

DIAGEO

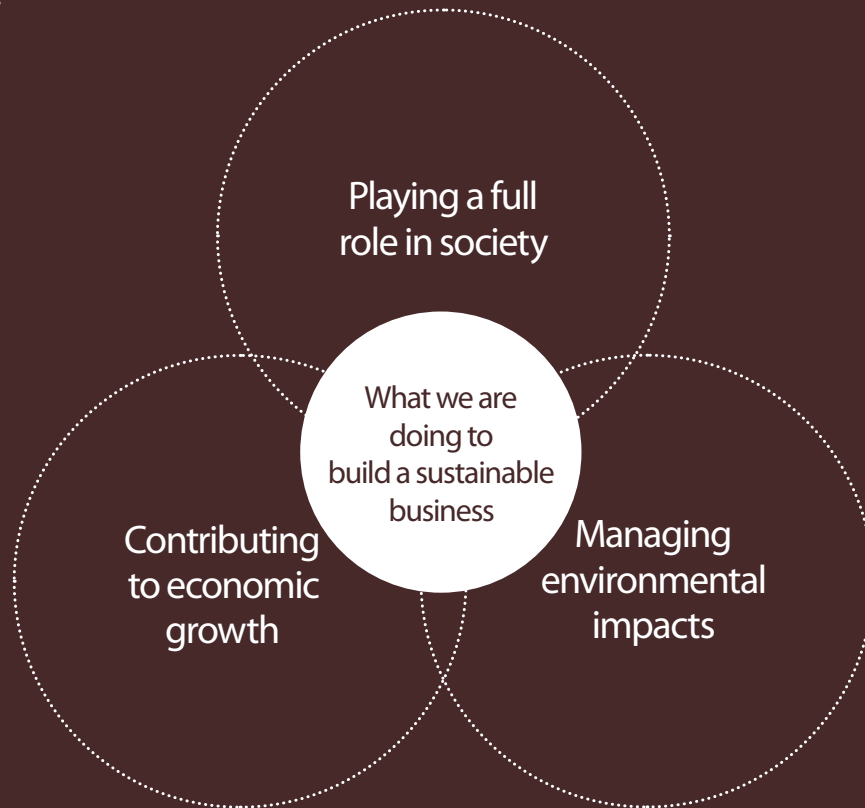
Corporate Citizenship
Report 2009



What we are
doing to
build a sustainable
business

We're working hard to help create the right conditions for an enduring, successful business – employees who reach their full potential, communities that are fulfilled and prosperous, and a stable environment.

We benefit from great relationships in our communities and the wider society.



Our business thrives in prosperous, well-governed markets, so we do all we can to develop and support such economies.

We depend on a healthy and stable environment for the water and natural ingredients we need to make our brands.

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✦ *To find out more about our corporate citizenship please visit us online at www.diageo.com*

Cover picture: In Jamaica, students of Project Artist learn about the music industry as part of Diageo's Learning for Life programme (page 12).

Committed to our values

When we are faced with a challenging business climate, this is not the time for panic measures. Rather, it is an opportunity to reaffirm our commitment to our values. These fundamental principles guide us in setting policy, our ways of working and our dealings with others – in good times and in bad.

The sustainability of a business is rightly a matter of concern to its stakeholders. Employees put a high price on job satisfaction, investors look for dependable returns, while communities and governments value a stable and supportive business presence in their economies. Such stakeholders often ask whether the work we do in support of sustainability – for example, encouraging responsible drinking, making environmental improvements or supporting our communities – will be cut back in times of financial uncertainty.

The answer is that all business decisions – including those that involve investing in these areas – must be made in the light of available resources, and these are inevitably more stretched when economic growth falters. Nevertheless, such pressures will not deafen us to stakeholders' concerns, compromise our values, divert us from our policies or commitments or undermine our principles of responsible business. At the core of this report is an account of these values and the actions we have taken, and continue to take, to support the sustainability of our business through whatever economic conditions we encounter.

We know that we cannot change the world on our own. Through our participation and continuing support for the UN Global Compact and its CEO Water Mandate, we can both learn from others and show leadership – for example, through the huge ambition of our Learning for Life programme and 1 Million Challenge described on pages 11–12 and the big strides we have made and plan to make in relation to the environment (starting on page 18).

We know the power of acting with others. Our community investment and responsible drinking programmes benefit hugely from the expertise that NGO, industry, government and other partners can bring. And this year we endorsed a number of business declarations that called on world leaders to take action. These included one to mark the 60th anniversary of the Universal Declaration of Human Rights and two on climate change – the Poznan Communiqué and Caring for Climate.

That challenging times are an opportunity to reaffirm a commitment to fundamental values is as true for governments as it is for companies. We recently joined with others to urge the leaders of the G20 nations, meeting in London in April 2009, to renounce protectionist measures and instead to stimulate world trade which, for six decades, has done so much to reduce poverty and create the conditions in which the Millennium Development Goals might be achieved.

In total, we hope this report paints a compelling picture of Diageo as a good corporate citizen. We welcome your views on the way we've reported the issues that interest or concern you, and on our development as a sustainable business.

Dr Franz B Humer,
Chairman

Paul S Walsh,
Chief executive

Our values

We are passionate about consumers

Our curiosity and consumer insights drive our growth. We cherish our brands; we are creative and courageous in pursuing their full potential. We are innovative, constantly searching for new ideas.

We value each other

We seek and benefit from diverse people and perspectives. We strive to create mutually fulfilling relationships and partnerships.

We give ourselves the freedom to succeed

We trust each other, we are open and seek challenge, and we respond quickly to the opportunities this creates.

We are proud of what we do and how we do it

We act responsibly with the highest standards of integrity.

We strive to be the best

We are always learning, always improving. We set high standards, we stretch to exceed them and we celebrate success.



We know the power of working with others

Key figures

Sales
(£million)
12,283
2009
10,643
2008

Operating profit
(£million)
2,443
2009
2,226
2008

Total assets
(£million)
18,096
2009
16,027
2008

Employees
24,270
2009
24,373
2008

Greenhouse gas emissions
(kt CO₂)
716
2009
746
2008

Volume (millions of equivalent units)
141.3
2009
145.0
2008

Operating costs (£million)
6,868
2009
5,864
2008

Capitalisation
2009
21,784
Equity

Debt
7,419
Total
29,203
2008
23,282
Equity
6,447
Debt
29,729
Total

Water used (m³ million)
23.4
2009
24.4
2008

North America
£3,858m
Total sales
53.1m
Volume (equivalent units)

- 1 Smirnoff
 - 2 Captain Morgan
 - 3 Crown Royal
- Top three brands by volume

Europe
£4,279m
Total sales
38.9m
Volume (equivalent units)

- 1 Smirnoff
 - 2 Guinness
 - 3 Johnnie Walker
- Top three brands by volume



Corporate includes Diageo plc, Gleneagles Hotel, Guinness Storehouse and the Diageo Business Service Centre, Budapest



International
£2,803m
Total sales
37.5m
Volume (equivalent units)

- 1 Smirnoff
 - 2 Johnnie Walker
 - 3 Guinness
- Top three brands by volume

Asia Pacific
£1,268m
Total sales
11.8m
Volume (equivalent units)

- 1 Johnnie Walker
 - 2 Smirnoff
 - 3 Bundaberg
- Top three brands by volume

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

Ready-to-drink beverages are included.

Regional sales percentages exclude corporate.

About Diageo

The people who laid the foundations of our business so many years ago would surely recognise the fundamentals of commitment and responsibility that underpin Diageo's corporate citizenship today.

Our heritage

The world's leading premium drinks business, Diageo was formed more than a decade ago through the merger of Grand Metropolitan and Guinness. Later, we acquired additional spirits and wine brands from Seagram and added others by both acquisition and innovation. Today, Diageo is the proud champion of eight of the world's top 20 premium spirits brands and offers consumers many more in spirits, wine and beer categories.

Many brands in our range can boast a long history. The foundations of J&B whisky, José Cuervo tequila and Guinness stout go back to the 18th Century while the distillers of Ketel One vodka were established in 1691 and we can trace the origins of Bushmills Irish whiskey to 1608.

Our brands were the creations of entrepreneurs whose success depended on their inventiveness in meeting the needs of their markets. Consumer research and brand innovation are just as important today, and we carry on the tradition by constantly developing our brands and introducing new products, some of which we hope will become the heritage brands of the future.

Our precursor companies were also celebrated for their social philanthropy, taking responsibility for their employees and supporting their communities. Although the language may have changed over the years, our principles of commitment and responsibility have not. The people who laid the foundations of our business so long ago would surely recognise the fundamentals of Diageo's corporate citizenship today.

Business profile

Our business is to create value for shareholders by manufacturing, packaging and responsibly marketing alcohol beverages. Measured by market capitalisation in 2009, Diageo was ranked by the *Financial Times* among the 150 largest companies in the world. Our primary share listings are on the London and New York stock exchanges. Headquartered in London, Diageo trades in some 180 markets.

The production and distribution of our brands are the responsibility of our supply organisation. Diageo companies, some of which are quoted in their own right on local stock

exchanges, manufacture about 80% of our brands by volume. These operate 37 distilleries, 15 breweries and 14 wineries, supported by 18 blending and packaging plants and 20 warehousing and other facilities. The most significant of these are located in Australia, Canada, Cameroon, Ghana, Ireland, Jamaica, Kenya, Nigeria, Uganda, the UK (most importantly Scotland) and the USA. The remaining 20% of output is produced in many countries by joint-venture businesses or under contract with commercial partners.

Marketing, sales and distribution – known as demand functions – are organised into four regions: North America, which this year generated around 42% of operating profit, Europe (30%), International (23%) and Asia Pacific (5%). These figures exclude corporate costs.

Our strongest drivers of growth are our eight global priority brands, shown right, which accounted for 58% of total volume in 2009 and five of which are world leaders in their categories. Of our remaining approximately 150 brands, many lead their market categories locally. More information about Diageo brands, and links to some dedicated websites, are available at diageo.com

This year we sold a total of 141.3 million 'equivalent units' of product, an equivalent unit being 272 servings of each beverage, the same as the number of spirits measures in a nine-litre case. Expressing the total in more familiar terms, each day around the world consumers enjoyed 80 million measures of Diageo spirits, 18 million glasses of stout and other beer, five million bottles of our ready to drink brands and two million glasses of wine.

Outstanding brands by volume (millions of equivalent units)



The year in pictures



USA

Sean 'Diddy' Combs and CÎROC Ultra Premium Vodka helped thousands of adults in New York get a safe ride home after New Year's Eve when we handed out thousands of debit cards, valued up to \$15 and usable in Yellow Cabs.



Korea

Since we launched it in 2004, 'Cool Drinker' has encouraged more than 40,000 consumers to commit not to drink and drive – to be a 'cool drinker'. This year's campaign at seven universities collected 1,200 signed pledges.



Latin America

Johnnie Walker responsible drinking ambassador Mika Häkkinen toured six cities, urging fans to 'Join the Pact' against drink-driving. Mika was made an 'Honorary Citizen of Bogotá' and received the keys to the city of Montevideo.



Ireland

Students from Dun Laoghaire Institute of Art, Design and Technology won the dare2bdrinkaware.com film award with their title 'On the cutting room floor'. The aim of the competition was to highlight young people's attitudes to alcohol.



Germany

The 'Genusstour' (enjoyment in moderation roadshow) was taken to 30 cities jointly by Pernod Ricard and Diageo. Nearly 17,000 people visited the stand, whose main message was that everyone has the freedom to enjoy, but it comes with responsibility.



Russia

170 Diageo employees volunteered for a day of community activities from St Petersburg to Siberia.



Jamaica

The Learning for Life Project Artist kicked off in Kingston when 44 students enrolled for tuition. Having learned the importance of talent, professionalism, discipline and hard work, we hope that graduates will enjoy successful careers in the music industry.



Australia

By putting in new compressor controls at our Huntingwood packaging plant, we have reduced the carbon footprint of the facility by 14%.

What sustainability means to us

A sustainable business is one whose success is enduring. We believe such long-term achievement comes only by playing a full part in the communities in which we operate.

A truly sustainable business

Diageo's enduring success is in the interests of all with a stake in the business. To achieve it, we need great relationships with our employees, business partners and other stakeholders. We need to operate in prosperous, healthy communities in which our brands meet consumers' needs and in which alcohol has a valued place. And we need reliable supplies of ingredients and other materials and a healthy environment in which to operate.

Shortcomings in any of these areas present our business with risk. Without employee talent and high-performing business partners, we risk losing out to competitors. Without economic opportunity in our communities, consumers may be less able to afford our brands. Should health risks go unchecked, the families of our employees, suppliers and consumers could be endangered. If alcohol beverages are consumed irresponsibly, some people could see our business as part of the problem. Without clean water, our breweries and distilleries could suffer along with the communities in which they are located. And if the climate should change significantly, it could threaten supplies of the water and crops we need to make our brands, among many other consequences.

'Sustainability is good business because it protects the firm and its cash flow, and ultimately as a commercial enterprise that's what it's about for the long haul.'

Paul S Walsh,
Diageo chief executive,
May 2008

These are all very different issues. Some, such as maintaining great relationships with our stakeholders, are within our power to tackle. Others are more challenging. While finding a lasting solution for the lack of water in some developing countries or a fix for climate change may seem daunting tasks – we are, after all, just one company – we believe we have a responsibility to play our part and that, working with others, we can make a meaningful contribution.

As a minimum, we work to address our own impacts on society and the environment – for example, through programmes that reduce our own greenhouse gas emissions or ensure our brands are marketed responsibly. Our commitment to continuous improvement in these areas is set out in our comprehensive range of codes and policies. In some instances, we go beyond our own operations to help develop or support our communities in need – for example, by responding to natural disasters or working long-term to meet pressing social problems.



Voted Britain's Most Admired Company by our peers, Diageo was commended for leadership in responsible drinking

For us, it's part of being a good corporate citizen. We use the term to describe our relationship with society, a relationship in which our responsibilities towards our stakeholders, communities and the environment are balanced by the rights conferred on us by society to trade freely and be treated fairly.

Measures of performance

Performance indicators allow us to monitor progress in our priority areas and provide stakeholders with a balanced picture of what Diageo has achieved as a corporate citizen. We also seek opportunities, through independent assessments of corporate citizenship among our peers, to compare ourselves with other companies. We give examples of such comparisons on page 35.

In determining which performance indicators we should use, we referred to the Global Reporting Initiative, measures used by socially-responsible investors and peer companies. We aim to keep the list of indicators relevant to our stakeholders by engaging with them on a continuing basis. A list of the performance indicators that we use, and where they are addressed in this report, is given on the website in the form of a GRI content index.

Our priorities

The huge variety of issues we face requires that we focus our efforts where we can use our resources and expertise to make the most positive difference. Our priority areas are those that concern our stakeholders, those that present significant business risks, and those that support our immediate communities or business partners or are most closely in tune with Diageo's values, policies or strategy.

Alcohol in society

- In major businesses, deliver a responsible drinking initiative and evaluate its effectiveness
- Engage employees in living our responsible drinking policy
- Participate in constructive industry consultations with WHO on alcohol abuse

Community investment

- Invest 1% of operating profit each year in community and social programmes
- Focus on developing countries and disasters, engaging employees with initiatives

Employee development

- Develop authentic and inspirational leadership
- Develop outstanding people managers
- Maintain a talent pipeline that sustains our ambition
- Raise levels of employee engagement

Environmental management

- Continuously reduce impacts on climate change, water resources and waste
- Develop sustainable packaging

Economic contribution

- Build total shareholder return
- Promote high standards of governance, compliance and transparency

Value chain

- Promote our standards throughout our value chain
- Consider the social, environmental and economic risks and opportunities of major procurement decisions

Consumer choice

- Provide consumers with useful information about our brands
- Develop ways of measuring and reporting quality

We benefit from great relationships in our communities and the wider society.

- We work to raise awareness about responsible drinking and aspire to change consumer attitudes and behaviour
- We address pressing needs and support development in our communities
- We develop our employees and engage them in our journey towards sustainability

Playing a full role in society

Picture: In Africa, Diageo's 1 Million Challenge aims to bring clean water to a million people a year until 2015 (page 11)

130
Diageo responsible drinking initiatives in more than
40
countries



Alcohol in society

We want to make a real contribution to creating a more positive role for alcohol in society, minimising the harm from misuse and promoting the social benefits of responsible drinking.

