



## Chief executive's introduction



This has been a year of progress for Diageo. Our business is strong and becoming stronger. We are on track with the majority of our sustainability and responsibility targets. We also instituted a significant reorganisation of the business and our new configuration reflects our strategic focus on high-growth opportunities in traditional and emerging markets.

### Supporting our commercial strategy

Creating value for shareholders must be a principal concern of any business. At Diageo, we also recognise that our business must be sustainable in every sense – an important pre-condition for our commercial success. This year's financial results illustrate performance that is both successful and enduring. For the tenth consecutive year we grew our organic top and bottom lines. Our net sales were over £9.9 billion, and we had an operating profit of £2.6 billion. We continued to deliver operating margin improvement.

### Sustainability performance: a driver of growth

This performance demonstrates an inherent strength in our business and a sustainable model for value creation, and I am sure that our focus on our social and environmental impacts gives us a competitive edge.

Diageo does not operate in a vacuum. To succeed we require the goodwill of many stakeholders, from investors and employees, to governments and our communities. We have pursued this approach in good times but also in more challenging circumstances. We aim to manage our business with an eye to the long as well as to the short term. That means, for instance, being prepared to continue to make bold investments which will create a longer-term return.

### Long-term investment in water and the environment

Our decision to build a state-of-the-art bioenergy plant at our Cameronbridge distillery in Scotland is an illustration

of this point. I am proud that we invested significant capital in efficient, new, green technologies for a long-term environmental gain that aims to remove virtually all effluent discharge from the site, recycle almost a third of its water and, crucially, supply 85% of its power from an on-site renewable source.

We make such investments to preserve the resources that our company, and the communities in which we operate, rely on. As a beverage company, this is particularly true for water. We have set challenging operational targets to reduce water wasted in water-stressed regions and complement this work with programmes such as 'Water of Life' that has brought clean water to millions of people since it launched in 2006. I am particularly proud of the contribution of our employees to these programmes.

### Our role as a global beverage alcohol company

As a responsible company, we want to ensure that drinking alcohol continues to play a positive role in society – core to Diageo's purpose to celebrate life every day, everywhere. We recognise that different cultures and religions have a range of views about alcohol's role. This dictates that we work in partnership with stakeholders in our communities to tackle alcohol misuse.

We also contribute to the economic development of these communities, for example through our Learning for Life programme which, since 2008, has helped over 50,000 people gain valuable skills and find jobs.

### Sustainability in a changing market

In the years to come there will be a shift in the balance of economic power from the developed world – principally North America and Western Europe – to the emerging markets of Africa, Latin America, Asia and those in Eastern Europe. Growth in these regions in the next decade is likely to outstrip that in our traditional markets, and very soon I expect them to represent at least half of our business.

This shift will benefit Diageo and our stakeholders over the long term, and in May 2011 we announced a reorganisation to position ourselves to take advantage of this opportunity. In the immediate future the changes we have made will have difficult consequences for a number of our people, particularly in Western Europe and North America. We will support our employees through this change. Above all our aim is to ensure that stakeholders old and new will always value doing business with Diageo.

Paul Walsh  
Chief executive

Read more: go to [www.diageoreports.com/sr/ceo-statement/](http://www.diageoreports.com/sr/ceo-statement/)

# About our business

Diageo is the world's leading premium drinks business. 'Celebrating life every day, everywhere' is our purpose – our great range of spirits, beers and wines allows people around the world to celebrate on any occasion.



## Contents

- 2 Chief executive's introduction
- 3 About our business
- 4 Our approach to sustainability and responsibility
- 6 Performance at a glance
- 8 Alcohol in society
- 10 Water
- 12 Environment
- 14 Community
- 16 Our people
- 17 Governance and ethics
- 18 Our suppliers
- 19 Our customers and consumers
- 20 About this report

Diageo is a relatively young company – we have only existed in our current form since 1997 – but our brands and our business have a rich heritage. Many of our historic brands, such as Guinness and Johnnie Walker, were built on the same principles of sustainability that we hold today. At the heart of everything we do are our values.

- We're **passionate about customers and consumers**.
- We give ourselves and each other the **freedom to succeed** because this fosters an entrepreneurial spirit.
- We're **proud of what we do** – we act sensitively with the highest standards of integrity and social responsibility.
- We will **strive to be the best** – we are restless, always learning, always improving.

- We **value each other** – we seek and benefit from diverse people and perspectives. We strive to create mutually fulfilling relationships and partnerships.

## Key facts

- We trade in approximately 180 markets.
- We employ over 23,000 people around the world.
- Our largest single region is North America accounting for 33% of total net sales while emerging markets\* now account for 34%.
- Diageo is listed on both the London Stock Exchange (as DGE) and the New York Stock Exchange (as DEO).

\* Include Russia & Eastern Europe; Turkey; Africa; Latin America & Caribbean; Middle East; Asia Pacific (excluding Australia, Japan and Korea).

## Key figures by region

	Group	North America	Europe	Africa	Latin America/ Caribbean	Asia Pacific	Global Travel & Middle East
Net sales (£m)	9,936 <sup>3</sup>	3,324	2,614	1,341	1,025	1,181	381
Volume (millions of equivalent units)	147.5	51.6	38.5	22.8	15.2	13.1	6.3
Marketing spend (£m)	(1,538)	(502)	(390)	(142)	(181)	(278)	(45)
Operating profit (£m) <sup>1</sup>	2,595 <sup>4</sup>	1,232	621	320	314	158	164
Employees <sup>2</sup>	23,786	3,970	7,927	4,260	1,885	2,756	178
Community investment (£m)	28	3.3	13.7	2.6	3.1	5.2	0.2

<sup>1</sup> After exceptional items.

<sup>2</sup> Average number on a full-time basis.

<sup>3</sup> Includes additional £70m from Corporate.

<sup>4</sup> Includes (£172) from Corporate.

