and received a new warehouse from the City of São Paulo. Given its success, we plan to expand the programme across Brazil.

Food safety and quality

Our commitment to quality means we always strive to fulfil the promise we make to our consumers and customers every time they buy our premium brands.

Our approach

We design and produce brands in a way that ensures they are always safe to drink and that they meet the expectations of our consumers. By doing so we protect both our brands' and the company's reputation.

We do this through our rigorous Global Quality Policy, which applies to all Diageo businesses and majority joint ventures. All our products go through a full regulatory review prior to launch. Food safety legislation varies from country to country. Our global quality standards are designed to match or exceed local market regulations. We look at quality in two ways:

- The intrinsic quality of the product, characterised by the quality of the design, the packaging materials used and our choice of raw materials
- The extent to which each product conforms or deviates from our very high standards.

Our rigorous quality systems and high standards are designed to address the entire spectrum of quality from reduction of the smallest 'defects' such as a tiny label tear to the prevention of any quality 'incidents'. We aim to improve our quality performance continuously by setting stretching annual targets, a clear strategy, and by building the capabilities needed to achieve our vision of Zero Defects.

The legal requirements for labelling vary from country to country and range from minimal guidance to strict product naming conventions (often driven by country of origin legislation) and health warnings. However, in every market, we always include a 'drink responsibly' reminder on every single one of our bottles, with a reference to

www.drinkiq.com.

Sainsbury's



METRO GROUP

Performance

We are proud of the improvements in quality we have made this year. We are determined to drive improvements through all stages of our value chain, from product design to our manufacturing processes and finally through to our customers and consumers.

This year, we focused heavily on improving quality during the manufacturing process – reducing defects – an area where we can have the biggest impact on packaging quality.

We also gather and act on customer and consumer complaints through our consumer care lines and customer networks across North America and Europe, where we aim to respond to all concerns within three days. This year we launched a consumer care centre in Mexico with a freephone number for our Latin American consumers, and we want to enhance our customer care services into other markets across Latin America, Africa and Asia Pacific. Where we don't currently have a local customer care infrastructure, people can reach Diageo through their retailers or through our website. In total this year we received and responded to 37 customer complaints per million units sold.

Complaints data is analysed and reported monthly in each of our regional supply centres. We focus on the top three to five complaints. For example, one of the major categories of complaint in Scotch whisky is harmless particulate matter such as bits of cork or tiny specs of char from oak barrels. Natural cork debris is one of the major causes of particles. To eliminate this issue we have developed an agglomerate cork closure that has the natural characteristics of cork, but does not shed particles. This has eliminated a whole category of complaint.

Key metrics

We are seeking to raise our product safety and quality standards even further by extending our existing accreditations to include the international quality and food safety standards, ISO 9001 and FSSC22000. Last year we introduced a new quality standard, the Global Finished Product Standard, which sets higher goals for the quality of our products. It tightens our specifications on a range of quality features that matter to our consumers, such as the straightness of a label or the maximum size of a glass imperfection. This helps our plants check for and reduce packaging defects. We have also stretched our quality targets again for the coming year and 2015, which we will report on next year.

This year our total number of defects was 200,000 parts per million (ppm), a 52% decrease from last year; and we had 41 quality incidents, a decrease of 75%. We are pleased with our improvement and will continue to focus on meeting our high quality expectations. There have been no fines, warnings or penalties related to food safety this year.

One of the biggest remaining areas of challenge is in Africa, where our stringent global standards can be difficult to achieve in a region dominated by reusable bottles. Africa accounts for over 50% of our total quality defects, so this has a large impact on performance. If we exclude performance in Africa, the median of total defects reduces to 25,000 ppm. This year we put a programme in place in Africa to reduce defects by 50% in the coming year. We are determined that our African customers and consumers should experience the same high standards of quality as every other market across the world.

Tapping into employee pride

We support our quality ambitions by putting in place rigorous quality systems and processes, but getting it right every time comes down to our people. We are working hard to inspire employees and ensure that each and every one of our people, whether they are labelling bottles of Johnnie Walker in Scotland, blending ingredients at Baileys in Ireland, or ensuring the safe delivery of canned Guinness from Dublin to Tokyo, work their hardest to preserve the quality of our brands. This is where our greatest improvement opportunity lies.

2012 quality performance

Quality issue	Description	Result since 2011
Total defects ¹	Individual defects identified on isolated products	52% reduction
Critical defects ¹	Unsafe or illegal defects	83% reduction
Total quality incidents ²	Quality failures affecting batches of products rather than an isolated bottle	75% reduction
Internal incidents ²	When the incident is identified before the brands leave our plants	81% reduction
External incidents ²	When the incident is identified by customers or consumers	45% reduction
Customer and consumer complaints	Gathered through customer care processes	5% reduction

(1) A defect refers to an individual fault on a single product unit. We define a critical defect as something that is unsafe or illegal. For example, a product code may not be legible.

(2) An incident tends to relate to an entire batch. The possible causes of a quality incident vary, but might be: the liquid does not taste right; particles may be visible in the products; or the wrong label may have been applied.

Johnnie Walker: changing the world step by step



It's Diageo's aim to help people contribute to a brighter future. From Johnnie Walker's Keep Walking Project came the powerfully simple Pavegen installation, which converts our footsteps into renewable energy.

Case study:

The idea behind the Keep Walking Project was to inspire people to take collective action towards a better world, starting close to home. Johnnie Walker invited people to vote for the pioneering project they wanted to see installed in their city. Voting took the form of donating 'steps' online to their favourite project. These steps include sharing videos, talking about the project or supporting it.

Steps for sustainability

More than 1 billion steps were collected overall, and the clear favourite of the shortlisted projects was Pavegen, which received more than 115 million votes. Pavegen transforms everyday walking in the city into a way to generate electricity and power. Stepping on the special paving stones lights them up, and generates kinetic energy.

The interactive, people-powered light

installation appeared in three markets where Pavegen received the most steps, including Athens, Greece, which gave it 35 million. The installation was open to the public in Athens in early June.

What could be simpler than walking along an ordinary city pavement as a way to generate power? Laurence Kemball-Cook, mastermind of Pavegen, said: "Technology should inspire and make people think about how they live".

Pavegen, and the Keep Walking Project as a whole, have inspired communities to think about the renewable energy solutions that might involve little more than just taking a few small but significant steps.

For more case studies from around the world, please visit

<http://srreport2012.diageoreports.com>

Educating bartenders in Asia with the Diageo Bar Academy



For Diageo, good business means empowering our customers to ensure consumers are in safe hands. The Diageo Bar Academy trains bartenders in Asia in excellent service that emphasises moderate drinking.

Case study:

In partnership with the Wine and Spirits Education Trust, the Diageo Bar Academy provides accredited training and professional certification for bartenders. With practical sessions and theory, the course focuses on serving alcohol responsibly.

Through the foundation course, launched in India in May 2011, we have trained 10,000 bartenders across China, South Korea, Taiwan, the Philippines, Singapore, Hong Kong, Thailand and Vietnam, and more than 9,600 bartenders in Australia alone, under its Alchemy programme.

In Indonesia, through the Sahabat Guinness programme ('Guinness is my good friend'), we have invested £150,000 to provide bar staff training and insurance cover for over 4,500 bartenders, while Diageo Australia's Better Nights training package has been distributed to over 4,000 venues. Of the venue managers surveyed, 92% agreed that

Better Nights was effective in raising bar staff's awareness of how to deal with potentially difficult situations, while 98% rated the tool as being effective in increasing staff's confidence to use hints and tips to deal with challenging situations.

Lam Chi Mun, director, Diageo Bar Academy, Asia Pacific said, 'Diageo Bar Academy was set up with the simple aim to educate and inspire. It aims to develop the skills and further enhance the knowledge of bartenders and elevate the craft of mixology. We are dedicated to providing leadership on responsible drinking for our customers and will expand and develop advanced modules for the Academy in selected markets next year.'

For more case studies from around the world, please visit

<http://srreport2012.diageoreports.com>

About this report and GRI

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About this report and GRI

Diageo has published an annual global Sustainability & Responsibility Report since 2003. It is an integral part of our corporate disclosure and reporting practice, and is published each year alongside our annual report.

We report against the Global Reporting Initiative (GRI) guidelines and received limited assurance from KPMG. Diageo also supports the UN Global Compact (UNGC) and reports on progress against its advanced framework.

Following feedback on last year's report, we have worked to make this report more user friendly while still improving our alignment with the GRI.

We welcome stakeholders' views on our report and on our approach to sustainability and responsibility in general. We hope that you enjoy this report and we encourage you to give us your feedback by contacting us at csr@diageo.com.

Scope and boundaries

This report is for all our stakeholders (see page 22). It explains our key impacts across our value chain and sets out our goals, strategy and performance over the past year.