Alcohol has been a common source of pleasure for centuries and plays a traditional role in ceremonies and family celebrations in many societies. We are proud that so many people choose Diageo brands for simple enjoyment or to accompany great times in their lives. We all know that most consumers drink responsibly, but a minority misuse alcohol and cause harm to themselves and to society.

The misuse of alcohol is a complex issue involving physiological, psychological, social and cultural factors. Most experts acknowledge that to reduce it requires multiple approaches including effective, enforced regulation, information campaigns and individual interventions.

The good news is that long-term integrated programmes can change attitudes and behaviour. For example, our experience with 'designated driver' campaigns is that they can lead to widespread acceptance of the practice and potentially reduce road accidents.

We aim to maintain high standards of responsibility in our own activities and promote these strongly in our industry. In addition, through partnerships with government departments, advocacy groups and others, we apply our best creative talents and resources to try and change people's attitudes to alcohol and reduce its misuse.

Many participants in the debate – legislators, educators, NGOs, medics, parents, individuals, drinks companies, the wider hospitality industry and the media – have a role to play in reaching what must be a common objective. We believe our own contribution is most powerful in the following three strategic areas:

- **Products and practices**

Set world-class standards in our industry for responsible marketing and provide consumers with information about our brands

- **Programmes**

Working either directly or in partnership with others, run programmes that raise awareness and seek to change attitudes and behaviour

- **Policy and partnerships**

Advocate and facilitate the development of evidence-based public policy on alcohol



Training in our marketing code, as at this session in Bangkok, is an essential part of many people's jobs in Diageo

Products and practices

We use marketing techniques to inform consumers about our brands and to compete for market share. We hope to be more successful than our competitors by attracting adult alcohol beverage consumers to Diageo brands and by encouraging them to trade up within the ranges we offer. We aim to carry out these activities to the highest standards and have enshrined such principles in the Diageo marketing code for the guidance of our colleagues and the external agencies that help devise our campaigns.

As well as covering traditional methods, we have standards for marketing through new media such as mobile phones, websites and social networking channels. A core function of this code is to help marketers limit underage exposure to our internet or mobile-phone advertising – for example, by enabling parents to block underage access to our brand websites by the use of 'nanny tags'.

We also work within frameworks established by external bodies – for example, the Common Standards for Commercial Communications of the European Forum for Responsible Drinking (EFRD) and the Discus Code of Responsible Practices. The Common Standards, as well as the Discus code, include guidance on digital marketing that builds on Diageo's expertise in this area.

This year, after consulting internal and external stakeholders, we revised the Diageo marketing

code to help keep it at the forefront of effective self-regulation. Our code now integrates new guidance and enhanced compliance requirements and clarifies requirements and accountabilities.

One of the strengths of the Diageo code is the way that it's underpinned by our compliance, review, training, and control infrastructure. This is an area where we have shown leadership in our industry and gained particular stakeholder approval.

Training on our marketing standards is part of the induction programme for relevant new employees. Marketing and innovation teams and agencies regularly attend refresher courses on interpretation. These workshops are complemented by e-learning materials.

Assurance that the development or marketing of a brand meets the code's requirements is aided by the use of SmartApprove. This online tool co-ordinates sign-off by our marketing, legal, intellectual property and corporate relations colleagues and records the process. So far, we have introduced SmartApprove in 35 countries; it will be implemented further next year. Since inception, nearly 10,000 marketing projects have been reviewed through the process.

Each year, in each market, we complete a self-assessment of compliance against the marketing code, and audits are carried out on a sample of businesses and brand teams.



We have run 'Guardian Angel' campaigns in 15 countries. 'If you drink, don't drive' was the strong message in Central America

If we become aware of a potential breach of our code, we make changes to bring the project into compliance before it can proceed. Should a potential violation slip through this process, we investigate it, take remedial action and seek to ensure that something similar doesn't happen again. No complaints from the public about our marketing were upheld this year (see below).

Complaints about advertising

Members of the public can complain about marketing activities they think don't meet high standards. In many countries there are bodies, some of which specialise in alcohol beverage marketing, that review such complaints in the light of their own codes of practice. Here we report complaints upheld by the Alcohol Beverages Advertising Code (ABAC) in Australia; the Advertising Standards Authority for Ireland (ASAI); the Advertising Standards Authority (ASA) and the Portman Group in the UK; and the Distilled Spirits Council of the United States (Discus).

Complaints upheld

		2009	2008	2007
ABAC, Australia	Diageo brands	–	–	–
	All alcohol beverages	7	8	3
ASAI, Ireland	Diageo brands	–	–	1
	All alcohol beverages	1	1	1
ASA, UK	Diageo brands	–	–	1
	All alcohol beverages	17	4	5
Portman Group, UK	Diageo brands	–	–	–
	All alcohol beverages	10	4	2
Discus, USA	Diageo brands	–	–	2
	All alcohol beverages*	5	12	15

* All members' brands plus non-members' spirits brands. Years are 1 July-30 June.

Programmes

There is no single universal definition of responsible drinking. However, people generally have a sense of what it means to them, and know that abusing alcohol can lead to harm. We support programmes that aim to increase awareness about responsible drinking and aspire to change people's attitudes and behaviour.

Last year we launched the responsible drinking website DRINKIQ.com to raise the debate and help inform the public. Consisting of a global site and 16 country sites, DRINKIQ aims to bring together the best programmes – not only our own – for anyone with an interest in promoting responsible drinking and minimising the misuse of alcohol.

On the site are experts' views, facts about alcohol, responsible drinking tips and an outline of Diageo's approach to this important subject. This year, DRINKIQ.com was awarded 'best in class' for corporate community partnership by *PR News* and was judged the best health and wellness website by the International Academy of Visual Arts.



The 250th anniversary Guinness pint glass is the first in the UK with alcohol unit information

'Diageo is to be commended for developing [the DRINKIQ website]. It is well done and our hope is that they will continue to push responsibility efforts forward within their company and within the beverage alcohol industry.'

The US National Alcohol Beverage Control Association

The DRINKIQ.com website is complemented by a separate programme of interactive awareness-raising sessions with the same name. The programme has now been presented to more than half of Diageo employees in all parts of the world. As well as keeping them informed for their own benefit, we also want to equip our people with the information and confidence to be effective ambassadors for responsible drinking and for Diageo's role in tackling misuse.

The programme has also been shared outside the business – for example, with customers and regulators. In Australia, 1,500 external stakeholders attended DRINKIQ sessions this year, while in the UK we presented the programme to a meeting of the Society of Occupational Medicine. In June we opened a new responsible drinking zone under the DRINKIQ banner at the Guinness Storehouse, Ireland's number one visitor attraction.

We support practical programmes in many of our markets to tackle particular examples of harm from alcohol misuse – for example, drink-driving, underage drinking and the behaviour of consumers in bars.



We took an anti-drink-drive message to motorists at 89 service stations in Kenya

This year we led or supported over 130 such initiatives in over 40 countries. The Diageo Responsible Drinking Fund, which had resources this year of £400,000, provided financial support, backed up by expert guidance. Our businesses usually contribute further funding to projects in their markets and manage them with partners such as government agencies or other groups with specialist expertise.

Tackling drink-driving is the goal of Diageo's Guardian Angels campaigns, which are designed to remind consumers that drinking sensibly – and, in particular, nominating a driver when they go out – is a matter of personal responsibility and not one that should be left to their 'guardian angel'.

We launched the idea in Venezuela three years ago. Since then, we have run campaigns in 14 more countries in Latin America and Asia. In Costa Rica, the initiative was supported by the San José government and many local businesses. Following activation in China, 77% of consumers questioned said they would be more likely to consider their drinking behaviour after seeing the campaign.

The first of a two-part campaign in Athens, through which, with road safety partners, we aimed to raise awareness of drink-driving and the alternatives available, 'You give the message' reached over 24,000 consumers directly and more via a website. In research after the campaign, 29% of respondents said it helped them reconsider how they would get home after a night out. The second part, 'Drive your friends', reached 12,000 consumers in person, while 2,100 participated in an on-line competition.

➔ www.dontdrinkanddrive.gr

At Christmas and Easter we ran Safe Drive campaigns in three Ghanaian regional capitals to remind road users – particularly bus and taxi drivers – not to drink and drive. Staff and other volunteers distributed flyers at 15 transport stations, reaching an estimated 5,200 drivers with the messaging.

The campaign we aired on national TV and local radio stations in Kenya and Ghana featured Guinness ambassador and Chelsea football midfielder Michael Essien urging consumers to 'Stay Onside' in the lead up to Christmas by not drinking and driving. In Nigeria, our radio campaign against drink-driving was broadcast in both English and pidgin.

The Drive Dry campaign run by brandhouse, our joint-venture business in South Africa, was based on research into why some men choose to drink and drive and what messages might persuade them to stop. The findings led to a series of hard-hitting advertisements that aimed to bring home the consequences of drink-driving, overcoming the belief that 'it won't happen to me'. In follow-up research, 89% of respondents said they were more likely to consider not drink-driving after seeing the campaign.

Johnnie Walker's sponsorship of F1 Team Vodafone McLaren Mercedes has continued to provide energetic focus to our efforts to discourage drink-driving around the world. In many markets we have included in our events the opportunity to sign up to a pact never to drink and drive, endorsed by motor-racing celebrities who have served as Diageo responsible drinking champions during the year.

➔ www.jointhepact.com



The National Bartender Contest in Thailand promotes responsible serving practices

We support the strict enforcement of legal age limits on the purchase and consumption of alcohol. During the year we supported sensitively-designed initiatives in many countries to help address the issue of underage drinking.

In the USA, we helped the Responsible Retailing Forum develop a new way of reducing alcohol sales to those under the legal purchase age. Pilot studies conducted in three cities indicated that the model may significantly improve ID-checking and refusal of underage sales.

➔ www.rrforum.org



Screenings of our Drive Dry campaign made responsible drinking a main theme of the 2009 J&B Met, South Africa's biggest horse-racing social event

We have supported pilots of the Strengthening Families Programme that deals with 10 to 14-year-olds in the UK, Spain and Poland, for some years. This year we extended our support to cover pilots in Greece, in partnership with the National and Kapodistrian University of Athens. The programme, which aims to reduce the problems associated with alcohol misuse and other behavioural problems in adolescence, has been rigorously

peer reviewed in the United States while researchers from Oxford Brookes University are helping the local teams ensure that all the pilots share the same methodology.

➔ www.mystrongfamily.org

Well-trained pub and bar staff are in a good position to influence the attitudes and behaviour of consumers and to deal with situations of misuse. We support programmes that help bartenders acquire skills in responsible serving and in coping with drinkers who have had enough.

Our employee alcohol policy sets out the standards we expect from our people, both in and out of the workplace where they act



'The Join the Pact anti-drink-driving campaign was brilliantly conceived, highly progressive, socially conscious and impressively interactive at a consumer level.'

Moodie Report on Diageo's Singapore campaign, 2008

F1 Champion Lewis Hamilton visited the Diageo offices in Mumbai to launch the Join the Pact campaign in India

as ambassadors for Diageo and its values. We urge our employees, where they can, to support our awareness-raising activities – perhaps by volunteering on campaigns. Many colleagues took part in our Guardian Angels initiatives in many countries. In last year's global values survey, 93% of responding employees said they thought Diageo was effective in promoting responsible drinking.

Policy development and partnerships

We partner with government departments, civic organisations and the media to encourage stakeholder endorsement of responsible drinking and our efforts to change attitudes and reduce alcohol misuse. These efforts are more effective where an appropriate legislative framework is in place. Such a system of national policy on alcohol clarifies the issues and may address systemic problems, allowing our initiatives to be more effective. For example, efforts to discourage drink-driving can yield greater benefits in a country where clear laws are properly enforced.

We support governments in setting alcohol policy frameworks. In many African countries, including Ghana, Kenya and Uganda, we supported policy development, involving government ministries, NGOs, civil society and our industry in a transparent process mediated by the International Centre for Alcohol Policy (ICAP).

In November we contributed to the sixth Africa Resource Bank conference in Kenya, at which more than 40 policymakers and academics from across Africa discussed alcohol policy. The conference reached agreement on a legal purchase age, the position of non-commercial home brews, sports sponsorship and underage drinking. We hope to see legislation covering these issues soon.

📍 www.irenkenya.com



We donated more than 200 breathalysers to the police in Thailand

In Asia we supported an alcohol policy workshop in Vietnam, hosted by the Ministry of Health and attended by government, NGOs, academics and the industry.

We work to encourage the adoption of marketing codes across our industry. For example, through the Beer Sectoral Group in Nigeria, we helped develop a harmonised code that all member companies have adopted.

This year we participated in consultations with the World Health Organisation on ways in which our industry could contribute to reducing the harmful use of alcohol. The contact, which was both direct – along with other companies – and through the Global Alcohol Producers Group, formed part of a consultation by WHO for the development of its Global Strategy to Reduce Harmful Use of Alcohol. We made a number of constructive suggestions on the actions our industry is currently taking and could additionally take to reduce the harmful use of alcohol and expressed our commitment to work with public health bodies that share our outlook.

We believe in engaging with the medical profession on alcohol issues to raise awareness among clinicians and patients. In France, our business Moët Hennessy Diageo, with medical experts, devised a training programme for doctors on the social and clinical aspects of alcohol. Questionnaires given before and after the training showed that the programme had increased doctors' knowledge of alcoholism and other issues.

We sponsored the British Liver Trust's leaflet 'Alcohol and liver disease'. Written by experts, the leaflet is distributed via the Trust's helpline and is widely available in UK doctors' surgeries.

Diageo was the first alcohol beverage company in the USA to support the training of doctors in screening and brief intervention (SBI) techniques to reduce hazardous drinking among their patients. The Medical Society of the State of New York found that, after SBI training, 88% of its members planned to screen their patients for alcohol misuse compared with 62% before. To encourage the wider use of SBI techniques, this year we financed the training of other front-line clinicians nationally by the Institute for Continuing Healthcare Education.

Social aspects organisations

Over the years, we have helped establish many social aspects organisations (SAOs). These are industry-funded bodies that tackle alcohol misuse and promote responsible drinking. We have worked with SAOs to develop codes of responsible marketing and raise awareness. The countries covered by SAOs in which we are involved accounted for 70% of Diageo's business by sales in 2009.

Diageo memberships of social aspects organisations

DrinkWise, Australia	www.drinkwise.com.au
Educ'alcool, Canada	www.educalcool.qc.ca
Forum-psr, Czech Republic	www.forum-psr.cz
GODA, Denmark	www.goda.dk
EFRD, European Union	www.efrd.org
Entreprise & Prévention, France	www.ep.soifedevivre.com
MEAS, Ireland	www.meas.ie
FISAC, Mexico	www.alcoholinformate.org.mx
STIVA, Netherlands	www.stiva.nl
ARA, South Africa	www.ara.co.za
FAS, Spain	www.alcoholysociedad.org
TBAF, Taiwan	www.tbaf.org.tw
The Portman Group, UK	www.portman-group.org.uk
The Century Council, USA	www.centurycouncil.org

'I highly appreciate Diageo's and Metro/Real's commitment to enforce the legal purchase age for alcoholic beverages. This initiative is more effective than the creation of new laws.'

Detlef Parr, MP and drugs commissioner of the Liberal party, Germany, endorsing our joint '18+' initiative with Metro/Real supermarkets

We remain committed to the charitable organisation the Drinkaware Trust in the UK and contribute to its funding. A true social marketing partnership between the beverage alcohol industry and civil society, the Drinkaware trustees include representatives of producers and retailers as well as health professionals and lay people. The Trust plays a significant role in the public debate and in changing attitudes to alcohol.

Investing in our communities

As in the past, our success in the future will depend on the prosperity of the communities in which we operate and the strength of our relationships with them.

Supporting long-term sustainable initiatives in our communities advances their development, engages our employees, builds our reputation and enhances our relationships with other stakeholders.

Our record of community investment goes back many decades. Today, our financial commitment is to invest 1% of Diageo's operating profit in social projects. In 2009 our total investment of £23.4 million actually amounted to 1.0% of operating profit. Most of this came from Diageo businesses around the world in the form of cash, in-kind donations and volunteer time. It also included grants from the Diageo Foundation and support for the community aspects of responsible drinking projects.