Read more: go to [www.diageoreports.com/sr/about-our-business/](http://www.diageoreports.com/sr/about-our-business/)

# Our approach to sustainability and responsibility

Being the world's leading premium drinks business requires us to think especially deeply about our responsibilities to society and more broadly what it means to be a sustainable company. We aim to work with our stakeholders to understand better our social and environmental impacts throughout the value chain, as set out in the diagram below.

## Our purpose

Celebrating life,  
every day,  
everywhere

## Our value chain

Suppliers



**DIAGEO**



Customers and  
consumers

## Our impacts

Alcohol in  
society

Water

Environment

Community

Our people

Governance  
and ethics

### **Note on water**

Water is one of our key environmental impacts as well as a key focus of our community programme via the Water of Life programme. Given the global importance of water scarcity to our business and local communities, particularly in water-stressed regions, we are treating it as a reporting area in its own right.

### 'Sustainability & Responsibility'

To reflect the evolution of our approach, we have changed the name of our strategy to 'Sustainability & Responsibility'. 'Sustainability' reflects how we are taking into account our wider economic, social and environmental impacts throughout the value chain, and how our non-financial performance supports the long-term success of the company. 'Responsibility' reflects our particular role as a beverage alcohol company in promoting responsible drinking.

### How we manage sustainability and responsibility

Managing our sustainability and responsibility impacts and meeting our targets is a multi-faceted, ever-evolving challenge, but our approach has consistent characteristics. It is business-focused, holistic, collaborative, and transparent.

We manage sustainability and responsibility in the same way that we manage all our business operations, both at the global and local levels.

- **Strategy and governance:** the Corporate Citizenship Committee approves strategy informed in part by a cross-functional leadership team, led by our global director of corporate social responsibility. This team includes representatives from global functions who advise on workstreams for each impact, as well as for the parts of the value chain outside Diageo (suppliers, customers and consumers).
- **Policies:** we have policies covering all aspects of sustainability and responsibility from consumer information to supplier standards. Most important is our Code of Business Conduct which defines how everyone at Diageo is expected to do business.

### Risk factors

Our ability to understand and manage risk, including certain sustainability risks that are material to the business, is central to creating long-term shared

value for all our stakeholders. Diageo has a robust framework of internal controls and risk management which are continually reviewed. The way we structure and manage our sustainability and responsibility programmes aims to address the evolving risks to our business as well as to identify opportunities.

### Engaging stakeholders

Understanding how our business affects our stakeholders is essential for determining what our key impacts are and how we need to manage them. Engagement is a process that ranges from sharing information and discussing issues with stakeholders to, at its best, working in partnership on projects of mutual interest.

We engage with our main stakeholders locally and globally. At a local level, our operations engage with employees, local governments, customers and community groups on issues of immediate concern to them. At a global level, we engage with our investors, global customers, suppliers and multi-national organisations such as United Nations agencies or non-governmental organisations (NGOs) that have a broad remit.

At both levels, engaging with stakeholders has helped to inform our activities around the world. While issues of broader concern have been shared across the business as needed, to date we have not collected stakeholder feedback in a systematic or consistent way. This year, we set out to improve our understanding of our impacts around the world and began to collect this feedback, including interviews with a number of stakeholders representing each of our impact areas. We used these insights combined with our own internal perspective to determine which sustainability issues are most important for the success of our business. We aim to refine the analysis further in the coming year.

### External credentials

We have always believed that our success as a company is measured by more than just financial targets. Being benchmarked against our peers and the wider business community is important for understanding how our approach to sustainability measures up to prevailing standards and attitudes. This year we continued to be ranked highly by investment indices.

- **Dow Jones Sustainability Index (DJSI):** Diageo was one of three beverage companies and the only alcoholic beverage company to receive a Gold rating by the ratings agency behind the DJSI. We were also awarded 'Category Sector Mover 2011', given to the company that achieved the biggest proportional improvement from the previous year.
- **FTSE4GOOD:** FTSE Group confirmed that Diageo has satisfied the requirements to become a constituent of the FTSE4Good Index Series again this year.
- **Carbon Disclosure Project (CDP):** since it began in 2000, Diageo has participated in the CDP to promote transparency in environmental reporting. This year, Diageo was the top-scoring beverage alcohol company of the eight that participated, and the only one to be included in the project's Climate Leadership Index.
- **Business in the Community:** this UK-based international network of businesses committed to sustainability placed Diageo in the Gold band of its corporate responsibility index for 2011. Diageo has been awarded either silver or gold for the last five years.

Read more: go to [www.diageoreports.com/sr/our-approach/](http://www.diageoreports.com/sr/our-approach/)

# Performance at a glance

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

## Alcohol in society Target by 2011

- Where technically possible, all regional units and brands teams use Diageo's online approval for marketing activities, SmartApprove
- Implement an online learning tool for a refreshed digital code of practice

## Target by 2013

- Ensure that Diageo marketing is 100% compliant with the Diageo Marketing Code (DMC)
- Responsible drinking reminders (RDRs) are included in 100% of above-the-line advertising material
- DRINKiQ.com is included on all renovated and new brand labels
- Responsible drinking initiatives are in place in our top 40 markets (by value)
- Effective industry self-regulatory or co-regulatory codes in place in our top 40 markets (by value)

## This year's performance 2010–2011

SmartApprove is fully embedded throughout the business where technically feasible

Online training tool developed and distributed to marketing staff and agency partners

## 2010–2011

Approximately 0.1% of marketing activity globally breached the DMC

Included in approximately 99.9% of our above-the-line advertising

In process of developing a comprehensive compliance report

In place in 39 markets out of top 40

In place in 34 markets out of top 40

## Achievement

✓

✓

## Achievement

In progress

In progress

In progress

In progress

In progress

## Water Target by 2015

- Improve water efficiency by 30%
- Reduce water wasted at water-stressed sites by 50%
- Reduce the polluting power of wastewater by 60%, measured in biological oxygen demand (BOD)
- Improve access to safe drinking water for 8 million people in Africa

