



DIAGEO

Corporate Citizenship
Report 2010

Enriching lives,
communities and
the environment
through good business

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Strategic
approach

Enriching lives, communities
and the environment
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CSR strategy overview

Diageo has always believed that our success as a company is measured by more than just financial targets. Many of our historic brands, such as Guinness and Johnnie Walker, were built on the same principles of corporate citizenship that we hold today. The Guinness family for example started a company in 1725 with a vision and commitment to improve the lives of employees and the communities in which they lived. This year we marked the Guinness 250th Celebrations by launching the Arthur Guinness Fund with the goal of empowering individuals around the world with the skills and opportunities to enrich their communities.

The evolution of Guinness' approach to corporate social responsibility is a tribute to the remarkable legacy of the brand's founder Arthur Guinness and reflects Diageo's desire to continually evolve our approach to social progress to match the evolving interests of our stakeholders.

We realise that expectations placed on corporations continue to shift. We know consumers, regulators and our customers want a dynamic and evolving approach as the challenges facing society in terms of local economic development, health and safety issues and environmental sustainability continue to grow. Finally, we understand that trust in all institutions has eroded as a result of the economic turmoil of the last few years.

In light of these expectations, and the current economic environment, we asked ourselves whether our current approach to CSR was still appropriately addressing our most important global impacts and what additional steps we could take to maximise value for both society and Diageo's business.

We started our review internally as Diageo's approach to corporate citizenship has always been first and foremost a reflection of our values, culture and people. We learned many things from this stage of the process:

- We reaffirmed that corporate social responsibility is integral to our purpose
- We decided to better integrate our corporate social responsibility agenda into our core business to create value for society and our shareholders

- We identified alcohol in society, our role in the community, our environmental impact, our people and compliance and ethics to be our key priorities
- We decided to place additional emphasis on initiatives that cut across our priorities, better integrate our strategy throughout our value chain and leverage our collective impact

CSR strategy

The following diagram is designed to illustrate how our CSR goal – enriching lives, communities and the environment through good business – links to Diageo’s purpose, the important issues on which we will focus and activities we will continue to undertake within our priorities.

Our purpose



Our CSR strategy



Our priorities



- Responsible marketing and consumer information
- Programmes to address alcohol misuse
- Partnerships and alcohol policy
- Balanced debate and dialogue on alcohol issues
- Water access
- Skills and social enterprise
- Disaster relief
- Employee giving
- Water efficiency
- Carbon reduction
- Waste elimination
- Reduction in effluent polluting power
- Sustainable packaging
- Health, safety and well-being
- Great leadership and people management
- Talent and people development
- Inclusion and diversity
- Human rights
- Employee engagement
- Code of business conduct
- Other Diageo policies

Cross-priority activities

Blueprint for water impact — Addressing the global water challenge within our operations and in the communities where we operate

Sustainable and ethical procurement — Working with our suppliers to embed social and environmental priorities into our supply chain

Consumer and customer CSR activity — Working with our customers and using our brands as a vehicle for change

Local economic development — Contribute to local economic development through our operations, investment, community projects and stakeholder partnerships

While we have begun to engage external stakeholders, over the course of the next year we hope to continue to validate our findings to determine whether our strategy meets the needs and concerns of the external groups and individuals who are most impacted by our business.

Doing so not only helps us enrich lives, communities and the environment, it is fundamental to the sustainability of our business.

It is critically important to Diageo that alcohol plays a valuable role in society, that the natural resources we need to make our products are readily available, that local communities prosper and consumers are able to afford our brands, that we are able to attract, retain and engage talented employees to drive performance and that through exemplary governance we address the needs of our stakeholders.

This is a very exciting time for us, but we recognise a few difficult steps ahead such as addressing diverse expectations, identifying the points at which the interests of our shareholders and stakeholders intersect and embedding sustainability management throughout our operations. However, we welcome the challenge because we believe the results will drive even better value for society and our shareholders.

Our business

Our operating context

Diageo was incorporated as Arthur Guinness Son & Company Limited in 1886. The Diageo group was formed in 1997 through the merger of Grand Metropolitan PLC (GrandMet) and Guinness PLC (the Guinness Group), later acquiring additional spirits and wine brands of the Seagram's business and expanding further through additional brand acquisitions and innovations. Currently approximately 81 million measures of our spirits, 19 million glasses of our beer and stout, 4 million bottles of our ready to drink brands and 3 million glasses of our wine are consumed each day worldwide.

Our values

Our values, as communicated to our employees, capture our aspirational goals. They are at the heart of our business and influence the way we work, every day and everywhere.

We are passionate about customers and consumers

Our customer and consumer insights help form the basis of our growth. We cherish our brands and we are creative in pursuing their full potential. Moreover, we recognise the integral role of the customer.

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 strive to behave 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.

Our business and brands

Diageo is the world's leading premium drinks business and creates value for our shareholders by manufacturing, packaging and responsibly marketing branded beverage alcohol across spirits, wine and beer on an international scale. Headquartered in London, Diageo's products are sold in approximately 180 countries worldwide and Diageo is ranked by the Financial Times among the 160 largest companies in the world.

Our business is divided into four key regions, North America generating 39% of operating profit (before exceptional items), Europe 29%, International 26% and Asia Pacific 6%. Various functions that support the regions include the Global Supply function covering the production and distribution of our products and the demand function covering marketing and sales.

Approximately 85% of the total production overseen by our Global Supply function is undertaken at four Diageo production centres namely Europe Supply, America Supply, Global Beer Supply and Asia Supply. The remaining production activities of the group are integrated with the distribution organisation, principally in Africa within International.

Diageo operates 36 distilleries, 14 breweries and 13 wineries, supported by 24 blending and packaging plants and 42 warehousing and other facilities. The most significant of these sites are located in UK (most importantly Scotland), USA, Ireland, Nigeria, Canada, Ghana, Australia, Jamaica, Kenya and Uganda. The remaining 15% volume is produced in many countries by joint ventures or under contract with third parties.

The sales and marketing function is organised into global functions that are responsible for setting the global objectives and the regional teams that are responsible for customising and executing the global objectives in individual regions.

Our global priority brands are our primary growth drivers across our markets and as such are the main focus for our business. They include Johnnie Walker, Smirnoff, Baileys, Captain Morgan, Jose Cuervo, J&B, Tanqueray and Guinness. Together these brands have the greatest current and future earnings potential. These brands account for approximately 57% of Diageo's global volumes.

Key Figures £m

	2010	2009*
Net sales	9,780	9,311
Marketing Spend	1,419	1,327
Operating profit before exceptional items	2,751	2,588
Operating profit	2,574	2,418
Profit attributable to parent company's equity shareholders	1,629	1,605
Free cash flow	2,024	1,204
Capitalisation		
Equity	26,394	21,784
Debt	6,954	7,419
Total	33,348	29,203
Employees (in FTE)	23,287	24,039**

* Comparatives have been restated following the adoption of the amendment to IAS 38 – Intangible assets and the change to the accounting treatment of returnable bottles and crates.

** Comparative has been restated to reflect the average number of employees on a full time equivalent basis.

Diageo's financial statements for the year ended June 30, 2010 are available in Diageo's 2010 Annual Report at www.diageo.com

Working with our customers

Our customers are the companies that distribute and sell our products and our aim is to provide them with the best possible service. We survey them regularly to monitor the strength of our relationships and take their views into account in our decision-making. Our global sales strategy sets ambitious targets for continually improving customer relationships.

We share sustainability ambitions with many of our customers. In various regions, we work with them to promote responsible drinking and to reduce our environmental impact through the development of sustainable packaging and encouragement of recycling. Our programmes in turn help many of our customers reach their own supply chain targets in the social and environmental agenda.

Valuing our customers

Through a commitment to continuous innovation and consumer insight, we aim to understand and meet our consumers' needs with great brands

and innovations that can be enjoyed responsibly when celebrating with friends and family.

Consumer confidence in our brands is fundamental to the sustainability of our business. This is supported by our core commitment to quality. We have a quality management system in place for every Diageo supply business, and drive continuous improvement through our Licence to Operate (LTO) Independent Assurance programme.

Governments and public policy

Alcohol is one of the most regulated industries in the world, with all aspects of the value chain, from production (and product definitions), sales and marketing, retail and consumption subject to varying degrees of legislation or oversight by government authorities. Accordingly Diageo engages on an ongoing basis, either directly or via industry trade associations, with governments around the world on aspects of regulation. In doing so we are committed to the highest standards of compliant and ethical behaviour and aim to act in accordance with our Code of Business Conduct.

In addition we are focused on promoting and supporting effective

policies, laws and actions to reduce harm related to the misuse of alcohol. Our ability to create a more valuable role for alcohol in society depends to a great extent on a balanced regulatory framework that provides a strong foundation for our programmes. We believe that the most effective policies to reduce alcohol misuse are those based on the best evidence that account for drinking patterns, that target specific at-risk populations, that treat all forms of alcohol equitably, and that involve all stakeholders working toward a common goal. Therefore, Diageo actively supports effective and targeted alcohol policies at the global and local level.

Tax affairs

We are committed to the effective, sustainable and active management of our tax affairs in support of outstanding business performance in the territories in which we operate and, as with all other aspects of our business, to maximise shareholder value.

Payment of taxes accounted for the largest slice of the added value that we generated this year. In addition to direct tax contribution, we pay local business taxes, our consumers pay excise taxes and sales taxes such as VAT and our employees and suppliers pay income and corporate taxes. These direct and indirect tax payments make up our total tax footprint. We are committed to pay tax according to the law and conducting our tax affairs according to clear principles. We seek to maintain good and honest working relationships with tax authorities, sharing our views either directly or through trade associations.

We make decisions on where to locate our operations based on a combination of market factors, commercial strategy, business implications, environmental impact and taxation.

Transactions between Diageo subsidiaries are priced on an arm's length basis in accordance with the OECD Model Tax Convention.

Governance

The Diageo board consists of a chairman, chief executive, chief financial officer and seven independent non-executive directors drawn from a range of industries and countries.

The board makes decisions, reviews and approves key policies and decisions of the company, in particular in relation to: group strategy and operating plans; corporate governance; compliance with laws, regulations and the company's Code of Business Conduct; business development, including major investments and disposals; financing and treasury; appointment or removal of directors and the company secretary; risk management; financial reporting and audit; corporate citizenship, ethics and the environment; and pensions.

As chief executive, Paul Walsh has the responsibility for implementing the strategy agreed by the board and for managing the group. He is supported in his role by the executive committee. Paul Walsh is also a UK non-executive director of Unilever PLC and also a chairman of the Scotch Whisky Association and a non-executive director of FedEx Corporation in the United States. During the year he retired as a member of the Council of the University of Reading.

The non-executive directors, all of whom the board has determined are independent, 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 proper functioning of the board and its committees, ensuring that matters are fully debated and that no individual or group dominates the board's

decision-making processes. Through the nomination committee, the board ensures that plans are in place for the succession of the executive and non-executive directors.

A summary of the terms and conditions of appointment of the non-executive directors is available at www.diageo.com or on request from the company secretary.

There is a formal induction programme for new directors; they meet with the executive committee members individually and receive orientation training from the relevant senior executive in relation to the group and its business, for example in relation to its assurance processes, environmental policies and corporate responsibility policies and practices.

The chief executive appoints and chairs the executive committee, which consists of the individuals responsible for the key components of the business: the regions where Diageo operates, global supply and the global functions. He also chairs the corporate

citizenship committee, a committee of the board, which makes decisions or, where appropriate, recommendations to the board or executive committee on corporate citizenship strategy, policy and issues. This includes matters such as corporate citizenship performance, measurement and reporting; community affairs; environmental matters; and other emerging corporate citizenship issues. Progress in these areas is reported periodically to the board as well as through the pages of this report.

The alcohol and responsibility executive working group brings together key executives to co-ordinate our efforts towards establishing a more positive role for alcohol in society. The environmental executive working group sets strategies, targets and monitors plans and compliance regarding our environmental agenda. It is supported in this through the solutions developed by our supply function's environmental leadership team.



How we manage sustainability

CSR throughout our value chain

Each stage of our value chain has impacts on our employees, local communities, the environment and other stakeholders. As such, we are increasingly customising our CSR management system to take account of the activities of all of our functions. In addition to our own operations, Diageo aims to encourage high standards for our business partners, such as our suppliers and customers. Our CSR priorities vary in each stage of our value chain, as indicated in the illustrative graphic overleaf:

Our overall business, culture and workplace

Our culture is guided by our values – our aspirational goals at the heart of our business – and our policies that set specific compliance standards. Beyond this, we aim to encourage all employees to be actively involved in contributing to Diageo's overall positive impact on society and the environment. Our GreenIQ, DrinkIQ and Community Investment programmes are good examples of how office sites are engaged in our CSR programming. Additionally our centres contribute to local economic development through paying taxes, providing employment and engaging in other local economic development activities.

Innovation and branding

Whether through responsible marketing, cause-related consumer campaigns or integrating environmental stewardship into packaging and other brand elements, our brand and innovation teams have an important role to play in maximising Diageo's positive impact on society and the environment.

Raw material procurement

Diageo sources materials, ingredients, energy and services from approximately 30,000 businesses worldwide. We seek to build mutually rewarding relationships, which improve our social, ethical and environmental performance across the whole supply chain. Where possible, we endeavour to find local solutions for our local businesses.

Our supply function

Production, Bottling and Packaging and Distribution: Our first and foremost emphasis in our operations is health and safety through our Zero Harm programme. We also actively seek to drive progress towards our environmental targets in our direct operations. Finally our operations have a large role to play in our local economic impact, whether through our hiring and talent policies or local community investment activities.

Trade marketing

Increasingly our sales teams are working with our customers on social and environmental programmes whether through responsible marketing or consumer facing social and environmental campaigns. Additionally, in various regions we work with our customers on our joint sustainability ambitions.

Consumption

We have many programmes aimed at consumers. We work with others as we seek to influence behaviours and attitudes towards alcohol. Increasingly, our brands are also addressing consumers on community and environmental related issues.