Programmes and goals

The report outlines our programmes, describing our goals to:

- Create a positive role for **alcohol in society**
- Address global **water and environmental challenges** at our operations and the global **water** challenge more broadly in our local communities
- Contribute to **socio-economic development**
- Create a great place to work for **our people**
- Hold ourselves to the highest standards of **governance and ethics**
- Partner with **our suppliers** to increase the positive impacts of our supply chain
- Work with our **customers and consumers** to ensure we have a positive impact outside our operations.

The report refers back to certain targets set out in our 2011 Sustainability & Responsibility Report and assesses our progress in meeting them. We continue to refine our strategy, programmes and reporting areas using feedback we receive from stakeholders through our engagement programme.

Reporting boundaries

This report covers the global operations of Diageo plc in the financial year ended 30 June 2012. Dates refer to financial years unless otherwise stated. The following are boundaries for the various figures found throughout the report:

- **Financial data** includes the results of the company and its subsidiaries together with Diageo's attributable share of the results of associates and joint ventures. The results of subsidiaries sold or acquired are included up to, or from, the date that control passes. A subsidiary is an entity controlled, directly or indirectly, by Diageo plc. Control is the power to govern the operating and financial policies of the subsidiary so as to obtain benefits from its activities. On the acquisition of a business, or of an interest in an associate or joint venture, fair values, reflecting conditions at the date of acquisition, are attributed to the net assets including identifiable intangible assets and contingent liabilities acquired. Adjustments to fair values include those made to bring accounting policies into line with those of the group.
- **Environmental data** is collected and reported for all sites where Diageo has full operational control, and as defined by the World Resources Institute/World Business Council for Sustainable Development (WRI/WBCSD) Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, Revised Edition. We believe that by including 100% of environmental data from all offices and production sites under our operational control, our environmental reporting will be consistent with reporting on other operational activities.

Environmental data from joint ventures and associates (where Diageo does not have full operational control) have not been included within the reported figures.

- **Socio-economic development data** includes charitable giving on behalf of the company, its subsidiaries, and the independent Diageo Foundation as defined by the London Benchmarking Group.
- **Supplier data** includes all business contracts, short- or long term, which Diageo upholds for the purchase of raw materials, packaging, logistics and transportation, marketing materials, and information services and business support.
- **All other data** (including alcohol in society, governance and ethics, and people) is reported for all sites (office and production) where Diageo has operational control.

Uncertainty and estimates

While we make every effort to capture all information as accurately as possible, it is neither feasible nor practical to measure all data with absolute certainty. Where we have made estimates or exercised judgement, this is highlighted within these reporting guidelines.

Significant changes in our operations

Diageo has made a number of acquisitions of brands, distribution rights and equity interests in premium drinks businesses over the past three years. These are shown in the table below.

Acquisitions

Acquisitions	Date acquired	Consideration ¹ £ million	Location	Principal brands acquired	Status
Ypióca	9 August 2012	284	Brazil	Ypióca cachaça	Acquisition of 100% of the equity share capital of Ypióca Agroindustrial Limitada
Meta	9 January 2012	153	Ethiopia	Meta beer	Acquisition of 100% of the equity share capital of Meta Abo Brewery Share Company SC
Philippines	14 December 2011	15	Philippines	Distribution company	Acquisition of 49% of Diageo Philippines Inc not already owned by the group
Kenya Breweries	25 November 2011	134	Kenya	Distribution company	Acquisition of 20% of Kenya Breweries Ltd not already owned by the group
Halico	13 May 2011 – 24 June 2012	60	Vietnam	Vodka Hanoi	Acquisition of 45.5% of the equity share capital of Hanoi Joint Stock Company (Halico)
Mey İçki	23 August 2011	1,260	Turkey	Yeni raki, Terkirdağ raki and Istanblue vodka	Acquisition of 100% of the equity share capital of Mey İçki Sanayi ve Ticaret A.S.
Quanxing and Shuijingfang	27 January 2007 – 14 July 2011 (control of Shuijingfang from 29 June 2012)	69 ²	China	Shui Jing Fang Chinese white spirit	Acquisition of 53% equity stake in Sichuan Chengdu Quanxing Group Company Ltd (Quanxing). Quanxing owns a 39.7% controlling equity interest in Sichuan Shuijingfang Co., Ltd.
Zacapa	5 July 2011	148	Guatemala	Zacapa rum	Acquisition of a 50% controlling equity stake in Rum Creations Products Inc.
Serengeti	22 October 2010	60	Tanzania	Serengeti lager	Acquisition of a 51% equity stake in Serengeti Breweries Limited via a 50.03% equity owned subsidiary
22 Marquis	30 September 2010	6	United States	22 Marquis sparkling liqueur	Acquisition of a 20% equity stake in LNJ Group
Nuvo	29 June 2010	29	United States	Nuvo – vodka based sparkling liqueur	Acquisition of an additional 28.75% equity interest in the London Group taking the group's interest to 71.25%

(1) Includes net borrowings acquired but excludes the value of put options and transaction costs.

(2) Excludes cash acquired in Shuijingfang when first consolidated.

For more information see our annual report www.diageoreports.com

Principles of management and reporting

In managing our sustainability programme, and describing it in this report, we aim to adopt the principles of the Global Reporting Initiative (GRI).

This table sets out how our report responds to each element of the framework.

Diageo's response to GRI reporting principles

Principle	What it means	Our response
Stakeholder inclusiveness	The report should identify stakeholders and explain how the reporting organisation has responded to their reasonable expectations and interests.	We set out who our key stakeholders are, explain how we have engaged them this year and identify key areas of the report that address their areas of interest (see Engaging stakeholders on page 22). We aim to formalise our reporting process in future years to capture and respond better to the views of our stakeholders around the world.
Materiality [^]	The report should cover topics and indicators that: <ul style="list-style-type: none"> • Reflect the organisation's significant economic, environmental, and social impacts or • Would substantively influence the assessments and decisions of stakeholders. 	This year we began a process of analysing materiality across the business by engaging our internal stakeholders (see Determining material impacts on page 17). We have begun to map out those issues that are emerging as most material and aim to prioritise them based on stakeholder and business priorities. Our aim is to report fully on issues deemed highly material and to explain our approach to those deemed of medium materiality.
Sustainability context	The report should present the organisation's performance in the wider context of sustainability.	Where appropriate, we give the context for each impact area at the start of each section, and, where possible, explain the local impact of our operations, for example highlighting our impact on water in water-stressed areas.
Completeness	Coverage of the material topics and indicators and definition of the report boundary should be sufficient to reflect significant economic, environmental, and social impacts and enable stakeholders to assess the reporting organisation's performance in the reporting period.	Our coverage of material topics is explained in the scope and boundaries section. In general: <ul style="list-style-type: none"> • Financial data represent the results of wholly-owned operations, subsidiaries and the attributable share of associates and joint ventures • Social data for the most part represent wholly-owned businesses and joint ventures in which Diageo has a controlling share • Environmental data represent all sites over which Diageo has full operational control, including offices.
Balance	The report should reflect positive and negative aspects of the organisation's performance to enable a reasoned assessment of overall performance.	We report against stretching targets and against GRI indicators, whether or not our performance is good. This gives a balanced view of our impacts, which have been defined taking into account the views of a range of stakeholders.
Comparability	Issues and information should be selected, compiled, and reported consistently.	We continue to report against GRI as well as targets disclosed in prior years to ensure that readers can compare this year's performance with that of previous years.
Accuracy	The reported information should be sufficiently accurate and detailed for stakeholders to assess the reporting organisation's performance.	We explain our methodology for calculating performance against targets in the 'Reporting methodologies' section. KPMG has provided limited assurance for the water and carbon data disclosed in this report where marked with a symbol [^] .
Timeliness	Reporting should occur on a regular schedule and information made available in time for stakeholders to make informed decisions.	This report is published with our annual report every year. The data in both reports reflect performance in the year ended 30 June 2012.
Clarity	Information should be made available in a manner that is understandable and accessible to stakeholders using the report.	We aim to make our report easy to understand for a wide audience. Wherever possible, we define terminology and use visuals to make our messages clear.
Reliability	Information and processes used in the preparation of the report should be gathered, recorded, compiled, analysed, and disclosed in a way that could be subject to examination and that establishes the quality and materiality of the information.	KPMG has assured (see page 107) three aspects of our report, determined as being highly material for the success of our business and Sustainability & Responsibility Strategy: <ol style="list-style-type: none"> 1. Diageo's application of the GRI principles of materiality and stakeholder inclusiveness during the development of the Sustainability & Responsibility Strategy at central level, and the introduction of the Sustainability & Responsibility Strategy to key markets. 2. Reliability of environmental performance data for 2012 (carbon emissions and water usage) where marked with the symbol [^]. 3. Diageo self-declared GRI application level.

[^]Covered by KPMG's limited assurance scope.

Reporting methodologies

For each of our impact areas we have analysed the best way of measuring performance, and put in place a system of measurement appropriate to the subject.

Here you will find an explanation of our methodology for calculating our targets and other key information for each impact area.