## This year's performance 2010–2011

Improvement of 3.0%

Reduction of 5.6%

Increase of 31.3%

Approximately 1 million people benefited

## Cumulative performance 2007–2011

Improvement of 15.8%

Reduction of 9.0%

Increase of 25.6%

Approximately 5 million people benefited

## Achievement

In progress

In progress

Off track

In progress

## Environment Target by 2015

- Reduce carbon dioxide emissions by 50%
- Eliminate waste to landfill

## Target by 2015

- Reduce: average packaging weight by 10%<sup>1</sup>
- Reuse: increase average recycled content across all packaging to 42%<sup>1</sup>
- Reuse/recycle: make all packaging 100% recyclable or reusable<sup>1</sup>

## This year's performance 2010–2011

Reduction of 7.1%

Increase of 91.4%

## 2009–2011

Reduction of 3.3%

No change, at 35.0%

Increased by 0.3% to 98.0% recyclable or reusable

## Cumulative performance 2007–2011

Reduction of 13.9%

Reduction of 44.7%

## Achievement

In progress

In progress

## Achievement

In progress

In progress

In progress

<b>Community</b> <b>Target by 2011</b>	<b>This year's performance</b> <b>2010–2011</b>		<b>Achievement</b>
<ul style="list-style-type: none"> <li>Contribute 1% of operating profit<sup>2</sup> to charitable causes every year</li> </ul>	Contributed 1.1%		✓
<b>Target by 2011</b>	<b>2010–2011</b>	<b>2009–2011</b>	<b>Achievement</b>
<ul style="list-style-type: none"> <li>Train 50,000 people through the Learning for Life programme worldwide, against a 2009 baseline</li> </ul>	25,544 people trained	50,999 people trained	✓
<b>Our people</b> <b>Target by 2011</b>	<b>This year's performance</b> <b>2010–2011</b>		<b>Achievement</b>
<ul style="list-style-type: none"> <li>Reduce our lost-time accident frequency rate<sup>3</sup> by 50% against a 2007 baseline</li> </ul>	Reduction of 24.8%		✓
<ul style="list-style-type: none"> <li>Women in 30% of senior management positions</li> </ul>	27% women in senior management		✗
<ul style="list-style-type: none"> <li>50% or more of employees 'super-engaged', highest measure in values survey</li> </ul>	39% 'super-engaged'		✗
<b>Governance and ethics</b> <b>Target by 2011</b>	<b>This year's performance</b> <b>2010–2011</b>		<b>Achievement</b>
<ul style="list-style-type: none"> <li>All employees worldwide take part in the Compliance and Ethics Business Code of Conduct training</li> </ul>	All employees completed training		✓
<b>Our suppliers</b> <b>Target by 2011</b>	<b>This year's performance</b> <b>2010–2011</b>		<b>Achievement</b>
<ul style="list-style-type: none"> <li>Launch sustainable agriculture sourcing guidelines</li> </ul>	Launched in August 2010		✓
<ul style="list-style-type: none"> <li>Develop an initiative on cream with the Baileys brand team, as the first of our priority materials</li> </ul>	Launched a programme with main cream supplier in Ireland focused on promoting sustainable dairy farming		✓
<ul style="list-style-type: none"> <li>Ensure all 700 'potentially highest risk suppliers' complete a self-assessment through SEDEX</li> </ul>	519 suppliers completed		✗
<ul style="list-style-type: none"> <li>Audit 50 highest risk suppliers and work with them to improve performance</li> </ul>	64 suppliers were audited either by Diageo or through AIM-PROGRESS. While no significant issues surfaced, corrective actions relating to identified issues are being addressed.		✓
<ul style="list-style-type: none"> <li>Ensure that 50% of electricity for supply sites is renewable</li> </ul>	52% of electricity sourced is renewable or low-carbon		✓
<ul style="list-style-type: none"> <li>Engage 30 suppliers in projects to support sustainable packaging improvements</li> </ul>	More than 30 engaged		✓
<ul style="list-style-type: none"> <li>Include key suppliers' environmental performance in our sourcing and supplier management processes</li> </ul>	We created a pilot scorecard, and engaged key suppliers, but have since decided to join the 2012 CDP Supply Chain Project		✗

<sup>1</sup> Performance data only available against baseline year of 2009.

<sup>2</sup> After exceptional items.

<sup>3</sup> Number of accidents per 1,000 employees resulting in time lost from work greater than one day.

## Alcohol in society

The use and misuse of our products is our most important social issue. Responsible drinking can be part of a balanced and healthy lifestyle for those who choose to drink; we and others have built successful businesses on it, providing livelihoods as we do so. However, we know some people drink too much and can cause harm to themselves, others and to their communities. The social consequences of alcohol misuse are of course a matter of significant concern to us.



We believe that responsibility for managing the impacts of alcohol misuse is shared by a range of stakeholders – other beverage alcohol companies, retailers, governments, NGOs, law enforcement bodies, public health groups, communities, educators, parents, and individuals. We accept our share of that responsibility, often taking the lead in driving initiatives and debate. But a general shift in public attitudes will only come about through collective action, and we work in partnership with others to help achieve our goals – which are to:

- Promote rigorous industry-wide standards in responsible marketing and selling
- Provide a wide range of information to help consumers make responsible choices about drinking
- Support and promote effective, evidence-based programmes that aim to prevent, target and tackle alcohol misuse by raising awareness and changing consumer attitudes and behaviour

- Argue for fair and effective alcohol policies based on evidence, properly enforced, without unintended consequences
- Promote a balanced, honest and well-informed discussion about the role of alcohol in society.

### Responsible marketing and consumer information

We aim to market our brands responsibly, giving consumers clear information about our products. Three key principles embody our approach: following our own codes – the Diageo Marketing Code and the Digital Code of Practice; abiding by industry marketing codes; and making information available to consumers.