Working in partnership

We run community programmes in partnership with external organisations that have specialist local knowledge. Projects aim to achieve well-defined objectives, for example to:

- address local needs and respect cultural sensitivities
- understand the impacts of the project on the community
- strike a balance between our aims and those of our project partners
- make the benefits sustainable and avoid over-dependence on external support
- raise awareness among opinion leaders, community audiences and our own employees.

The Diageo Foundation

The Foundation is funded entirely by Diageo. It makes grants in support of projects or causes proposed by Diageo businesses and externally. In 2009, the Foundation received 516 such proposals and, following assessment against its selection criteria, approved 16 new projects for assistance. Together with payments committed in previous years, in 2009 the Foundation made payments totalling £1.2 million.

Acknowledging that it cannot hope to address every social issue, the Foundation provides focus for our community investment programme by defining areas (described in this section) where we can make the most difference.

Targeting developing countries in Africa, Latin America, Asia and Eastern Europe, as well as awarding grants, the Foundation acts as a catalyst for:

- encouraging contributions from Diageo businesses and external sources
- engaging Diageo employees in fundraising, giving and volunteering
- developing partnerships with NGOs and other external bodies
- providing expertise and support for establishing and managing effective projects.

UK charity law requires that the Foundation does not directly promote Diageo's commercial interests. Its independence is the responsibility of trustees, appointed by the Diageo board from our businesses and functions, who approve new projects and work with external advisers and not-for-profit organisations with specialist expertise.

Water of Life

With special resonance for our business, which depends on a reliable supply of clean water, we support projects that help people without access to water or that advance environmental conservation.

Access to water is essential for development. It improves health and school attendance and creates economic opportunity, yet an estimated 400 million people in Africa lack this basic amenity. In response to a UN challenge to companies to 'adopt a Millennium Development Goal (MDG)' (see page 13), three years ago our businesses in Africa committed to set aside half of their community investment budget – itself 1% of operating profit – to provide one million people with access to water every year until 2015.

The Diageo 1 Million Challenge will make a significant contribution to MDG 7, which is to halve the proportion of people without sustainable access to safe drinking water by the same date. In Nigeria alone, we completed seven projects during the year to provide water to 450,000 people. Each project amounted to a mini water works comprising a deep borehole, storage tank, treatment plant and distribution network.



A mini water works completed this year at Iju, Nigeria, provides water for 100,000 people from 21 fetching stations

The 1 Million Challenge

People provided with water in 2009

Kenya	466,000
Nigeria	450,000
Uganda	248,330
Ghana	220,000
Cameroon	116,400
Ethiopia	34,615
Sierra Leone	18,000
Tanzania	2,000
Madagascar	1,822
Total	1.6 million



Projects in Cameroon, like this one at Kassalafarm, delivered water supplies to 116,400 people in four communities



A Water of Life project is helping to protect East Taihu Lake, near Shanghai

This year, altogether we provided water for 1.6 million people in Africa, bringing the total number of beneficiaries from the 1 Million Challenge to date to 3.2 million. We plan a full independent study of the social impacts of the programme in the coming months.

Last year we ran a pilot project near New Delhi to harvest rainwater and recharge an abandoned borehole to provide a sustainable water source for the community. More recently, with our project partner, we have begun to build 50 rainwater harvesting sites in India which are planned to gather enough water for 14,000 people.

We joined forces with the WWF in China to help protect East Taihu Lake, which provides 17% of Shanghai's water needs. The aim of the two-and-a-half-year project is to improve the quality of the regional water supply, establish flood controls and preserve local biodiversity.



Skills for Life

We support projects that help unemployed or disadvantaged people start new businesses or prepare for the world of work. Such projects contribute to economic development in the communities from which our employees, consumers and business partners come and so ultimately contribute to the sustainability of our business.

In Latin America we consulted widely before deciding how we could effectively tackle some of the most pressing needs in our communities. Alerted to the high levels of illiteracy and the large proportion of school drop-outs in the region, our response was to devise the Learning for Life programme which we launched this year.

Learning for Life is a three-year scheme through which we aim to improve the lives of 50,000 underprivileged people by providing them with the skills they need to participate and compete in society. The programme has been partly funded by Buchanan's Forever concerts, which this year featured performances by Sir Elton John and James Blunt – an example of cause-related marketing by the popular Scotch whisky brand.

Learning for Life courses, run in partnership with educational and training organisations, focus on four areas of competency – tourism, retailing, the arts and hospitality – fitting well with Diageo's business. Over six months, participants receive 400 hours of instruction in entrepreneurship, interpersonal relationships, computer skills and business management.

Learning for Life kicked off with a retail course for 30 people in São Paulo, Brazil. Our aim for the first cohort of graduates is that, with a certificate granted by our partner Anhembí-Morumbi University, 80% will find sustainable employment as a result of their Learning for Life tuition.

In a series of 'Buchanan's Forever' concerts in Latin America, Sir Elton John helped raise funds for Diageo's Learning for Life programme

'Learning for Life offered me more than a job; it gave me the chance to build a career and provide my family with a better life.'

Cintia Cruz, graduate of Diageo's Project Retailer, now working at Carrefour, Brazil

Now in its fifth year, the Diageo Keep Walking Fund Awards in Taiwan help realise the dreams of those taking action to benefit the disadvantaged in society. From over 400 applicants, a panel selected nine winners with varied ambitions – for example, developing teaching methods in remote communities, supporting organic agriculture and developing support groups for haemophilia patients. There were five cash awards to help winners develop their project and five bursaries for travel and study at the University of Cambridge. The Keep Walking Fund helped earn Diageo the Outstanding Foreign Firm Award from the Chamber of Commerce for our special contribution to Taiwan's economy, social welfare and environmental care.



Colleagues from our Dublin brewery restored the garden of a community education centre

Our partnership with Young Entrepreneurs Start Up in Indonesia aims to inspire young people with the possibilities of entrepreneurship and provide them with support in starting their own business. After introductory workshops, 77 high-potential entrepreneurs were trained to develop their business plans and mentored in how to be successful in a range of sectors.

In Vietnam, our joint venture with the Saigon Children's Charity has for two years provided training to disadvantaged young people and helped them find jobs in hotels, restaurants and shops in Ho Chi Minh City. The four six-month courses covered confidence-boosting areas such as attitude and grooming as well as specific professional, IT and English language skills. Of the 163 students who enrolled, 124 have graduated and found jobs.



Working with the Korean Red Cross, Diageo volunteers prepared kimchi – traditional pickled vegetables – for 100 deprived families in Seoul

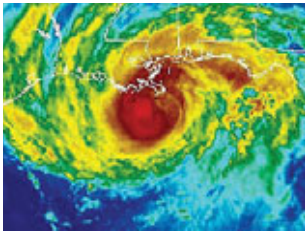
Local Communities

Our employees may be proud to work for a company that invests in community development; but many want to be directly involved as volunteers or fundraisers and we do what we can to support them in their efforts. This year they spent 4,530 days (2007: 10,000 days) participating in activities all over the world.

Many employees chose World Water Day to support our communities through co-ordinated activities in support of our Africa Water of Life programme. There were 30 'Make a Splash' events in 20 countries for employees and their families to enjoy, including half marathons, fun days and water conservation games. More than £100,000 was raised and donated to the 1 Million Challenge and other community water projects.

This year, in response to requests from employees for new ways to help our communities, we launched 'Giving for Good', a website that will rally Diageo employees to raise funds for a different good cause each year.

For the first 12 months, the focus is on a number of schools and clinics close to Kampala, Uganda whose water supply is not suitable for drinking. On the Giving for Good website, employees can donate money – either their own or funds raised through sponsorship or team events – to buy £10 water filter kits, each of which can provide clean water for up to 25 people for a year. By the end of June, 4,590 kits had been pledged for the cause.



We can respond quickly to natural disasters such as Hurricane Gustav which hit the USA this year

Disaster Relief

When disasters affect the communities in which we live and work and we can help, we respond with emergency relief, long-term reparation and support for our employees' fundraising.

With the Bridge Foundation in North America, we constantly watch for events that could put people in harm's way. As Hurricane Gustav headed for the Louisiana coast in September 2008, we shipped several huge generators to Mississippi and Louisiana to power police and rescue services.

'Your efforts have helped to show what we can accomplish when we come together as one during times of need.'

Bobby Jindal, Governor of Louisiana, responding to Diageo's relief efforts following Hurricane Gustav, September 2008

When a devastating earthquake hit China's Sichuan province, we launched an employee fundraising programme. In support of longer-term reparation, we worked with the WWF at four Sichuan nature reserves to replace water pipes and cisterns that were destroyed by the earthquake. The project will restore water supplies to about 10,000 people in the local farming community.

The Millennium Development Goals

At the turn of the millennium, UN members agreed a vision for the world in 2015 with less poverty, hunger and disease, improved survival of mothers and infants, better education, equal opportunities for women and a healthier environment for all. They pledged to aim for eight Millennium Development Goals (MDGs) to help achieve this vision. Halfway to 2015, the UN's 2008 MDG report shows that, while progress has been made, some goals are likely to be missed unless additional action is taken urgently.

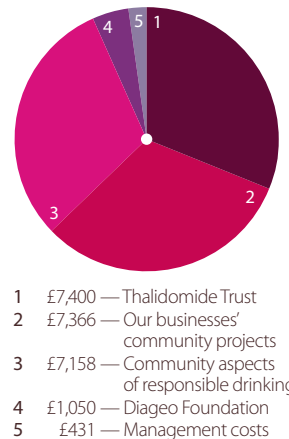
As recognised by the UN, the private sector has a part to play in supporting the goals. Diageo's primary contribution comes from the economic activity of our businesses, which are particularly significant in the economies of some developing countries. Nearly one-fifth of Diageo's production sites are in such countries, accounting for 61% of our global brewery output and providing more than 5,000 jobs. Wherever our brands are made, local sourcing of raw materials and services spreads the positive impact of our operations within the economy.

A further contribution comes through the tax levied on our products and businesses. In addition, we promote equal opportunity and minimise our environmental impacts, and our community investment contributes towards particular MDGs – for example, by providing access to clean drinking water (see page 11), working against HIV/Aids (see page 15), helping young people into employment (see page 12) and promoting local agriculture (see page 30). Our initiatives were recognised at the 2008 Africa Investor Awards when Diageo Africa was runner up for its support of the MDGs.

Evaluating community investment

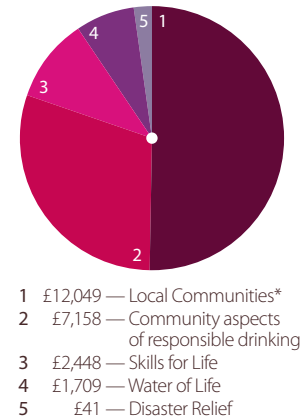
We use the London Benchmarking Group (LBG) model – which we helped pioneer in 1994 – to put a realistic, conservative value on our community investment (inputs) and to measure not only the immediate benefits (outputs) of our activities but also their lasting benefit (impacts).

By category

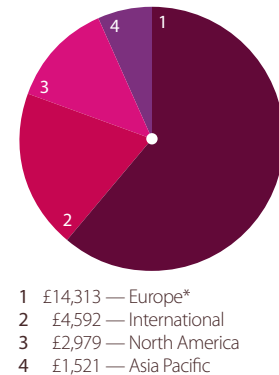


Analysis of community investment £000

By focus area



By region



* Includes charitable donations of £7.4 million (2008: £7.1 million) to the Thalidomide Trust

Community investment

	Target	2009	2008	2007
Total £000		23,405	23,861	20,697
Proportion of operating profit	1.0%	1.0%	1.1%	1.0%



Through Giving for Good, our new global giving site, Diageo employees donated water filter kits for schools and clinics in Uganda

Developing our people

Investing in employee development increases the capability of our workforce, empowers our people, creates value and spreads wealth through the community.

Diageo exerts significant social and economic impact on our communities by creating opportunities for employment. Developing our people and providing an attractive and stimulating working environment for all helps foster the great relationships between our businesses and their employees that are essential to achieve Diageo's stretching ambitions.

There are a number of independent assessments of companies from an employee's point of view. We have increased our participation in these rankings this year and have entered schemes in all regions. Diageo businesses were judged to be within the top ten in 11 of the rankings.

Great places to work assessments

Diageo businesses in top ten

- _____ Australia
- _____ Central America and Caribbean
- _____ Colombia
- _____ Great Britain demand
- _____ Ireland demand
- _____ Portugal
- _____ Singapore
- _____ South Africa brandhouse
- _____ Spain
- _____ Uruguay
- _____ Venezuela

'Our people want Diageo to do the right thing. They want to feel proud when they talk to their friends and family about the company because it is such a large part of their life.'

Paul S Walsh, Diageo chief executive, interviewed by *Management Today*, May 2009

Inclusion and diversity

We seek to maintain a diverse workforce in which the different contributions made by all employees, through the variety of their personalities, experiences and perspectives, creates a stimulating and rewarding working environment. Having colleagues from many different backgrounds gives us deeper insights into consumer needs and enhances our relationships with all our stakeholders.



At our Cameroon brewery, employees celebrated the opening of a new restaurant for all grades

Gender diversity by level (% women)

	2009	2008	2007
Board	30	20	18
Senior managers	27	25	24
Other employees	35	35	35
Total workforce	34	34	34

Our aspiration for diversity

Women senior managers

Target is compared with 2007 figure.

By 2011

From 24% to 30%

Progress to date

27%

Our policies set out our commitment to treat people fairly, both at recruitment and during their careers. They include undertakings to advertise vacancies routinely, encourage suitable internal candidates, and assess people without bias.

The proportion of women in senior management – a key diversity indicator – has risen from 20% in 2003 to 27% in 2009. We hope to increase this to 30% by 2011.

Opportunities for career progression are determined only on the basis of ability and performance. We aim to create opportunities that are attractive to a wide range of suitably qualified candidates and compatible with a variety of lifestyles. Where roles lend themselves to flexible working, many Diageo businesses offer options such as career breaks, varied locations, school-term working, compressed-time working, flexible retirement, job sharing, annualised hours and flexible compensation.

At our service centre in Budapest, Hungary this year we took several initiatives to support our colleagues' work-life balance. These included a kindergarten programme to help those returning from maternity or paternity leave; fitness activities such as spine gymnastics and yoga, subsidised sports; a healthy eating programme; and opportunities for health checks

and consultations, massage and acupuncture.

In Venezuela, where disabled people have often felt excluded from the business world, we devised a programme for qualifying employees, adapted according to an individual's disability. Each colleague has a coach to help them with the office environment and ways of working.

In the USA, Diageo became the first company in our sector to achieve a 100% score in the Corporate Equality Index. The result, up from 95% last year, came through an increased focus on enhancing our human resources policies. The Human Rights Campaign Foundation, part of the nation's largest advocacy group for gay, lesbian, bisexual and transgender (GLBT) Americans, produced the index and recognised Diageo as one of the top companies for supporting employee equality.

In achieving the result, we benefited from the participation of the Rainbow Network, a group of Diageo employees in North America (also now established in Britain), which advances awareness of workplace equality and GLBT issues, and also seeks ways to promote our brands to GLBT consumers.

The chance of working abroad is attractive to many of our people and brings benefits to Diageo.



Colleagues at our Bushmills distillery spent Zero Harm Day on activities to promote safety at the plant

While encouraging local employees to progress to leadership positions where they are suitably qualified, we also provide opportunities for overseas postings. Around 320 assignees worked away from home at some 58 locations this year. To maintain diversity among assignees, we encourage employees from outside the UK to take up overseas secondments. This proportion has grown from 33% to 59% over the last six years.

Safety at work

Our goal is to create a 'zero harm' culture in which everything reasonable is done to prevent safety incidents. Our vision is of no fatalities, no injuries and no harm coming to anyone on our premises, summed up by the tagline 'Everyone going home safe, every day, everywhere'.

The basics of achieving this are set out in our occupational health and safety policy, which is supported by risk management standards that define the minimum requirements for controlling risks and reducing the likelihood and severity of accidents.