Our value chain



- 1**
Our offices
- Volunteering and community investment
 - Tax and Government relations
 - Green facility management



- 2**
Innovation and branding
- Responsible marketing
 - Cause-related campaigns
 - Social and environmental stewardship



- 3**
Raw material procurement
- Sustainable agriculture
 - Ethical procurement
 - NGO partnerships
 - Local economic development



- 8**
Consumption
- Responsible drinking
 - Waste reduction



- 4**
Production
- Health and safety
 - Waste reduction
 - Water efficiency
 - Energy efficiency
 - Carbon reduction
 - Local economic development



- 7**
Trade marketing
- Responsible marketing
 - Cause-related campaigns
 - Social and environmental stewardship



- 6**
Distribution
- Carbon reduction
 - Health and safety



- 5**
Bottling and packaging
- Health and safety
 - Labelling and certifications
 - Sustainable packaging
 - Waste reduction
 - Carbon reduction
 - Water efficiency
 - Local economic development

Our CSR priorities, targets and achievements

As outlined in our CSR strategy Diageo has identified a number of priority issues that we believe are of most importance to our stakeholders: Alcohol in Society, Community Investment, Environmental Sustainability, Our People, and Compliance and Ethics. We have also identified a number of activities that cut across these priorities: water access, quality and efficiency, sustainable and ethical procurement, consumer and customer CSR activity, and local economic development.

To develop these priority areas, we consulted a wide internal audience as well as selected external stakeholders. From this we developed a strategy that focuses on the areas where we believe our resources and expertise allow us to make a significant positive impact. Over the course of the next year these priorities will be validated through further conversations.

Our achievements this year

While we aim to have targets in each priority area and cross functional programme, this year we monitored progress against the following:

In addition to driving performance against our targets, we consider the following to be among our major achievements this year:

- We developed sustainable packaging guidelines in order to drive packaging design and implementation that will help year-on-year environmental improvements
- As part of the Guinness 250th Celebrations, the Arthur Guinness Fund was launched in 2009 to support social entrepreneurs in Guinness markets around the world. The fund currently stands at £5.3 (€6.0) million this year but will increase to £6.5 (€7.4) million by 2012
- DRINKiQ.com, Diageo's responsible drinking website, was expanded to 18 countries' local websites, won the Social Excellence Award presented to Diageo Iberia by the government of Pozuelo de Alarcón in Spain and was added as a link to the European Alcohol and Health Forum website
- In March 2010, Diageo partnered with the International Business Leaders Forum (IBLF) to launch a series of business roundtables in Cameroon, Ghana, Kenya, Nigeria and South Africa to identify the role business can play in supporting effective and fair water policies
- For its building design, the Roseisle distillery at Morayshire in Scotland was awarded the 'Scottish Building Project of the Year' as well as the Sustainability Award by the Royal Institute of Chartered Surveyors in Scotland (a group of some of Scotland's top Chartered Surveyors and property professionals)
- Diageo launched GREENiQ, an employee engagement programme, including a web-based tool, designed to inspire and engage employees to help deliver environmental performance at our facilities around the world

Target

Environment

Improve our water efficiency by 30% by 2015 against a 2007 baseline

Reduce the water wasted at water stressed sites by 50% by 2015 against a 2007 baseline

Reduce carbon dioxide emissions by 50% by 2015 against a 2007 baseline

Eliminate waste-to-landfill by 2015 against a 2007 baseline

Reduce polluting power of waste water by 60% by 2015 against a 2007 baseline

Community

Improve safe water access for 8 million people in Africa by 2015 against a 2007 baseline

Train 50,000 people through the Learning for Life programme worldwide by 2011 against a 2009 baseline

Our People

30% of women in senior management positions by 2011

Reduce our Lost Time Accident Frequency Rate (the number of accidents per 1000 employees that result in time lost from work greater than one day) by 50% by 2011 against a 2007 baseline

50% of employees rate themselves as 'super-engaged' in the workplace every year by 2011

Progress

Reduced 8.7% since 2007

Increased 11.1% since 2007

Reduced 10.5% since 2007

Reduced 71.1% since 2007

Reduced 2.1% since 2007

Delivered water to 4 million people since 2007

Trained 21,000 people since 2009

26% women in senior management in 2010

Reduced by 70% since 2007

41% rated themselves 'super-engaged' in 2010

For more information and detail on how we are working towards these targets, please see the relevant sections in this report.

- We developed Sustainable Agricultural Sourcing Guidelines to enable us to focus our supply chain activity more effectively and improve our social, economic and environmental performance
- Diageo, along with other international beverage alcohol companies, funded and helped the International Center for Alcohol Policies start implementing a series of initiatives, called Global Actions on Harmful Drinking to reduce the harmful misuse of alcohol in 18 developing countries
- Diageo was the top-scoring beverage alcohol company of the eight that participated in the Carbon Disclosure Project and the only one to be included in the project's Climate Leadership index
- The Great Places to Work Institute ranked Diageo Australia second, our UK and Ireland businesses both seventh, and our business in Uruguay eighth in their respective countries
- Diageo's South African venture, brandhouse, was ranked third in South Africa by Deloitte Best Company to Work For
- Singapore's Hewitt Awards named Diageo among the top 10 best employers in Singapore for the second time in three years
- The National Association for Female Executives (NAFE) named Diageo North America as one of its Top Companies this year
- The Association of Diversity Councils placed Diageo on their US Top 25 list in 2009 and 2010. Also, for the second year in a row, the Human Rights Campaign Foundation gave Diageo North America a 100% score in its Corporate Equality Index rating the equality of gay, lesbian, bisexual and transgender (GLBT) employees in the workplace

Our aspirations for next year

During 2011 we shall continue to work towards the targets listed on previous page. We shall also be working towards the following targets:

Target – Alcohol in society

By 2011

- Diageo's online approval for marketing initiatives, SmartApprove, is used by all regional units and brands teams where technically possible
- An online learning tool for a refreshed digital code of practice is implemented
- Diageo marketing is 100% compliant with the Diageo Marketing Code every year

By 2013

- Effective industry self-regulatory or co-regulatory codes are in place in our top 40 markets (by value)
- Responsible drinking reminders are included on 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)

Target – Sustainable procurement

By 2011

- Diageo launches Sustainable Agriculture Sourcing Guidelines
- An initiative on cream is developed with the Baileys brand team, as the first of our priority raw materials
- The 700 'potentially highest risk suppliers' are assured through SEDEX
- Diageo commissions audits of 50 of the highest risk suppliers and works with them to improve performance
- 50% of electricity for supply sites is renewable

- 30 suppliers are engaged in projects to support Sustainable Packaging improvements
- Key suppliers' environmental performance is included in our Sourcing and Supplier management processes

Target – Compliance and ethics

By 2011

- 24,000 employees worldwide take part in the Compliance and Ethics Business Code of Conduct training

CSR policies and risk management

Policies

We manage sustainability issues within Diageo according to internal Diageo policies. For more information on some of our policies that relate to sustainability issues (listed below) please see www.diageoreports.com

- Code of Business Conduct
- Diageo Marketing Code
- Digital Code of Practice
- Code of Ethics
- Human Rights Policy
- Environmental Policy
- Supplier Standards Policy: Partnering with Suppliers
- Employee Alcohol Policy
- Consumer Information Policy
- Occupational Health & Safety Policy
- Quality Policy

Risk management

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.

The audit and risk committee, chaired by the chief executive, is responsible for overseeing the approach to securing the company's effective internal controls and risk management, among other responsibilities. The executive committee and all significant business units are required to maintain a process so that key issues are identified, evaluated and managed appropriately. Executives review business unit risk assessments and the activities planned to manage risks, for

example, at periodic business reviews. 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 five years ago, is a global Diageo process for driving continuous improvement and managing compliance with legislation as well as our policies and risk management standards. The areas covered include quality, environment, occupational health and safety, security and business continuity. During the course of 2010 we undertook a comprehensive review of our LTO approach. Following a successful pilot, we re-launched LTO Independent Assurance and implemented an enhanced, risk based approach across our operations. During the second half of the financial year we have audited 14 sites across our operations and in 2011 we plan to continue implementation across all our operations.

For more information on Diageo's approach to managing risk, please see 2010 Annual Report as well as the Compliance and Ethics section of this report.

Engaging our stakeholders

We believe strongly in the need to engage stakeholders in the decisions that affect them. We want to meet, or preferably exceed, the expectations of those with whom we interact. We do this not only because we feel that it is our responsibility to do so, but also because it provides a host of benefits to and insights for our business. Below are the general groups of stakeholders we interact with on an ongoing basis.

Investors

Our leadership and investor relations team meet with investors on a regular basis to respond to questions and concerns and provide presentations. Other more formal venues for engagement include the annual general meetings of Diageo and its quoted subsidiaries, online communications and our ongoing responses to investor questionnaires on topics including corporate citizenship. Makinson Cowell also carries out an audit of our investor relations on a regular basis.

Employees

Employees are kept informed by a variety of means about changes that affect them, from team meetings, employee newsletters and forums. One particularly important piece of employee engagement that helps us set our strategy and manage our business is our annual Values Survey with nearly 30 questions, covering everything from the quality of line management to how we are doing on responsible drinking. The scores are correlated against Diageo's five values. This year, 19,672 employees responded to our 2010 annual Values Survey which accounts for 90% of our people. This is the highest ever response rate, rising from 81% in 2009.

Commercial partners

We work closely with commercial partners such as our customers, distributors, JV partners and suppliers to help us identify opportunities for mutual commercial benefit and maintain high standards of citizenship in the value chain. We engage our commercial partners in a variety of ways, such as directly through customer and supplier surveys and performance tracking or indirectly such as third party supplier audits through SEDEX.

Government

We engage government and other policymakers on relevant policy areas through briefings, direct meetings or multi-stakeholder forums to inform policy. For example, working with the International Center for Alcohol Policies (ICAP) and its sponsor companies, we sponsored a multi-stakeholder workshop in Seoul in November 2009 to bring industry and government stakeholders from across South Korea together to discuss the reduction of harm related to the misuse of alcohol.

Community

We work with our local communities and NGOs in a variety of ways. Much of our interaction occurs at the local level with organisations that help us implement our projects. In addition to direct meetings and partnerships, we host engagement forums around particular topics. This year, for example, we hosted business roundtables on water use in Africa with the International Business Leadership Forum.

Media

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

We aim to respond to consumers' changing needs through extensive engagement. This can happen as part of formal market research or through brand and corporate websites. We provide product information on packaging through our website DRINKiQ.com. In some countries, consumers can voice their concerns via consumer care lines.

External codes and charters

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

- **UN Global Compact and CEO Water Mandate**

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

- **Copenhagen Communiqué**

Diageo signed the Copenhagen Communiqué on Climate Change, an international effort against climate change that secured the support of over 700 companies,

from the US, EU, Japan, Australia, Canada, Brazil, Russia, India, China and South Africa. The statement from the international business community was published ahead of the United Nations climate change conference which took place in Copenhagen in December 2009.

The Copenhagen Communiqué is a short statement that draws on some of the key recent thinking on climate policy that has emerged from the international business community, and sets out the business case for a strong and effective UN climate framework.

- **Dublin Principles**

The Dublin Principles provide guidance for mutually acceptable means of cooperation, based on ethical principles, among all those concerned with alcohol consumption and its effects. Adopted by consensus by an international group of experts in 1997, they provide a framework for cooperation among the beverage alcohol industry, public health officials, researchers, and others.

- **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 influence the drafting of the Diageo environmental policy.

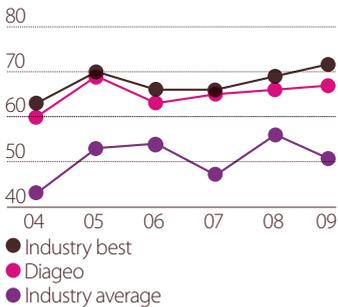
Independent views of Diageo

For seven years Diageo shares have been selected for some of the leading socially responsible investment indices, including FTSE4Good, Dow Jones Sustainability World Index and STOXX Europe Sustainability Index.

FTSE4GOOD – ftse4good.com
 FTSE Group confirms that Diageo has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series.



Dow Jones corporate sustainability assessment – sustainability-indexes.com
 Last year Sustainability Asset Management (SAM), the research organisation behind the Dow Jones Sustainability World Index, rated Diageo well above average in the sector.



Business in the Community – bitc.org.uk

Business in the Community, a UK-based international network of businesses committed to sustainability, placed Diageo in the 'Silver' band of its corporate responsibility index for 2009.



Business in the community assessment*

Year	Score %	Band
2009	87.4	Silver
2008	93	Gold
2007	88	Silver
2006	92	Gold

*Results by calendar year

Global 100 List – global100.org

For the sixth year in a row, Diageo was listed 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. In the 2010 ranking, Diageo is the only alcohol beverage company to be included.



Carbon Disclosure Project – cdproject.net

We have participated in the Carbon Disclosure Project (CDP) 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. 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.



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Alcohol
in society

Our work on the role of alcohol in society is fundamental to achieving our purpose to celebrate life every day, everywhere. Diageo believes that responsible drinking is a valued and enjoyable part of celebrations in everyday life for most people who choose to drink.

Overview

Our work on the role of alcohol in society is fundamental to achieving our purpose to celebrate life every day, everywhere. Diageo believes that responsible drinking is a valued and enjoyable part of celebrations in everyday life for most people who choose to drink. We take great care to only market our brands responsibly to adults. We support programmes, practices and policies that create a more positive role for alcohol in society and address issues related to the misuse of alcohol including drink driving, underage drinking, and over-consumption of alcohol. We encourage our consumers to make responsible decisions about drinking – or not drinking – and we expect the same from our employees worldwide. Our employee alcohol policy sets out the standards we expect from our people, both in and out of the workplace where they act as Ambassadors for Diageo and its values.

Alcohol's role in and impact on society is central to the sustainability of Diageo's business. We recognise that some of our consumers cause harm to themselves and others when they drink irresponsibly. This is not good for them, for society or for our reputation, and we seek to do our part, working with others, to address this problem.

Alcohol misuse is a complex issue involving physiological, psychological, social and cultural factors. Most experts acknowledge that changing behaviours and culture around alcohol misuse requires a comprehensive, long-term approach.

We believe that such change is more likely to occur if all interested parties – beverage alcohol companies, retailers, governments, NGOs, law enforcement organisations, public health groups, communities, educators, parents, and individuals – work together towards a common goal.

Working in partnership with others is central to our strategic approach to creating a more valuable role for alcohol in society. We focus on three areas where we believe our contribution has the most impact:

1. Set high company and industry standards in responsible marketing and provide consumer information about our brands

We are committed to marketing our brands responsibly, focused only on those of legal purchase age. We also seek to provide consumers with clear information about our products.

2. Implement initiatives designed to raise awareness and work with others to seek to change attitudes and behaviour to minimise alcohol misuse

In all of our top 40 markets (by value), we run programmes or initiatives aimed at addressing the misuse of alcohol, such as drink driving, underage drinking and overconsumption of alcohol. Most often this is with the support of other companies from the beverage alcohol industry, retailers, governments, educators, and law-enforcement organisations.