Central to our approach is our DRINKIQ.com website, which promotes responsible decisions about drinking – or not drinking – by increasing public awareness and debate around alcohol issues. Launched in 2008, the award-winning website was extended in 2010-2011 to Belgium, and now

includes a global site and 19 country sites in nine languages: Chinese, Dutch, English, French, German, Greek, Italian, Russian, and Spanish.

The website aims to bring together the best programmes and information – not just our own – for anyone with an interest in promoting responsible drinking. It contains experts' views, facts about alcohol, responsible drinking tips, nutritional information about Diageo brands, and an outline of our approach to responsible drinking for consumers. In addition, the site's resource centre targets four specific stakeholder groups – parents, educators, law enforcers and retailers – giving information and resources to help them prevent and tackle issues related to the misuse of alcohol.

Also under the banner of DRINKIQ, we have launched an interactive employee engagement workshop to discuss and encourage responsible decisions about drinking. It has now been rolled out to over 19,200



2



**1 – Guardian Angels is one of our four main responsible drinking campaigns in Latin America and the Caribbean. Diageo employees and sometimes celebrities join these ‘winged ambassadors’ to remind consumers to take responsibility for their actions.**

3



**2 – Our employee engagement DRINKiQ initiative has been rolled out to over 19,200 employees around the world and is part of new employee inductions in 21 countries.**

**3 – Nigerian musician Tuface Idibia signs pledge not to drink and drive.**

## Highlights of the year

- We advanced our industry-leading global Digital Code of Practice for online marketing.
- We continued to **develop and implement new programmes and partnerships** to address the misuse of alcohol in our top markets.
- We supported **regional industry conferences** in association with the International Center for Alcohol Policies to promote industry awareness and support for the World Health Organisation (WHO) Global Strategy to Reduce the Harmful Use of Alcohol.

employees around the world and is a formal part of new employee inductions in 21 countries.

### Partnerships and programmes to address alcohol misuse

The social consequences of alcohol misuse are a matter of significant concern to a responsible company like Diageo. Alcohol misuse is also bad for business. Its social consequences damage our reputation, the reputation of our brands and our licence to operate, as well as bringing the industry as a whole into disrepute. For both social and business reasons, therefore, we play an active part in tackling alcohol misuse.

We invest in our own programmes, but believe that the best way to address the issue is for all interested parties to work together, investing in initiatives that seek to change attitudes and behaviour. In total, this year we supported more than 240 programmes either directly or indirectly in 49 markets, including 39 of our top 40.

We continue to focus our efforts on our top 40 markets (by value) because this is where we have the greatest influence. The size of our operations, and the network of strategic alliances we have in place, all help ensure the success of our initiatives.

### Stakeholder dialogue and alcohol policies

Our ability to help create a more positive role for alcohol in society depends to a great extent on a balanced regulatory framework within which alcoholic beverages are responsibly made, marketed, sold and consumed. We partner with many stakeholders to help deliver policies that encourage responsibility – by industry, government and our consumers, working to foster balanced debate and broad stakeholder dialogue.

Nonetheless, to ensure a sustainable future for our industry, we think it is vital to establish consensus on public policy issues such as responsible

marketing and retailing, drink-driving, legal purchase age, labelling and tax, as well as on other regulatory measures such as how to deal with non-commercial alcohol.

We therefore support effective and targeted alcohol policies at both global and national level. To be effective, we believe such policies must:

- Be based on the best evidence
- Account for drinking patterns
- Target at-risk groups
- Treat all forms of alcohol equally
- Involve all stakeholders in working towards a common goal.

**Read more: go to [www.diageoreports.com/sr/alcohol-in-society/](http://www.diageoreports.com/sr/alcohol-in-society/)**

# Water

Water is an essential ingredient in our brands, is necessary in our production processes and used widely across our supply chain. But water is a limited natural resource essential to human wellbeing and economic viability. Our stewardship of water across the value chain is integral to our sustainability as a business.



**1 – Our Water of Life programme, which aims to enable access to clean water for an additional 1 million people across Africa every year, complements the water efficiency efforts of our operations.**

**2 – A water recovery project at East Africa Maltings Ltd reduced water wasted by 30% compared to our 2007 baseline.**

We are addressing the growing global water challenge internally within our operations, and externally in the communities where we operate and beyond.

For Diageo the water challenge is most acute in Africa, where the UN predicts that 50% of the population will face water scarcity by 2025. We are proud of our strong presence in and commitment to Africa – which accounts for about 14% of our total net sales but 84% of our organic growth. We expect this growth to continue, but with increased production comes increased demand on water management, an especially important problem in a region where we have identified that around half of our production sites are located in water-stressed areas. Africa therefore is currently the most important, but by no means the only, focus of our water programme.

## Our water strategy

Last year we consolidated and simplified our water activities into our Blueprint Water Framework. Designed to effect substantial, sustainable and measurable change, the strategy is based on three platforms:

- **Operations:** we work to reduce our impact on water in our production facilities and supply chains. This involves:
  - Improving water efficiency in our facilities
  - Absolute reduction on water use in water-stressed sites
  - Reducing the polluting power of wastewater from our facilities
  - Engaging directly with suppliers in water-stressed countries where we operate, to encourage more sustainable strategies for agriculture.

- **Community involvement:** we aim to improve access to water where we operate by supporting the stewardship of water resources. Launched in 2006, our Water of Life programme aims to enable access to clean drinking water, and where possible sanitation, to 1 million people a year across Africa.
- **Collective action and advocacy:** we work with others to accelerate progress on the UN Millennium Development Goals for water and sanitation. Through the concerted efforts of our employees, consumers, customers and suppliers, along with NGOs, governments and other businesses, we work to raise awareness and deliver targeted initiatives in this key area.