When an injury occurs we work to support the person through

treatment and return to work, ensure that we understand the cause of the accident and share lessons learned with relevant Diageo sites.

We set ourselves the targets of reducing accidents by 15% in both 2008 and 2009 – which we have achieved – and halving the total between 2007 and 2011 (a target which we have also already reached).

At more than half of our production plants we celebrated a year without any lost-time accidents at all. Local charities received £3,000 to mark this achievement at our Baileys plant near Belfast, as the site had pledged £250 for each accident-free month.

Employees' health

The activities involved in people's jobs at Diageo should not harm their health. To monitor any impact on employees' wellbeing and recommend corrective action, our Occupational Health Service conducts surveillance as a matter of best practice or as required by local laws. For example, programmes may cover colleagues working in noisy areas, in laboratories or with grain dust at production sites. We also offer educational programmes covering topics such as healthy heart advice, manual handling techniques, support to travellers and guidance on avoiding malaria.

In Africa, we work to reduce the impact of HIV/Aids on our employees, their families and our business partners through our 'Live Life' programme of workplace initiatives, community involvement and partnerships. Live Life takes a holistic approach to health and wellbeing and aims to reduce the



Diageo's year-long leadership performance programme has helped prepare 900 senior managers to lead the next stage of the company's development

stigma attached to accessing HIV prevention and care. It encourages employees to take responsibility for their own health and to show leadership to others.

The programme is non-discriminatory, voluntary and confidential, and has four elements, all of which are free of charge:

- we promote behavioural change through education and by distributing condoms
- we encourage employees and their families to enrol for routine counselling and HIV testing
- we urge HIV-positive individuals to acknowledge their status and seek treatment
- we provide counselling, clinical management of opportunistic infections, palliative care and anti-retroviral drugs for life.



The Living Well programme was launched at our Runcorn, UK packaging plant with a day of exercises in healthy living

panic to ensure business continuity; planned for the care of our people and their families; launched an education campaign; and provided for over 70,000 courses of Tamiflu by free or subsidised prescription for all Diageo employees and their families, subject to local regulatory and practical constraints.

Capability and development

During the year we completed a comprehensive programme of leadership development for around 900 senior Diageo managers. The importance of this and other initiatives in developing our people was recognised when our CEO Paul Walsh received the highly regarded Hunt Scanlon Global Human Capital Leadership Award for 2008.

The specific behaviours, skills and knowledge that we need from our employees to help meet our ambitious objectives for the business are set out in the Leadership Standard, which describes the qualities we expect of senior managers, and the Diageo Capabilities, which show what we expect of all other employees. Both help our people to be successful by defining winning behaviours and qualities.

The key to developing Diageo people is Partners for Growth (P4G), our performance review and goal-setting programme. The aim of P4G is to build on employees' individual strengths and overcome any barriers in order to achieve their aspirations and realise their potential. The emphasis is on honest, continuing conversations between employees and their managers – discussions that support their progress towards achieving business and personal objectives.

Typical of the initiatives taken in our African businesses was Cameroon, where 30 coaches supported a programme of voluntary testing. On World Aids Day, there was a march-past to show all employees the Diageo approach: 'Welcoming, counselling, assisting everyone – that's our commitment!'

With the possible threat of pandemic flu to our people, their families and our business, a dedicated management team evaluated the risks and put plans in place to respond to an outbreak. Working with medical experts, we planned the actions we would take at each alert level of an escalating

Safety performance

	2009	2008	2007
Accidents* per 1,000 employees			
— Europe	5.1	8.4	11.1
— International	4.0	10.0	15.6
— North America**	23.2	29.3	38.0
— Asia Pacific	1.4	2.0	5.0
Total	7.4	12.4	16.5
Fatalities	—	4	1

* Accidents resulting in lost time of at least a day, beginning the day after the accident.

** North America figures include employees who returned to work on restricted or lighter duties following an accident; without these the figure for 2009 was 19.3 (2008: 14.9).

Our safety target

	By 2011	Progress to date
Accidents per 1,000 employees	down 50%	down 55%

Targets and progress are compared with 2007 performance.

The year in pictures



Haiti

Hurricane Hanna killed more than 600 people, left 800,000 in need of aid and made up to a million homeless. With our local Guinness brewer we distributed aid in two communities where crops had been damaged.



Russia

A three-month road safety campaign supported by the Diageo-chaired Alcoholic Beverages Committee and endorsed by the Ministry of the Interior encouraged development of a national alcohol policy in Russia.



USA

The famous Sterling Vineyards aerial tram, which carries more than 200,000 visitors a year to our Napa Valley winery, is now powered by the sun, saving around 30 tonnes of greenhouse gas emissions annually.



Norway

We published a booklet for bartenders on the principles and practice of responsible serving. Our aim was to help create positive change and to show that the beverage industry has a key role to play in reducing alcohol-related harm.



Britain

Like many employees from Diageo businesses around the world who volunteered in their communities, a team of corporate relations colleagues took on reconstruction chores to improve a London nature reserve.



Colombia

A team of 80 Diageo employees with 30 distributors spent a day building 14 houses for disadvantaged families in southern Bogotá, changing the lives of 79 people.



Thailand

When floods hit the central Ayudhya province, contaminating water supplies, employees volunteered to distribute food and 10,000 bottles of water to victims.



Kenya

Over the holiday season, we supplied 33 Nairobi taxis with signs bearing responsible drinking messages. Supporting billboards declared 'Designate yourself, be the hero, be someone for the road'.

Such conversations take place formally twice a year but may be held informally at any time. The P4G process offers an opportunity for employees identified as capable of more senior positions or of enhancing their skills in a different area to be suitably prepared. We nominate successors for senior positions to ensure business continuity, with open posting of vacancies to encourage talented candidates to apply.

The Diageo Academy, our online learning site, also provides development opportunities. The many topics it hosts include people management, leadership, coaching, compliance, technical, change management, functional expertise and career development. This year employees booked 11,000 classroom training sessions through the site, completed 13,500 e-learning sessions and downloaded 14,500 sets of self-development material.

We want to give talented employees the chance to develop their careers within Diageo. Our online Career Shop allows people to submit their CVs, in five languages, to be considered when suitable roles become available. Over 52,700 (2008: 62,000) applications were made during the year, 91% of them from external candidates. More than 2,300 (2008: 3,800) roles were filled, 63% of them by internal candidates.

In some regions, we have graduate schemes that induct new talented recruits into our businesses and through which we hope to build a strong pool of future leaders. In Europe our new 'Kite' scheme brings together a range of personalised, accelerated development programmes for key managers to prepare them for progression to more senior roles.

With a philosophy of 'real job, real accountability', the pan-African programme provides graduates with authentic, stretching job experiences. In the first year, 57 graduates joined the three-year programme. Based in Cameroon, Ghana, Kenya, Nigeria, Uganda and our London Africa hub, participants complete three 12-month modules, including working in another location.

'I was attracted by GGBL's reputation for valuing employees, the numerous opportunities that exist for career development and the fact that, in Ghana, GGBL is the most celebrated business.'

Graduate recruit, Guinness Ghana Breweries

Reward and recognition

With the aim of keeping our businesses competitive in every market, we compare our remuneration packages with those offered by comparable employers. An element of most employees' pay is performance-related. For some employees with specialist responsibilities, remuneration is linked to the achievement of social or environmental goals. For example, responsible drinking objectives are crucial for many marketing and corporate relations colleagues.

There are a number of schemes that enable employees to benefit from the growth of the business by acquiring shares at a discount. At year-end, 16,000 past and present employees held around 1.2% (2008: 1.2%) of Diageo's issued ordinary share capital.

Employee share ownership

	2009	2008	2007
Countries operating schemes	26	26	16
Employees* holding shares	15,964	17,974	14,714
Employees* holding more than 1,000 shares	50%	47%	49%
Shares held by employees*	34m	33m	31m

* Past and present.

Through its investment decisions, the Diageo UK pension scheme has the potential to encourage good citizenship in other companies and it is a requirement of the scheme's active investment managers to take social, ethical and environmental aspects into account when assessing investments.



As part of an inter-government initiative, nine Chinese graduates joined Diageo for a year's overseas business experience

is well equipped to weather economic storms. But we are not immune to them and we have asked more of our people in terms of commitment and determination. We know that ours is already a high performance culture, so this is a significant request to make.

But to be sustainable we have also needed to make cost savings, some of which have come from restructuring parts of the business with an inevitable loss of jobs. This was a difficult decision. As in the past when redundancies have been necessary, we have tried to treat everyone affected with respect and compassion and make their transition to activities outside Diageo as easy as possible.

We have grievance procedures for resolving issues that may arise between employees and their managers. In the UK and Ireland, an independently-run, confidential helpline called tlk2 provides free counselling and legal and financial advice on issues such as work-related stress and changes at work.

Across the world, all Diageo employees are free to join trades unions; membership is not monitored.

Global values survey

The importance of effectively engaging our people makes our annual values survey, which monitors Diageo employee opinion around the world, a valuable tool in shaping strategy and designing ways of working. Now held in July, the results of this year's survey will be published in next year's report.

Engaging our employees

We believe that when employees are closely engaged and committed to Diageo's success and when they believe that Diageo is a special place to work, this will lead to superior levels of performance and fulfilment. We increasingly take a holistic view of the employee experience and seek to create the conditions in which people can flourish. Specific activities have included wellbeing programmes, increasing face-to-face communication with managers, recognition schemes, developing great people managers, and working in partnership with people to release their potential and meet their personal goals. We have ambitious targets for engagement and measure our progress in this area through our global values survey.

For much of the year we have been operating in markets affected to a greater or lesser extent by the worst economic downturn in a generation. Diageo is a resilient company whose business model

Our engagement target

	By 2011	Progress to date
Super-engaged employees	From 29% to 50%	42%

Target is compared with 2007 figure. Measurement is via global values survey, with progress given for 2008, the most recent result. The survey tracks agreement with six engagement statements; super-engaged employees are those who give the most favourable response to all six.

0.002%

Diageo greenhouse gases as a proportion of total world emissions

Source: EIA 2009, based on 2006 emissions from fuel use

Picture: Removing case dividers and cartons where they're not needed has saved tonnes of cardboard and is part of our drive to make packaging more sustainable (page 23)



We depend on a healthy and stable environment for the water and natural ingredients we need to make our brands.

- We work to reduce the environmental impacts of our operations and set stretching targets for continuous improvement
- We design our packaging so that, throughout its lifecycle, its impact on the environment is minimised

Managing environmental impacts

Environmental sustainability

We have set ourselves stretching targets to reduce our impacts on the environment, for the benefit of the planet, our communities and our business.

Being less dependent on finite resources such as fossil fuels and fresh water (especially in areas where it is scarce) supports the long-term prosperity of our business. There are a number of steps in this journey to environmental sustainability – using energy and water more efficiently, switching to resources that are naturally replenished, and, by finding ways to re-use or recycle our by-products, eliminating waste that may damage the environment.

‘Our vision is that some day all Diageo brands will be sourced sustainably, produced sustainably, delivered to the customer and consumer sustainably in packaging that has the smallest environmental footprint, and that all Diageo employees will work in sustainable buildings.’

Roberta Barbieri,
Diageo global environmental
project manager



Management and policy

The Diageo executive environmental working group, which is chaired by the managing director of Diageo Supply and includes functional leaders from across the business, is responsible for setting strategy. We take the precautionary approach of the Rio Principles – our actions on the environment are planned in the light of current scientific knowledge and do not depend on having absolute proof of specific damage.

This year, the working group launched a new environmental policy that makes clear our commitment to achieve sustainability, with a focus not only on our own operations but also on stewardship of our value chain. Implementation is guided and monitored at our production sites by an environmental leadership team and in the area of sustainable packaging by a specialist working group. The policy is supported by our risk management standards, which set out criteria for compliance.

All production sites are required to have an environmental management system (EMS) and 88% of these were assessed this year as fully or mostly implemented. EMSs at 19 sites, representing 42% of production by volume, are certified to the international standard ISO14001.

Our office buildings have a much smaller environmental footprint than our production sites. Offices with more than 50 employees, which altogether contribute around 1-10% of Diageo's total impact, are tasked with improving their environmental performance and raising employee awareness of environmental issues.



Our new environmental policy reflects our commitment and stretching targets for improvement

Measurements of our most significant impacts – the use of energy and water, and the production of solid waste, liquid effluent and greenhouse gases – are our primary indicators of performance. We collect usage and emissions data monthly from all 104 production sites and annually from around 40 large offices, aggregating the results both as totals and – to track environmental efficiency – as ratios relative to production volume.

We aim to keep employees informed about our environmental progress and involved in achieving our ambitious goals. The United Nations World Environment Day in June was a great opportunity to focus on the issues. Teams of Diageo volunteers in markets across the world marked the day by taking part in activities such as planting trees, cleaning or restoring habitats, removing rubbish and raising money. Many of the projects were described in GREENIQ, a new Diageo newsletter that keeps employees up to date with our environmental programme.

We have worked to promote environmental awareness and improvements in our industry and beyond. Our involvement with the Beverage Industry Environmental Roundtable allows us to share experience with others in our sector and agree consistent approaches to measurement and reporting.

Our environmental targets

	By 2015	Progress to date
Greenhouse gases	down 50%	down 2%
Wastewater at water-stressed sites	down 50%	–
Water efficiency	up 30%	up 3%
Polluting potential	down 60%	down 13%
Waste landfilled	down 100%	down 66%

Targets and progress are compared with 2007 performance.



Colleagues in Canada have so far planted 8,000 trees to help create healthier spaces for everyone to enjoy

Targets

Last year, we set the targets for improvement we hope to achieve by 2015. Most of our targets refer to total measures of impact, rather than measures relative to production. Although this may mean that we have to reset our targets in future in the light of any significant changes to the business – for example, acquisition of additional production capacity – we believe that tracking total impacts is the more meaningful way of quantifying the real environmental benefits of our initiatives.

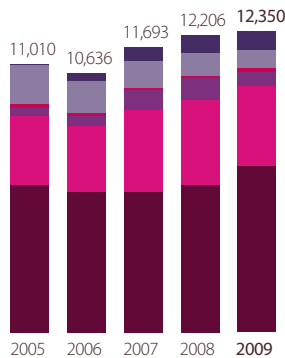
The exception is water use where we target an improvement in water efficiency – the amount of water we use for each litre of production – reflecting the fact that water is an irreplaceable ingredient in our products.

Lower production volumes this year have contributed to lesser total impacts, though this isn't the whole story as most of our targeted efficiency measures have also improved. One headline measure – Diageo greenhouse gases as a proportion of total world emissions – has improved from 0.003% to 0.002%, due to our efforts and to a continuing increase in global emissions from human activity. Our challenge in the future will be to maintain downward pressure on our impacts as production of our brands gathers pace.

Energy and climate change

The release of greenhouse gases – notably carbon dioxide generated by burning fossil fuels – can cause climate changes, which present considerable risks to our business and to the world. Unchecked, these risks may work through physical phenomena such as changing temperatures, more frequent extreme weather events, water scarcity or rising sea levels, or through secondary effects such as ecosystem changes or shifts in human populations. The risks include impacts on agriculture, disruption of our own operations or those of our commercial partners, and changes to the nature or distribution of consumer demand for our brands.

Sources of energy (TJ)



Efficiency (MJ/litre of product)

2005	2006	2007	2008	2009
3.6	3.5	3.5	3.6	3.8

- Indirect energy, 'green'
- Indirect energy, standard
- Other fuels
- Diesel
- Fuel oil
- Gas

Indirect energy includes electricity and a small amount of steam.

* Includes electricity generated from renewable or low-carbon-emitting sources.



Solar panels at Huntingwood, Australia provide all of the electricity used by the site's office

There are also opportunities, most particularly a competitive advantage, if we respond to these issues more effectively than others in our industry. We set out the risks and opportunities we face in more detail in our response to the annual Carbon Disclosure Project.

cdproject.net

Our target is to cut our total greenhouse gas emissions by 50% between 2007 and 2015. This exceeds the 25% reduction by 2050 that the Stern Review on the Economics of Climate Change, published in 2006, suggested will be needed to stabilise carbon dioxide levels in the atmosphere.

At six of our vineyards and other facilities in the USA, we have replaced the lighting with new fittings that are around twice as efficient. The change will save about 260 tonnes of carbon emissions a year through reduced electricity consumption.