3. Promote effective and targeted alcohol policies and foster balanced debate and stakeholder dialogue at the global, regional and country levels

Alcohol policy frameworks play an important role in encouraging responsible drinking. We believe that the most effective policies to reduce alcohol misuse are those based on the best evidence, that account for drinking patterns, target specific at-risk populations, treat all forms of alcohol equitably, and involve all stakeholders working toward a common goal. We believe the industry has an important role to play in alcohol policy and we welcome dialogue on these issues.

In the following sections, we describe the progress that we have made in each of these areas during the year as well as the targets we have established to measure our progress towards achieving sustainable improvements in creating a more positive role for alcohol in society.

Related cross-priority activity

Consumer and customer CSR strategy

In many instances we reach consumers through our brands and through collaboration with our customers.

More on this activity, see page 71.

Responsible marketing and consumer information

Aspiration:

Set high company and industry standards for responsible marketing and provide information about our brands to consumers.

Targets:

By 2011

- Diageo's online approval for marketing initiatives, Smart Approve, is used by all regional units and brands teams where technically possible
- An online learning tool for a refreshed digital code of practice is implemented

By 2013

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

Diageo Marketing Code

The Diageo Marketing Code governs every element of the research, development and marketing of our brands. It guides us as we gather research on adults of legal purchase age, as we develop products to appeal exclusively to these adults and as we package and promote all our brands responsibly. The Diageo Marketing Code is firmly embedded within our research, innovation and marketing functions in all markets in which we conduct business.

However, we believe that an ongoing programme of awareness and training is essential to maintain and embed responsible practices across Diageo. Employee feedback plays an important role in code compliance through a confidential 'SpeakUp' helpline that allows employees to raise concerns or report any suspected breach of a Diageo code or policy without fear of reprisal.

During the past year we rolled out a Diageo Marketing Code refresher training for marketing and innovation personnel in all regions. This programme of training follows on from our code revisions in 2009.

In addition to the Diageo Marketing Code, we maintain a Digital Code of Practice, which provides more detailed guidance on responsible marketing in the digital space. These guidelines are updated on a regular basis as we take into account the rapidly evolving nature of digital media. Key components of the Digital Code of Practice include guidelines addressing age affirmation tools on Diageo-owned digital assets, age-appropriate content placement on 3rd party sites, user-generated content moderation and consumer privacy. For example, our placement guidelines require content to appear only where at least 70% of users can reasonably be expected to be above the legal purchase age. This year we developed more specific social media guidelines advising on appropriate consumer engagement techniques on social networks and other digital platforms. They stress the importance of exercising common sense and maintaining transparency when promoting our brands on social networking sites.

Due to the interactive nature of digital media, consumer-generated content (e.g. video, pictures, blog posts) at times associate our brands with irresponsible drinking. An example of this is the 'icing' phenomenon, a drinking game in the US, driven by an unauthorised third-party website. The game focused on our Smirnoff Ice brand and encouraged irresponsible drinking behaviour, which is counter to Diageo's values. Diageo took measures to stop this misuse of the Smirnoff trademark, while making it clear that this drinking game does not comply with our marketing code and that it was not created or promoted by Diageo, Smirnoff Ice, or anyone associated with Diageo, as some in the media had speculated. As a result, the owner of the offending website took it and other related websites down.

Through our online tool SmartApprove, we have advanced the role of technology in our efforts to manage our global programs. SmartApprove enables all marketing related activities to be reviewed by all the relevant functions (including Legal, Corporate Relations and Marketing) for the purposes of compliance with the Diageo codes and policies. It also helps to embed the principles and standards of the Diageo Marketing Code and Digital Code of Practice across the company. SmartApprove has now been rolled out to every region where Diageo operates.



Industry codes

In addition to setting high standards of marketing, compliance and ethics within Diageo, we understand that similarly high standards should be followed across the beverage alcohol industry. We abide by industry self- or co-regulation codes in markets where they exist and we work with the bodies that oversee the codes to encourage members of the public and others to complain about beverage alcohol marketing, and to make the resolution of those complaints public.

Below we report complaints regarding beverage alcohol companies' marketing 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).

In July 2009, the ABAC Complaints Panel in Australia received a complaint against a stadium announcement for Bundaberg Rum, played 10 minutes before the end of a rugby match, claiming it encouraged drinking and driving. This was not the intent of the ad, so in order to eliminate any misperception, Diageo immediately withdrew the announcement from possible future use. However, the ABAC complaint process went ahead and the complaint was eventually upheld.

We are working with the industry and other organisations, such as the World Federation of Advertising and the European Advertising Standards Alliance, to implement industry marketing codes in countries without them and to improve self- or co-regulation codes where necessary. This year we have helped develop and implement industry marketing codes in Costa Rica, El

Salvador, Ghana, Guatemala, Honduras, Nicaragua, Nigeria, Panama and Trinidad. In addition, we are working with the International Center for Alcohol Policy to strengthen self-regulation systems for responsible marketing in more than 10 countries (see: www.global-actions.org).

Complaints upheld (July 1 2009 – 30 June 2010)

ABAC, Australia	Diageo brands	1
	All alcohol beverages	10
ASAI, Ireland	Diageo brands	0
	All alcohol beverages	0
ASA, UK	Diageo brands	0
	All alcohol beverages	5
Portman Group, UK	Diageo brands	0
	All alcohol beverages	5
DISCUS, USA	Diageo brands	0
	All alcohol beverages*	1

* All DISCUS members' brands plus non-members' spirits brands.

Consumer information

We recognise that consumers want to make informed choices about what or whether they drink on the basis of facts. We have a global policy with the aim of providing meaningful information to consumers in the best and clearest ways possible. The Consumer Information Policy applies to all Diageo wholly-owned beverage alcohol brands. It encompasses facts on allergens, alcohol content/serve size, nutrition, as well as responsible drinking reminders (RDRs) such as 'Drink Responsibly' and our global website on responsible drinking, DRINKIQ.com. The information is delivered through multiple communication channels, including primary and secondary packaging, DRINKIQ.com and consumer care lines. Nutrition information appears only on DRINKIQ.com unless local regulations block access to the site or mandate nutrition labeling.

Implementing the Consumer Information Policy, where it is permitted under local law, is a mandatory requirement to be followed by all of our business units in the commercialisation of all our products including new-to-market, innovation pilot and renovated or repackaged products.

Responsible marketing in Central America

Diageo led the formation of the Asociación de Productores e Importadores de Bebidas Alcohólicas de Centroamérica (APIBAC) as an effort to unite the industry across the Central American region, to play a constructive role in the formulation of alcohol policies, and to support responsible consumption in the region. APIBAC comprises companies that import, produce, distribute and export beverage alcohol products in Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama. Among the organisation's first achievements was the development and implementation of a state-of-the-art advertising code that was adopted by all APIBAC members and governs all advertising and sponsorship activities, and incorporates a self-regulatory enforcement mechanism. The code drafters examined a number of international self-regulatory codes, including those adopted by DISCUS (US), EFRD (European Union), ACODIL (Colombia), and ABIA (Puerto Rico), among others, to identify and incorporate international best practices and to tailor the code to the needs of the Central American region. The Code was presented to regional media at a roll-out event in Guatemala in November 2009.

Programmes to address alcohol misuse

Aspiration:

Invest in programmes to raise awareness and, working with others, seek to change attitudes and behaviour to minimise alcohol misuse.

Target:

We believe in the benefits of working with other interested parties (such as other beverage alcohol companies, retailers, governments, NGOs, law enforcement organisations, public health groups, communities, educators, parents, and individuals) to invest in initiatives that raise awareness and seek to change attitudes and behaviour. We will keep our target of supporting programmes in our top 40 (by value) markets where Diageo operates and continue to invest in initiatives that are evaluated as effective in changing attitudes.

In 2010, we supported more than 200 programmes in more than 40 countries to address alcohol misuse, either directly or with the support of other organisations. Going forward we want to focus our efforts on initiatives that have proven to have the most impact – whether these train, raise awareness about an issue or policy, or help change attitudes to drinking. In doing so, we recognise that working with governments and other stakeholders to change alcohol policy is sometimes essential for our programmes to take root and have more impact.

We will continue to focus our efforts on our top 40 markets (by value) because we feel we can make a more significant difference in those markets where we have a major presence and can establish strategic alliances to support the implementation of our policy.



Mika Hakkinen, Responsible Drinking ambassador, takes Diageo's 'Join the Pact' initiative to Latin America.

Given the diverse cultures and issues across our top 40 markets, there is not a one-size-fits-all solution to address alcohol misuse. We therefore tailor our programmes according to local issues and the needs of our consumers, customers and stakeholders. Our local business units determine their major issues and, depending on local circumstances, select a programme on our Continuum to Change model.

Continuum to Change model

Enforce/Regulatory Framework	Educate	Engage/Create Awareness	Effect/Change Attitudes
Establish and improve laws, regulations and policies to create a foundation that allows change to occur.	Develop, implement or support initiatives that inform or train on specifics of alcohol misuse in society.	Engage consumers' interest in issues in order to effect changing attitudes.	Address underlying consumer motivations to change attitudes to alcohol.

Working with others

Whatever our approach, we believe in alliances and collective industry actions where possible. We have worked with national and local governments, law enforcement agencies, educators, universities and student groups, sports clubs, retailers, transport and road safety organisations and a number of celebrities in order to deliver our programmes.

We are particularly pleased to announce two new collective industry efforts launched this year:

The Campaign for Smarter Drinking

In the UK, Diageo has joined together with the government, Drinkaware (an independent, UK-wide charity) and over 45 companies from the beverage alcohol industry to tackle binge drinking among 18-34 year olds with a £100 million social marketing campaign. The 'Campaign for smarter drinking', which has the theme 'why let good times go bad?' will run for at least five years and represents the largest ever responsible drinking campaign by media spend and the first example of collective action by the industry in the UK. In its first year, the campaign achieved a media value of £23.8 million; £3.8 million over target with 85% of the target audience saying that they felt the information was highly relevant to them and even more importantly, 63% claiming that they are likely to consider drinking differently.

For more information, visit www.drinkaware.co.uk

ICAP Global Actions on Harmful Drinking

The Global Actions on Harmful Drinking is a consortium of initiatives dedicated to help reduce the harmful misuse of alcohol. This work is the result of a collective commitment made by the chief executives of

major international beverage alcohol producers to make a significant effort to address harmful drinking by 2012 through a combination of global and local actions, with an emphasis on low and middle income countries. Areas of focus include self-regulation, drink driving, and non-commercial alcohol, with initiatives being implemented in 18 countries. For more information visit www.global-actions.org.

The term 'non-commercial alcohol' refers to traditional drinks produced for home consumption or local trade, unregistered and counterfeit products, and 'surrogate' alcohol derived from medicinal compounds, automobile products, cosmetics and other substances.

We have a broad range of activities across different markets, so to report on progress this year, we have provided highlights drawn from our Continuum to Change model.

Educate and train

We aim to develop, implement or support initiatives that inform or train customers, bartenders, and consumers on specific issues of alcohol misuse:

Age verification schemes

Working with retail partners to prevent purchase of beverage alcohol by those under the legal purchase age enables Diageo to have a direct impact in changing retailers' attitudes and practices in age verification of consumers.

We expanded the WE ID age verification scheme launched in Kenya last year to Uganda, and we continue to run the Wal-Mart age verification scheme operating in Brazil. In the US we continue to support the Responsible Retailing Forum in establishing best practice in age verification.

Bartender training

We continue to support bartender training in many of our markets and have launched a toolkit for our markets to help implement schemes where they are not in place.

Awareness and engagement initiatives

This year we launched a drink driving toolkit, which draws on the experience derived from successful campaigns such as Guardian Angels (which runs in 13 countries across Latin America, the Caribbean and Asia), Join the Pact (an activation campaign focused on encouraging consumers to sign a pact not to drink and drive and to designate a driver, organised through Johnnie Walker's sponsorship of the Vodafone McLaren Mercedes Formula One racing team), Crown Royal's Safe Rides sponsorship of NASCAR in the United States and the Drive your Friends campaign in Greece. The Greek initiative demonstrated that 75% of programme participants versus 48% of non-participants were 'a little more' or 'definitely more' likely to designate a driver. The toolkit will help to extend these and other effective drink driving awareness campaigns to other markets.

Affect/change attitudes

Creating a more positive role for alcohol in society means seeking to change consumer attitudes and behaviour so that adults make responsible choices about drinking – or not drinking. We recognise that this is a huge ambition that will take time, perhaps even a generation, to realise. We cannot achieve it ourselves: it will require cooperation with many groups such as retailers, governments, NGOs, law enforcement organisations, public health groups, communities, educators, parents and individuals – as well as from other producers of beverage alcohol.

DRINKiQ

In 2008 we launched the responsible drinking website DRINKiQ.com to raise the level of awareness and debate regarding alcohol issues. Now DRINKiQ consists of a global website and 18 country websites in eight local languages: English, Spanish, French, Russian, Greek, Italian, German and Chinese. DRINKiQ.com 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 website are experts' views, facts about alcohol, responsible drinking tips, nutrition information about Diageo brands, and an outline of Diageo's approach to responsible drinking. The resource centre targets four specific stakeholder groups – parents, educators, law enforcers and retailers – and provides information and resources to help them prevent and tackle issues related to the misuse of alcohol.

In 2009, the website won the Social Excellence Award presented to Diageo Iberia by the government of Pozuelo de Alarcón in Spain and was added as a link to the European Alcohol and Health Forum website. DRINKiQ was also declared the Most Outstanding Health and Wellness Site by the International Academy of the Visual Arts, and was runner-up in the Education Category.

Our DRINKiQ internal awareness initiative, which runs alongside the DRINKiQ.com website, has proven hugely successful and has now been rolled out to over 18,000 employees around the world. The initiative is designed to enhance our employees' understanding of making responsible decisions about drinking – or not drinking – and to equip them with the knowledge and confidence to be ambassadors for responsible drinking. We will continue to provide all employees with the opportunity to attend a DRINKiQ session.

Over the past year we have invited a range of external stakeholders such as government officials, sports teams, business partners and adult students to attend a workshop. In the last year the programme has been delivered to external stakeholders in China, Estonia, Ghana, Great Britain, India, Korea, Mexico, Namibia, Russia and Thailand. The response has been very positive. For example, of more than 700 Guinness Premiership rugby union players who underwent the training in Great Britain, over 90% recommended it to their peers. We will continue to run DRINKiQ workshops next year.

Visit www.DRINKiQ.com for more information.


 The logo for DRINKiQ.com features the word "DRINKiQ" in a dark grey, sans-serif font, with the "i" and "Q" in a light green color. To the right of "DRINKiQ" is ".com" in a smaller, dark grey font.

Reclaiming the night-time economy

Promoting responsible drinking during the evening plays an essential role in creating a vibrant night-time economy that is safer and more enjoyable for all. With our corporate goal of celebrating life every day, everywhere, and our well-established commitment to responsible drinking initiatives, Diageo is a natural partner for programmes focused on transforming the experience of urban centres in the evening.