2



3



**3 – Our distillery at Cameronbridge, Scotland saw a 12% reduction in the amount of water required to make a litre of spirit.**

## Highlights of the year

- **Safe Water for Africa:** we launched this innovative programme in partnership with the Coca-Cola Foundation, WaterHealth International and the International Finance Corporation/World Bank to expand sustainable access to clean water across the continent with an initial focus on West Africa.
- **East Africa Maltings Ltd** was awarded a GREENiQ Gold Medal (an internal commendation given to sites that meet environmental performance criteria) for its water recovery project in Kenya which reduced water wasted in this water-stressed area by 30% compared to its 2007 baseline.
- **Technological improvements to our distillery at Cameronbridge, Scotland** came into operation, resulting in a 12% reduction in the amount of water required to make a litre of spirit.
- **We 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.
- **Several smaller initiatives** in particular locations have made a difference to our environmental performance there, such as keg consolidations in Dublin and laser printer replacing labels in Argentina.

### Operations

We have identified nine production sites as being located in areas which are 'water-stressed' which identifies them as higher risk in terms of having a sustainable water supply in the coming years. These are:

- United States, Tullahoma, TN
- Philippines, Santa Rosa
- Ghana, Accra Achimota
- Ghana, Kumasi Kaasi
- Uganda, IDU – Uganda Distilling
- Uganda, UBL – Uganda Brewing
- Kenya, Nairobi KBL – Kenya Brewing
- Kenya, Nairobi CGI – Kenya Glass Industries
- Kenya, Nairobi KML – Kenya Maltings

As we grow, reducing water wasted is very challenging, but it is critical that we preserve this essential business resource. In addition to the work we conduct in our direct operations, we aim to evaluate the impact on water of our supply chain, particularly agricultural suppliers.

### Community involvement

Our Water of Life programme complements the work we do in our direct operations. We use our local knowledge and stakeholder partnerships to ensure clean water is delivered where it really counts – to communities, households and individuals.

We know that clean water is essential to sustainable development by contributing to improved health and education levels and the reduction of poverty. Since June 2006, we have launched projects in 14 countries, mostly in Africa, supporting a range of initiatives including boreholes, hand-dug wells, rainwater harvesting and domestic filtration devices.

### Collective action and advocacy

We are committed to helping achieve the UN Millennium Development Goal to reduce by half the proportion of people in Africa without access to water and adequate sanitation.

However, we cannot achieve this critical but stretching target on our own. We will continue to work with other organisations such as Coca-Cola and the International Finance Corporation on the water access challenge to ensure we make the best possible impact on water resources in our communities.

**Read more: go to [www.diageoreports.com/sr/water/](http://www.diageoreports.com/sr/water/)**

# Environment

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



**1 – Buying electricity from renewable or low-carbon sources is one of the three main ways we reduce our energy use and associated carbon emissions.**

Our key environmental impacts are in the areas of greenhouse gas emissions, water efficiency and pollution, waste to landfill, and packaging. Given the global importance of water scarcity, this year we are treating water as an impact in its own right; please see pages 10-11 for our summary report on water. In practice, of course the two areas are interdependent, and water is included in all our environmental policy-making and implementation.

## Carbon dioxide

Currently, most of our energy comes from fossil fuels. Not only are these a non-renewable energy source, but their use produces greenhouse gases that are the main contributor to climate change. This has far-reaching consequences, including affecting the health and economic wellbeing of our communities, and threatening our supply of raw materials.

While our business has a smaller carbon footprint than many global consumer products companies, it is still energy intensive. We use energy to brew beer, distil spirits and make wine. Our suppliers use it to make bottles and packaging, transport raw materials to our sites and deliver the finished product to our customers. With this environmental challenge, together with rising energy prices, increasing regulation of carbon emissions and concerns about energy security,

we have both a responsibility and a commercial imperative to reduce our carbon emissions.

We therefore reduce our energy use, and associated carbon emissions, in three main ways:

- Improving energy efficiency at our sites
- Generating renewable energy at our sites
- Buying electricity from renewable or low-carbon sources.

Although our carbon emissions target relates to production, we are also looking at the carbon emissions associated with the distribution of our products.

## Waste

Waste is produced throughout the lifecycle of our products. While this presents challenges, reducing and reusing waste can offer opportunities

2



3

# GREENiQ

**2 – Our Ichon supply site was the first in Diageo to achieve its 2015 environmental targets.**

**3 – Our GREENiQ engagement programme encourages employees to consider the environmental impacts of their everyday work.**

## Highlights of the year

- **Carbon Trust Standard:** Diageo achieved re-accreditation to the Carbon Trust Standard for our work in Scotland. This award certifies that the business there has measured, managed and reduced its carbon footprint rather than off-setting emissions.
- **New facilities:** we officially opened new sustainable distilleries at Roseisle, Scotland, and St Croix, US Virgin Islands as well as newly LEED-certified office buildings in Chicago and Madrid.
- **Green energy:** 50% of our electricity now comes from low-carbon sources.
- **Ichon Korea:** this packaging plant met all its 2015 targets in 2011 and was the first site to do so.
- **Isipingo, South Africa:** this site was granted a Gold GREENiQ medal for reducing its waste from 7 tons of waste a month to 1.4.
- **Huntingwood, Australia:** this site achieved a 45% decrease in carbon emissions when we replaced old air compressors with new oil-free energy efficient compressors.

for commercial or cost-saving applications which also reduce our environmental impact.

We focus on reducing waste sent to landfill from our operations, and designing packaging that our customers can easily recycle. Our waste reduction effort is supported by our GREENiQ engagement programme that encourages employees to consider environmental impacts.

### Sustainable packaging

Packaging is vital in delivering and protecting our product, and is an important aspect of how our consumers experience our brands. Packaging has an environmental impact throughout its life – from supplier to customer to consumer. Our vision is to manage and reduce the impact of our packaging at every stage.

We define sustainable packaging as packaging designed with the lowest possible environmental footprint that retains its core functions of protecting, delivering and presenting our products and brands. Our Sustainable Packaging Guidelines help us to create more sustainable packaging, with the support of our suppliers who design and produce it. We are focusing on where we can make the biggest difference – with our most popular brands. We sell more than 100 million bottles of some of our high-volume brands each year, so even a small change to this packaging can make a big difference.