At St James's Gate, Dublin fitting a 'recirculation chiller' in the fermentation plant made use of the natural cooling capacity of brewing water to reduce the cooling requirement of the plant, so reducing carbon emissions from the brewery by nearly 900 tonnes a year. The elegant solution was recognised by a Sustainable Energy Ireland Award.

Our supply business in Scotland achieved the Carbon Trust standard, an award that certifies we have measured, managed and genuinely reduced our carbon footprint rather than off-setting emissions. Our bioenergy investments at the Cameronbridge and Roseisle distilleries as well as many smaller carbon-reducing projects throughout Scotland – new thermostats; upgrades to steam pipe installations; and steam recovery – were cited as reasons for the award.



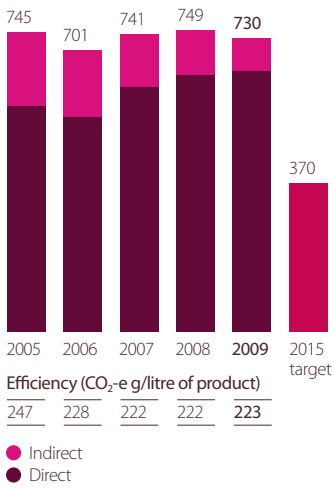
Our supply operation in Scotland achieved the new Carbon Trust standard

The regulation of greenhouse gas emissions through structures such as the Emissions Trading Scheme in Europe provides a financial incentive for companies to reduce their climate impacts. In 2008, the seven Diageo sites in Ireland and the UK included in phase two of the scheme reported total carbon emissions within our allocation, resulting in around 38,000 surplus, tradable allowances, the majority of which we sold.

Working with travel agents and airlines, we have continued to improve reporting on business flights and car journeys. We recorded 35kt of greenhouse gas emissions from business travel during the year (2008: 41kt).

One of the ways we aim to reduce this figure is by videoconferencing as an alternative to travel. Last year, we installed advanced video studios in London, Norwalk and Singapore and this year built new facilities in six more locations.

Greenhouse gas emissions (kt CO₂-e)



Greenhouse gas emissions by region (kt CO₂-e)

Region	2009	2008	2007
Europe	356	380	380
International	242	247	235
North America	119	106	107
Asia Pacific	13	16	19

Water management

A reliable supply of water is essential to our business – we use it as an ingredient and also for cooling and cleaning. Water resources are under pressure from development in many parts of the world and climatic changes may restrict availability still further in the future. We have completed a water survey at each production site to identify where technology and ways of working can be improved to achieve best practice in water management.

Ten Diageo production sites are located in areas where the UN predicts that water supplies will be under stress in the next 20 years.

Water used (million m³)



Efficiency (litres/litre of product)

Year	Efficiency
2005	8.1
2006	7.3
2007	7.4
2008	7.3
2009	7.2

Target for water efficiency by 2015: 5.2 litres/litre of product



At Beaulieu Vineyards in California, new barrel washers and recycling techniques have saved 3,800 cubic metres of water a year

We plan to reduce the amount of wastewater at these sites by 50% between 2007 and 2015.

As a certain amount of water is inevitably required to make our brands, we consider water wasted a better measure at these sites than water used – the target we announced last year – for driving innovation in water recycling technologies.

We aim also to enhance our overall water efficiency across all sites. Our target is to reduce the amount of water used to make each litre of product by 30% between 2007 and 2015.

Achieving this will require contributions from many plants. In Korea we found that using 10% less water to rinse bottles could be just as effective. In Huntingwood, Australia, where the local water utility's Every Drop Counts

programme encourages water efficiency, the assessment of our plant has improved from one star in 2001 to five stars by 2008. This year the site won an award for sustainable business processes, the third year the quality of its water management has been recognised.

An innovative design at Huntingwood allows the site to reuse water in vacuum pumps, saving over 18,000 cubic metres a year. The idea is now being adopted by other Diageo sites.

An integrated approach to water use at our brewery in Jamaica is expected to save 218,000 cubic metres a year. We declared 'Red Stripe Water Week' in March to mark the introduction of new water-efficient cleaning equipment, a new water recycling project, tighter management of leaks and more metering to help us understand the water requirements of each of the brewery processes. The Jamaica Chamber of Commerce recognised this work with their 2008 Environmental Award.

Sources of water (million m³)

	2009	2008	2007
Ground: boreholes	11.5	11.8	11.7
Mains: town supply	10.4	11.2	11.0
Surface: rivers and lakes	1.5	1.4	1.9

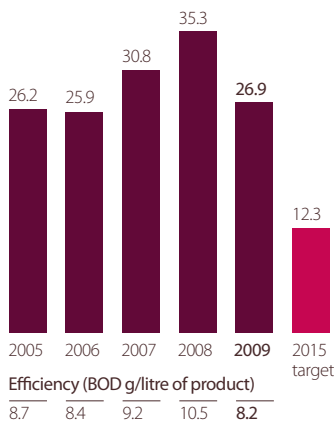
Water used by region (million m³)

Region	2009	2008	2007
Europe	10.7	11.8	11.5
International	10.0	9.1	9.6
North America	2.4	3.2	3.1
Asia Pacific	0.3	0.3	0.4



The new bioenergy plant at Cameronbridge is part of a development that will divert spent grain and wastewater to make the site largely self-sufficient in electricity

Wastewater polluting power (BOD kt)



To minimise environmental damage, we treated most effluent to remove much of the organic matter, either at our own treatment plants (39% of volume) or by sending it for treatment at a municipal facility (36%). We spread a further 2% as a fertiliser on agricultural land. The remainder flowed untreated to water, mostly to the sea. Such outflows from our plants are subject to consent by environmental authorities and their impact on ecosystems is monitored.

New and improved treatment plants are now in operation at many sites, while new facilities at Achimota in Ghana and Douala in Cameroon are being constructed. In Waterford, Ireland, we supported the local authority in building a new water treatment plant for the town. In a full

year, sending effluent from our breweries for treatment at the new works will prevent more than 300 tonnes of organic material reaching the River Suir.

Through such improvements, we aim to reduce the polluting power of effluent from our plants by 60% between 2007 and 2015.

Materials and recycling

Most of the materials we buy are either ingredients or packaging materials. Ingredients – such as grain, grapes, hops and milk – are generally agricultural in origin and we aim to procure them from sustainable sources. Some packaging materials – such as glass, plastics, paper and metals – include a recycled element. For example, the green Gordon's gin bottle is made from around 90% recycled glass and this represents a saving of more than 2,000 tonnes of carbon dioxide emissions a year at the bottle factory compared with using basic raw materials.

The largest category of waste from our plants is what's left of ingredients after processing. The bulk of this is currently converted into animal feed or composted for use as mulch on farmland. Most other waste – such as rejected packaging from bottling sites and office wastepaper – is also recyclable and is reprocessed where local facilities exist.

With the philosophy that 'waste isn't rubbish, it's just an unused resource', we have made big strides in finding alternative uses for solid waste. This year, we reused or recycled 98% of the waste from our sites, an increase from 88% over the last two years.

At our Amherstburg packaging plant in Canada, all of the solid waste, previously destined for landfill, is now sent to a waste-to-energy plant and used to generate electricity. Through this change, we keep approximately 250 tonnes of waste out of landfill each year.

In Africa, reducing landfill can be challenging as recycling markets are underdeveloped and in some cases non-existent. In Kenya we re-use the vast majority of our beer bottles, replacing the labels when they come back to the brewery. The label pulp cannot be recycled into paper due to its residual caustic soda from the washing process so we send it as an energy source to a local cement works. With around 850 tonnes of paper a year diverted away from the waste stream, the site has reduced what it sends to landfill

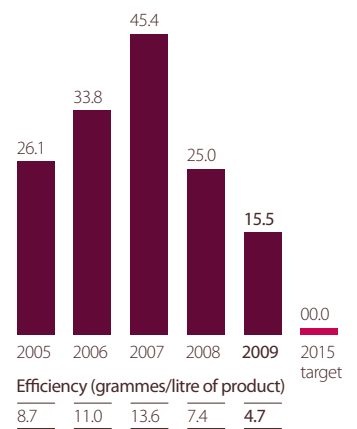
from 5.9 to 2.2 grammes per litre of beer, largely due to this initiative.

Large reductions in waste have been made at our UK beer packaging plants – at Runcorn waste to landfill has been zeroed while our Belfast facility is aiming for a 98% reduction this year. These achievements were recognised when the plants were awarded the Business In The Community 'Big Tick' award for eco-efficiency for the second year.

Three sites of our American wine business were recognised by the state of California for their efforts in reducing waste. Beaulieu Vineyard recycled 3,500 tonnes, diverting barrels, pallets, used grapes, glass, metals and paper from the waste stream. Sterling Vineyards kept 1,200 tonnes of waste out of landfill through reduction, reuse, recycling and composting, while our Sonoma bottling plant recycled more than a tonne of cork and 120 tonnes of other materials.

By continuing this work, we aim to reduce landfilled waste by 100% – to zero – by 2015.

Solid waste landfilled (kt)





This year's gift packaging for Crown Royal Canadian whisky was fully recyclable and lighter than before, saving 13 tonnes of material

Reducing the weight of containers, even by a few grammes, can divert tonnes of waste from reprocessing or landfill and save energy when transporting our brands. In the last few years we have taken many steps towards more sustainable packaging – for example:

- We removed the dividers from cases of spirits bottles, with annual savings of 740 tonnes of cardboard by next year
- Supplying bars with Blossom Hill wine on draft saved 225 tonnes of glass
- Moving some pre-mixed brands from bottles to cans in Europe saved 630 tonnes
- Lightweighting 315 million cans saved 187 tonnes of aluminium and 1,250 tonnes of carbon emissions
- By lightweighting bottles and using thinner shipping canisters in India, we have saved 97 tonnes of glass and paper
- At our Carneros wine packaging site in California, changing to a recyclable label backing has saved 75 tonnes of waste
- A redesigned returnable Guinness bottle for Africa saved 3,000 tonnes of glass
- Excluding laminates from holiday season packaging in the USA made it 100% recyclable.



In Kenya, discarded beer cans are crushed and smelted and the recycled aluminium used to make *sufuria* cooking pots

Sustainable packaging

A secondary environmental impact from waste occurs when consumers finish with our bottles, cans and other containers. Using Diageo guidelines, our designers aim to make our packaging more and more sustainable – for example, by not combining materials that waste contractors find difficult to separate.

Most of the packaging materials we use are recyclable and this year we committed to printing a 'recyclable' symbol on primary packaging with the words 'Please recycle'.

Other emissions

Over the last four years, we have reduced the amount of ozone-depleting halons present at our manufacturing sites in fire-extinguishing equipment by 72% and CFCs, used as refrigerants, by 93%.

Through the use of fuels this year, our activities resulted in the emission of 1.2kt (2008: 1.3kt) of nitrogen oxides, which are a precursor to ozone formation, acid rainfall and oxygen depletion in water habitats, and 1.3kt (2008: 1.4kt) of sulphur dioxide, a precursor to acid rainfall.

When spirits are maturing, the evaporation of some of the alcohol from the barrels is essential to create the desired flavour. Alcohol is water-soluble and biodegradable and much of the vapour is removed from the air by rain. We estimate that, this year, 32kt (2008: 29kt) of alcohol evaporated from the millions of barrels of whisky and rum in maturation warehouses in Scotland, the USA and Australia.

Hazardous substances and spills

Some of our processes employ hazardous materials – such as caustic soda used for cleaning – which are disposed of after use by specialist contractors. In the year, we disposed of 1.2kt (2008: 2.7kt) of hazardous waste in total.

At our brewery in Dundalk, Ireland, we have commissioned a new caustic soda recovery plant. The plant's technology, which results in annual savings for our business of 30 cubic metres of caustic soda, 130 tonnes of steam and 1,350 cubic metres of water, is being shared as a case study with other brewers via the Irish Environment Protection Agency.

There were 35 (2008:27) non-compliances with environmental consents during the year. Where practicable, we work to minimise such events. For example, at one site, there were three occasions when the effluent exceeded permitted levels. In response, we installed a new holding tank and a new on-line meter this year to allow more control of wastewater before it is sent to the city treatment plant.

There were in addition 22 (2008: 17) spills or other incidents that may have had environmental implications. The priority in each case was to limit any immediate damage by cleaning up the spill, following which we took measures to reduce the chance of the incident occurring again.

Biodiversity

Some of our sites include or are close to conservation areas or rare habitats and particular care is taken not to disrupt species or ecosystems in such places. Wastewater from our brewery in Kilkenny, Ireland goes to the local authority for treatment before being discharged into the River Nore, a designated special area of conservation due to its notable habitats and aquatic species. We now send effluent monitoring data to the local authority by telemetry on an hourly basis to help maximise the efficiency of treatment and minimise impact and risk to the river.

Our Chateau Magnol vineyard in France is close to a nature reserve which is home to the European pond terrapin, a threatened species.

Because our business thrives in prosperous, well-governed markets, we do all we can to develop and support such economies

- We maintain good relationships with governments on tax compliance and public policy issues
- We build value for shareholders
- We work to enhance approaches to corporate citizenship throughout the value chain

£21.2bn
Returned to
shareholders in
dividends and share
buy-backs since
Diageo was formed
12 years ago

Contributing
to economic
growth

Picture: The new Diageo distillery on St Croix will supply all the rum for Captain Morgan in the USA and provide a major stimulus to the US Virgin Islands economy (page 25)

Investment and creating value

Our businesses and their supply chains are a source of economic opportunity and development in the many markets in which we operate.

Diageo businesses around the world provide jobs and develop the skills of our people, create opportunity for other businesses in the value chain, generate revenue for governments and invest in capital projects. By doing all this in a responsible way, we make our most significant contribution to the sustainable development of the communities in which we operate.

Supporting economic development

Wherever we invest in new facilities, such as the distilleries in Roseisle, Scotland and the US Virgin Islands, or our new joint venture brewery at Sedibeng, South Africa, we create jobs in constructing, operating and servicing the plant. Although it may be the new projects that make the headlines, investment in our existing operations is just as important in creating economic opportunity and supporting development.

In 2008 we announced our plan to build a new rum distillery and maturation warehouse on the island of St Croix in the US Virgin Islands. The facilities, which will begin production in 2011 and, by the following year, will be supplying all the rum for Captain Morgan in the USA, will provide a major stimulus to the Virgin Islands economy. Constructed according to Leadership in Energy and Environmental Design principles, the distillery will have a closed-loop water system and derive energy from waste. To show we intend to play a full part in the community, at the early-morning *J'ouvert* festival on the island of St Thomas this year, we worked with the police and other partners to provide Safe Ride shuttles and remind carnival-goers to drink responsibly.

Diageo was hailed the Best Global Business in Africa at this year's Africa Business Awards. The success of our operations on the continent provides a clear example of the economic impact that business can have. We brew or distil in 22 sub-Saharan countries, either through subsidiaries, joint ventures or licence arrangements. Our 4,500 Diageo Africa employees represent a fifth of our global workforce. Africans drink more than one-third of all the Guinness in the world. We also produce many other iconic African brands such as Tusker beer in East Africa, Star beer in Ghana and the non-alcoholic Malta Guinness in many markets.

To show that commercial success is not the only measure of a great company, this year we published *Diageo in Africa*, an overview of our extensive corporate citizenship programme in the continent.

Our business in East Africa this year supported its hundredth student through university since the scheme began seven years ago, and announced 20 more scholarships for this year. We offer the support to bright, disadvantaged students wishing to study business, IT, engineering or food science at university in Kenya, Uganda or Tanzania and this covers tuition, books, accommodation and a monthly stipend.

In Nigeria we contributed to the development of infrastructure by building two new sections of road. At Oregbeni, Benin, where the route was impassable during the rainy season, we built 340 metres of road, while at Egbeluowo, Aba we surfaced a 400-metre untarred section, supporting economic activity in these communities.

We want other companies to invest in Africa and so help support development there. This year we published a study that showed how African business media influence sentiment among both local private equity investors and overseas institutional investors. We sponsored the sixth annual Africa



We provided Safe Ride shuttles for *J'ouvert* carnival-goers on St Thomas to mark our new relationship with US Virgin Islands communities

Business Reporting Awards as a practical contribution to boosting investor sentiment by recognising excellence in reporting on Africa's commercial environment and promoting a more balanced view of doing business there than is sometimes available in the press.