In the UK, Diageo will be the headline sponsor of the Purple Flag initiative for the next three years. Backed by the Home Office, Purple Flag is an accreditation programme, which recognises excellence in managing the evening economy of town and city centres. Purple Flag offers reassurance to consumers that their city centre offers a good and safe night out. It aims to halt the deterioration in standards and change negative perceptions of town and city centres.

Purple Flag has already had an impact such as changes in policy attitudes and practice, reduced crime and antisocial behaviour, cleaner streets, trained door supervisors, late night transport, and more late night venue openings (not just bars and restaurants but museums, art galleries, libraries and shops to increase diversity of choice).

In Denmark, Diageo has teamed up with the City of Copenhagen and the International Harm Reduction Association (IHRA) in a three-year initiative to create safer nightlife in the City of Copenhagen. Major parts of the programme include: server training, a certification programme, consumer campaigns and a 'nightlife forum' where bar owners can meet city officials, police and others to discuss issues related to nightlife.

The Responsible Hospitality Institute (RHI), in which Diageo plays a leading role, is transforming the management of downtown areas of North American cities through initiatives such as the Sociable City Network. The RHI strategy focuses on engaging local stakeholders to create more vibrant night-time economies with benefits for all through improved transportation and crowd management and reduced over-consumption and underage drinking. Edmonton, Canada this year received RHI's first Most Sociable City Award following its 'Be a lover not a fighter' campaign to reduce violence in the on-trade, among other initiatives.



Responsible Drinking Ambassadors in Africa

GUINNESS Cameron has created a groundbreaking, brand-led responsible drinking campaign for Africa. The pioneering TV commercial showcases Samuel Eto'o, world famous Cameroonian footballer and Guinness Greatness Ambassador, highlighting his incredible control on the pitch as an inspiration for consumers to stay in control and drink responsibly during the holiday season. The campaign includes a TV and radio commercial as well as press inserts.

Nameless, a Kenyan hip-hop artist, has been signed up as a responsible drinking ambassador for East Africa Breweries Ltd. Discovered in 1999 through a star-search contest, Nameless has since released several hits winning him laurels at the MTV Africa Music awards. He was listed as one of the most influential Kenyans by the Standard newspaper in August last year.

The campaign endorsing the slogan 'Jitolee' (meaning 'step up') urges consumers to drink responsibly and to avoid drink driving. Nameless' passion for responsible drinking is well known and enhances his commitment to his new task. This is Nameless' message for consumers: "Let us remember to be responsible adults. Drink responsibly and designate driver(s) to get your friends home safe."



Screening and brief interventions (SBI)

Screening patients for alcohol problems is one effective strategy for helping to reduce hazardous drinking. Diageo has been an early supporter of the technique in the US and supports the training of physicians in SBI through grants to the Medical Society of the State of New York and introductory sessions at meetings of the medical profession. In 2010, we extended our support for SBI training to the college level through a grant to Sacred Heart University in Connecticut to support the BASICS (Brief Alcohol Screening Intervention for College Students) programme.

Diageo has also partnered with a number of public health groups to promote SBI at the national policy level, advocating the inclusion of SBI services as a reimbursable expense in the landmark healthcare reform bill, the Patient Protection and Affordable Care Act. In the final bill, which President Obama signed in March 2010, language allowing physicians to be reimbursed for SBI services was included.

Building on the SBI techniques developed in the US, we launched a new SBI programme in Kenya this past year. The Kenya Alcohol Screening and Brief Intervention programme is run in

a rural hospital as well as a National Public Referral Hospital and aims to build on lessons learned from the US market to develop an SBI model that is feasible and effective in a Kenyan health care setting. For more information, download the Alcohol Screening and Brief Intervention poster PDF.

Part of the ongoing relationship between Diageo in Great Britain and the National Organisation for Foetal Alcohol Syndrome (NOFAS-UK) involved the trial of a new screening and brief intervention training programme, funded by Diageo called, 'What do you tell a pregnant woman about alcohol?'. The programme equips midwives with the skills to start conversations with mums-to-be about the risks of drinking during pregnancy and its effects on the child later in life. 226 midwives attended the pilots with extremely positive feedback; 90% of the attendees surveyed reported that they are using the skills they learned in their everyday practice, and 94% indicated that they believe that the programme should be mandatory for all student midwives.

Alcohol policy and stakeholder dialogue

Aspiration:

Continue to promote effective alcohol policies and foster balanced debate and stakeholder dialogue.

Our ability to help create a more valuable role for alcohol in society depends to a great extent on a balanced regulatory framework providing a strong foundation for our programmes. We believe that the most effective policies to reduce alcohol misuse are those based on the best evidence, that account for drinking patterns, that target specific at-risk populations, that treat all forms of alcohol equitably, and that involve all stakeholders working toward a common goal.

Therefore, Diageo actively supports effective and targeted alcohol policies at the global and national level. Establishing consensus on alcohol policy issues such as responsible marketing, drink drive blood alcohol content levels, legal purchase age, tax policy and other regulatory measures such as how to deal with illicit alcohol is essential to Diageo's goals for a sustainable future.

The launch of the World Health Organisation's global alcohol strategy to reduce the harmful use of alcohol is an important and constructive watershed in collective action to address alcohol issues around the world. Diageo, together with other major international drinks companies, plans to work constructively with WHO member states to help implement the strategy by supporting and contributing to feasible and effective policies that reduce harmful drinking.



Activities worldwide

Working with the International Center for Alcohol Policies (ICAP) and its sponsor companies, we sponsored a multi-stakeholder workshop in Seoul in November 2009 to bring industry and government stakeholders from across South Korea together to discuss the reduction of harm related to the misuse of alcohol. In Thailand, six alcohol beverage companies, including Diageo Moët Hennessy (Thailand) Ltd, established in February 2010 the DrinkWise Thailand Association a non-profit organisation with the aim of creating a responsible drinking culture in Thailand.

Across Africa, work continues to develop and begin implementing robust national alcohol policies. In all cases, the work has been led by the relevant Ministry of Health, in consultation with the WHO and other stakeholders, including, in most cases, trade associations. The countries in which this work is taking place include Botswana, Ghana, Kenya, Namibia and Uganda. We welcome these

developments and remain committed to working with others in these countries to reduce the harmful misuse of alcohol.

In Europe, we supported proposed legislation in Denmark to mandate breathalysers in cars of convicted drink drivers, along with the Danish Road Safety Directorate and the European Transport Safety Council.

In the US, we continue to work with state legislators and community groups to enact driver's licence sanctions for adult providers of alcohol to underage people, and for underage drinkers themselves. We also continue to support social hosting laws at the state level to discourage the illegal provision of alcohol to minors by adults at 'house parties'.

The indigenous population in the United States suffers from particularly

high levels of alcohol abuse. Diageo is working with the Cook Inlet Tribal Council (CITC) in Alaska, as well as with the US Substance Abuse and Mental Health Services Administration and the Paul G Allen Foundation to promote greater understanding of the cultural issues that lead to these problems. In September 2009, Diageo supported a conference on cultural resonance hosted by CITC, the conclusions of which were later presented to other indigenous conferences and the International Initiative of Mental Health Leadership in Ireland.

“Diageo’s participation and financial support for CITC’s Conference on Cultural Resonance is an important factor in moving the agenda forward for developing best behavioral health practices for indigenous people here in the United States and internationally. This endeavor is so very important in light of the high rates of addiction, mental health disorders and tragic outcomes such as suicide for communities of indigenous people.”

Gloria O’Neill
President & CEO
Cook Inlet Tribal Council, Inc.
Anchorage, Alaska

Social Aspects Organisations

Over the years, we have helped establish many social aspects organisations (SAOs). These are industry-funded organisations that tackle alcohol misuse and promote responsible drinking. We have worked with SAOs to develop codes of responsible marketing and raise awareness about responsible drinking.

Diageo memberships of social aspects organisations – as of 8 June 2010

Asociación de Productores e Importadores de Bebidas Alcohólicas de Centroamérica (APIBAC) (Association of producers and importers of alcoholic drinks of Central America)	TBA
DrinkWise, Australia	www.drinkwise.com.au
Educ’alcohol, Canada	www.educalcohol.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.soifdevivre.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
DrinkWise, Thailand	

Other alcohol in society case studies

Cool Drinker programme goes from strength to strength

First launched in 2004, Diageo's Cool Drinker programme combats drink driving in South Korea by working with driving centres, universities and corporations to raise awareness and engage consumers by collecting pledges not to drink drive. Last year, the programme passed a benchmark of 40,000 pledges and received the Korean Road Safety Award. The programme targets drinkers in their early twenties under the slogan 'Cool Drinker – Drink slowly, Go back home early' and focuses on three key areas; university campus responsible drinking activities, DRINKiQ training and advertising in public places. During the 2010 Spring Festival (a traditional holiday in South Korea), 1,800 students were exposed to the responsible drinking messages. High profile responsible drinking advertisements were placed in cinemas and on public buses.

Diageo Australia launches a summer of safe drinking with the 'Know when to declare' campaign

In an Australian first, Cricket Australia and its partners Diageo Australia, Foster's Group Limited and the Nine Network launched a national broadcast campaign called 'Know when to declare' urging sports fans, particularly young adult males, to take responsibility for their alcohol consumption. The campaign featuring cricket legends and current players is designed to demonstrate the benefits of making the right decisions on and off the field. It does this using cricketing iconography and language young sporting fans can easily relate to.

European drink driving campaigns aim to halve road fatalities across the Continent

Diageo signed the European Road Safety Charter in 2006, becoming a key stakeholder in an initiative that aims to halve the number of traffic fatalities across the Continent by calendar year 2010. As part of Diageo's commitment to the charter, it has backed numerous anti-drink drive campaigns across Europe, including in Denmark, Hungary, France, the UK, Ireland, Italy, Sweden, Spain, Norway and Poland.

Join the Pact, the don't drink and drive campaign that leverages Johnnie Walker's sponsorship of Formula One team Vodafone McLaren Mercedes, ran targeted awareness campaigns in Greece and Germany spearheaded by the global responsible drinking ambassador, Mika Hakkinen. The campaign also launched a competition to win tickets to the Belgian Grand Prix.

Guardian Angels spread wings from Latin America and the Caribbean

'Guardian Angels' can be spotted on the streets of Latin American and Caribbean cities during the holiday and festival seasons (Christmas and Semana Santa as well as cultural events like Carnival and Fiesta de Flores). These 'winged' brand ambassadors visit retail establishments and appear on billboards, reminding consumers to take responsibility for their actions and play the role of 'guardian angels' themselves by looking out for friends and family when celebrating with alcohol.

Complementing the good deeds of the angels – who on occasion number celebrities among their ranks – are Diageo employees who volunteer as Responsible Drinking Ambassadors.

Hakkinen and Hamilton joust for the Join the Pact chequered flag

Johnnie Walker's Join the Pact campaign uses the brand's sponsorship of Formula One team Vodafone McLaren Mercedes to drive home its message not to drink drive. This year's highly successful viral campaign leveraged the creative potential of digital media as well as the brand's core strengths of sophistication and intelligence. The campaign featured Join the Pact spokesmen Mika Hakkinen and Lewis Hamilton competing to sign up the most people pledging never to drink drive. 750,000 signatures have been collected to date. As part of this campaign, a public service advertisement featuring Mika Hakkinen ran across Latin America reminding consumers to not to drink drive and to designate a driver.

Responsible Retailing Forum

Diageo is a key supporter of the Responsible Retailing Forum (RRF), a US initiative that brings together public and private organisations to promote best practices in preventing underage sales. An important element of the forum's strategy is assessing the impact of responsible retailing policies and promoting community-wide action, and this approach has helped to drive significant improvements in age-verification rates in a number of cities. In 2009, RRF was awarded a Small Business Innovation Research grant from the National Institutes of Health to develop its model further, and help licensees to implement age-verification and refusal techniques.

"Since 2003, Diageo has provided principal support for the Responsible Retailing Forum, Inc., a non-profit organization which has brought an empirical, research-based approach to preventing alcohol sales and service to underage people. Pilot studies funded by Diageo have now led to a research award from the National Institutes of Health that will allow RRF to develop sustainable systems for cities and states, based upon Best Practices."

Brad Krevor, Ph.D.

President
Responsible Retailing Forum

Standard Drinks in Thailand

The newly established social aspects organisation in Thailand, the DrinkWise Thailand Association aims to educate Thai drinkers about the 'standard drink' through its 'Standard Drink– Know Your Limit' campaign. The organisation is seeking to promote a 10 gram standard drink as a measure through various effective communication tools, especially the Standard Drink labels on containers. The DrinkWise Thailand Association hopes that this campaign will be a stepping-stone for the new drinking culture in Thailand, in which people who choose to drink do so responsibly.

Strengthening Families delivers results

Diageo has a long track record of support for the 'Strengthening Families Programme 10-14' first developed by the University of Iowa in the United States. After many years of consistent results demonstrating an improvement in a range of adolescent behavioural problems, including alcohol misuse, Diageo launched pilots in England, Wales, Scotland, Poland, Spain and Greece. We are now supporting the development of additional pilots in Russia, in collaboration with the Moscow State Teachers Training University and researchers from Oxford Brookes University in the UK. See www.mystrongfamily.org

The Apprentice promotes responsible drinking with Diageo

Diageo Ireland leveraged its association with the popular reality TV show 'The Apprentice' to deliver an integrated responsible drinking campaign with great exposure amongst key target audiences. In one of the most popular episodes of the series, candidates for a dream job were asked to demonstrate their marketing expertise by crafting a responsible drinking campaign for a mass audience.

U.S. football team Washington Redskins drive awareness campaign for responsible drinking

Diageo and the Washington Redskins professional American football franchise have continued their partnership to drive awareness of the 'Responsibility is a Team Sport' campaign. For each tackle recorded by a Redskins safety during the season, Diageo contributed \$100 to the Washington Regional Alcohol Program and its SoberRide initiative, netting \$20,000 for this important programme. Ken Harvey, Diageo's Director of Responsibility and Redskins Safety Chris Horton recorded Public Service Announcements that were broadcast during games. The 'Responsibility is a Team Sport' campaign reaches over 97,000 fans each game.

Winning results at Cheltenham

Diageo worked closely with the local police and the Cheltenham Community Safety Partnership in Cheltenham, England to promote responsible drinking at 2010's Cheltenham Gold Cup Horse Racing Festival. We funded a Bluetooth Messaging Unit for the police to send out a responsible drinking message to the 12,000 racegoers during the four days of the festival. At the end of each day, late-night 'taxi marshals' funded by Diageo were on hand to help provide a safe means of getting home, while 'street pastors' provided late night assistance for those who needed it.