### Biodiversity

At Diageo-operated sites we work to minimise our impact on the local environment. We have no operations located within protected areas. However, 22 of our 106 production sites are located adjacent to areas designated as having biodiversity value. We aim to protect local biodiversity through our environmental targets, most notably on the polluting power of our effluent.

**Read more: go to [www.diageoreports.com/sr/environment/](http://www.diageoreports.com/sr/environment/)**

# Community

We aim to contribute to sustainable development through our operations, community investment and collaboration with our stakeholders. We are proud of our role in enabling the development of local economies, and improving life for many people around the world.



Our approach to community development isn't limited to our investment programmes, but is driven by the way we do business – from our local hiring practices and procurement relationships, to our environmental programmes, to how we approach the use and misuse of alcohol in society.

## Economic impact

We have a commercial, strategic and ethical interest in helping to create sustainable communities. Our aspiration is to contribute to local economic development through our operations, investment, community projects and stakeholder partnerships. We do so by:

- Providing local jobs
- Building local talent and leadership
- Sourcing whenever possible from local businesses
- Maintaining high standards of governance

- Addressing local concerns through community investment programmes and advocacy.

We also pay local duties and taxes, and in some markets create wealth on local stock exchanges. The common thread running through all these activities is collaboration with partners and local stakeholders.

While local partnerships are important everywhere we operate, we can have a particular impact in low-income communities through inclusive business models. This includes engaging this population directly in our business, for example by providing employment or facilitating access to our supply chain. This is especially important as we increase our focus on emerging markets, including Russia & Eastern Europe; Turkey; Africa; Latin America & Caribbean; Middle East; and Asia Pacific (excluding Australia, Japan,

Korea). At the moment, these markets total just over a third of our global net sales.

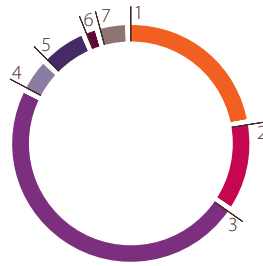
## Skills and capacity building

Our flagship community investment programme in Latin America and the Caribbean, Learning for Life, aims to equip its students with skills to help them enter the local workforce, either in our value chain or other local industries. It was designed as a programme to give life skills and training in the region's key areas of tourism, retailing, the arts, hospitality, entrepreneurship, and teaching in order to give people a real chance of finding employment and becoming active contributors to their communities. Since its launch in 2008, 50,999 students have graduated. In 2011, we ran 52 projects in 15 countries.



**2**  
**1 – Our Learning for Life programme in the Dominican Republic trains chefs for the hospitality industry. Over 260 students recently completed the programme.**

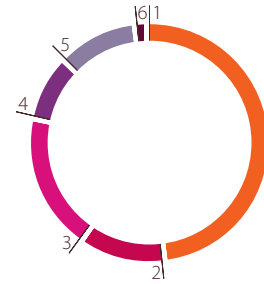
**2 – Diageo and the Diageo Foundation invested £450,000 to plant one million trees in Lebanon as part of a two-year reforestation project.**



### Community investment by focus area

- 1 Responsible drinking – £6,360,297
- 2 Skills for Life – £3,370,732
- 3 Local citizens<sup>1</sup> – £13,470,915
- 4 Water of Life – £1,289,871
- 5 Brand-led initiatives – £1,828,127
- 6 Management costs – £563,200
- 7 Other – £1,107,305

<sup>1</sup> Includes charitable donations of £7.7m (2010 – £7.4m) to the Thalidomide Trust and £3.0m (2010 – nil) to the Thalidomide Foundation Ltd in Australia.



### Community investment by region

- 1 Europe<sup>2</sup> – £13,676,602
- 2 North America – £3,300,864
- 3 Asia Pacific<sup>3</sup> – £5,200,564
- 4 Africa – £2,559,275
- 5 Latin America & Caribbean – £3,059,752
- 6 Global Travel and Middle East – £193,390

<sup>2</sup> Includes charitable donations of £7.7m (2010 – £7.4m) to the Thalidomide Trust.

<sup>3</sup> Includes charitable donations of £3.0m (2010 – nil) to the Thalidomide Foundation Ltd in Australia.

### Social entrepreneurship

Diageo supports and helps fund social entrepreneurs, with the aim of catalysing and driving systematic change in communities. Our main channel for supporting social entrepreneurs is the Arthur Guinness Fund™. This year, the Fund signed a three-year partnership with Ashoka, a leading association of social entrepreneurs, to help them deliver a €3 (£2.6) million project to identify, fund and support innovative social entrepreneurs, projects and infrastructure-building around the world. We are now in the process of making the awards.

### Disaster relief

We aim to respond rapidly to disasters affecting communities in our markets and better engage our employees to support our efforts through improved fundraising tools. Where possible, we build on the work of our existing

programmes in affected regions, otherwise we respond with emergency relief efforts. Our contributions are made in part through the Diageo Foundation Disaster Relief Fund. This year was a particularly harrowing one, with major disasters affecting many of the regions in which we have operations, including Brazil, Australia, Japan, New Zealand and the US. To make it easier for employees to contribute, we set up a temporary microsite within our Giving for Good site.

### Employee-led and other activities

We are proud that Diageo employees engage in voluntary work, fundraising and other ways of giving back to their communities. We aim to facilitate their impact on local communities through employee involvement and investment programmes.

**Read more: go to [www.diageoreports.com/sr/community/](http://www.diageoreports.com/sr/community/)**

### Highlights of the year

- **Diageo joined the Southern Agricultural Growth Corridor of Tanzania initiative**, a partnership between the Tanzanian government and leading development organisations and businesses to catalyse private investment to support agricultural growth.
- **The Arthur Guinness Fund signed a three-year partnership with Ashoka**, a leading association of social entrepreneurs, to help deliver a €3 (£2.6) million project.
- **Diageo and the Diageo Foundation invested £450,000** in a project to plant one million trees in Lebanon.
- **The Organization of American States awarded Diageo with its Corporate Citizen of the Americas Award** in the Education category for our 'Learning for Life' programme.