- Alcohol in society
- Water and the environment
- Socio-economic development
- Our people
- Governance and ethics
- Our suppliers
- Our customers and consumers

Alcohol in society

Here we detail the basis of calculation for the following metrics:

- Baseline and target setting
- Compliance with the Diageo Marketing Code
- Responsible drinking reminders on above-the-line marketing material
- Responsible drinking initiatives
- Effective industry codes in place.

Baseline and target setting

Diageo's alcohol in society targets were set in the financial year ended 30 June 2010. Progress against baseline data is not relevant as each target measures a point in time, ending 30 June 2012.

Compliance with the Diageo Marketing Code

Breaches are reported as an estimated percentage of total marketing executions. The calculation considers the number of internally-reported breaches of the Diageo Marketing Code as a percentage of the total number of marketing projects submitted through SmartApprove in the year ended 30 June 2012.

Responsible drinking reminders on above-the-line marketing material

Technical regulatory managers in each region performed a manual review and assessment of our active product listings to determine our compliance with our current Diageo Alcohol Beverage Information Policy, including whether www.drinkiq.com appeared on our labels. While the results are not absolute, given our total number of global SKUs, they are sound and accurately reflect the current status of our brands.

Responsible drinking initiatives

Performance is based on internally-reported initiatives through a network of corporate relations leaders in each of our markets.

Effective industry codes in place

Performance is based on internally-reported initiatives through a network of corporate relations leaders in each of our markets and a review of industry databases.

Water and the environment

This section details Diageo's Environmental Reporting Guidelines, and outlines the basis of calculation for the following metrics:

- Baseline data and target setting
- Greenhouse gas (GHG) emissions
- Water consumption
- Wastewater polluting power as measured by biochemical oxygen demand (BOD)
- Waste to landfill
- Production of packaged product
- Sustainable packaging.

Baseline data and target setting

Environmental data is reported on the basis of our financial reporting year, running from 1 July to 30 June. Diageo's Environmental Reporting Guidelines are reviewed and updated on an annual basis by Diageo's Environmental Leadership Team and ratified by Diageo's Environmental Executive Working Group chaired by the President of Diageo Global Supply and Procurement.

Reporting boundaries

Environmental data is collected and reported for all sites where Diageo has full operational control, and as defined by the World Resources Institute/World Business Council for Sustainable Development (WRI/WBCSD) Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, Revised Edition. Diageo believes that by including environmental data from all offices and production sites under its operational control, its environmental reporting will be consistent with reporting on other operational activities. Environmental data from joint ventures and associates (where Diageo does not have full operational control) has not been included within the reported figures.

Baseline

Diageo's baseline year was set as financial year ended 30 June 2007, applies to all environmental data and has been prepared in accordance with internal reporting guidelines and calculation methodologies set out here. The baseline data is used as the basis for calculating progress against Diageo's targets for greenhouse gas emissions, water consumption, BOD and waste to landfill, first announced in September 2008.

The continued relevance of 2007 as the baseline year is reviewed on an annual basis.

Restatement of baseline environmental data

Diageo will restate environmental data for the baseline year and intervening years to reflect changes in the company that would otherwise compromise the consistency and relevance of the reported information. Restatements are made in line with the recommendations made by the World Resources Institute/World Business Council for Sustainable Development (WRI/WBCSD) Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, Revised Edition and the Beverage Industry Sector Guidance for Greenhouse Gas Emissions Reporting version 2.0.

The base year environmental impact data, and data for intervening years, are adjusted to reflect acquisitions, divestments, updates to data bases for CO₂ emission factors, any errors in methodology and calculations, and for any significant changes in reporting policy that result in a material change to the baseline of more than 1% as advised by independent sources. Environmental data with respect to acquisitions is included in our calculations from the date of purchase, and with respect to disposals included until the date of sale, unless otherwise specified. We will report acquisitions data as soon as practical, and no later than after we collate one full year's financial data. We will also restate where we can show that structural changes regarding outsourcing and insourcing have an impact of more than 1%.

Diageo's fiscal year 2007 baseline was adjusted in accordance with guidance from the WRI/WBCSD Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, and the methodology independently approved.

As companies undergo significant structural changes, the protocol describes the need to restate environmental impacts for consistent tracking over time. This is necessary to make meaningful historical comparisons; or in other words, previous emission data is recalculated to compare 'like with like'.

In fiscal year 2012, the environmental impacts for the base year 2007 and intervening years were restated due to in-sourcing Captain Morgan Rum manufacture to the new Diageo distillery in US Virgin islands and the acquisition of two Serengeti breweries in Tanzania. Additionally, where more up-to-date information on electricity emission factors is available, including revisions to IEA databases, the latest available data is applied.

The base year environmental impacts associated with acquisitions and in-sourcing are principally determined, directly from the historical data records, for production volumes, energy, water consumption and waste generated for the base year and intervening years. In certain cases where historical data is unavailable, the base year environmental impacts are determined from current environmental impact data, extrapolated, based on production patterns, for base year and intervening years. In the current financial year, the environmental impacts associated with acquisitions and in-sourcing increased Diageo's base year environmental impacts by between 2% and 9% for water and GHG emissions respectively. The impacts of these increases on 2015 targets will be absorbed and Diageo reaffirmed its commitment to 2015 targets in 2012 – see reviewing our targets section below.

Uncertainty and estimates

While we make every effort to capture all information as accurately as possible, it is neither feasible nor practical to measure all data with absolute certainty. Where we have made estimates or exercised judgment this is highlighted within these reporting guidelines.

Target setting

Diageo has set environmental targets based on a baseline year of financial year end 30 June 2007. The year by which time Diageo aims to achieve these targets is defined as 2015.

Reviewing our targets

In 2008 Diageo set environmental targets based on baseline data from financial year ending 30 June 2007 with the aim of achieving these targets by 2015. Since setting these targets and reporting our performance against them we have included acquisitions and reset our 2007 baseline data using the principles of the WRI/WBCSD protocol. Until 2011 these acquisitions were relatively minor in terms of our overall impact on the environment, typically less than 5%. However, in 2011 the company announced its intention to buy several larger businesses. Therefore in the Sustainability & Responsibility Report 2011 we confirmed a review of the implications of these proposed acquisitions for our Environmental Reporting Guidelines in terms of the total volume of production and overall impact on the environment. This review was completed in January 2012 and concluded that there would be no change to the Environmental Reporting Guidelines and that we would continue to incorporate new acquisitions in our 2007 baseline with no change to our 2015 environmental targets.

Greenhouse gas (GHG) emissions

GHG emissions data has been prepared in accordance with the WRI/WBCSD Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, Revised Edition (WRI/WBCSD GHG Protocol). A summary of the key elements of this standard and their application to Diageo's business is outlined below.

Scope

Scope 1 emissions (i.e., direct GHG emissions) from on-site energy consumption of fuel sources, such as gas, fuel oil and diesel, are reported for all sites where we have operational control. Scope 2 emissions (i.e., indirect GHG emissions) from purchased electricity and heat is also reported for these sites. Diageo at present does not fully report on its Scope 3 emissions. Carbon dioxide emissions from the fermentation process are not included within our reported environmental data as these emissions are from a biological short cycle carbon source.

Calculation methodology for GHG emissions

The GHG emissions data is externally reported in tonnes of carbon dioxide (CO₂) rather than CO₂ equivalent (CO₂e). CO₂e is the measure used to compare the emissions from various greenhouse gases based on their global warming potential (GWP). This is mainly because we have estimated that approximately 99% of our GHG emissions are CO₂. Each year we also look at the GWP in CO₂e of our ozone-depleting substances, e.g. HFCs. However, the quantities are minimal, approximately 500 tonnes CO₂e, and therefore fall behind the materiality threshold.

The GHG emissions data has been calculated on the basis of measured, or in a small minority of instances, estimated energy and fuel use, multiplied by the relevant CO₂e conversion factors. Where possible, fuel or energy use is based on direct measurement verified through purchase invoices. For the small minority of cases where invoices or meter readings have not been available, it has been necessary to make estimates. All CO₂ is reported in metric tonnes.

The most reliable and up-to-date emissions factors have been used to convert energy use to CO₂e using:

- The kWh/CO₂e factor provided by energy suppliers where a contract is in place with respect to the energy supplied to the relevant site
- The relevant conversion factors to the country of operation (for example, national conversion factors supplied by the relevant government) or
- The International Energy Agency (2010) conversion factors.

Low-carbon electricity

A number of sites have entered into contracts for 'green tariffs' or low carbon tariffs for their electricity supply. The CO₂e emissions from these tariffs have been zero-rated where the contract specifies that the supply onto site is from a 100% renewable source. Otherwise we use the supplier's CO₂ emission factor.

Water consumption

Diageo collects water consumption data from across the production sites over which it has operational control, using internally developed reporting guidelines with expert external advice. In addition to tracking total water usage, Diageo also collects information to calculate 'water efficiency', meaning the ratio of the amount of water required to produce one litre of product packaged. As part of its continuing journey, using the WBCSD Global Water Tool and data from the United Nations' definition of 'water-stressed', Diageo has designated 12 of its production sites as being located in areas which are 'water-stressed', identifying them as higher risk in terms of sustainable water supply.