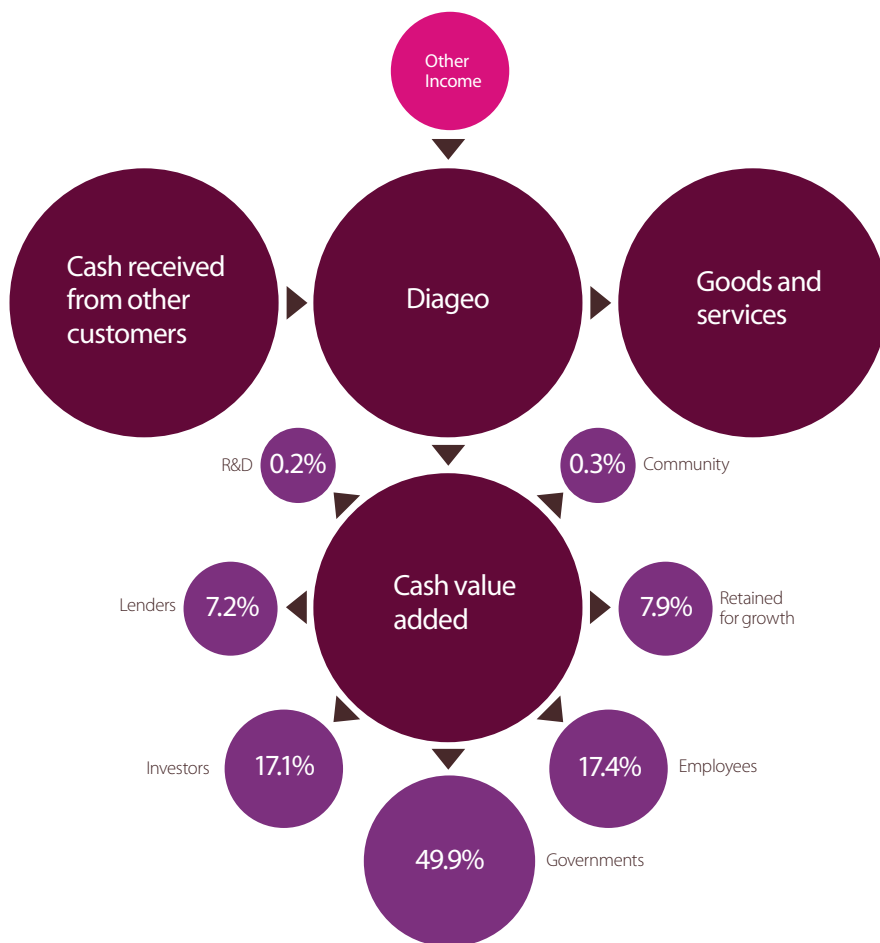
In Asia Pacific, a region of increasing importance to our business, we provide employment for 3,000 people, while many more jobs are maintained in 11 joint ventures and 15 third-party distributors of our brands. Over 80 jobs are sustained at our distribution hub in Singapore – including Asia's largest bonded warehouse – which handles deliveries of our brands to Asian markets.

Being a good corporate citizen is an important aspect of developing great relationships with governments, business partners, employees and consumers in the region. We have summarised our activities in *Enriching Diverse Communities*, a review of our citizenship programme in Asia Pacific.

'This agreement marks the greatest single financial step forward in this territory in 50 years. It will bring jobs and a long-term source of funds that will go far towards solving many of the challenges we face.'

John P deJongh, Jr,
Governor of the US Virgin Islands, on Diageo's new rum distillery on St Croix

Distribution of cash value added 2009



Creating value

We use a cash value added statement to demonstrate the value we add to the goods and services we buy in the course of creating our brands. The statement also shows how this value is distributed to our stakeholders in return for their contribution to our business. In this section we examine the three most significant recipients of cash value added – governments, investors and employees.

As well as these three groups, value flows to banks and other lenders as well as to community investment. We invest the remaining cash value added for the benefit of stakeholders in the future – either in research and development or by retaining it in our business for growth, acquiring new businesses or brands and capital spending on plant and buildings.

In its own 2009 Value Added Scoreboard, the UK Department for Business Innovation & Skills ranked the top 750 European companies according to the wealth they created, as measured by value added (using a measure slightly different from ours). This year, Diageo was the fourth biggest creator of value in the beverage sector, behind AB InBev, SABMiller and Heineken, and came top for wealth creation efficiency (value added divided by the cost of labour and equipment).

Cash value added statement

	2009 £ million	2008 £ million	2007 £ million
Cash from customers	12,283	10,643	9,917
Other income	214	155	131
Subtotal	12,497	10,798	10,048
Cost of goods and services	(5,344)	(4,540)	(4,123)
Cash value added	7,153	6,258	5,925
Alcohol taxes	2,972	2,553	2,436
Other taxes	595	447	436
Subtotal – paid to governments as tax	3,567	3,000	2,872
Paid to employees for their services	1,247	1,122	999
Paid to investors for providing capital	1,224	1,865	2,263
Retained for growth	562	(146)	(525)
Paid to lenders as return on borrowings	513	376	278
Community investment	23	24	21
Research and development	17	17	17
Distribution of cash value added	7,153	6,258	5,925

Note: cash value added is calculated using income statement amounts for the year and does not represent cash received during the year.

‘The rationalisation of the excise tax regime has focused on achieving simplicity in administration and enforcement, ensuring a steady stream of revenue, discouraging tax evasion and smuggling, curtailing the consumption of harmful products and removing the distortions.’

Mr Kwadwo Baah-Wiredu,
Ghanaian minister of finance
and economic planning,
Budget Statement, November 2008

Governments and public policy

Payments to governments, in the form of taxation, accounted for the largest slice of the added value we generated during the year, amounting to £3.6 billion or 50% of the total. In some countries, the tax Diageo pays represents a significant proportion of the government’s income.

In addition to this direct contribution to the public purse, our businesses pay other taxes such as local and business taxes; our consumers pay sales taxes such as VAT; our employees and investors pay income taxes; and our suppliers and customers pay corporate taxes which arise as a result of the business we generate in these companies. In aggregate, these direct and indirect contributions, which we have not quantified, represent the total tax footprint of our business.

Fair systems and levels of tax are an important issue for our conversations with governments around the world as are other issues that impact our business such as barriers to free market access, the regulation of the market for alcohol beverages, community programmes, national alcohol policies (see page 10) and responsible drinking campaigns.

The complex alcohol taxation system in Ghana levied high taxes on premium brands, which we thought was unfair. We worked with the government to show that basing tax on the alcohol content of beverages rather than on their sales value would make it easier to collect and yield at least as much revenue. Having implemented the change, the Ghanaian Revenue Agencies Governing Board presented Diageo with a platinum award for tax compliance and for our contribution to excise revenue mobilisation.

We deal with government departments either directly or through trade associations which provide us with a platform to share our views on industry-wide issues – for example, the Scotch Whisky Association, Gin & Vodka Association, British Beer & Pub Association, Alcohol Beverage Federation of Ireland, Distilled Spirits Council of the United States, European Spirits Organisation, Distilled Spirits Industry Council of Australia, Association of Canadian Distillers and many others.

In April the leaders of the G20 countries held a summit meeting in London, hosted by the UK prime minister, Gordon Brown. Diageo played a leadership role in framing and advocating a clear industry stance on reigniting world trade and rejecting protectionism.

Arranging our tax affairs

We have responsibilities to governments as well as other stakeholders and acknowledge this by seeking to conduct our tax affairs according to clear principles. We are committed to pay tax according to the law; to protect and grow value for shareholders; and to maintain good and honest working relationships with tax authorities, sharing our views on tax laws with them either directly or through trade associations.

Where we have a choice as to where in the world our operating profits and hence tax liabilities arise, we make the decision on a combination of commercial strategy, the business implications and levels of taxation. The resulting profits are made in the territories where our assets, activities and risks are located.

Transactions between Diageo subsidiaries based in different countries are priced on an arm’s-length basis as if the subsidiaries were unrelated companies, in accordance with the OECD Model Tax Convention. Consequently, the authorities in the two countries receive a fair allocation of tax from the profits arising from the transaction and the same profits are not taxed twice.

Returns for investors

Over 90% of Diageo stock is owned by institutions, the remainder being held by private investors including thousands of current and former employees. As a return on the capital they provide to the business, shareholders received the third biggest slice of the value added distribution in 2009, in the form of dividends (£870 million) and share buy-backs (£354 million). We set the balance between the level of dividends and number of share buy-backs at a point that makes the total return to investors as efficient as possible. A total of £21.2 billion has been returned to shareholders in dividends and buy-backs since Diageo was formed 12 years ago.

Investors who wish to take a company’s corporate citizenship approach and performance into account when selecting shares have a number of sources of information including the indices described on page 35, which aim to compare companies based on published and requested information.

Some Diageo companies offer a proportion of their shares on local stock markets, providing access to their equity to local investors, including employees. We value the participation of these shareholders as they bring local knowledge to the business and strengthen direct contacts with the community.

The year in pictures



Spain

Our campaign 'Si sales de noche, transportate bien' (Travel safely at night), run in partnership with the Madrid government, was hailed one of the best social responsibility initiatives of 2008 at the Actualidad Económica Best-of-Innovation Awards.



USA

More than 350 employees took part in the Diageo Chateau & Estate Wines community day in California. Events included assembling 2,700 HIV/Aids prevention kits for young people in the San Francisco Bay area.



Nigeria

Renovating the primary school in Oregbeni, Benin will help raise skill levels in the community from which our brewery recruits employees. When we replaced the roof and toilets and provided books for the 2,000 pupils, the king of Benin praised the project as a great example of community support.



Scotland

Our winter road safety campaign is run with Central FM and the Central Scotland Police, who have reported 18% fewer drivers over the limit in the last three years – success that won a Prince Michael International Road Safety Award. Lewis Hamilton is pictured with officers leading the campaign, which is now extended to Northern and Grampian regions.



Caribbean

With NGO Habitat for Humanity we helped needy families in Guyana, Jamaica and Trinidad and Tobago. The project provided families variously with the construction skills and discounted materials to build or improve their homes and enhance their employment prospects.



Taiwan

Local hero and Yankees baseball star Wang Chien-Ming has become a Diageo responsible drinking ambassador. Working also with the Taiwan Beverage Alcohol Forum and the Automobile Safety Association, Wang encouraged fans never to drink and drive.



Bulgaria

We estimate our 'Celebrate responsibly! Consume in moderation! Never drink and drive!' campaign in Sofia reached 3.5 million consumers. Partnering with the Bulgarian Industry Confederation, we urged 430 member companies to adopt workplace alcohol policies.



Argentina

The first Project Tourism course in our Learning for Life programme kicked off in Mendoza. The qualification will help graduates find employment in the hospitality industry in this important tourist region.

The value chain

We aim to maintain high standards not only in our own operations but also among the other businesses that supply us and deliver our brands to consumers.

Demand for our brands creates economic opportunity for other businesses in the value chain – in agriculture, manufacturing, services, distribution and retailing. We want our relationships with these companies to be fair and mutually beneficial. We favour businesses with standards of citizenship at least as good as our own and often work with business partners on issues to help raise standards in our value chain.

Our economic impact on the value chain

One of the most significant impacts of our business on local economies is to provide employment. This year, around 17% of the value added to raw materials by our business passed to our own employees, underlining their importance. A further indirect economic benefit comes from the employment created by the suppliers and customers in our value chain. We estimate that the people whose livelihoods depend on the economic value created by Diageo's business number in the hundreds of thousands.

Supplier relationships

Procuring the many goods and services needed to make and market our brands is a complex process. We source some supplies globally or regionally – for example, some grain for fermentation – while we can obtain others more economically from local suppliers.

We aim to develop strong relationships with our suppliers to help ensure that the availability of goods and services is sustainable and that we can obtain the best value in terms of cost, quality, service and innovation. As part of a series of reviews across the organisation this year, we have simplified a complex situation by working with our suppliers to standardise payment terms for all suppliers to 60 days.

Supplier relationships also go beyond commercial considerations and involve issues such as labour relations, health and safety, environmental management and business integrity. The standards we expect in these areas are set out in our supplier standards policy document 'Partnering with Suppliers', compliance with which is a formal part of our qualification process for raw material suppliers.

We've held conferences with key suppliers in Europe and North America, which provided an opportunity for us to explain our policies, communicate our ambitions for the future and help suppliers understand their role in our ability to achieve our goals. The conferences enabled us to pool our collective expertise to identify new opportunities that will take this aspect of our business relationship to the next level.

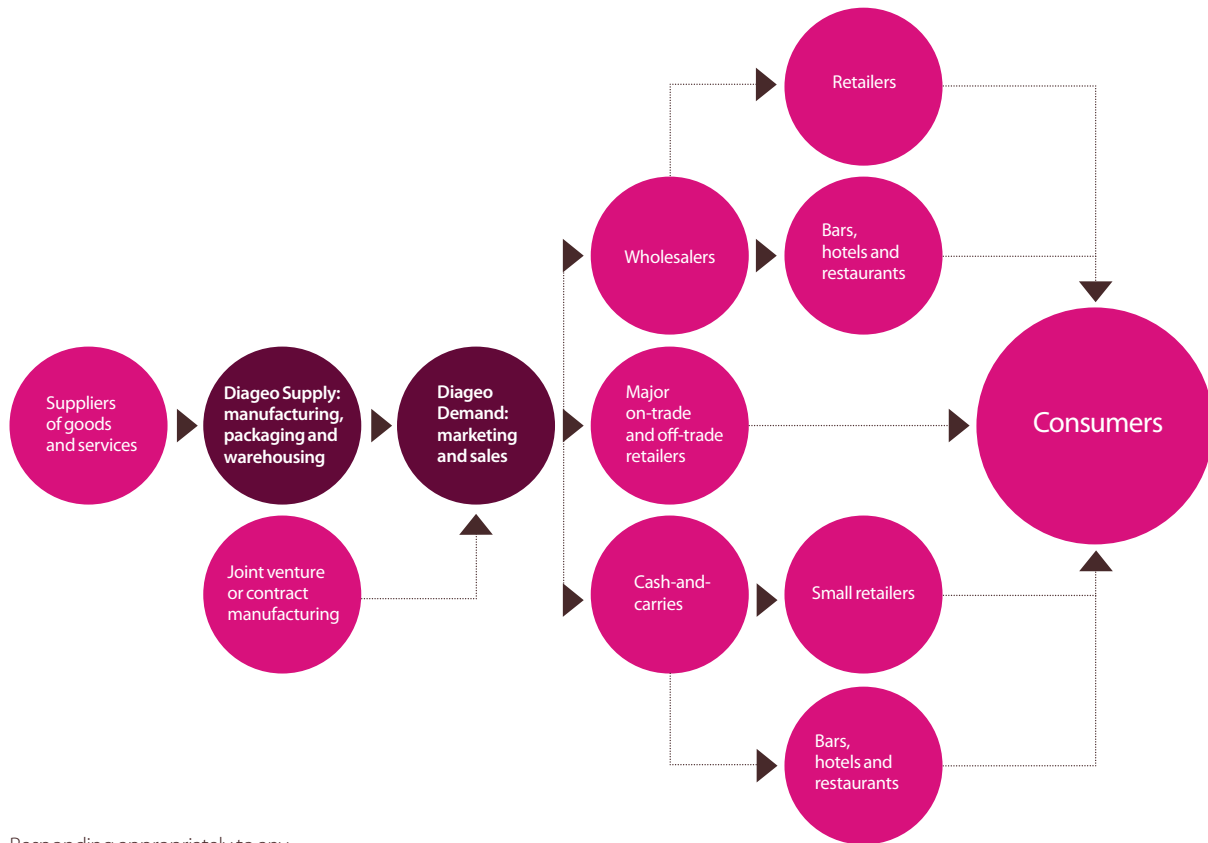
Supplier standards

To confirm that our suppliers maintain adequate standards we use the independent Suppliers Ethical Data Exchange, or Sedex, through which participating suppliers post self-assessments online. These can be accessed by any of their customers signed up to the scheme, eliminating the duplication of reporting separately to each.