# Our people

To achieve long-term, sustainable performance we need an engaged team of people, motivated to create a successful company. Diageo must therefore create a welcoming and stimulating culture – engaging our employees, rewarding them fairly, building their capabilities and harnessing their potential.



**We are committed to developing our people through training and development opportunities. In Korea, 287 employees took part in communication and teamwork workshops.**

## Highlights of the year

- **Health and safety:** we completed phase one of our Zero Harm programme, which ran from 2007-2011, ending with a 77% reduction in our lost-time accident frequency rate\* since 2007. Phase two will take us up to 2015.
- **Employer of choice:** In seven of our key markets, Diageo was rated by the Great Place to Work Institute as one of the top employers.
- **Diversity and inclusion:** the Association of Diversity Councils has placed Diageo North America (DNA) on their Top 25 US list since 2009. For the fourth year, the Human Rights Campaign Foundation gave DNA a 100% score in its Corporate Equality Index, rating the treatment of gay, lesbian, bisexual and transgender employees.

\*Number of accidents per 1,000 employees resulting in time lost from work greater than one day.

Our company values are at the heart of everything we do, and continue to drive the way we manage, develop, protect and engage our employees as our business evolves.

### Safety, health and wellbeing

Our primary duty to employees is to provide a safe and healthy environment. While we have made great progress, far exceeding our target for lost-time accidents, we are deeply saddened that four people, one employee and three contractors, lost their lives at work this year. This is unacceptable and our sympathies go to their families and loved ones. In the coming year we will be implementing a new approach to the way we manage high severity safety risks in our business.

### Diversity and inclusion

We believe a workforce composed of people from a wide variety of backgrounds and experiences is

a competitive advantage. This year we fell short of our goal to achieve 30% women in senior leadership positions but will continue to focus on it in the coming year. We are also working to help ensure our employees, including leadership, represent the diversity of our local communities.

### Developing our talent

We continue to invest in development plans that are both rewarding and stretching for our people, in training programmes such as Diageo Academy, our global online e-learning and development resource.

### Employee engagement

Our annual values survey is the most important measure we have to tell us how well we are living our values. Once again, our response rate was very high this year, at 89%. Many teams across Diageo achieved 'super-engagement' scores above 50% – the highest level of

engagement we measure – although our global score was less than the 50% goal at 39%. Over 19,000 verbatim comments contained many ideas for further improvements.

### Restructuring

This year we completed a review of our operating model, and we are now in the process of implementing a number of changes to drive performance and reflect the different roles individual markets will play. As we implement this programme there will be changes to many teams across our business, particularly in North America and Western Europe. We recognise this has been challenging, not least to those directly affected, and we are taking great care to ensure colleagues affected by these changes are treated with consideration and respect.

**Read more: go to [www.diageoreports.com/sr/our-people/](http://www.diageoreports.com/sr/our-people/)**



# Governance and ethics

Doing business with integrity, whatever the circumstances, is essential for the sustainability of our company. Our good reputation is critical to commercial success and can only be created and upheld if we act with integrity in all our interactions with our stakeholders.



1 – Guinness Cameroon led the establishment of the 'Business Coalition against Corruption in Cameroon', an unprecedented anti-corruption initiative, which brought together over 60 private companies, NGOs and government bodies.

2 – By the beginning of 2011, all employees had completed training on the Code of Business Conduct, either through e-learning or face-to-face sessions.

Governance and ethics together is one of our key sustainability and responsibility impacts. Our compliance and ethics programme, based on our Code of Business Conduct, aims to ensure that everyone within Diageo understands what acting with integrity means, and that they carry this out in the course of doing business.

To help our employees do business the right way, we have a comprehensive compliance and ethics programme, based on our Code of Business Conduct.

The programme is organised into seven areas:

- Organisation and leadership
- Standards and procedures
- Training and communications
- Enforcement and incentives
- Due care in delegating authority
- Monitoring, auditing and reporting
- Response and continuous improvement.

Being open and transparent in our reporting is an important part of our approach, and this year we have expanded this section of our Sustainability & Responsibility Report to include a fuller discussion of governance and ethics.

**Read more: go to [www.diageoreports.com/sr/governance/](http://www.diageoreports.com/sr/governance/)**

## Highlights of the year

- We included **compliance and ethics objectives in performance reviews** of middle managers and above.
- We **updated our Code of Business Conduct**.
- We implemented a **global approach to training new employees on the Code** and on compliance and ethics.
- We **reviewed our approach to corporate governance** in light of changes in the UK regulatory environment including the UK Bribery Act.

## Our suppliers

We buy a range of raw materials, products and services from people and organisations all over the world. Our relationships with these suppliers exemplify how we create shared value: giving value to the communities and economies from which we source, and gaining commercial value in return.



|2

# AIM<sup>®</sup>

1 – We work with our main cream supplier for Baileys in Ireland to promote sustainability in the dairy industry.

2 – Diageo works closely with AIM-PROGRESS, a forum for leading consumer goods companies to promote responsible sourcing practices and sustainable supply chains.

We aim to ensure that the goods and services we procure are produced and supplied in a way that has a positive impact on society and the economy, and are the most environmentally sustainable – while satisfying our commercial needs for quality, reliability, innovation and value for money.

This definition of sustainable procurement and our expectations of suppliers are set out in our 'Partnering with Suppliers' standard that all suppliers are contractually obliged to follow.

### Our partnership approach

Achieving these standards presents unique challenges in different parts of the world, so our approach is to work in partnership with suppliers and other businesses in the industry to maximise their positive impacts on society and the environment. Towards this goal, we are a member of the Suppliers Ethical Data Exchange (SEDEX), a not-for-profit organisation that enables global suppliers to share assessments and audits on ethical and responsible practices with their customers. We are

also a member of AIM-PROGRESS, a forum for leading consumer goods companies to promote responsible sourcing practices and sustainable supply chains. Both organisations aim to relieve our suppliers of much of the duplication that working with global organisations like Diageo can cause, and to focus on identifying synergies and opportunities for improvement.