Calculation methodology for water consumption

Diageo uses internally developed reporting guidelines, which defines the total quantity of water used in production obtained from groundwater, surface water and mains supply less any clean water provided back to local communities directly from a site. Untreated water abstracted and returned to the same source under local consent is excluded from water consumption data reported so long as there is no chemical change to the water. All water consumption data is reported in cubic metres.

The data has been reported on the basis of measured water use.

Wastewater pollution power as measured by biochemical oxygen demand (BOD)

Diageo collects BOD data from across all production sites over which we have operational control, using internally developed reporting guidelines with expert external advice. Diageo measures the total BOD load discharged from its production sites into open water or which is subsequently treated by third party treatment works. The BOD load of wastewater discharged to land, for the purposes of irrigation or benefit to agriculture made under licence or permit, is not included.

Calculation methodology for BOD load

Diageo uses internally developed reporting guidelines, based on published data and methods for BOD calculation, using estimates of discharged effluent flows and the laboratory determination of effluent BOD concentrations. All BOD loads are reported in metric tonnes.

Waste to landfill

Diageo records the type and quantity of all waste to landfill data from across the production sites over which it has operational control using internally developed reporting guidelines with expert external advice. Waste to landfill includes hazardous and non-hazardous materials.

Calculation methodology for waste to landfill

The definition of waste to landfill includes all hazardous waste, all unwanted or discarded material in solid, sludges or liquid form produced. This includes all refuse, garbage, construction debris, treatment and process sludges and materials that a site has been unable to reclaim reuse or recover. All waste to landfill is reported in metric tonnes.

Production of packaged product

To calculate efficiency ratios, Diageo uses litres of product packaged as the standard measure for comparison as this highlights the environmental impact associated with production of our products. This information is collected, as other environmental data, through a common database from all sites over which Diageo has operational control.

Calculation methodology for production figures

Litres of product packaged includes the number of total litres of product packaged as the product enters a finished goods warehouse at operationally controlled sites together with any product sent to a third party for packaging (i.e., a non-controlled site). Damaged product is not included in these production figures.

Sustainable packaging

We do not define and calculate our sustainable packaging targets with the same methodology as our other environmental performance metrics. Therefore the introductory notes above do not apply to this statement about sustainable packaging.

The methodology applying to sustainable packaging encompasses:

- Pack weight
- Recycle content
- Recyclability.

All sustainable packaging impacts are quantified and expressed in terms of weight grams; kgs; tonnes or percentages.

Pack weight changes are determined by quantifying the weight reduction/increase in grams and multiplying by the number of SKUs impacted on an annualised basis. Recycle content is determined by establishing the volume in grams/kgs of non-virgin materials

used to generate the pack components, and adjusting for in-year changes to recycle content.

Recyclability is expressed as a percentage determined by quantifying the weight of final pack deemed to be non-recyclable and multiplying by the total annualised volume of the SKU. Having set targets against a 2009 baseline, we input regional packaging data on each of our three metrics (weight, recycled content and recyclability) on a monthly basis. They are then consolidated and internally verified.

We have established a sustainable packaging framework, implementation plan and targets to ensure, where practical, that our packaging has the smallest possible environmental footprint. Our sustainable packaging team is working to implement this across Diageo.

Our approach is based on systematically assessing the impact our products have on the environment and applying our design principles consistently. Using sophisticated computer design software, we have commissioned and created a sustainable packaging life cycle assessment tool – SPOT (Sustainable Packaging Optimisation Tool) – to enable us to assess rapidly the environmental impact of new and existing pack designs. This tool will provide us with data early in the product development cycle and enable us to make effective interventions in designing packaging with the least environmental impact.

Socio-economic development

Here we explain the basis of calculation for:

- Baseline data and target setting
- Water of Life beneficiaries
- Learning for Life beneficiaries
- Community investment figures.

Baseline data and target setting

Baselines differ for each metric. Our Water of Life targets were set in the year ended 30 June 2007. Cumulative performance counts activity between 1 July 2006 and 30 June 2012. Our Learning for Life target was set in the year ended 30 June 2009, and beneficiaries counted from 1 July 2008 to 30 June 2012. Our community investment target is set each financial year as a percentage of operating profit before exceptionals.

Water of Life beneficiaries

Our implementation partners provide us with beneficiary data for each project. We are aware that each partner has its own methodology and we are conducting a review in an effort to improve the quality of our data.

Learning for Life beneficiaries

Beneficiaries are defined as direct participants in Diageo-funded Learning for Life programmes from 1 July 2008 to 30 June 2012.

Community investment figures

Community investment includes contributions (in the form of cash, in-kind donations or employee time) from Diageo plc and the Diageo Foundation. It includes contributions to charitable entities, non-branded responsible drinking programmes and management costs associated with the Diageo Foundation. We use the principles of the London Benchmarking Group model, which we helped pioneer in 1994, to measure our community investment.

Cash, in-kind donations and employee time contributions are recorded through an annual survey to local markets around the world.

Our people

Here we explain the basis of calculation for:

- Baseline and target setting
- Employee profile data
- Lost-time accident frequency rate
- Fatalities
- Women in senior management positions
- Super-engagement results.

Baseline and target setting

Baseline information differs between each metric. Employee profile information and super-engagement results are calculated annually, and for this year at the year end 30 June 2012. Lost-time accident frequency has a baseline of 30 June 2007, and targets were set for the end of this financial year.

Employee profile data

Total employee data consider average number of employees, and are captured globally through financial information systems. Regional data consider where employees reside, which differs from the annual report which considers the department for which the employee works. Gender data is collected selectively by region, provided at market level by local human resource systems and teams. Breakdowns beyond the total are estimations reconciling the two systems.

Lost-time accident (LTA) frequency rate

The LTA frequency rate is defined as the number of LTAs per 1,000 employees. An LTA is defined as any work-related incident, resulting in injury or illness, where the individual is unable to work or where a job restriction is required. Our LTA numbers will also include any work-related fatalities.

The assessment of lost time excludes the day the incident occurred, is based on calendar days and is made without regard to whether the person was scheduled to work or not.

In line with industry best practice, we include in our definition of an 'employee' all temporary staff and contractors who work under our direct supervision.

Note that regional safety data for Africa includes our new Tanzania business.

Fatalities

Fatalities include any employee work-related fatality or any work-related fatalities occurring to third parties and contractors while on Diageo's premises.

Women in senior management positions

Gender data has been provided at market level by human resources systems and teams.

Super-engagement results

Data is collected from an annual survey sent to all employees and administered by Kenexa, one of the world's largest employee survey providers. This year the data represents 91% of Diageo's employee base, compared with 89% in 2011.

Governance and ethics

Here we explain the basis of calculation for:

- Baseline and target setting
- Controls, compliance and ethics managers
- Values Survey questions
- New joiners
- Annual Certificate of Compliance
- SpeakUp.

Baseline and target setting

Having completed the initial roll out of our Code of Business Conduct globally we have focused on ensuring the key elements of our programme are working effectively by measuring five new key performance indicators set out in 1 September 2011 with a completion year of 30 June 2012.

Controls, compliance and ethics managers

We assess each of our markets to ensure there are no vacancies and that we have the relevant people assigned to controls, compliance and ethics in each.

Values Survey questions

Data is collected from an annual survey sent to all employees and administered by Kenexa, one of the world's largest employee survey providers. This year the data represents 91% of Diageo's employee base, compared with 89% in 2011.

New joiners

All new starters are automatically enrolled in our Code of Business Conduct e-learning programme through Diageo Academy that tracks global participation and responses. In markets where access to the Academy is difficult, we carry out face-to-face training and a register is taken.

Annual Certification of Compliance

We rolled out the Annual Compliance Certification to all middle managers this year. This was through the global online training tool, Diageo Academy, which holds a record of participation and responses for all employees. These are then reported to market and function leadership teams, and reviewed by CC&E managers.

SpeakUp

Our SpeakUp whistleblowing line is advertised across our markets. Calls that come in are tracked by an external party and picked up by the global compliance and ethics team. All investigations are monitored by our corporate security team who track length of time, and resolution on a case tracking system.

Our suppliers

Here we explain the basis of calculation for:

- Baseline and target setting
- SEDEX self-assurance
- Audits of highest risk suppliers.

Baseline and target setting

All performance figures against targets are for the period between 1 July 2011 and 30 June 2012.

SEDEX self-assurance

Self-assessment data is provided to us as part of a report from the Supplier Ethical Data Exchange (SEDEX), a not-for-profit organisation that enables global suppliers to share assessments and audits on ethical and responsible practices with their customers. Their system includes the number of suppliers who have registered with Diageo, linked their operating sites with ours and then completed the self-assessment or any other performance-related data. We compare these results with the total number of suppliers we have identified as potentially high risk (considering industry type, location, or association with our brand).