Of the approximately 20,000 businesses that supply Diageo, the 5% we judge as presenting the highest risk are in the process of posting self-assessments. A sample will be independently audited against Ethical Trading Initiative standards of human rights, labour conditions and health and safety and gaps identified for improvement.

We have played a leading part in AIM-Progress, a consumer goods industry initiative to make the assessment of suppliers consistent across all member companies. The benefits of collaboration are becoming apparent as an increasing number of suppliers are found to be common and their input is being simplified. As one supplier put it, 'We have had over 20 requests for the same information and we really welcome this initiative. We are also now planning on rolling this out to our suppliers too.'

 aim.be



Responding appropriately to any shortcomings revealed by such assessments presents a number of dilemmas. Simply withdrawing our custom from a non-compliant supplier could displace the problem rather than solving it. In a small community, the supplier's loss of business could have wide economic implications. Our aim is to balance these risks and work with suppliers assessed as non-compliant to help them improve. In cases where the supplier fails to move towards compliance, we retain the sanction of seeking alternative sources of supply.

The existence of an ethical assurance programme is one of the considerations that we take into account when selecting suppliers; this was a factor recently in the selection of a new supplier of branded merchandising materials.

Supporting suppliers

In some cases, we work with suppliers to develop their commercial capabilities. This can help them provide goods or services that were not previously available or improve the quality of their offering or the reliability of supply.

In Cameroon, we are engaged in the latest of a series of projects to encourage farmers to supply our breweries with local grain, so aiding economic development in Africa. The project is in support of the UK government's 'Business Call to Action' which we signed last year to show our commitment to the eighth Millennium Development Goal (see page 13) – to support a global partnership for development. The project, which will provide a sustainable local source of sorghum grain for our brewery in Cameroon, will also provide work for local farmers, train them in new skills, resulting in higher incomes for rural families. Diageo will also benefit from more prosperous and



Trucks delivering our brands were used in the USA as 'rolling billboards' to promote responsible drinking messages

sustainable communities and stronger stakeholder relationships. In September, the International Chamber of Commerce recognised the benefits of our project with a World Business and Development Award.

In North America, we have been working to encourage diversity amongst suppliers, including small businesses certified as minority-owned or women-owned, by ensuring that we provide equal opportunities to bid for our procurement contracts.

'Diageo is miles ahead of its main competitor.'

Alexandre Knabben,
National commercial
manager, Walmart Brazil

In the USA, we partnered with our distributor the Charmer Sunbelt Group in campaigns against alcohol misuse. The company used its delivery trucks to deliver the messages 'Make responsibility a family matter' and 'Support zero tolerance for underage drinking and drunk driving'. Together, we also supported Tailgaters Urging Responsibility & Fun (TURF), a programme to promote responsibility at pre-football game barbecues – so-called tailgate parties.

➔ www.turfzone.org

Our brands and consumers

Consumer confidence in the quality of our brands is essential to the sustainability of our business. Each Diageo supply business has a quality management system that aims to ensure, among other things, that our people are properly trained, responsibilities for quality are clear, quality is monitored and targets are set for improvement. As part of our Licence to Operate programme (see page 34), we regularly review ways of working at our manufacturing sites for compliance with legislation and our own quality management standards.

Issues raised about our brands by consumers or customers are investigated, resolved to their satisfaction where possible, and where necessary corrective action is taken to prevent recurrence.

This year we recorded a total of 39.5 complaints per million equivalent units of production (eg, a case of spirits). We changed the measure this year, so this figure is not comparable with previous years, but we will report our progress on reducing it in future.

Through our Perfect Plant programme, we aim to create and maintain a culture of continuous improvement in the effectiveness and quality of our manufacturing. The programme, launched in 2008, now applies to over 60% of the 186 processes identified at our production sites.

Perfect Plant makes information on quality, environmental initiatives and waste reduction more accessible, providing new forums for learning and accelerating the sharing of manufacturing information. It also encourages learning from leaders in manufacturing excellence outside Diageo. Success is measured through a set of performance indicators that also encourage benchmarking and the sharing of best practice between our sites.

Our success at transforming insights into consumers' needs into commercial value is essential to our sustainability. We foster a culture of creativity, in which new products are introduced or existing brands developed in response to consumers' changing tastes or to serve new market segments or territories.

Sterling Vineyards in California this year innovated by launching Chardonnay and Sauvignon blanc wines made with organic grapes and pledged to donate 1% of proceeds from the line to environmental causes.

We use a range of measures to deter counterfeiters, such as covert pack markings and anti-refill fitments in bottles. We work to raise awareness among legislators and support law enforcement agencies by training their officers and supporting action against criminals.

The relationships we develop with consumers are based on trust. When reaching consumers by email, text or direct mail, we include a chance to opt out of future contacts. We take steps to ensure that we only contact people over the legal purchase age and we do not sell or trade personal data.

We provide consumers with information about our brands – on labelling or online – to help them make informed choices. Our information policy applies to all Diageo-owned alcohol beverage brands and specifies coverage of allergens, alcohol content/serve size, as well as a responsible drinking reminder and mention of the website DRINKIQ.com.

Customer relationships

Our customers are the businesses that distribute and retail our brands. We create business for customers by providing them with our brands and by offering commercial skills and resources to grow our mutual business responsibly and maximise customers' returns. We continually review our products and promotions and seek to meet both customers' and consumers' changing needs. We invested £17 million in research and development this year.

Our aim is to provide our customers with the best overall service in every market. In most areas we survey major customers, distributors and our own employees annually to monitor the strength of our relationships and allow customers' views to be taken into account in our decision-making. The survey covers customers' perceptions of our leadership, expertise, performance and partnership. The results have enabled us to focus on what really matters to our distributors and retail customers and so push our capability to a higher level.

Following feedback from customers around the world, we have put in place a comprehensive sales strategy with ambitious objectives for improving all aspects of our relationships with customers – in particular, sales execution, customer development and service, and trade investment.



In Brazil we partnered with Walmart on a scheme to put bottle collection points in stores

We encourage high standards of corporate citizenship throughout the demand side of our value chain and see our strategic relationships with major customers as a way of advancing this. For example, Walmart, one of our largest customers, is working with us and other key suppliers to ensure that the products they buy are manufactured to high environmental standards and that brand containers and outer packaging are minimised and sustainable. This is being reinforced by Walmart introducing a sustainability scorecard that assesses each product line for its environmental impacts.

In Brazil we worked with Walmart to put bottle collection points in stores to encourage glass recycling. As an example of a responsible drinking partnership with a customer, we also developed an alliance with taxi drivers at Walmart stores in Brazil, providing free rides home to purchasers of Diageo products. The purpose was to raise awareness of taxis as a means of being able to go out, drink, and have fun but not drive, thereby not violating Brazil's zero tolerance approach to drink-driving.

Governance, engagement and commitments

Keeping closely engaged with our stakeholders helps us understand their concerns and informs our business decisions.

Governance

The work of the Diageo board and its committees is described in the annual report. In summary, the board consists of a chairman, chief executive, chief financial officer and seven independent non-executive directors. The non-executive directors are experienced and influential individuals from a range of industries and countries. Their mix of skills and business experience is a major contribution to the effective functioning of the board and its committees.

There is an induction programme for new directors in which they receive orientation training on the business – for example, its assurance processes, and environmental and social responsibility policies and practices. The board makes decisions and reviews and approves key policies and decisions, including corporate governance; compliance with laws, regulations and the company's code of business conduct; risk management; corporate citizenship, ethics and the environment. The board reviews and approves the corporate citizenship report.

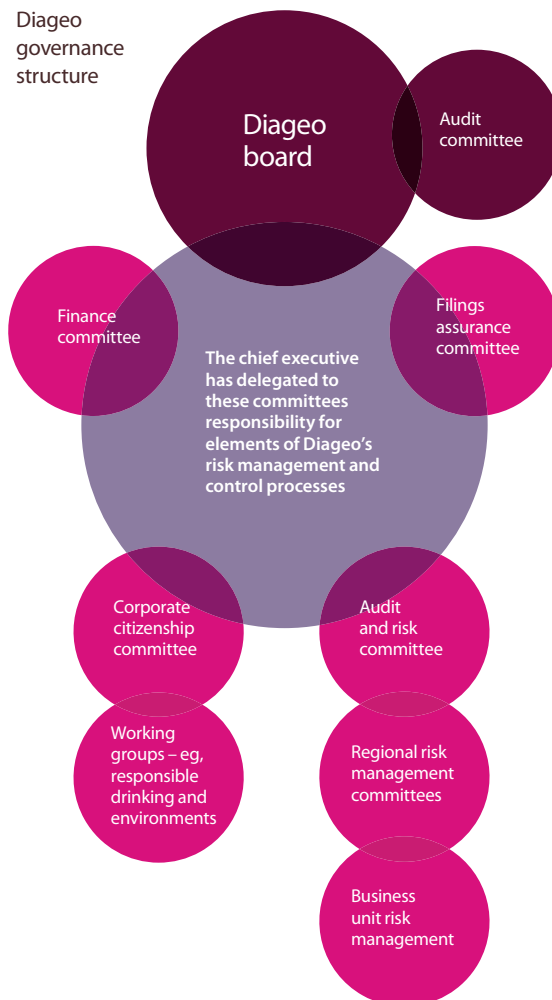
The executive committee, appointed and chaired by the chief executive, consists of the individuals responsible for the key components of the business: the market regions, global supply and the global functions. The chief executive has established committees with a continuing remit, including the corporate citizenship committee. Chaired by the chief executive, this committee is responsible for making decisions or, where appropriate, recommendations to the board or executive committee concerning corporate citizenship strategy, policy and issues. Progress in these areas is reported periodically to the board and publicly through this report.

The alcohol and responsibility executive working group complements the corporate citizenship committee by bringing together key executives and functional representatives to co-ordinate and realise Diageo's commitment to developing a more positive role for alcohol in society.

The environmental executive working group shares best practice between business units and develops strategies for compliance with our environmental policy. It is supported by the supply function's environmental leadership team, which develops approaches to environmental management and performance improvement at our production sites.

There is an HIV/Aids taskforce in each of our African markets. Other ad hoc groups are brought together as required to formulate responses to particular issues.

Compliance with policy and achievement of citizenship performance targets are included in the personal objectives of individuals directly responsible for the underlying issues.



Engaging our stakeholders

We face a wide range of expectations from stakeholders, all of whom – to a greater or lesser extent – demand to be heard and involved in company activities and decisions. Stakeholders (listed below) expect our business not only to generate revenue but also to have a positive role in society and work to minimise whatever adverse impacts may stem from our operations.

In response to this, through risk and opportunity analysis, our corporate relations, investor relations and sales teams co-ordinate appropriate engagement with each stakeholder group. In almost every Diageo market, representing the vast majority of our business, we have plans for communicating with stakeholders who we are and what we stand for, how we listen to views, exchange ideas and gather early warning of stakeholder concerns to help us make better-informed decisions.

Investors

Investors can question company directors at the annual general meetings of Diageo and its quoted subsidiaries; presentations are given to the investment community; the website has a section for investors; and we respond to key questionnaires on our corporate citizenship submitted on behalf of investors.

Employees

Employees are kept informed by a variety of means about changes that affect them; their opinions are polled through the annual values survey and other means; they are

‘Guided by the belief that the wellbeing of its stakeholders is the key to its success, Diageo has adopted a far-reaching sustainability strategy that has had positive environmental and social effects around the globe.’

Eric Lowitt, John Glen and Peter Lacy, Accenture case study

consulted through team meetings and employee forums; and they have opportunities to learn the context of decisions in management briefings as well as to challenge them.

Commercial partners

Commercial partners are encouraged to maintain close relationships that help us identify opportunities for mutual commercial benefit and maintain high standards of citizenship in the value chain.

Government

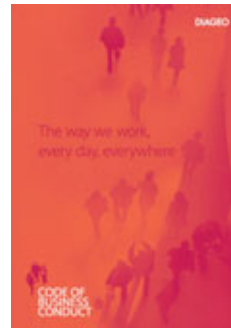
Government and other policymakers are kept informed through briefings and we request meetings on relevant policy areas. When governments seek our views as part of policy consultations we aim to respond constructively; representations on our behalf are also made through trade associations.

Community

Community representatives are consulted to ensure that our social investment is targeted where it can do most good; projects are developed in partnership with non-governmental organisations and monitored by Diageo representatives; best practice is shared with other companies, governments and NGOs through membership of network organisations; before finalising a project, pilot schemes often provide community input to the design.

Media

Media relations are fostered through briefings, meetings and press releases; our CEO and senior managers maintain contacts with journalists; key employees are



A new version of the Diageo code of business conduct was published this year in 18 languages

trained in media skills and we have a global network of media professionals. The media are regularly surveyed to assess how we meet their needs for fair reporting and analysis of our business.

Consumers

Consumers are the subject of market research to gain insight into their changing needs; they are kept informed through brand and corporate websites; we provide product information on packaging and through our website DRINKIQ.com; and they can voice their concerns via consumer carelines.

Diageo policies

The understanding we gain from engaging with stakeholders is a powerful influence in formulating our policies, priorities and actions. These support the Diageo values and form the framework within which we act on corporate citizenship issues. Our global policies apply to all Diageo businesses and operate in addition to compliance with local law and regulation. The full texts of many of our global policies are available on the website.

The Diageo code of business conduct aims for the highest standards of integrity in all our actions and interactions with each other and those outside Diageo. The code shows our commitment to ethical behaviour and sets out what is expected of employees. Its aim is to ensure that we remain one of the most trusted and respected companies in the world.

This year we published a new version of the code. As part of the drafting process we took into account industry and professional best practice, as well as the views of key individuals within Diageo such as the audit committee, senior managers and functional leaders. We have launched the code in each of our markets, providing training in its application for all 3,000 senior managers. In the coming year, we will make the code available in 19 languages, and provide training to the rest of our employees.

The code of business conduct acts as an overarching compliance instrument by including a requirement to comply with the company's other policies. All Diageo managers are required to complete an annual compliance certificate confirming they have read and understood the code and policies relevant to their role and those of their team. They are also required to confirm they have reported any breaches of the code personally or within their team, and disclose issues that have not previously been raised.

SpeakUp, an independently-run, confidential phone line that allows employees to report their concerns anonymously without fear of reprisal, further supports compliance. Issues that colleagues are encouraged to report include knowledge or suspicion of violation of legal, accounting or regulatory requirements, breaches of our code, or any other questionable conduct.

This year, we received 58 reports (2008: 31) to SpeakUp, which raised issues such as allegations of policy breaches, grievances with managers and suggestions of discrimination. To make reporting easier for employees, we introduced web-based and email reporting and promoted the aims and use of SpeakUp during training sessions.

External codes and charters

Diageo is a signatory to a number of external codes that define corporate citizenship principles and standards:

UN Global Compact

We signed the Global Compact, the world's largest corporate citizenship initiative, in 2002 and have been an active member of the UK Network since it began. Last year we endorsed the UN-managed CEO Water Mandate that aims to address the world's growing water crisis as pressures intensify from climate change, population growth and development. In Communications on Progress, available on the website, we report some of the actions we have taken in support of the ten principles of the Global Compact and the six pledges of the CEO Water Mandate. Involvement in such initiatives allows us both to learn from others and to show leadership in responsible business practice.

Dublin Principles

The principles set out the basis of ethical co-operation between the beverage alcohol industry, governments, scientific researchers and the public health community.

Business Charter for Sustainable Development

Drawn up by the International Chamber of Commerce and supported by Diageo since 1997, the charter sets out 16 principles of environmental management which influenced the drafting of the Diageo environmental policy.

Partnering to Strengthen Public Governance

A World Economic Forum challenge to companies to contribute to efforts to improve public governance, develop public policy frameworks and enhance the capacity of public institutions.

Policies

Code of business conduct

Updated this year, the code sets out our standards on business integrity issues

Marketing code

Guidance on responsible advertising, promotion and innovation

Code of ethics

Standards of honest and ethical conduct of specified senior officers of Diageo

Human rights policy

Working environment, dignity at work, life balance, employee engagement, releasing potential and rewarding and valuing people

Environmental policy

Systems of management and standards, updated this year to reflect our ambitious environmental programme

Supplier standards

Ethics and human rights; a key element of sourcing decisions

Employee alcohol policy

Guidance for employees on the standards we expect from our people

Consumer information policy

Information standards concerning our brands

Occupational health and safety policy

Health, hazardous materials, first aid, noise, ergonomics and equipment

Quality policy

Quality management systems and commitment to continuous improvement.