Commenting on Cheltenham Race Festival this year, which resulted in a 48% decrease in alcohol related crime and a 10% reduction in thefts from last year, Cheltenham police issued a press release stating: "We believe that the reduction of these offences is thanks to our successful partnership working with the Cheltenham Racecourse, the Cheltenham Safety Partnership, Diageo, the Cheltenham Street Pastors and local business."

'Walk with Giants – Don't Drink & Drive' in the Caribbean

The International Cricket Council's World Twenty cricket tournament in the Caribbean proved the ideal launch pad for a new Diageo campaign highlighting the dangers of drink driving. 'Walk with Giants – Don't drink and drive', which builds on the success of the three-year 'Know your boundaries' campaign, was launched in Barbados by cricketing legend Sir Vivian Richards and former England cricket captain Michael Vaughn, with the support of the Barbados Minister for Transport.



Environmental
sustainability

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Our vision is that 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.

Overview

Measuring and managing our environmental impact is not only important for the planet, it is essential for the financial sustainability of our supply chain and our business.

We recognise that we are operating in a world where many natural resources that our business relies on, such as fossil fuels and water, are limited. As such, measuring and managing our environmental impact is not only important for the planet, it is essential for the financial sustainability of our supply chain and our business. We are committed to minimising our environmental impact across the full range of our operations, and we are working to extend environmental standards further through our supply chain. We also see a need for establishing consistent, industry-wide approaches to measuring and reporting environmental impacts and are actively working with the Beverage Industry Environmental Roundtable toward this end.

Our environmental policy outlines our commitment to protect against the long-term critical depletion of natural resources and lasting damage to species, habitats, biodiversity and the climate. The policy covers our management approach to energy and greenhouse gases, water, raw materials, solid waste and hazardous substances. It is supported by a detailed set of risk management standards, which dictate how we translate the policy into practice. While our environmental policy covers the areas over which we have operational control, we are also

working with business partners such as our suppliers to help them adopt a similar approach.

All Diageo production sites are required by our environmental policy to have an environmental management system (EMS). EMSs at 22 of our sites, representing 59% of production, are now certified to the international standard ISO14001. Beyond our production sites, we are working through our GREENiQ programme to raise awareness of Diageo's environmental impacts and embed a culture of monitoring and reducing these impacts. See case study below.

At Diageo we have established challenging targets to improve against several key indicators by 2015, as compared to our baseline year 2007. Diageo has chosen to report our environmental performance both in terms of absolute emissions and as measures relative to production. Given the evolving processes and best practice guidance for collecting and managing environmental information we occasionally restate prior year data where more accurate information has become available, where errors in the data have been identified or where policy changes have been implemented that have a material impact on the data reported in prior years in order to give a more accurate representation of our performance.

This year, we have restated the data for greenhouse gas emissions and water consumption reported in the 2009 CCR as more accurate information has become available and to align our greenhouse gas emissions reporting more closely to the World Resources Institute (WRI)/World Business Council on Sustainable Development (WBCSD) Greenhouse

Gas Protocol: A Corporate Accounting and Reporting Standard, Revised Edition. We have also adjusted progress against our targets, as reflected against our 2007 baseline. As part of our ongoing drive to improve the quality of our environmental disclosure, in fiscal 2011 we plan to undertake a review of our reporting guidelines with respect to waste to landfill and waste water (BOD). We believe this is an important piece of responsible environmental management.

Enlisting employees in cutting our environmental footprint

Launched in October 2009, GREENiQ is a global employee engagement programme that aims to harness the passion of our people to deliver a step-change in our environmental performance. Building on the success of our DRINKiQ programme, which engages employees with responsible drinking issues, GREENiQ enlists employees as environmental champions for their sites and then supports them through online networking, a news portal and awards programme. Rooted in the belief that environmental sustainability is about mobilising people as well as investment projects, GREENiQ includes a global competition to find the most sustainable Diageo sites, with the chance for each region, site or individual to win £15,000 to be spent on the environmental improvement programme of their choice.

For information about our approach and methodology for improvement against these targets please see the corresponding areas of this environmental section and our Environmental Reporting Guidelines found in the section About this Report. An independent Assurance Statement has been obtained and sets out the process by which the data has been assured.

Our environmental targets*:

Key measure	2015 target	Progress to date
Water efficiency	Improve by 30%	Improved by 8.3%
Water wasted at water stressed sites	Reduce by 50%	Increased by 11.1%**
Carbon dioxide emissions	Reduce by 50%	Reduced by 10.5%
Waste to landfill	Eliminate	Reduced by 71.7%
Polluting power of wastewater	Reduce by 60%	Reduced by 2.3%

* Targets and progress are compared with 2007 performance.

** While we continue to make progress against most of our targets, water wasted in water stressed sites went up 11.1%, primarily driven by an increase in production at these sites. We recognise that substantial work needs to be done to reach our goal of 50% reduction. For more information on how we are approaching this, please see the water section of this environmental disclosure.

Sustainable and ethical procurement

Find out how we are working with our suppliers to leverage the impact we are making across all of our environmental targets.

More on this activity, see page 68.

Blueprint water strategy

Blueprint, our holistic water strategy, brings together our efforts to increase water efficiency in our operations with our work to provide increased water access to the water stressed communities in which we operate.

More on this activity, see page 66.

Consumer and customer CSR strategy

We are working with our sales and brand teams to leverage our environmental impact. This is an important piece of our CSR strategy because we recognise that we have a role in helping our customers reach their own environmental goals through changes to our brands and their packaging.

More on this activity, see page 71.

Water

Aspiration:

Address the global water challenge in the communities in which we operate through efficiencies in our operations, community investment and collective action.

Stress on water resources is a serious and growing issue for Diageo's business globally. Water is an essential ingredient in our brands and a critical resource for our operations. However it is also vital to our markets, consumers and local communities. The issue is most acute in Africa where we have designated approximately 50% of our plants to be in water stressed areas. The UN predicts that 50% of the population of Africa will face water scarcity by 2025.

Building on past successes, Diageo seeks to implement a new strategic 'Blueprint' based on three platforms designed to affect substantial, sustainable and measurable change: (1) direct operations, (2) community involvement and (3) collective action. In this section we are just addressing our work to address water issues in our direct operations. For information about the entire holistic water strategy, see Diageo's Blueprint Strategy.

We are very encouraged about the progress that we have already made in addressing water issues in our operations, including several innovations introduced at our production sites that have made this progress possible. You can read about some of the examples of our achievements from across the company in our case studies section. Despite this progress, we recognise that our rate of improvement needs to increase if we are to reach our 2015 targets, especially at water-stressed sites. Increasing this rate of improvement is a key priority for us this year.

Setting our targets

We measure Diageo's impact on water resources through the efficiency with which we use water, the amount of water that we waste, and the polluting impact of our wastewater, which can affect the supply of clean water to communities. Since the production of our brands necessarily involves using water as an ingredient, we believe that measuring the efficiency of our water use is a more meaningful indicator than the total amount of water that we use.

Using United Nations and World Business Council on Sustainable Development (WBCSD) data, Diageo has designated ten of its production sites as being located in areas which are 'water stressed', identifying them as higher risk in terms of maintaining a sustainable water supply in the coming years. Our target is to reduce the amount of water wasted at these water stressed sites by 50% between 2007 and 2015, and water efficiency for Diageo as a whole by 30% over the same period.

We treat most of our wastewater, significantly improving the water quality of the discharge, either at our own treatment plants (39% by volume) or through municipal facilities (36%). A further 2% of our wastewater is used as fertiliser on agricultural land. The remaining 23% flows untreated into water bodies, usually to the sea. The impact of these outflows is measured by environmental authorities. Our target is to reduce the polluting power of this wastewater (measured in biological oxygen demand ('BOD') per gram or litre of product) by 60% by 2015, as compared to our 2007 baseline.



Performance

External recognition

In its report, *Murky Waters: Corporate Reporting on Water Risk*, CERES, a non-profit network of investors, NGOs and other public interest groups working to address sustainability challenges, awarded Diageo the highest score of all companies assessed. We are encouraged by this recognition of our progress in managing water as a critical business issue. However, we recognise that the report shows there is room for improvement, as our score was still only 43 out of a possible 100.

Our performance

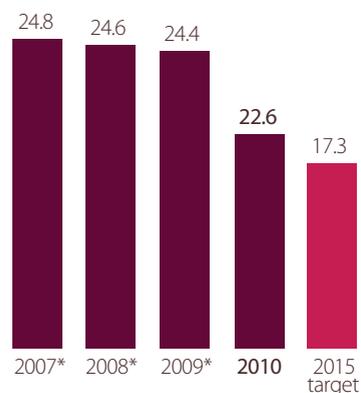
Water efficiency improved 8.3% against the baseline year 2007 due to ongoing improvements identified and implemented across a number of sites in the regions. For example, in Scotland, a process of continuous analysis and improvement delivered a 25% improvement in water efficiency at the Cameronbridge grain distillery during 2010 as compared to 2009. We are investing £65 million in a bioenergy facility at Cameronbridge, which will treat wastewater on site and convert 'spent wash' into renewable energy. We expect the bioenergy facility to commence operations by the end of 2011. It is expected to reduce the site's wastewater polluting power by 99% and supply more than 30% of its water needs through recycling when fully operational. As another example, the Diageo bottling plant in Huntingwood, Australia implemented an innovative technology to reduce water consumption each year (see case study).

Water wasted in water stressed sites went up 11.1%, primarily driven by an increase in production at these

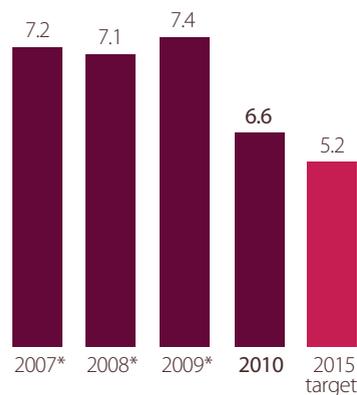
sites. We recognise that substantial work needs to be done to reach our goal of 50% reduction by 2015 and are aiming to implement a number of improvements as a result of a focused project targeted at breweries in Africa. Our focus on water wasted at water stressed sites is a relatively new initiative for us and the lack of tangible progress reflects the fact that our efforts to date in this area have been focused on gathering information at the site level for those plants located in water stressed environments. This process has included activities such as conducting source vulnerability assessments, finalising site water balances and auditing site water use. This data gathering phase is intended to position us to evaluate actions that will have the most impact and this is where we will now target our efforts accordingly.

The polluting power (measured in biological oxygen demand – BOD) per gram of litre of product has decreased by 2.3% since 2007. While this represents an improvement against our target, progress recently slowed this year with a BOD increase of 11.9% versus 2009, driven by increased production at our Cameronbridge distillery in Fife, Scotland. Previously, between 2007 and 2009, BOD had been reduced by 12.6% due to improvements to processes and new effluent treatment plant in Africa. Cameronbridge accounts for approximately 68% of Diageo's wastewater polluting power therefore BOD is likely to increase again in 2011. The discharge from this distillery into the Firth of Forth estuary is regulated by the Scottish Environment Protection Agency (SEPA), is within consents issued by SEPA, and is monitored to confirm that there is no adverse impact on the marine environment.

Water used by year



Water efficiency



Notes for the tables and figures (E2 – E6)

* This data has been restated from that published in the 2009 CCR as more accurate information has become available at a number of our sites. A similar methodology was used for calculating prior year data as for 2010 data.

Water used by regions (m3)

	2010	2009
Europe Supply	5,902,016	6,077,210
Asia Pacific	254,232	241,688
Global beer	14,330,544	15,789,422
America's	1,841,097	1,962,819
Demand	325,050	371,044
Diageo Group Total	22,652,939	24,442,182

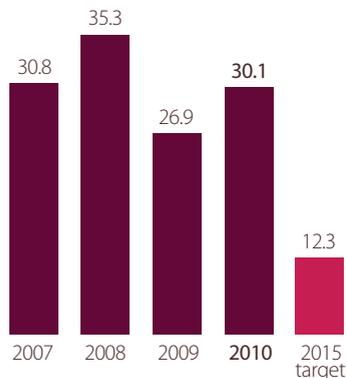
Sources of water (m3)

	Diageo Group Total
Ground (borehole/well)	11,569,715
Mains	9,812,216
Surface (river/lake)	1,299,031

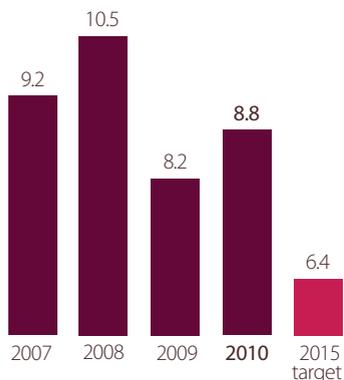
Setting new standards at Huntingwood

Diageo Australia's Huntingwood site has reduced its water usage by 43% since 2001 and been recognised for three consecutive years by Sydney Water's Every Drop Counts business programme. In addition to robust water conservation practices and an award-winning Water Watch Team, Huntingwood has employed an innovative technology (developed by one Water Watch team member) to re-use water in vacuum pumps. This invention saves over 18,000 cubic metres of water every year and has now been implemented at several other Diageo sites. Huntingwood's water conservation record was a major factor in Diageo Australia reaching the final of the inaugural Prime Minister's Water Wise Award.

Wastewater polluting power (BOD kt)



Wastewater polluting power (BOD g/litre of packaged product)



Carbon dioxide and other greenhouse gases

Target:

Reduce carbon dioxide emissions at Diageo production sites by 50% from our 2007 baseline by 2015.

Diageo's greenhouse gas emissions come almost entirely from the burning of fossil fuels at our sites and the purchase of electricity derived from fossil fuels. We are firmly committed to reducing these emissions through the generation of renewable energy at our production sites using by-products, the purchase of electricity from low-carbon sources, and significant improvements in energy efficiency across all of our operations. In 2010, 42% of the electricity that we used came from low-carbon sources. Our target for the upcoming year is to increase the percentage of electricity from low-carbon sources to 50%.

These activities will help us reach our demanding target of reducing our global greenhouse emissions by 50% by 2015. Since our baseline year in June 2007, we have reduced carbon dioxide emissions by 10.5%. This past year carbon dioxide emissions decreased by 3.9% as compared to the prior year against an increase in overall production volumes of 3.9%. Diageo uses the WRI/WBCSD Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, Revised Edition as a basis for reporting its emissions and has included the facilities over which it has operational control in its analysis.