Audits of highest risk suppliers

Audits are conducted by independent third-party auditing companies, trained to SEDEX Members Ethical Trade Audit protocols. Of total audits, approximately 13 were initially requested by Diageo and 92 were initially requested by others. Those requested

by others remain valid through the AIM-PROGRESS mutual recognition process or through adherence to our own audit requirements. All were accessed via the SEDEX platform on which the supplier owns the audit data.

Customers/consumers

Here we detail the basis of calculation for:

- Baseline data and target setting
- Packaging defects (ppm)
- Total concerns/complaints

Baseline data and target setting

Baselines for each metric are always based on the final actual performance in the previous year. Incremental improvement targets are set based on the trajectory required to hit our medium term strategic goals (2015). Some adjustment may be made to the targets for each business depending on their actual level of performance and strategic priorities.

Packaging defects (ppm)

Packaging defects data is based on a minimum of 0.1% (0.05% for beer) sampling of every production run (order). Individual packs are inspected against our Global Finished Product Standard. The number of defects is recorded and reported monthly against the number of units (containers) produced. Figures are aggregated globally and are weighted based on volume of production.

Total concerns/complaints

Packaging defect complaints are based on all complaints/concerns recorded (validated or not) in part through consumer care lines. The complaint rate is calculated based on the volume produced at the site in the same period as the complaint was received. Figures are aggregated globally and are weighted based on volume of production.

Assurance

We aim to align our reporting with what we believe to be the best standards for non-financial reporting. We believe in reporting against reliable data and strive to improve the quality of our non-financial disclosures.

Towards these aims, we engaged KPMG again this year to provide limited assurance of three aspects of our report, determined as being highly material to the success of our Sustainability & Responsibility Strategy:

- Our application of the Global Reporting Initiative (GRI) principles of 'materiality' and 'stakeholder inclusiveness' during the evolution of our Sustainability & Responsibility Strategy
- Reliability of environmental performance data for 2012 (carbon emissions and water usage)
- Our self-declared (GRI) application level.

As in previous years, we also engaged the London Benchmarking Group to assure our community investment data and methodology.

Independent Assurance Report Independent Assurance Report of KPMG Audit Plc to Diageo plc

KPMG Audit Plc was engaged by Diageo plc ('Diageo') to provide limited assurance over selected disclosures within the Diageo Sustainability & Responsibility Report for the year ended 30 June 2012 ('the Report').

This independent assurance report is made solely to Diageo in accordance with the terms of our engagement. Our work has been undertaken so that we might state to Diageo those matters that we have been engaged to state in this Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than Diageo for our work, for this independent assurance report, or for the conclusions we have reached.

Responsibilities

The directors of Diageo are responsible for preparing the Report and the information and statements within it. They are responsible for the identification of stakeholders and material issues, for defining objectives with respect to sustainability performance, and for establishing and maintaining appropriate performance management and internal control systems from which reported information is derived.

Our responsibility is to express our conclusions in relation to the assurance scope which is set out below.

The scope of assurance was determined by Diageo in accordance with the materiality principles as defined by the GRI. As Diageo's reporting processes mature, the scope of assurance will expand over time. In the United Kingdom, assurance of sustainability-related information is not mandated. The organisation is able to select the scope and level of assurance to be provided by a practitioner.

The extent of evidence-gathering procedures for a limited assurance engagement is less than for a reasonable assurance engagement, and therefore a lower level of assurance is provided.

Our conclusions are based on the appropriate application of the criteria outlined in the table below.

Inherent limitations

Non-financial performance information is subject to more inherent limitations than financial information, given the characteristics of the subject matter and the methods used for determining such information. The absence of a significant body of established practice on which to draw allows for the selection of different but acceptable measurement techniques which can result in materially different measurements and can impact comparability. The precision of different measurement techniques may also vary. Furthermore, the nature and methods used to determine such information, as well as the measurement criteria and the precision thereof, may change over time. It is important to read the selected sustainability information contained within the Report in the context of Diageo's Environmental Reporting Guidelines available on Diageo's website http://srreport2012.diageoreports.com/docs/environmental_guidelines.pdf.

Assurance scope

Selected sustainability information	Level of assurance	Reporting and assurance criteria
1. Reliability of performance data for the year ended 30 June 2012 marked with the symbol ^ in the section of the report entitled 'Water and the environment'.	Limited assurance	<ul style="list-style-type: none"> • Diageo's Environmental Reporting Guidelines for the selected sustainability information available on Diageo's website. Diageo's Environmental Reporting Guidelines for: <ul style="list-style-type: none"> – greenhouse gases are based on the World Resources Institute/World Business Council for Sustainable Development Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, Revised Edition (otherwise referred as the WRI GHG protocol); and – water consumption are based on the Global Reporting Initiative (GRI) G3 Reporting Guidelines.
2. Diageo's alignment with the GRI principles of materiality and stakeholder inclusiveness marked with the symbol ^ as described in the section of the Report entitled 'Determining our material impacts'.	Limited assurance	The criteria set out in the GRI G3 Reporting Guidelines for each of the principles of materiality and stakeholder inclusiveness.
3. Diageo's self-declared GRI application level, marked with the symbol ^ in the section of the Report entitled 'GRI Index'.	Limited assurance	GRI G3 Reporting Guidelines and application level requirements.

In particular, inherent limitations affect the conversion of electricity and fuel used to calculate carbon emissions. Conversion of electricity and fuel used to calculate carbon emissions is based upon, inter alia, information and factors derived by independent third parties as explained in Diageo's Environmental Reporting Guidelines. Our assurance work has not included examination of the derivation of those factors or other third-party information. Our assurance work has not included challenging the scientific work undertaken by independent third parties when calculating these emissions factors.

Basis of our work

We conducted our work in accordance with ISAE 3000.¹ We conducted our engagement with a multi-disciplinary qualified and experienced team in non-financial assurance. The team included specialists in auditing environmental and financial information and with experience of similar engagements.

Our independence

ISAE 3000 requires the practitioner to comply with the requirements of Parts A and B of the *Code of Ethics for Professional Accountants*, issued by the International Ethics Standards Board for Accountants (the IESBA Code) which requires, among other requirements, that the members of the assurance team (practitioners) as well as the assurance firm (assurance provider) be independent of the assurance client, including not being involved in writing the Report and plan and perform the engagements to obtain limited assurance about whether data are free from material misstatement. The Code also includes detailed requirements for practitioners regarding integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. KPMG Audit Plc has systems and processes in place to monitor compliance with the Code and to prevent conflicts regarding independence. Our independence with the client is reviewed on an annual basis.

Work performed

We planned and performed our work to obtain all the evidence, information and explanations that we considered necessary in relation to the above scope. Our work included, but was not limited to, the following evidence-based procedures which are further explained below:

(1) International Standard on Assurance Engagements 3000: Assurance engagements other than Audits or reviews of Historical information, issued by the International Auditing and Accounting Standards Board.

Assurance Scope 1 – reliability of performance data for the year ended 30 June 2012 marked with the symbol ^ in the section entitled 'Water and the environment' within the Report:

- At Group level we:
 - Evaluated the suitability of reporting systems against the WRI GHG Protocol, the GRI G3 Reporting Guidelines and Diageo Internal Reporting requirements;
 - Conducted interviews with management and other personnel at Diageo to obtain an understanding of the data collection process, information flows and the systems and controls used to generate, aggregate and report the environmental data;
 - Reviewed measurements, calculations, supporting information, quality controls systems, and procedures which support the environmental data for the year ended 30 June 2012. Our work included verifying the application of the appropriate CO₂ emission factors for all sites;
- At site level:
 - We tested data from 11 different sites covering between 37% and 48% of the data for each data set in the year ended 30 June 2012.
 - This year we visited eight sites in: Moshi, Tanzania; Dar es Salaam, Tanzania; Douala, Cameroon; Benin, Nigeria; Ogba, Nigeria; Nevşehir, Turkey; Valleyfield, Canada and St Croix, Virgin Islands and performed desk-top audits over three sites in: Cameronbridge, Scotland; Gimli, Canada and EABL Nairobi, Kenya.
 - The sites were selected based on their risk factors and levels of materiality, e.g. contribution to Group CO₂ emissions, size, and location.

Assurance Scope 2 – Diageo's alignment with the GRI principles of materiality and stakeholder inclusiveness marked with the symbol ^ as described in the section of the Report entitled 'Determining our material impacts':

- Evaluated the completeness of Diageo's 'materiality assessment' by performing limited media analysis and internet searches for references to Diageo during the reporting period and reviews of investor analysis reports.
- Evaluated Diageo's action plan for 2012 at group level and assessed whether it incorporated the recommendations in our Internal Management Report from 2011.
- Interviewed senior management including a selection of the members from the CSR Leadership Team.

- Visited two of Diageo's key markets, the United Kingdom and Kenya, and evaluated the process of introducing the Sustainability & Responsibility ('S&R') Strategy. This included: witnessing materiality workshops, reviewing output documentation, and interviewing key staff.
- Re-performed the materiality scoring outcomes for both the United Kingdom and Kenya.
- Reviewed key documentation to come out from the process of introducing the S&R Strategy to other markets in the year ended June 2012 including China and the United States. Documentation included workshop minutes, materiality maps and feedback forms.
- Reviewed drafts of the Report and relevant web text to ensure there are no disclosures that are misrepresented or inconsistent with our findings.