THE GLOBAL
COMPACT



The CEO Water Mandate

Forward-looking statements

This document contains certain forward-looking statements. These statements can be identified by the fact that they do not relate to only historical or current facts. In particular, forward-looking statements include all statements that express forecasts, expectations, plans, outlook and projections with respect to future matters, including trends in results of operations, margins, growth rates, overall market trends, the impact of interest or exchange rates, the availability or cost of financing to Diageo, anticipated cost savings or synergies, the completion of Diageo's strategic transactions and general economic conditions.

By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including factors that are outside Diageo's control.

All oral and written forward-looking statements made on or after the date of this document and attributable to Diageo are expressly qualified in their entirety by the 'risk factors' contained in Diageo's annual report for the year ended 30 June 2009, which is also filed on Form 20-F with the US Securities and Exchange Commission (SEC). Any forward-looking statements made by or on behalf of Diageo speak only as of the date they are made.

Diageo does not undertake to update forward-looking statements to reflect any changes in Diageo's expectations or any changes in events, conditions or circumstances on which any such statement is based. The reader should, however, consult any additional disclosures that Diageo may make in documents it files with the SEC. All readers, wherever based, should take note of these disclosures. Past performance cannot be relied on as a guide to future performance.

Managing risk

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 loss, and build trust with stakeholders. Our ability to manage such impacts well today is crucial to our ability to thrive in the future.

Our process for identifying, evaluating and managing the risks we face complies with UK and US requirements. The audit and risk committee, chaired by the CEO, is responsible for the company's effective internal controls and risk management, reviewing assurance, and promoting the culture and processes that support effective compliance.

The Diageo executive committee and significant business units are responsible for identifying key risks and managing them appropriately. Executives review business unit risk assessments and the activities planned to manage risks regularly during the year. These processes are also applied to major business initiatives such as systems implementations and organisational change projects.

Licence to Operate (LTO), launched at our supply sites four years ago, is a global Diageo process for driving continuous improvement and managing compliance to legislation and compliance with our policies and risk management standards. The areas covered include quality, environment, occupational health and safety, security and business continuity. At the close of the year more than 80% of our audited sites had achieved the highest levels of performance within LTO. In the light of this, we are now piloting a risk-based approach to enable us to focus on key business priorities.

Independent views of Diageo



At the National Business Awards, Paul Walsh received the *Daily Telegraph* award for a Decade of Excellence

Business leaders chose Diageo as 'Britain's Most Admired Company' in the 2008 Management Today survey, rising from 9th place the previous year.

[managementtoday.co.uk](http://www.managementtoday.co.uk)

For the last five years, Diageo has been on the Global 100 list of most sustainable companies, which evaluates businesses according to how effectively they manage their environmental, social and governance opportunities and risks. Diageo was the only alcohol beverage company to be included.

[global100.org](http://www.global100.org)

Diageo was ranked 36th out of 350 in the Observer Good Companies Guide for reporting risks, managing impact, governance and addressing industry-specific issues.

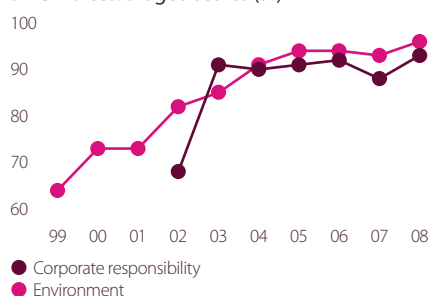


Many other independent bodies seek to evaluate the sustainability policies and performance of companies on behalf of particular audiences, in particular investors. We prioritise four of these evaluations – the Business in the Community (BITC), FTSE4Good and Dow Jones general indices and the specialist Carbon Disclosure Project (CDP). We not only use the results to compare our performance with other companies; we also find the assessments useful in keeping our strategy in tune with best practice and stakeholder concerns.

Business in the Community placed Diageo in the 'gold' band (the second of four) of its corporate responsibility index, an improvement over 'silver' last year. We were rated 'platinum' for environment, up from 'gold' in 2008.

[bitc.org.uk](http://www.bitc.org.uk)

BITC indices: Diageo scores (%)

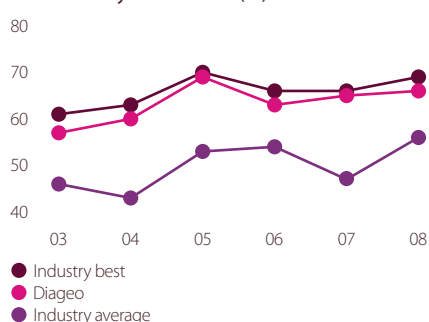


For six years Diageo shares have been selected for some of the leading socially responsible investment indices, including FTSE4Good and the Dow Jones World and STOXX indices. SAM, the research organisation behind Dow Jones, judged Diageo to be in the top three companies in our sector, all of which were classified as 'bronze' (the third of three).

[ftse4good.com](http://www.ftse4good.com)

[sustainability-indexes.com](http://www.sustainability-indexes.com)

Dow Jones corporate sustainability assessment (%)



We have participated in the Carbon Disclosure Project since it began in 2000. CDP challenges the world's largest companies to measure and report on their carbon emissions and integrate the cost of climate change into their assessments of their business. In 2008, Diageo was the top-scoring alcohol beverage company of the eight that participated and the only one to be included in the project's Climate Leadership Index.

[cdproject.net](http://www.cdproject.net)

Our businesses in some individual markets were assessed in a similar way. In both Greece (where no platinum or gold awards were made) and Australia we were rated 'silver' in corporate responsibility indices this year. Around the world, our businesses received many accolades for their good citizenship. Diageo was the only international company to be hailed an 'exemplary alcohol business' by the China National Association for Liquor Circulation. And we were the only alcohol company in China to receive a Best Corporate Citizenship Award in a ranking by the 21st Century Herald, a business newspaper. Reasons cited were promoting responsible drinking in China, our Water of Life projects and our support for relief and reconstruction after the Sichuan earthquake.

As in China, our businesses around the world received many accolades for their good citizenship

About this report

Scope

This report covers the global operations of Diageo plc in the financial year ended 30 June 2009 and was published in September 2009. Dates refer to financial years unless otherwise stated. Financial and employee information applies to the whole of Diageo on the same basis as in Diageo's annual report. Community data cover wholly-owned Diageo businesses as well as locally-quoted companies and joint ventures in which Diageo has a controlling share; environmental data cover production and distribution sites and large office locations (those at which at least 50 employees are based) within the same businesses and include the Gleneagles Hotel in Scotland.

Audience and content

The report is intended for all of the company's stakeholders. Copies are made available to employees and shareholders and distributed selectively to other stakeholder groups. It is available through the Diageo website.

We have prepared this report by applying the G3 guidelines of the Global Reporting Initiative (GRI). Our aim was to cover all significant topics of common concern to our stakeholders. In determining these, we have been guided by the GRI principles of materiality (including what's important), stakeholder inclusiveness (responding to the reasonable interests of all groups), sustainability context (presenting performance against a background of sustainability) and completeness (including sufficient information).

Topics included and the emphasis they have been given in the report were determined by senior specialists within Diageo, whose task was to interpret our values, policies and strategy, stakeholder views and broader societal expectations.

A small number of errors in reporting or calculation have made it necessary to restate some data from previous years. The effect of these changes was minimal.

Stakeholder views

We welcome stakeholders' views on our report and on our approach to sustainability. This report includes a card on which readers can rate how well it meets the GRI principles mentioned above. There is also a response page on the website. We received 131 responses concerning last year's report, mostly from shareholders. When asked if they would prefer to be sent a summary of the report with the full version available only on the internet, 38% said yes, 52% said no and 10% were undecided.

To give your comments on this report, use the reply card (which can be returned from any country without a postage stamp) or the form on diageo.com or write to: Director of corporate social responsibility, Diageo plc, 8 Henrietta Place, London W1G 0NB, United Kingdom.

Reporting programme

We have published corporate citizenship reports annually since 2003, the last being dated September 2008. No fundamental changes have been made to the business or our reporting this year that would invalidate comparison with the 2008 report.

The corporate citizenship report is one element of Diageo's regular reporting. Further information, which may help in understanding the sustainability of Diageo's business, is given in other documents including the annual report and material published on our website.

The corporate citizenship report on the website includes numerous links to additional supporting material including videos, sound recordings and documents.

Reporting standards

We aspire to best practice in reporting and aim to provide an account of Diageo that allows readers to track our performance over time and make comparisons with other companies. We have prepared this report with reference to the third version of the GRI Sustainability Reporting Guidelines, known as G3.



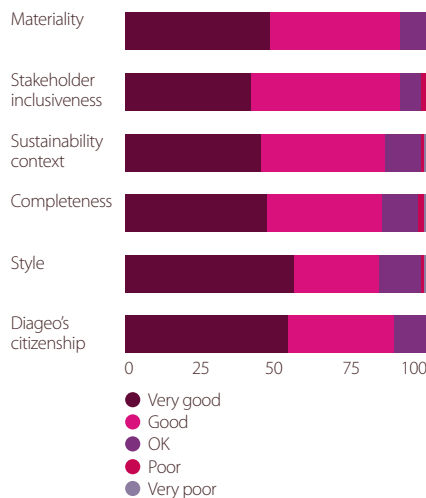
A GRI content index, which locates information within the report with reference to GRI requirements, is available on our website. G3 defines a number of application levels for reports and allows self-assessment against them. We have assessed our report as A+.

globalreporting.org

External assurance

To provide added confidence in the quality of the information in this report, we commissioned Corporate Citizenship to give an external opinion as to whether Diageo's performance and progress during the year have been accurately portrayed as well as point out the strengths and weaknesses of the document to help us improve our reports in the future. This assessment is given in summary on page 37 and in full on our website. In addition, we have asked Corporate Citizenship to comment on whether the GRI G3 sustainability reporting guidelines have been followed.

Ratings of the Corporate Citizenship Report 2008 (%)



Designed by sasdesign.co.uk

Photography of cover and pages 6 and 18 by Mark Tomaras, Tim Bishop and Chris Moyses.

Printed by CTD on behalf of RR Donnelly on Munken Polar, an FSC Mixed Sources product group from well managed forests and other controlled sources. It was produced at a mill that is certified to the ISO14001 environmental management standard and to the EMAS environmental management standard (No S-000248).



Summary external assurance statement and commentary

Assurance statement

Diageo has commissioned Corporate Citizenship to provide external assurance and a commentary on its *Corporate Citizenship Report 2009*.

The scope of our assurance

The assurance provides the reader with an independent, external assessment of the report and, in particular, with how it corresponds with the AA1000 standard. It is intended for the general reader and for more specialist audiences who have a professional interest in Diageo's sustainability performance.

Diageo has chosen to use the AA1000 assurance standard (AA1000AS) 2008. Our assurance is a Type 2 assurance as defined by the standard, in that it evaluates the nature and extent of adherence to the AA1000AS principles of inclusivity, materiality and responsiveness and assures the behaviour of the organisation as reported here. Our assurance used disclosed information as its starting point and then investigated the underlying systems, processes and sustainability performance information to arrive at its conclusions. In addition, it has verified the reliability of selected reported sustainability performance information.

We have verified the environmental and social performance but not the economic data. In terms of emissions we have referred to the WBCSD Greenhouse Gas Protocol, checking conversion factors in each country of operation and the rationale for their use. In addition, the community data has been assessed against the LBG (London Benchmarking Group) model, the international standard for measuring corporate community investment, which covers contributions (in time, in kind and in cash) as well as the actual results for the community and the business (see www.lbg-online.net for more information).

The level of assurance is high, that is to say that we believe there to be sufficient evidence to support the statement such that the risk of the



conclusion being in error is very low but not zero.

In conducting the assurance we have had consideration to the Global Reporting Initiative Principles for Defining Report Content and Ensuring Report Quality. Diageo is entirely and solely responsible for the contents of the report, Corporate Citizenship for its assurance. As noted above, our assurance is confined to the *Corporate Citizenship Report 2009*. A detailed note of our assurance methodology appears at the end of this statement.

Opinion and conclusions

In our opinion the Diageo *Corporate Citizenship Report 2009* reflects the principles of AA1000 (2008): inclusivity, materiality and responsiveness. Further information on Diageo's performance against these three principles can be seen below in the commentary. The specified sustainability performance information is reliable and accurate. This conclusion is made following interviews with a range of key issue owners from across the business and checks on a sample basis of elements of the report's contents to underlying records. The level of assurance is that defined by AA1000 as *high*.

We also 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 reporting period. Having conducted an assessment, we are satisfied that this has been achieved.

Commentary

In our view, corporate responsibility reports should explain how a company impacts on society, taking account of the economic, social, and environmental footprint of the organisation and its value chain. Companies should aim to explain how important decisions are made and differing interests balanced. Reports should be honest about shortcomings and demonstrate how a company is evolving in response to stakeholder concerns by listening, learning and improving.

Diageo's report has kept a similar reporting format to the last three years, continuing to highlight those economic, social and environmental issues that our assessments show to be most material to Diageo and its stakeholders. It is well-balanced, containing a mix of data, commentary and examples that show how Diageo policies and principles are lived out in practice.

Specific comments in relation to the three principles of AA1000 are as follows:

Inclusivity: the commitment to be accountable to those on whom Diageo has an impact and who have an impact on Diageo, and to enable their participation in identifying issues and finding solutions

Diageo has provided greater detail on its relationship with governments in this report, acting on the point we raised in last year's assurance statement. There is still scope for Diageo to be more transparent in its reporting on public policy. In particular, more information could be provided on Diageo's relationship with trade associations as well as key issues about which the company has lobbied governments in its different markets during the reporting period. The explanation of Diageo's approach to tax, and details of its engagement with governments on tax-related issues, is more comprehensive than previous reports and compares well with best practice.

Responsible drinking is a critical issue for Diageo and, as with previous reports, initiatives to promote responsible drinking across its operating regions are clearly articulated. Next year, more could be said about the characteristics of consumers of Diageo's key brands, the issues they face and how these shape the company's approach to responsible drinking.

Materiality: determining the relevance and significance of issues to Diageo and its stakeholders

Diageo is a complex multi-national organisation with a wide portfolio of products. The report includes a concise overview of the business and brands, but future reports would be improved by more clearly conveying how the business works. With such a complex supply chain the casual reader would benefit from a better understanding of the process from raw materials to consumption, which varies between brands. We recommend reporting on the full lifecycle of a major Diageo brand(s), analysing its specific social,

environmental and economic impacts at each stage of that cycle.

The global economic turmoil has been the major world issue during the course of the reporting period, affecting Diageo and all of its key stakeholders. Although discussed, more information could have been provided on its impact on Diageo as a whole, its different brands and markets, and its implications for future strategy. With the economic problems set to continue, we recommend that next year's report gives greater weight to this issue.

The cash value added statement is comprehensive and clearly shows the distribution of value amongst stakeholders. A further step is to unpick the 'cost of goods and services', one of the largest areas of economic impact, breaking it down into different categories of supplier type. The balance between local and non-local suppliers could also be reported.

Diageo has policies that ensure employees are treated fairly and that diversity is encouraged. Although data on gender is included, future reporting would be enhanced with the addition of further diversity indicators, such as age and disability, to allow a more robust assessment of performance in this area.

Responsiveness: response to stakeholder issues that affect Diageo's sustainability performance

Reporting stakeholder engagement activities across 180 markets globally is a challenge. Diageo does provide an outline of its engagement with key stakeholder groups, but there is scope to provide greater information on engagement and issues raised, linking actions and behaviours throughout the report with feedback received.

Diageo does provide some good examples of responsiveness. For instance, the community initiative 'Giving is Good' was set up in response to employee feedback, and a major supplier of branded merchandising materials was changed in light of ethical sourcing assurance. Diageo already works with suppliers to help them develop their commercial capabilities, but a next step would be to proactively engage suppliers to help them improve their own environmental and social performance.

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