Where possible, we aim to help suppliers meet our standards through capacity building and training. We also make it easier for small local businesses and farmers to become our suppliers in the first place. In Africa, we have a goal to source 65% of the raw materials used at local sites from the region by 2015, and are proud that currently we are up to 57%.

**Read more: go to**  
[www.diageoreports.com/sr/suppliers/](http://www.diageoreports.com/sr/suppliers/)

## Highlights of the year

- We helped our main cream supplier in Ireland create their sustainability programme, including an advisory committee with members of the private, independent and public sectors that aims to drive sustainability performance across the Irish dairy farming industry.
- We refreshed our supplier code 'Partnering with Suppliers'. Having benchmarked it against best practice we believe it is now one of the best supplier codes in our sector.
- Diageo has taken over the chairmanship of AIM-PROGRESS.

## Our customers and consumers

Sustainability issues are far higher on the agenda today than ever before. Because we interact with customers, shoppers and consumers mainly through our brands, we have the opportunity to promote awareness of social and environmental issues in support of our purpose, 'celebrating life, every day, everywhere'.



For the second year running we launched a campaign for shoppers in Poland with Metro Group's Real; this year it encouraged people to sign a pledge not to drink and drive.

### Making an impact with consumers through our brands

Many people's opinions of a company and its products are increasingly shaped by their track record on sustainability issues. And because technology now allows consumers to share their opinions with millions of others at the click of a button, brands and companies have to be authentic as well as being as transparent as possible.

We believe that when sustainability activities are done well, they engage consumers to become partners, which is a great way to build a brand. But beyond the commercial impact, we recognise the impact our marketing can have on consumer attitudes and behaviour, and how it can ultimately leverage the impact of our sustainability and responsibility programme.

- **Responsible marketing practices:** for us, world class marketing means not just responsible marketing, but also marketing responsible drinking. From Smirnoff facebook posts to the Johnnie Walker sponsorship of

the Vodafone McLaren Mercedes F1 Team, many of our brands encourage their consumers to drink responsibly.

- **Marketing related to broader sustainability issues:** whether it's the Arthur Guinness Fund supporting social enterprise or Smirnoff encouraging recycling, our brands also seek to engage consumers on environmental and social issues.

### Working with customers to maximise our positive impact

Our customers are beginning to increase their scrutiny of sustainability issues across their value chain, including suppliers such as Diageo. While we already partner with many of them, particularly around our responsible drinking initiatives such as in-store awareness building or training bartenders, we look forward to further collaboration on a shared approach to broader sustainability and responsibility.

Read more: go to [www.diageoreports.com/sr/customers-consumers/](http://www.diageoreports.com/sr/customers-consumers/)

### Highlights of the year

- Smirnoff partnered with its glass supplier and customers in Brazil to help reduce waste sent to landfill and to reward consumers who recycled.
- Diageo partnered with Metro Group's Real in a responsibility campaign in Poland that engaged 500,000 consumers and was evaluated positively by 80% of its participants.
- Johnnie Walker's latest campaign promoted our consumer information site DRINKiQ at the Turkish Grand Prix through its partnership with the Vodafone McLaren Mercedes F1 Team.
- In November, Captain Morgan launched the One Million Poses campaign, an innovative consumer campaign to raise money for the First Mate Fund which finances responsible drinking initiatives and community support.
- In response to the terrible floods in Queensland, Australia, Diageo launched a limited edition collectors' rum called 'Watermark' to raise money for relief efforts.

# About this report

## Scope

This document is a summary of Diageo's full online Sustainability & Responsibility Report, which you can find at [www.diageoreports.com/sr/](http://www.diageoreports.com/sr/).

Diageo has published an annual global report covering the company's social and environmental impacts since 2003. The report has become an integral part of our corporate disclosure and reporting practice, and every year we publish it alongside our Annual Report.

This year we changed the report's name to the 'Sustainability & Responsibility Report' to reflect how our programme and accordingly this report have evolved over the years. 'Sustainability' reflects how we are increasingly taking into account our wider economic, social and environmental impacts throughout the value chain, and how our non-financial performance supports the long-term success of the company. 'Responsibility' reflects our particular role as a beverage alcohol company in promoting a positive role for alcohol in society.

## Reporting boundaries

This summary report covers the global operations of Diageo plc in the financial year ended 30 June 2011. Dates refer to financial years, unless otherwise stated.

## Principles of reporting and assurance

In writing our full report, we chose to adopt two sets of guidelines, the Global Reporting Initiative (GRI) and the AA1000APS Framework. We aim to align our management processes with the principles set out in these standards to help ensure our business addresses our most material social and environmental issues.

## Assurance and review

KPMG Audit Plc has provided limited assurance over the description of Diageo's adherence to AA1000APS, Diageo's GRI application level as well as the reliability of selected environmental performance data.

The London Benchmarking Group (LBG) has assured our community investment data.

## Inviting your feedback

We welcome stakeholders' views on our report and on our approach to sustainability and responsibility in general. **To give your comments on this report please contact us at [sustainability@diageo.com](mailto:sustainability@diageo.com).** We hope that you enjoy this report and we encourage you to give us your feedback.

**Read more: go to [www.diageoreports.com/sr/about-this-report/](http://www.diageoreports.com/sr/about-this-report/)**



Designed by [saslon.com](http://saslon.com)

Cover printed on Hello Silk and text printed on Munken Polar.

Both grades are from the FSC® Mixed Credit group of materials and are manufactured at mills which are certified to the ISO14001 and EMAS environmental standards.

Printed by Fulmar Colour on behalf of RR Donnelley.

Fulmar Colour are ISO14001 certified, CarbonNeutral®, Alcohol Free and FSC and PEFC Chain of Custody certified. The inks used are vegetable oil based.