Assurance Scope 3 – Diageo self-declared Global Reporting Initiative (GRI) application level marked with the symbol ^ in the section of the Report entitled 'GRI Index':

- Checked the GRI Index included in the section of the Report entitled 'GRI Index' to ensure consistency with the GRI application level requirements of B+;
- Reviewed Diageo's self-assessment against GRI Application Level B+ including their description of the 'extent' of reporting per disclosure.

Conclusions

The following conclusions are based on the work performed and scope of our assurance engagement described above:

Assurance Scope 1 – Reliability of performance data for the year ended 30 June 2012 marked with the symbol ^ in the section entitled 'Water and the environment' of the Report:

Nothing has come to our attention to suggest that the performance data, marked with the symbol ^ in the section entitled 'Water and the environment' within the Report, are not fairly stated, in all material respects in accordance with Diageo's Environmental Reporting Guidelines.

Assurance Scope 2 – Diageo's alignment with the GRI principles of materiality and stakeholder inclusiveness marked with the symbol ^ as described in the section of the Report entitled 'Determining our material impacts':

Nothing has come to our attention to suggest that Diageo's description of their alignment with the GRI principles of materiality and stakeholder inclusiveness marked with the symbol ^ as described in the section of the Report entitled 'Determining our material impacts' is not fairly stated.

Assurance Scope 3 – Diageo’s self-declared Global Reporting Initiative (GRI) application level marked with the symbol ^ in the section of the Report entitled ‘GRI Index’:

Nothing has come to our attention to suggest that Diageo’s self-declaration of GRI application level B+ marked with the symbol ^ in the section of the Report entitled ‘GRI Index’ is not fairly stated.

Ian Starkey for and on behalf of KPMG Audit Plc

Chartered Accountants
London
22 August 2012

Appendix – Observations arising from our work

In this Appendix we have set out certain matters that came to our attention during the course of this engagement. Our objective is to use our knowledge of the group gained during our limited assurance engagement to make useful comments and suggestions for you to consider. Without prejudice to our conclusions presented above, we present some of the key observations and areas for improvement below:

On Assurance Scope 2: Our Observations:

We present some of the observations in relation to Diageo’s alignment with the GRI principles of materiality and stakeholder inclusiveness which are part of our Report to Management. Our observations include but are not limited to the following:

- a) To date, Diageo’s local business units strategy reviews have involved Diageo employees to assess the company’s material impacts and programmes. Diageo should extend these local business unit reviews and formalise the external stakeholder engagement process to ensure consistency across business units in light of the new operating model. Furthermore, Diageo should continue to drive, embed and formalise the Sustainability and Responsibility Strategy process as a whole in its 21 business units.
- b) Diageo should set out how it will incorporate new acquisitions into its Sustainability & Responsibility Strategy.

Independent Assurance Statement of London Benchmarking Group

LBG Assurance Statement – Diageo

Diageo is an active member of the LBG (London Benchmarking Group). The LBG model helps businesses to improve the management, measurement and reporting of their corporate community involvement programmes. It moves beyond charitable donations to include the full range of contributions (in time, in kind and in cash) made to community causes, and assesses the actual results for the community and for the business. (See www.lbg-online.net for more information).

As managers of the group, we have worked with Diageo to ensure that it understands the LBG model and has applied its principles to the measurement of community involvement programmes during the year to 30 June 2012. Having conducted an assessment, we are satisfied that this has been achieved. Our work has not extended to an independent audit of the data.

In making our assessment we identified that Diageo supports a range of programmes which address the social aspects of alcohol consumption. We are encouraged that Diageo has been careful to only include as community contributions those activities that go beyond consumers of its own product and where there is an explicit contribution to a charitable organisation.

Diageo’s data collection processes have improved considerably in recent years and the picture it presents of the contribution it makes to the community is robust and comprehensive. A future challenge will be to more systematically quantify the achievements of its activities (outputs and impacts) within the LBG model so that a clear assessment of the overall impact of its investment into the community can be achieved.

Corporate Citizenship

www.corporate-citizenship.co.uk
June 2012

GRI Index

This index provides an overview of our reporting against the GRI G3 Sustainability Reporting Guidelines. Our self-assessment of our Sustainability & Responsibility Report indicates that we are a B+ reporter.[^]

STANDARD DISCLOSURES PART I: Profile Disclosures

Profile disclosure	Reported	Cross-reference/Direct answer
1. Strategy and Analysis		
1.1 Statement from the most senior decision-maker of the organisation.	Fully	CEO introduction (page 2)
1.2 Description of key impacts, risks, and opportunities.	Fully	Key risks (page 21)
2. Organisational Profile		
2.1 Name of the organisation.	Fully	Diageo plc Strategic focus by region (page 8)
2.2 Primary brands, products, and/or services.	Fully	Our brands (page 10)
2.3 Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures.	Fully	Diageo at a glance (page 6)
2.4 Location of organisation's headquarters.	Fully	Lakeside Drive Park Royal London NW10 7HQ
2.5 Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	Fully	Diageo at a glance (page 6)
2.6 Nature of ownership and legal form.	Fully	Full name: Diageo plc Registered Number: 23307 Registered office: Lakeside Drive, London, NW10 7HQ Place of Registration: England and Wales
2.7 Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	Fully	Diageo at a glance (page 6) Who we serve (page 93)
2.8 Scale of the reporting organisation.	Fully	Diageo at a glance (page 6)
2.9 Significant changes during the reporting period regarding size, structure, or ownership.	Fully	Scope and boundaries (page 100)
2.10 Awards received in the reporting period.	Fully	Awards and rankings (page 24)
3. Report Parameters		
3.1 Reporting period (e.g., fiscal/calendar year) for information provided.	Fully	Scope and boundaries (page 100)
3.2 Date of most recent previous report (if any).	Fully	Scope and boundaries (page 100)
3.3 Reporting cycle (annual, biennial, etc.)	Fully	Scope and boundaries (page 100)
3.4 Contact point for questions regarding the report or its contents.	Fully	About this report and GRI (page 99)
3.5 Process for defining report content.	Fully	Principles of management and reporting (page 102)
3.6 Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance.	Fully	Scope and boundaries (page 100)

[^]Covered by KPMG's limited assurance scope.

Profile disclosure	Reported	Cross-reference/Direct answer
3.7 State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope).	Fully	Principles of management and reporting (page 102)
3.8 Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations.	Fully	Scope and boundaries (page 100)
3.9 Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report. Explain any decisions not to apply, or to substantially diverge from, the GRI Indicator Protocols.	Fully	Reporting methodologies (page 103)
3.10 Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g. mergers/acquisitions, change of base years/periods, nature of business, measurement methods).	Fully	Reporting methodologies (page 103) Scope and boundaries (page 100)
3.11 Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	Fully	Reporting methodologies (page 103) Scope and boundaries (page 100)
3.12 Table identifying the location of the Standard Disclosures in the report.	Fully	GRI index (page 110)
3.13 Policy and current practice with regard to seeking external assurance for the report.	Fully	Assurance (page 107)
4. Governance, Commitments, and Engagement		
4.1 Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight.	Fully	Governance structure (page 76)
4.2 Indicate whether the Chair of the highest governance body is also an executive officer.	Fully	The Chairman of the board is not counted as a non-executive director and is not independent by virtue of being the Chairman, in accordance with section A31 of the UK Corporate Governance Code.
4.3 For organisations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members.	Fully	Governance structure (page 76)
4.4 Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	Fully	See the 2012 Annual Report ('Relations with shareholders' within the Corporate Governance Report)
4.5 Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organisation's performance (including social and environmental performance).	Fully	Governance structure (page 76) Reward and recognition (page 69)
4.6 Processes in place for the highest governance body to ensure conflicts of interest are avoided.	Fully	Governance structure (page 76) See the 2012 Annual Report (Corporate Governance Report)
4.7 Process for determining the composition, qualifications, and expertise of the members of the highest governance body and its committees, including any consideration of gender and other indicators of diversity.	Fully	Governance structure (page 76) See the 2012 Annual Report (Corporate Governance Report)
4.8 Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	Fully	Codes and policies (page 77)

Profile disclosure	Reported	Cross-reference/Direct answer
4.9 Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	Fully	Governance structure (page 76) How we manage sustainability and responsibility (page 21)
4.10 Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	Fully	Governance structure (page 76) Also see our 2012 Annual Report (Performance evaluation within Corporate Governance Report)
4.11 Explanation of whether and how the precautionary approach or principle is addressed by the organisation.	Fully	See our 2012 Annual Report (Sustainability & Responsibility)
4.12 Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses.	Fully	Membership of codes and charters (page 23)
4.13 Memberships in associations (such as industry associations) and/or national/international advocacy organisations in which the organisation: <ul style="list-style-type: none"> • Has positions in governance bodies; • Participates in projects or committees; • Provides substantive funding beyond routine membership dues; or • Views membership as strategic. 	Fully	Membership of industry bodies (page 39) Managing social and ethical risks (page 87)
4.14 List of stakeholder groups engaged by the organisation.	Fully	Our stakeholders (page 23)
4.15 Basis for identification and selection of stakeholders with whom to engage.	Fully	Engaging stakeholders (page 22)
4.16 Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	Fully	Our stakeholders (page 23)
4.17 Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting.	Fully	Determining our material impacts (page 17)