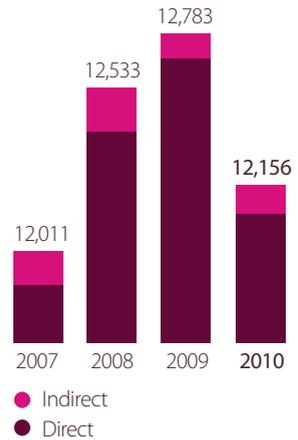
We are pleased with this progress and are grateful for the recognition we have received for our efforts. For example, Global Supply achieved the Carbon Trust Standard this year for its efforts in Scotland, an award that certifies the business there has measured, managed and reduced its carbon footprint rather than off-setting emissions. Reasons cited for the award were the ongoing reduction of the Scottish business's carbon emissions through implementation of a number of projects at various facilities, such as steam pipe installations, new thermostats, and steam recovery.

We continue to invest behind these initiatives. This year, Diageo set aside a special reserve fund of £10 million specifically dedicated to carbon and water reduction projects worldwide. Diageo spent this money improving metering and monitoring systems and implementing projects to drive efficiency such as flash steam recovery at its Scottish malt distilleries, conversion of boilers from diesel to natural gas at the George Dickel distillery in Tennessee in the United States, and waste heat recovery at the brewery in Nigeria.

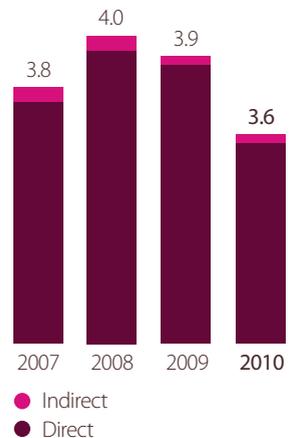
Notes for the following tables and figures
 *This data has been restated from that published in the 2009 CCR as more accurate information has become available at a number of our sites and to align our GHG emissions reporting more closely to the WRI/WCSD Greenhouse Gas Protocol. A similar methodology was used for calculating prior year data as for 2010 data.

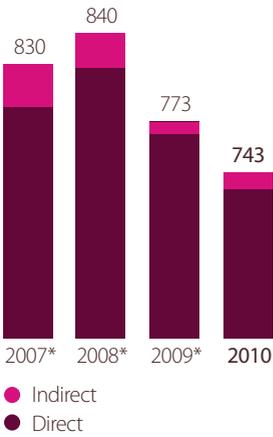
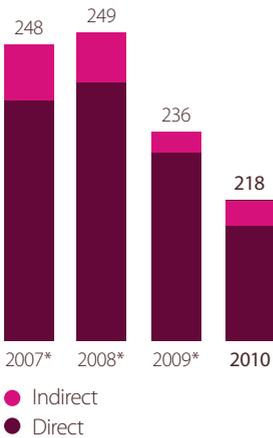
Diageo exports electricity to the relevant grid where excess is generated on site, and the fuel used to generate this electricity is included in Diageo's group data, which accounts for 2.4% of Diageo's Scope 1 emissions.

Sources of energy (TJ)



Energy efficiency (MJ/litre packaged)



Greenhouse gas emissions (kt CO₂e)Greenhouse gas emissions efficiency (CO₂e g/litre)

Enlisting employees in cutting our environmental footprint

Launched in October 2009, GREENIQ is a global employee engagement programme that aims to harness the passion of our people to deliver a step-change in our environmental performance. Building on the success of our DRINKiQ programme, which engages employees with responsible drinking issues, GREENiQ enlists employees as environmental champions for their sites and then supports them through online networking, a news portal and awards programme. Rooted in the belief that environmental sustainability is about mobilising people as well as investment projects, GREENiQ includes a global competition to find the most sustainable Diageo sites, with the chance for each region, site or individual to win £15,000 to be spent on the environmental improvement programme of their choice.

Waste

Target:

Send zero waste to landfill by 2015.

Diageo has made significant progress towards its target of eliminating all waste sent to landfill by 2015. Since 2007, we have reduced waste to landfill by over 70%. The list of our production sites sending zero waste to landfill continues to grow, from 12 last year to 20 in 2010. A significant role is being played by the GREENiQ programme, which is rapidly raising awareness of the need to reduce waste. Read about how our Plainfield site in North America achieved zero waste to landfill this year in the case study below.

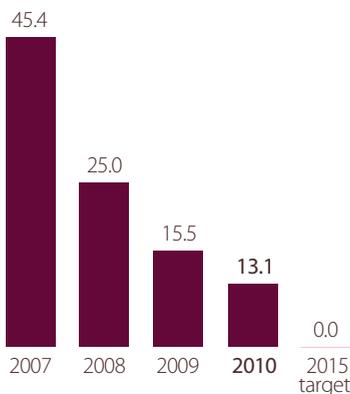
This year we sent 3% of our waste to landfill, while 97% of our total solid output was recycled.



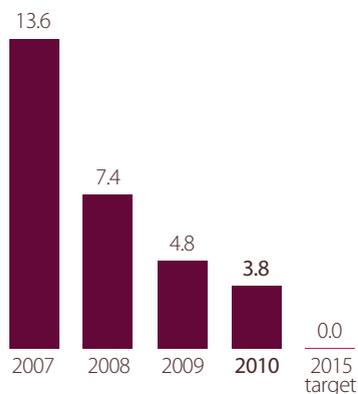
Waste disposal by region (tonnes)

	Reused or recycled	Waste landfilled	Total solid output
Europe Supply	211,936	980	212,917
Asia Pacific	46,063	89	46,152
Global beer	147,515	10,754	158,270
America's	13,030	712	13,742
Demand	1,511	566	2,076
Diageo Group Total	420,056	13,102	433,157

Waste to landfill (kt)



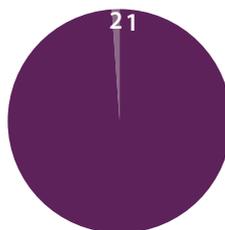
Waste to landfill efficiency (grams/litre packaged)



Zero waste success

Our bottling site at Plainfield, Illinois in North America was one of eight Diageo sites to achieve our group-wide zero waste to landfill target during the last year. Plainfield eliminated landfill waste through an expanded recycling programme and a new by-product re-use initiative, preventing an average 200 tons of waste per year from reaching landfill. Office paper, cardboard, packing materials, aluminium cans, plastic wrap, and plastic and glass bottles are all now recycled, while spent seeds and berries from gin production are now sent to a local composting site.

Hazardous waste vs non-hazardous waste and disposal method



1.2% Hazardous waste to non-hazardous waste ratio
 1 98.9% – % hazardous reused or recycled
 2 1.1% – Hazardous waste landfilled

Sustainable packaging

Our goal is for all Diageo packaging to be premium and sustainable.

Aspiration:

Drive year-on-year improvements to deliver sustainable packaging for all our products with the smallest environmental footprint by 2015.

Packaging represents a key area of focus for reducing our environmental impact. Our goal is for all Diageo packaging to be premium and sustainable. During 2010, we took significant strides towards achieving this vision.

Firstly, we developed new guidelines on sustainable packaging that embed specific design principles detailing that every Diageo pack should be made from sustainable materials and energy sources (ie sources that will not be limited over time). It also explains that the pack should be technically recyclable or reusable, while retaining the required functionality and brand cues and meeting our quality standards. The new guidelines will build on, support and formalise the several sustainable packaging initiatives that are already in place across Diageo. They also provide us with a framework for establishing sustainable packaging standards in our supply chain.

Secondly, we have been reviewing baseline data on the weight and recyclability of our packaging. This is enabling us to identify opportunities for further improvement in the coming year. Weight reduction, and the opportunity it presents to reduce our environmental footprint, is an area that we continue to explore. We have already made rapid progress in several key brands and markets (see case study), including replacing cardboard packaging with shrinkwrap and reducing the weight of glass bottles.



Packaging concepts to benefit African communities

In seeking to achieve innovative solutions for the re-use of our packaging in Africa, Diageo worked with the design agency, Matter, and the University of Newcastle & Northumberland on a project to explore how to deliver packaging formats with a secondary use that would positively impact our communities. Consideration included reuse, affordability and local sourcing. In December 2009, 52 projects from third year design students at the University were presented, ranging from water filters/carriers to rubber flip flops to construction material and basic household items. Fifteen of those concepts have been further researched among consumers and we are awaiting results. We hope that this project will ultimately lead to improved socio-economic benefits for African communities, but even if a viable breakthrough is not achieved in the near-term, we believe the approach is a valid area of continued exploration.

Other environmental impacts

Other emissions

We continue to work towards reducing the amount of ozone-depleting halons present at our manufacturing sites in fire extinguishing equipment to zero and, with a greater than 90% reduction this year on last year, hope to attain our goal in the near future. Manufacture of CFCs widely used as refrigerants in the past is being phased out through the Montreal Protocol due to their contribution to ozone depletion. We continue to work with our refrigeration suppliers to reduce the amount of CFCs we have and will undertake a review during the new fiscal year to enable us to develop an action plan for their phased removal.

Through the use of fuels this year, our activities resulted in the emission of 1.2kt (2009: 1.2kt) of nitrogen oxides, which are a precursor to ozone formation, acid rainfall and oxygen depletion in water habitats, and 1.25kt (2009: 1.3kt) 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.

Emissions of NO_x and SO₂ (tonnes)

	2010	2009
NO _x	1,206	1,291
SO ₂	1,253	1,373



Hazardous substances and spills

Some of our processes employ hazardous materials, which are disposed of through the use of specialist contractors. Our use of these materials is subject to government regulations and environmental consents and it is a top priority for us to act within the terms of these consents.

There were 18 (2009: 35) non-compliances with environmental consents during the year and 21 (2009:22) spills or other incidents that may have had environmental implications.

For example, in one instance, the Nigerian authorities notified our brewery in Lagos that it had exceeded the limits for wastewater discharges from the facility's effluent treatment plant. Diageo worked with the governmental authorities to develop a remediation plan to prevent a recurrence and agreed to pay a fine of approximately £21,000 (5 million Nigerian Naira).

Biodiversity

Much of our potential impact on biodiversity occurs through our supply chain. In the responsible sourcing section of this report we describe the measures that we are taking to manage our suppliers' impact on biodiversity.

At Diageo-operated sites we continue to work to minimise our impact on the local environment and, in some cases, improve levels of biodiversity. The management of water resources at our Roseisle distillery in Scotland has created a reed bed habitat for several bird species.

Triple Crown for Diageo at Irish Green Awards

The 2010 Irish Green Awards awarded three separate awards to Diageo amid competition that the judges described as of "an extraordinarily high standard." Diageo earned the overall prize, the 2010 Green Business Award, as well as the Green Supply Chain Award and the Green Large Manufacturing Award.

St. Francis Abbey Brewery promotes local wildlife biodiversity

Diageo provided sponsorship to St. Francis Abbey Brewery for a tree and shrub planting project by the banks of the River Nore. Trees and shrubs were selected to enhance visual appearance, and promote wildlife biodiversity in the area.

The project builds upon earlier work in this area of conversation which involved installation of bird and bat boxes. The brewery has acknowledged the support of its stakeholders, Keep Kilkenny Beautiful, Kilkenny County Council and Birdwatch Ireland for the programme of on-going works in this area.

Other environmental sustainability case studies

Continuous Improvement drives water efficiency at Cameronbridge

A process of continuous analysis and improvement has delivered a 25% improvement in water efficiency at the Cameronbridge distillery in Fife, Scotland during 2010, as compared to the previous year. Installing a less water-intensive pre-cooler within a key site cooling system delivered immediate positive results, but also highlighted the role of a boiler feed valve in increasing water efficiency. Automating this valve helped to deliver total savings of approximately 250 million litres of borehole water, expected to rise to approximately 500 million litres in 2011.

Less bottle means big savings in Brazil

In Brazil, reducing the weight of Smirnoff Ice bottles by 18%, from 200g to 165g, has saved 3,600 tons of CO₂ emissions over the course of a year. The measure has also delivered significant cost savings.

Redesign with a sustainable twist

Redesigning the label of our Smirnoff Twist beverage to reduce the label size has allowed Diageo to save the equivalent of approximately 5 million labels every year. The redesign was inspired by sharp-eyed employees, who saw the sustainable potential of smaller labels that had been designed for our Smirnoff Red packaging.

Sustainable wine tourism

Our Navarro Correas Winery in Argentina received a gold medal for Sustainable Practices in Wine Tourism in the Great Wine Capitals Best of Wine Tourism 2010 International competition. One of the many environmental achievements that helped garner the award for the site was their aggressive water conservation programmes which have delivered an overall improvement in water use efficiency of 60% in just two years.

Shedding packaging weight

Our Irish packaged beer business (can format) has delivered a rapid reduction in the environmental impact of packaging by working with customers to replace traditional board pack with shrinkwrap for distribution in market, so reducing the weight of packs and their environmental impact. With an average pack weight decrease of 75% contributing to savings in transport costs, reduction in waste bulk and forecasted cost savings of 6 million Euros over eight years, shrinkwrap packaging is now entirely embedded within the business.

Taking a sustainable lead in the US Virgin Islands

The new Diageo rum distillery in the US Virgin Islands, on schedule to be operational in January 2011, is being constructed using the Leadership in Energy and Environmental Design (LEED) certification principles. Some of the 21st century ecological and environmental controls incorporated in the design include a closed-loop water system that will eliminate the need for any wastewater disposal into the nearby Caribbean Sea, organic solids reclamation and storm water best management practices.

Turning over a new leaf in Lebanon

One environmentally damaging legacy from Lebanon's years of civil war is the country's serious shortage of tree-planting stock. Since 2007, numerous reforestation initiatives have been launched in a bid to boost the country's green coverage from 13 to 20% over the next 20 years. Working together with the Ammatour Tree Nursery in Lebanon, Diageo is supporting a project to boost the nursery's capacity by 100,000 seedlings in six months while pledging to support the nursery over the next six years.

Zero water wasted in Tennessee

The George Dickel distillery in Tennessee provides a template for minimising water wastage. No water leaves this site in the form of waste, and all of it is processed into a form that allows it to be reused. Every year, more than 5 million Imperial gallons of by-product water are re-used in cattle feed. Around 216,000 Imperial gallons of sanitary wastewater are treated annually on site and re-used to irrigate surrounding lawns and vegetation. Raw creek water used for cooling at the distillery is applied to the land before being allowed to re-enter the creek downstream.

'Exceptional' employee input drives reductions at Shieldhall

The 'exceptional' input and innovation of employees at our whisky bottling plant at Shieldhall near Glasgow, Scotland were singled out for praise as the site picked up the Management for Resource Efficiency Premier Award at the prestigious Business Commitment to the Environment (BCE) Environmental Leadership Awards. Shieldhall's 'Reduce, Reuse, Recycle' initiative delivered reductions of almost a third in the amount of energy used per litre of whisky bottled since 2007, nearly 40% in the amount of waste going to landfill and 4% in water use. The annual competition recognises and rewards companies that protect and enhance the environment without compromising on business performance.