STANDARD DISCLOSURES PART II: Disclosures on Management Approach (DMAs)

Description	Reported	Cross-reference/Direct answer
G3 DMA		
DMA EC Disclosure on Management Approach EC		
Aspects Economic performance	Fully	Local wealth creation (page 53)
Market presence	Fully	Strategic focus by region (page 8)
Indirect economic impacts	Fully	Local wealth creation (page 53)
DMA EN Disclosure on Management Approach EN		
Aspects Materials	Fully	Environmental policy (www.diageo.com)
Energy	Fully	Carbon (page 45)
Water	Fully	Water (page 42)
Biodiversity	Fully	The wider environment (page 47)
Emissions, effluents and waste	Fully	Carbon (page 45) Waste (page 47)
Products and services	Fully	Environmental policy (www.diageo.com)
Compliance	Fully	Governance and ethics (page 73)
Transport	Fully	Carbon (page 45)
Overall	Fully	Environmental policy (www.diageo.com)

Description	Reported	Cross-reference/Direct answer
DMA LA Disclosure on Management Approach LA		
Aspects Employment	Fully	Human Rights policy (www.diageo.com)
Labour/management relations	Fully	Human Rights policy (www.diageo.com)
Occupational health and safety	Fully	Health and Safety policy (www.diageo.com)
Training and education	Fully	Human Rights policy (www.diageo.com)
Diversity and equal opportunity	Fully	Human Rights policy (www.diageo.com)
Equal remuneration for women and men	Not disclosed	
DMA HR Disclosure on Management Approach HR		
Aspects Investment and procurement practices	Fully	Partnering with Suppliers Standards (www.diageo.com)
Non-discrimination	Fully	Human Rights policy (www.diageo.com)
Freedom of association and collective bargaining	Fully	Human Rights policy (www.diageo.com)
Child labour	Fully	Human Rights policy (www.diageo.com)
Prevention of forced and compulsory labour	Fully	Human Rights policy (www.diageo.com)
Security practices	Fully	Code of Business Conduct (www.diageo.com)
Indigenous rights	Not material	
Assessment	Fully	Code of Business Conduct (www.diageo.com)
Remediation	Fully	Code of Business Conduct (www.diageo.com)
DMA SO Disclosure on Management Approach SO		
Aspects Local communities	Fully	Code of Business Conduct (www.diageo.com)
Corruption	Fully	Code of Business Conduct (www.diageo.com)
Public policy	Fully	Code of Business Conduct (www.diageo.com)
Anti-competitive behaviour	Fully	Code of Business Conduct (www.diageo.com)
Compliance	Fully	Code of Business Conduct (www.diageo.com)
DMA PR Disclosure on Management Approach PR		
Aspects Customer health and safety	Fully	Diageo Marketing Code (www.diageo.com) Tackling alcohol misuse effectively (page 32) Food safety and quality (page 96)
Product and service labelling	Fully	Diageo Marketing Code (www.diageo.com) Making information available to consumers (page 31) Food safety and quality (page 96)
Marketing communications	Fully	Diageo Marketing Code (www.diageo.com) Communicating about alcohol responsibly (page 29)
Customer privacy	Fully	Code of Business Conduct (www.diageo.com)
Compliance	Fully	Code of Business Conduct (www.diageo.com)
STANDARD DISCLOSURES PART III: Performance Indicators		
Description	Reported	Cross-reference/Direct answer
Economic		
Economic performance		
EC1 Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	Fully	Diageo at a glance (page 6) Local wealth creation (page 53) Community investment (page 55)
EC2 Financial implications and other risks and opportunities for the organisation's activities due to climate change.	Fully	The business case for sustainability and responsibility (page 19) Key risks (page 21)

Description	Reported	Cross-reference/Direct answer
EC3 Coverage of the organisation's defined benefit plan obligations.	Fully	Reward and recognition (page 69) Also see our 2012 Annual Report (Directors' Remuneration Report as well as Financial Statements – employees)
EC4 Significant financial assistance received from government.	Fully	See our 2012 Annual Report (Property, plant and equipment)
Market presence		
EC5 Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation.	Not disclosed	
EC6 Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	Fully	Our supply chain (page 86)
EC7 Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	Fully	Who we are (page 64)
Indirect economic impacts		
EC8 Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	Partially	Supporting local interests and infrastructure (page 58)
EC9 Understanding and describing significant indirect economic impacts, including the extent of impacts.	Fully	Local wealth creation (page 53)
Environmental		
Materials		
EN1 Materials used by weight or volume.	Fully	Our supply chain (page 86) We do not report on the breakdown of renewable and non-renewable as the disclosure is not material to our business. We believe that it is more useful to our stakeholders to disclose which materials are used in our products, as well as the sustainability of the packaging.
EN2 Percentage of materials used that are recycled input materials.	Fully	Sustainable packaging (page 48)
Energy		
EN3 Direct energy consumption by primary energy source.	Fully	Carbon (page 45)
EN4 Indirect energy consumption by primary source.	Fully	Carbon (page 45)
EN5 Energy saved due to conservation and efficiency improvements.	Fully	Carbon (page 45)
EN6 Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	Fully	Carbon (page 45)
EN7 Initiatives to reduce indirect energy consumption and reductions achieved.	Partially	Carbon (page 45)
Water		
EN8 Total water withdrawal by source.	Fully	Improving water efficiency worldwide (page 42) The wider environment (page 48)
EN9 Water sources significantly affected by withdrawal of water.	Partially	Diageo sites located in water-stressed areas (page 41) Water (page 42) Reducing water wasted in water-stressed areas (page 43) Improving water efficiencies worldwide (page 43) The wider environment (page 48)
EN10 Percentage and total volume of water recycled and reused.	Not disclosed	

Description	Reported	Cross-reference/Direct answer
Biodiversity		
EN11 Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	Fully	The wider environment (page 48)
EN12 Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	Not disclosed	
EN13 Habitats protected or restored.	Not disclosed	
EN14 Strategies, current actions, and future plans for managing impacts on biodiversity.	Not disclosed	
EN15 Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	Partially	The wider environment (page 48)
Emissions, effluents and waste		
EN16 Total direct and indirect greenhouse gas emissions by weight.	Fully	Carbon (page 45)
EN17 Other relevant indirect greenhouse gas emissions by weight.	Partially	The wider environment (reducing ozone depleting and other air emissions) (page 49)
EN18 Initiatives to reduce greenhouse gas emissions and reductions achieved.	Fully	Carbon (page 45)
EN19 Emissions of ozone-depleting substances by weight.	Fully	The wider environment (page 50)
EN20 NOx, SOx, and other significant air emissions by type and weight.	Fully	The wider environment (page 50)
EN21 Total water discharge by quality and destination.	Partially	Reducing water pollution (page 44)
EN22 Total weight of waste by type and disposal method.	Fully	Waste (page 47)
EN23 Total number and volume of significant spills.	Fully	The wider environment (page 50)
EN24 Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	Not disclosed	
EN25 Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff.	Not disclosed	
Products and services		
EN26 Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	Fully	Water (page 42) Carbon (page 44) Waste (page 46) Sustainable packaging (page 47)
EN27 Percentage of products sold and their packaging materials that are reclaimed by category.	Not disclosed	
Compliance		
EN28 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	Fully	The wider environment (page 50)
Transport		
EN29 Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce.	Partially	Carbon (page 45)
Overall		
EN30 Total environmental protection expenditures and investments by type.	Partially	The business case for sustainability and responsibility (page 19)

Description	Reported	Cross-reference/Direct answer
Social: Labour Practices and Decent Work		
Employment		
LA1 Total workforce by employment type, employment contract, and region, broken down by gender.	Partially	Who we are (page 64)
LA2 Total number and rate of new employee hires and employee turnover by age group, gender, and region.	Partially	Who we are (page 64)
LA3 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	Not disclosed	
LA15 Return to work and retention rates after parental leave, by gender.	Not disclosed	
Labour/management relations		
LA4 Percentage of employees covered by collective bargaining agreements.	Fully	Reward and recognition (page 69)
LA5 Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.	Fully	Organisational change (page 65)
Occupational health and safety		
LA6 Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.	Not disclosed	
LA7 Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and by gender.	Partially	Safety (page 66)
LA8 Education, training, counselling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	Fully	Health and wellbeing (page 67)
LA9 Health and safety topics covered in formal agreements with trade unions.	Not disclosed	
Training and education		
LA10 Average hours of training per year per employee by gender, and by employee category.	Partially	Developing talent (page 68)
LA11 Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	Partially	Developing talent (page 68) Organisational change (page 65)
LA12 Percentage of employees receiving regular performance and career development reviews, by gender.	Fully	Developing talent (page 68)
Diversity and equal opportunity		
LA13 Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.	Partially	Governance structure (page 76)
Equal remuneration for women and men		
LA14 Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation.	Not disclosed	
Social: Human Rights		
Investment and procurement practices		
HR1 Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening.	Not disclosed	