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communities

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Demonstrating our commitment to community development plays a vital role in creating an enabling environment in which we can continue to grow our business.

Overview

Demonstrating our commitment to community development plays a vital role in creating an enabling environment in which we can continue to grow our business.

We engage and collaborate with our local stakeholders in an effort to help meet local needs and leverage the full potential of our assets. Our impact ranges from local hiring practices to procurement relationships to tax strategies to environmental programmes to alcohol in society programmes to community investment.

Our community investment strategy – which this section primarily focuses on – supports our wider, holistic approach to local economic development. While our environmental programmes address local water challenges through increased water efficiency, our community investment programme Water of Life aims to ensure that local communities benefit from increased water access. While our hiring and sourcing programmes leverage local talent and business where possible, our community investment programme Learning for Life aims to provide the local workforce with additional skills to better equip them for jobs either through Diageo's supply chain or in other local industries.

Through this work, Diageo supports elements of the Millennium Development Goals (MDG) established by the United Nations, which set out a vision for the world in 2015 and describe the responsibilities of the private sector towards achieving it. The Diageo Foundation invests where it can make the most difference on programmes within its focus areas. Diageo's regional hubs establish and fund programmes that focus investment around needs most

relevant to each region. We determine appropriate programmes through our engagement with our local employees, community stakeholders and NGOs. We believe that our efforts are more effective when focused on local need and our own business objectives.

In most cases, we run our community programmes in collaboration with external organisations and NGOs that are able to increase our effectiveness through specialist and local knowledge. In all cases we aim to deliver long-term sustainable benefits that are not dependent on ongoing support from Diageo.

Employee engagement plays a vital role in our community strategy, in particular through 'Giving for Good'. The Giving for Good programme, in collaboration with the Diageo Foundation, is a web-based campaign that has been set up so that each year employees can directly support a carefully-researched, sustainable community project in one of Diageo's developing markets. The website also provides advice and support for employees' fundraising activities. Giving for Good enables us to engage employees who are geographically dispersed but want to feel part of an employee-led community programme. Each year it focuses on a different community project. This year, Giving for Good is providing water filters for communities in Uganda, and next year it will focus on Ghana.

Local economic development

In addition to community investment, Diageo aims to contribute to the communities in which it operates in many ways – providing local jobs, building local talent and leadership, sourcing from local businesses where feasible and addressing local concerns in other ways.

More on this activity, see page 73.

Sustainable and ethical procurement

One way in which Diageo aims to contribute is by working, to the extent possible, with local suppliers in the regions in which we operate.

More on this activity, see page 68.

Consumer and customer CSR strategy

Diageo's brand and sales teams have an important role to play in enriching lives, communities and the environment through good business, whether it is through responsible marketing, consumer and customer campaigns or other initiatives that foster awareness about social and environmental issues.

More on this activity, see page 71.

Blueprint water strategy

Blueprint, our holistic water strategy, brings together our efforts to increase water efficiency in our operations with our work to provide increased water access to the communities in which we operate.

More on this activity, see page 66.

Building sustainable communities

Aspiration:

Contribute to sustainable development through our operations, community investment and collaboration with our stakeholders.

We believe a holistic approach is necessary to truly contribute to the sustainable development of our local communities. Towards this end, Diageo aims to provide local jobs, build local talent and leadership, foster an enterprise culture throughout our value chain, source from local businesses, play a proactive role in promoting effective policies and maintain high governance standards in the areas in which we operate. Our community investment, such as Water of Life and Learning for Life, helps to further leverage our positive contribution. To help ensure our approach considers the interests and concerns of our local communities, we work to engage our partners and local stakeholders.



Water of Life

Aspiration:

Provide 8 million people in Africa with safe water access by 2015.

Water of Life is one of Diageo's flagship CSR programmes and in 2006 we launched our pan African initiative, the '1 million challenge,' as a commitment to extend access to clean water to 1 million new people in the continent every year.

While some projects have yet to be completed to meet our one million people target this year, according to data provided by our implementation partners, over the past four years Diageo has benefited around 4 million people, direct and indirect, with clean drinking water and sanitation across Africa. An example of the types of local projects and partnerships are as follows:

In Kechene, a region of Addis Adaba in Ethiopia which has lacked access to safe drinking water and sanitation for many years, Diageo is working in partnership with African Medical Research Foundation, AMREF, to provide clean, safe drinking water. In this financial year, we committed a further £44,000 in the project, building on infrastructure established over the last two years to deliver 24-hour access to water.

The Water Filter Enterprise programme in West Africa aims to build a sustainable market for affordable household CrystalPur™ water filters to reduce waterborne disease amongst 250,000 people in Ghana and Nigeria. The programme started early in 2010 and will increase the entrepreneurial and training skills for thousands more, leading to higher incomes and healthier populations. The programme partners with



Enterpriseworks/VITA, a not-for-profit organisation who will support local entrepreneurs in the distribution and retail sales of the water filters, as well as develop local campaigns to educate on the benefits of clean water and hygiene.

During the year we commissioned an independent review of a sample of our Water of Life projects to not only gauge the progress of the programme and validate the beneficiary numbers of people receiving water, but also to learn and prepare for the continued growth of the Water of Life programme. Diageo selected Cooperative Housing Foundation (CHF) International, a leading non-profit international development organisation to complete the review of a selection of Water of Life projects in five countries – Ghana, Nigeria, Cameroon, Kenya and Uganda.

CrystalPur brings affordable water filters to Nigeria and Ghana

Diageo appeared at the Clinton Global Initiative in New York to announce a new water initiative that will improve access to safe drinking water for over 250,000 people in Ghana and Nigeria. Seed funding from the Arthur Guinness Fund will help to build a market for CrystalPur, an affordable water filter that eliminates 99.9% of waterborne bacteria and parasites without the need for chemicals or mechanical parts. Diageo will partner with Enterpriseworks/VITA, an international not-for-profit organisation, to support local entrepreneurs in distributing and selling the product. This initiative was spotlighted at the Clinton Global Initiative in recognition of our work to address global challenges for development such as water access and quality issues.

Learning for Life

Aspiration:

Train 50,000 people through Learning for Life in Latin America and the Caribbean.

Learning for Life began as Diageo's Latin America and Caribbean regional programme designed to improve the lives of people in the communities in which we have operations. Working with established educational and training organisations, the programme focuses on providing life skills and training in the areas of tourism, retailing, the arts, hospitality, entrepreneurship, and teaching to give people a real chance of finding employment and becoming active contributors to their communities.

Since the launch of the programme in 2008 over 21,000 students have graduated. This year alone, we ran 35 projects in over 15 countries. The programme has been partly funded by Buchanan's Forever concerts, staged over the past three years in Mexico City, Bogota and Caracas, and featured performances by Jon Bon Jovi, Elton John, James Blunt and Sting, as well as well-known local artists.

Following the success of Learning for Life across the Latin America and Caribbean region we are planning to pilot the programme in Europe in 2011.

Learning for Life projects

Learning for Life Project Tourism seeks to inspire individuals to develop their skills and expertise in a range of careers across the tourism industry. With support from our employees from Navarro Correas in Argentina's Mendoza wine region, 75 students graduated with skills to support tourists interested in exploring the local wine routes. In the Dominican Republic over 260 students recently graduated after completing a programme in culinary skills, to address an employment gap identified by the hospitality industry.

Learning for Life Project Retailer aims to develop young people for a career in the retail industry, providing them with the skills for customer relations, cash management, shelf management and professional appearance. Project Retailer offers unemployed individuals the opportunity to gain skills and hands-on experience in the packaged goods and food store retail sector. In Sao Paulo, 90 students recently graduated with their professional certificates, thanks to a partnership with a local university and international retailers.

Learning for Life Project Artist has the objective of teaching gifted individuals and groups to use their artistic abilities commercially to generate income for themselves, their families and their communities. Participants follow the Learning for Life core curriculum but cover additional areas such as business management. Recently, three Project Artist graduates from Jamaica secured professional recording contracts.

Learning for Life Project Bartender endeavours to prepare individuals to enter a career in bartending or related fields with the skills and knowledge needed to serve consumers and provide excellent experiences. Project Bartender offers underprivileged young adults of legal serving age the chance to obtain first-time employment as a bartender, server or barista in the hospitality industry.

Learning for Life Project Entrepreneur aims to provide students with the tools and knowledge to become self-employed or start a small business. In Haiti, a Project Entrepreneur programme focusing on construction skills launched in eight sites one month before the January 2010 earthquake. All the students completed their training and are now actively supporting the rebuilding efforts in Haiti. In Colombia, Diageo also



supports a Learning for Life Project Entrepreneur programme.

Learning for Life Project Professor offers training for teachers in deprived areas of Mexico to help them improve the quality of education in their communities. This year, 10,790 teachers in Mexico participated in this programme. Following 32 weeks of training and online support, the teachers receive a diploma and the top 1% are awarded a 100% scholarship to continue their studies through a summer course in Spain.

Powering Learning for Life through Buchanan's Forever

Buchanan's, one of Diageo's premium blended whisky brands, plays a central role in Learning for Life, Diageo's Latin America and Caribbean education and skills development programme. Buchanan's Forever concerts bring global headline acts to the region to raise funds for Learning for Life projects and drive awareness of the programme amongst both communities and potential partners. This year, Buchanan's Forever brought Sting to Latin America for a unique tour. The multi-Grammy winning artist performed in Colombia for the first time, returned to Venezuela for the first time in nine years and played in Mexico for the first time in three years. A former schoolteacher himself, Sting said: "Education is really at the heart of improving societies large and small and ultimately the world. I congratulate Diageo for creating this initiative and hope these concerts help raise much needed funds for individuals throughout Latin America."

Brand-led community programmes

Aspiration:

Use our brands and work with our customers to increase our impact on enriching communities.

Diageo's brand and sales teams have an important role to play in enriching lives, communities, whether it is through consumer and customer campaigns or other initiatives that foster awareness about social issues. In this section we highlight two brands that have taken a high-profile role in their support of our communities. For more examples in how brands support other priorities, such as environmental initiatives or responsible drinking programmes, please see the Consumer and customer CSR activity section.



Sting highlights Diageo's brand-led community investment activity Buchanan's Forever

Promoting social entrepreneurship with the Arthur Guinness Fund

Arthur Guinness and his family were famous not only for the stout they created but for their many acts of philanthropy. Launched as part of the Guinness 250th Celebration in 2009, the Arthur Guinness Fund continues this tradition.

The fund's aim is to identify and support leading social entrepreneurs around the world, helping them to follow in Arthur Guinness' footsteps and deliver positive transformational change to their communities.

This year, the Arthur Guinness Fund worked with Social Entrepreneurs Ireland (SEI), UnLtd in the UK, the British Council in Indonesia and Enterprise Works in Ghana and Nigeria.

In Ireland the first 10 social entrepreneurs have been selected through the programme with SEI and the next round of applications are expected to begin in October 2011. Diageo Ireland provides ongoing business expertise and advice for

those social entrepreneurs benefiting from the fund for two years.

Award recipients in Indonesia and in GB are expected to be announced in the run up to Arthur's Day in September 2010. A project to build a sustainable market for household water filters and reduce water-borne disease amongst 250,000 people in Ghana and Nigeria is already fully funded and underway.

Over the next three years Diageo plans to increase the Arthur Guinness Fund from £4.9 (€6.0) million to £6.0 (€7.4) million as we continue our commitment to maintaining the legacy of Arthur Guinness by further supporting the search for the next generation of social entrepreneurs worldwide. As part of this effort, the Arthur Guinness Fund will enter a new three year partnership with Ashoka – the world's leading community of social entrepreneurs – to enable the deployment of funds to new social entrepreneurial projects and around the world.

Disaster relief

Aspiration:

Continue to respond rapidly to disasters affecting communities in our markets and better engage our employees in our efforts through improved fundraising tools.

Diageo reacts rapidly and pro-actively to disasters affecting communities in our markets. We work with organisations such as the Bridge Foundation in the US to anticipate events such as hurricanes and co-ordinate disaster relief effectively. On some occasions, we are able to build on the work of our existing programmes in affected regions; in others we respond with emergency relief efforts.

Following the devastating earthquake in Haiti, Diageo's Spirit of the Americas programme delivered humanitarian aid to the country. During the last year we have also provided emergency relief to El Salvador and medical supplies to Jamaica.

We also enable our employees to make personal contributions to disaster relief. Following the earthquake in Haiti, our employees donated £32,000 to support a long-term rehabilitation project. This was also supported by a grant of £75,000 from the Diageo Foundation.



Rapid response to Haiti

Diageo's established structure for responding rapidly to disasters proved invaluable following the Haiti earthquake, delivering food, water and emergency supplies to the country. The WHO-sanctioned health kits supplied by Diageo contained enough material to provide medical care to 10,000 people for 90 days and played a critical role following the destruction of the country's hospital infrastructure. The programme's efforts were recognised with the award of the 2010 Beverage World Beacon Award.

The Diageo Foundation

Aspiration:

Address local needs through investment, partnership and employee involvement in the communities in which Diageo operates and seek to leverage our contributions through partnerships with other organisations. Focus is placed primarily on Africa, Latin America and the Caribbean, Asia and Eastern Europe.

The Diageo Foundation is entirely funded by Diageo. Requests are received directly from NGOs and are assessed against criteria to ensure the investment addresses material issues relevant to a particular region. In most cases, local NGOs and local Diageo employees work together to outline a project plan, including measurement and evaluation criteria, to help ensure the project will make an achievable impact on a local need. Applications are assessed by the Diageo Foundation manager and a chair of trustees.

In all, 15 grants were made to such projects during the last year. UK charity law requires that the Foundation does not directly promote Diageo's commercial interests. Its independence is the responsibility of trustees, appointed from across our businesses by the Diageo board of directors.

DIAGEO
FOUNDATION

Employee-led activities

Aspiration:

Leverage Diageo's impact on local communities through employee involvement and investment programmes.

In addition to our larger community investment programmes, employees throughout our business lead a host of activities in our communities.

In Thailand, 32 Diageo employees spent a paid working day volunteering with IPetchburi Provincial Governor's Office, Petch Community Network, Samutsakhon Provincial Governor's Office, and the Marine and Coastal Resources Conservation Centre to help clean a river and plant mangrove trees.