Description	Reported	Cross-reference/Direct answer
HR2 Percentage of significant suppliers, contractors and other business partners that have undergone human rights screening, and actions taken.	Partially	Managing social and ethical risks (page 87)
HR3 Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	Fully	Embedding our Code, policies and standards (page 79)
Non-discrimination		
HR4 Total number of incidents of discrimination and corrective actions taken.	Not disclosed	
Freedom of association and collective bargaining		
HR5 Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights.	Not disclosed	
Child labour		
HR6 Operations and significant suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour.	Not disclosed	
Forced and compulsory labour		
HR7 Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour.	Not disclosed	
Security practices		
HR8 Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations.	Not disclosed	
Indigenous rights		
HR9 Total number of incidents of violations involving rights of indigenous people and actions taken.	Not material	
Assessment		
HR10 Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments.	Fully	Monitoring and improving performance (page 80)
Remediation		
HR11 Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms.	Not disclosed	
Social: Society		
Local communities		
SO1 Percentage of operations with implemented local community engagement, impact assessments, and development programs.	Partially disclosed	Performance and outlook (page 52)
SO9 Operations with significant potential or actual negative impacts on local communities.	Partially disclosed	Access to clean water (page 56)
SO10 Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities.	Partially disclosed	Performance and outlook (page 52) Tackling alcohol abuse effectively (page 32) Access to clean water (page 56)
Corruption		
SO2 Percentage and total number of business units analyzed for risks related to corruption.	Fully	Monitoring and improving performance (page 80)

Description	Reported	Cross-reference/Direct answer
SO3 Percentage of employees trained in organisation's anti-corruption policies and procedures.	Fully	Embedding our Code, policies and standards (page 79)
SO4 Actions taken in response to incidents of corruption.	Fully	Monitoring, and improving performance (page 81)
Public policy		
SO5 Public policy positions and participation in public policy development and lobbying.	Fully	Regulatory environment and public policy (page 75) Getting policy right (page 35) Advocacy (page 59)
SO6 Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	Fully	See our 2012 Annual Report (Corporate Governance Report, Charitable and Political donations)
Anti-competitive behaviour		
SO7 Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes.	Not disclosed	
Compliance		
SO8 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	Fully	Monitoring and improving performance (page 80)
Social: Product Responsibility		
Customer health and safety		
PR1 Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	Partially	Communicating about alcohol responsibly (page 29) Food safety and quality (page 96) Following our codes (page 30)
PR2 Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	Fully	Complaints about advertising upheld (page 30) Food safety and quality (page 97) To the best of our knowledge, we have had no significant incidents of non-compliance with regulations resulting in a fine or penalty or warning.
Product and service labelling		
PR3 Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	Partially	Making information available to consumers (page 31) Food safety and quality (page 96)
PR4 Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes.	Fully	Food safety and quality (page 97)
PR5 Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	Fully	Food safety and quality (page 97)
Marketing communications		
PR6 Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	Partially	Communicating about alcohol responsibly (page 29)
PR7 Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.	Fully	Communicating about alcohol responsibly (page 29)
Customer privacy		
PR8 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	Fully	To the best of our knowledge, there have been no substantiated complaints regarding breaches of customer privacy and losses of customer data.
Compliance		
PR9 Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	Not disclosed	

UN Global Compact Communication on Progress

Diageo supports the UN Global Compact (UNGC), and its core values in the areas of human rights, labour standards, the environment and anticorruption.

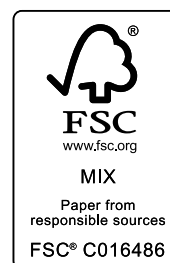
The following index, structured along the UNGC advanced reporting criteria, serves as our annual Communication on Progress (COP).

United Nations Global Compact Communication on Progress

Criterion	Description	Cross-reference/direct answer
Statement of continuing support for the UNGC		CEO Statement (page 2)
Strategy, governance and engagement		
Criterion 1:	Key aspects of the company's high-level sustainability strategy in line with Global Compact principles	Sustainability and responsibility strategy (page 16) The business case for sustainability and responsibility (page 19) Key risks (page 21) Performance and key metrics (page 29)
Criterion 2:	Effective decision-making processes and systems of governance for corporate sustainability	How we manage sustainability and responsibility (page 21) Corporate governance (page 76)
Criterion 3:	Engagement with all important stakeholders	Engaging stakeholders (page 22)
UN goals and issues		
Criterion 4:	Actions taken in support of broader UN goals and issues	Water (page 42) Carbon (page 45) Waste (page 47) Sustainable packaging (page 48) Wider environment (page 48) Local wealth creation (page 53) Community investment (page 55) Access to clean water (page 56) Investing in skills and education (page 57) Advocacy (page 59) Health and wellbeing (page 67)
Human rights implementation		
Criterion 5:	Robust commitments, strategies or policies in the area of human rights	Human rights (page 71) Codes and policies (internal) (page 77) Our standards and guidelines (suppliers) (page 87)
Criterion 6:	Effective management systems to integrate the human rights principles	Human rights (page 71) Our compliance and ethics programme (page 78) Monitoring and improving performance (page 80) Managing social and ethical risks (page 87)
Criterion 7:	Effective monitoring and evaluation mechanisms of human rights integration	Our compliance and ethics programme (page 78) Monitoring and improving performance (page 80) Managing social and ethical risks (page 87)

Criterion	Description	Cross-reference/direct answer
Criterion 8:	Key outcomes of human rights integration	Monitoring and improving performance (page 80) Managing social and ethical risks (page 87)
Labour principles implementation		
Criterion 9:	Robust commitments, strategies or policies in the area of labour	Codes and policies (internal) (page 77) Our standards and guidelines (suppliers) (page 87)
Criterion 10:	Effective management systems to integrate the labour principles	Safety (page 64) Health and wellbeing (page 67) Our talent (page 67) Embedding our Codes, policies and standards (page 79) Managing social and ethical risks (page 87)
Criterion 11:	Effective monitoring and evaluation mechanisms of labour principles integration	Safety (page 66) Managing social and ethical risks (page 87)
Criterion 12:	Key outcomes of integration of the labour principles	Safety (page 66) Reward and recognition (page 69) Monitoring and improving performance (page 80) Managing social and ethical risks (page 87)
Environmental stewardship implementation		
Criterion 13:	Robust commitments, strategies or policies in the area of environmental stewardship	Codes and policies (internal) (page 77) Our standards and guidelines (suppliers) (page 87) Performance and outlook (page 40)
Criterion 14:	Effective management systems to integrate the environmental principles	Water and environment (page 40)
Criterion 15:	Effective monitoring and evaluation mechanisms for environmental stewardship	Water and environment (page 40)
Criterion 16:	Key outcomes of integration of the environmental principles	Performance and outlook (page 40) Water (page 42) Improving water efficiency worldwide (page 43) Reducing water wasted in water stressed sites (page 43) Reducing water pollution (page 44) Carbon (page 44) Waste (page 47) Sustainable packaging (page 48) The wider environment (page 48)
Anti-corruption implementation		
Criterion 17:	Robust commitments, strategies or policies in the area of anti-corruption	Codes and policies (internal) (page 77) Our standards and guidelines (suppliers) (page 87)
Criterion 18:	Effective management systems to integrate the anti-corruption principle	Empowering our leaders (page 79) Embedding our Codes, policies and standards (page 79) Monitoring and improving performance (page 80)
Criterion 19:	Effective monitoring and evaluation mechanisms for the integration of anti-corruption	Monitoring and improving performance (page 80)
Criterion 20:	Key outcomes of integration of the anti-corruption principle	Monitoring and improving performance (page 80) Performance and outlook (page 74)

Criterion	Description	Cross-reference/direct answer
Value-chain implementation		
Criterion 21:	Implementation of the Global Compact principles in the value chain	Performance and outlook (page 85) Our standards and guidelines (page 87) Managing social and ethical risk (page 87) Environmental supply chain management (page 88) Sustainable agriculture partnerships (page 88)
Transparency and verification		
Criterion 22:	Information on the company's profile and context of operation	Diageo at a glance (page 6) Strategic focus by region (page 8) Our brands (page 10)
Criterion 23:	High standards of transparency and disclosure	GRI Index (page 110)
Criterion 24:	Independently verified by a credible third-party	Assurance (page 107)



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Both grades are from the FSC® Mixed Credit group of materials and are manufactured at mills which are certified to the ISO14001 and EMAS environmental standards.
Printed by Fulmar Colour on behalf of RR Donnelley.
Fulmar Colour are ISO14001 certified, CarbonNeutral®, Alcohol Free and FSC and PEFC Chain of Custody certified. The inks used are vegetable oil based.

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Registered in England
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