Red Stripe Employees Advocates of Care and Hope (REACH) is an employee volunteer group in Jamaica that promotes active involvement beyond charitable giving. Red Stripe solicits ideas from employees themselves for potential community service projects and uses its 'What's Brewin' newsletter to keep employees informed about REACH activities. During the last year, REACH has helped to renovate local schools and children's hospitals, and teamed up with the island's Drop Everything and Read (DEAR) campaign to promote literacy among schoolchildren.

In Mexico, employees participate in Sharing Talent, an employee volunteering initiative that forms part of the Learning for Life Project Professor programme in Mexico. As part of this programme, Diageo employees donate their time one Saturday a month, for four months, to support teacher participants. Over two four-month periods during F10, 40 Diageo volunteers supported 27 teachers, indirectly benefiting more than 1,200 students.



Other examples of employee-led programmes include:

- Positive Futures where employees supported a host of social inclusion programmes in the United Kingdom
- E-green teams in Uganda and Kenya, where employees planted trees to protect water resources from the effects of erosion
- World Water day fundraising initiatives including a half marathon where employees ran to raise money for Diageo's Water of Life programme

Diageo encourages these local projects around the globe and provides employees with guidance on how to manage the programmes and partner with NGOs if necessary.

For employees who are geographically dispersed but want to feel part of an employee-led community programme, Diageo launched the Giving for Good website that allows employees the opportunity to financially contribute to Diageo's community investment programmes. This year, Diageo employees raised enough money to donate 3,500 water filter kits to schools and health clinics in Uganda.

Positive Futures finds Diageo's Got Talent

In July 2009, Diageo UK launched a partnership with Positive Futures, a UK national social inclusion programme that uses sport, leisure and mentoring activities to engage with disadvantaged and socially marginalised youth. Through this programme, Diageo employees provide support through volunteering business skills, manual labour and fundraising. Positive Futures currently runs 91 community projects across the UK, involving an estimated 30,000 young people every year.

The power of employee involvement was ably demonstrated when this year employees in the UK raised more than £15,000 for Positive Futures in a single event. The event, called 'Diageo's Got Talent', began as a sing-along in the office bar and ended as a performance at the famous Shepherd's Bush Empire music venue.

Total community investment

Aspiration:

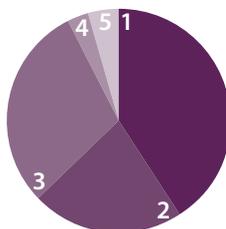
To evaluate community investment activity across the company.

In total, Diageo invested £24.9 million this year in its community investment activities. A breakdown of this investment is found right. Measuring the impact of this investment is very important to us. While we have targets for some of our programmes, such as Water of Life and Learning for Life, in the year ahead we will consider how to establish additional measures for our full community investment portfolio.

Total community investment

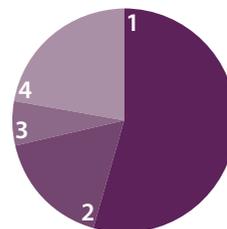
	2010	2009
Total year-on-year contribution (£ million)	24.9	23.4
Proportion of reported operating profit (%)	1.0	1.0

Total community contribution by category (£ million)



- 1 10.2 – Our business' community project
- 2 5.5 – Community aspects of responsible drinking projects
- 3 7.4 – Thalidomide Trust
- 4 0.7 – Management costs
- 5 1.1 – Diageo foundation

Total community contribution by region (£ million)



- 1 13.6 – Europe*
- 2 4.2 – North America
- 3 1.6 – Asia Pacific
- 4 5.5 – International

* Includes charitable donations of £7.4 million (2009: £7.4 million) to the Thalidomide Trust

A man in a white shirt and dark trousers is speaking on a stage. Behind him is a large, illuminated Diageo logo. The scene is lit with blue and purple light. In the foreground, the silhouettes of an audience are visible.

DIAGEO

Our people

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Engaging our employees, investing in their development and rewarding them fairly are central to the ongoing success of our business and to our relationships with our local communities.

Overview

Engaging our employees, investing in their development and rewarding them fairly are central to the ongoing success of our business and to our relationships with our local communities.

We value our 23,287 employees around the world and are pleased to report that around 15% of the value created by Diageo passes to our employees.

Diageo has been recognised by many institutions for its commitment to its people. The Great Place to Work institute ranks a number of Diageo operations in the top 10 places to work for in their respective countries: Diageo Australia this year ranked second, UK and Ireland businesses both ranked seventh, and our business in Uruguay ranked eighth. Diageo Canada was placed in the Top 100 Best Places to Work in the country. In addition, Diageo's South Africa venture, brandhouse, was ranked third by Deloitte Best Company to Work For and Singapore's Hewitt Awards named Diageo the best employer for the second time in three years.

Diageo also received distinction for its commitment to diversity and inclusion. The Association of Diversity Councils placed Diageo North America on their Top 25 US list in 2009 and 2010. Also, for the second year in a row, the Human Rights Campaign Foundation gave Diageo North America a 100% score in its Corporate Equality Index rating the equality of gay, lesbian, bisexual and transgender (GBLT) employees in the workplace.

Headline achievements

- During the last year we have developed and launched talent processes and systems giving global visibility of our talent pipeline. The information will be open to employees who will be able to view their own profiles.
- We have been embedding the learning from the Diageo Leadership Performance Programme through the in-house faculty. An outcome of the programme is the global roll out of our Breakthrough Performance Coaching programme.
- Employee resource networks are gaining momentum. Examples include Spirited Women, the Rainbow Network (GLBT), the Latin Connection, Ahead (Africa heritage employees at Diageo) and the Pan-Asian Network.
- Our Human Resource function has moved to a new operating model including a shared service facility known as First Point. This new model was initially launched in UK, Ireland and North America. Employee reaction has been favourable, with recent customer satisfaction scores averaging over 80%.

Local economic development

As part of our approach to local economic development, Diageo aims to provide local jobs and build local talent and leadership in the communities in which we operate.

More on this activity, see page 73.

Health and safety

Aspiration:

Everyone goes home safe, every day.

Targets:

Reduce our lost time accident frequency rate (the number of accidents per 1,000 employees that result in time lost from work greater than one day) by 50% by 2011.

In 2007, Diageo launched a Zero Harm programme with the ambition that 'everyone goes home safe, every day'. Under this programme we set targets to reduce accidents by 15% each year between 2007 and 2011 and to halve the total number of accidents. We are pleased to report that we have achieved a 30% reduction in accidents this year.

We also have an objective to reduce our Lost Time Accident Frequency Rate (the number of accidents per 1,000 employees that result in time lost from work greater than one day) by 50% by 2011. This year we are proud to say we have already exceeded this target, ending our 2010 financial year with a 70% reduction compared to 2007. Twenty-nine of Diageo's sites reported no lost-time accidents during the last 12 months, an increase from 20 last year. During the course of next year we will continue to drive improvement to maintain performance and establish a new target for 2015 in the context of our Zero Harm ambitions.

We take a proactive approach to the health and wellbeing of our employees, and provide professional Occupational Health support to employees in many markets. We have also initiated wellbeing and health education programmes particularly in the UK and US.

Combating HIV and AIDS is a core focus area for Diageo in Africa. Since 2003 each of our operating companies in Africa have adopted HIV and AIDS workplace education programmes and provision of treatment for employees and their families. Guinness Nigeria's HIV/AIDS workplace programme for supply chain companies was recently commended at the Global Business Coalition (GBC) awards.

The key components of the Live Life employee wellness programme include:

- HIV/AIDS education and awareness programmes, including the training of peer educators, known as *Life Coaches*, taking on the additional wellness topics
- Access to free Voluntary Counselling and Testing (VCT) through on-site medical clinics or referral clinics

- Promoting the importance of general healthy living, fitness and nutrition
- Promoting and distributing condoms
- Treatment and care programmes for opportunistic diseases like STIs, tuberculosis and malaria
- Free anti-retroviral drugs for management of HIV infection
- Occupational Health proactive best practice at all operations and on-site medical clinics

Regrettably, there were two work related fatalities in the past 12 months. One was an employee involved in a road traffic accident and the other was a contractor involved in a vehicle related incident at a production site. Diageo takes such incidents very seriously and has responded to both with investigations.

Safety performance*

	2010	2009	2008	2007
Europe	5	5.1	8.4	11.1
International	2.6	4	10	15.6
North America	9.98	23.2	29.3	38
Asia Pacific	1.97	1.4	2	5
Total	4.96	7.4	12.4	16.5
Fatalities**	2	0	4	1

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

** Data includes any employee work related fatalities and any contractor fatalities at our sites.

Reducing Lost Time Accidents in the Americas

In 2010, Diageo's Americas supply team delivered a step-change in safety performance across the region – exceeding a stretch target to reduce its lost time accidents rate by 55% with an ending performance of 61%. The team credits its strategy to mobilise sites from around the region around a

singular delivery target and set clear accountability across multiple functions. The Americas team also conducted occupational health pilots at various sites to inform the process and plan. This renewed focus and energy led to the delivery of various Zero Harm initiatives at the region's key underperforming sites.

Developing our talent

Aspiration:

The capability and diversity of our people is a proven competitive advantage, and fuels the imagination, speed and effectiveness with which we seize growth and performance opportunities.

We have invested significantly in our talent base this year – and made considerable progress as a result. The Diageo Academy, our global online e-learning and development resource was completely redesigned and re-launched. The new design incorporates broader context for learners with more emphasis on functional learning and allows the vast majority of our employees to access the material in their native language. It had 16,614 users during 2010.

We have also revised our approach to coaching with the launch of the Breakthrough Performance Coaching programme. Ten markets piloted this leading-edge initiative during 2010 and it will be launched globally in 2011.

We have placed particular focus on early career development to ensure that people get the best possible start to their time with Diageo. There are early career programmes running in all regions. Europe's Kite programme provides one example.

During 2010, we also launched a global talent management system, known as Gateway, which will act as a central data warehouse for talent management and improve transparency of information for employees and managers.

Recruiting and developing the best talent in the emerging markets is and will remain a top talent priority. It is vital that our talent in these markets reflects the diversity of the local populations. Consistent with this, we are providing international development opportunities for an increasing number of employees from emerging markets.



Graduate Talent Recruitment Programme in China

As part of Diageo's commitment to recruiting talent, this year we launched an early career recruitment programme in the Sichuan province of China. We recruited eight graduates from local universities with a combination of Masters and Graduate degrees and placed them in jobs in our Finance, Distilleries, Technology Lab, Human Resource and Labour Union departments. Recruiting talent in their early career stages, and fostering an environment where they are encouraged to develop, helps develop successful leaders and also promotes loyalty within the company. This is reflected in our low turnover rates in China – less than 5% this year.

Harnessing talent in Africa

The Pan-African Graduate Trainee Programme aims to transform the way that Diageo develops and retains talented individuals at the start of their careers. The programme, which has recruited 140 graduates since its launch in 2008, is based on a 'real job, real accountability' philosophy that provides graduates with authentic, stretching job experiences and is structured around three rotations that give between 12 and 18 months experience in supply, commercial and specialist functions.

Leadership and people management

Aspiration:

Our leadership is authentic and inspiring, and everyone in Diageo works for a great people manager.

We have continued to focus on developing great leaders through the Diageo Leadership Performance Programme (DLPP). Through this leading edge programme participants focus on the performance breakthroughs that their leadership will make possible and explore what is truly meaningful to them as individuals and how that connects with their work in Diageo. A further 130 leaders took part in the year-long programme in 2010, in addition to the approximately 800 leaders that have already participated in the last two years.

The programme also gives leaders an extensive array of skills, ideas and tools to help them on their journey to leadership mastery. Some of the themes include: building great relationships, brilliant execution, authenticity, and breakthrough performance coaching. Throughout the programme, participants are provided with intensive coaching from their manager and an external coach.



Our aim is that everyone in Diageo works for a great people manager. We continued that journey in 2010 with the launch of the People Manager Feedback Tool. This tool gives line managers the opportunity to gather feedback from their team members confidentially, and to use that feedback to improve their people management skills. This builds on the People Manager Development Framework, which already provides a great self-development resource for managers.

People manager feedback tool in Brazil

During 2010, we piloted a new Global People Manager Feedback Tool, allowing direct reports the opportunity to evaluate their managers. Running in Brazil, the pilot invited people managers with at least three employees to respond to a self-evaluation and ask their employees to rate them through a confidential evaluation process. The pilot received an overwhelming response.

Inclusion and diversity

Aspiration:

Increase the diversity of our workforce and create an environment that is inclusive.

Increasing the diversity of our workforce and creating an environment that is inclusive for all are critical priorities for Diageo, particularly given our continued growth in emerging markets. Diageo's employment policies set out firm commitments to fairness and equality both at the recruitment stage and throughout our employees' career progression. We believe that this helps to establish a stimulating and rewarding working environment, adds to our understanding of our markets, and improves our company's competitiveness. While encouraging local employees to train for and take on leadership positions, we also encourage our colleagues to take up opportunities in different markets. The percentage of non-UK employees among those on overseas secondments has risen from 59% in 2009 to 66.9% this year.

The proportion of women holding senior management positions is a key inclusion and diversity indicator for us and currently stands at 26%. We have not made as much progress as we would have hoped and recognise that we will require a real breakthrough to achieve our target of 30% in 2011. This year, senior

executives discussed the gap with the Diageo-supported women's employee network in the UK, called Spirited Women, to explore how we can change this trajectory. Part of the solution requires providing more opportunities for working mothers, flexible working hours, career breaks and job sharing, but even more creative thinking is required. We are applying ourselves wholeheartedly to this challenge.

We have supported the growth of employee networks that provide support for women and minority groups within Diageo. Our Rainbow Network, which advances awareness of gay, lesbian, bisexual and transgender (GLBT) issues and

seeks ways to promote our brands to GLBT consumers, operates in North America and the UK. Two Spirited Women networks – one in the US and one in the UK and Ireland – aim to challenge the culture and drive alignment between women's career issues and Diageo's success.

In this year's Values Survey, 86% of our people agreed that "In my team, people can be themselves regardless of their ethnic background, gender or style." While this score puts Diageo above external benchmarks, we are working toward raising our positive response rate even further.

Gender diversity by level (% women)

	2010	2009	2008	2007
Board	27	30	20	18
Senior Managers	26	27	25	24
Other Employees	35	35	35	35
Total Workforce	34	34	34	34

Recognition on Equality and Diversity

The National Association for Female Executives (NAFE) named Diageo North America as one of its Top Companies this year. The Top Company title recognises organisations with policies and practices that encourage women's advancement and that demonstrate their commitment with women executives at the highest leadership levels. Working Mothers magazine in the US also named Diageo as one of the 100 Best Companies for Working Mothers.

In addition, the Human Rights Campaign Foundation has named Diageo as one of the Top 100 Places to Work for the past three years. The Association of Diversity Councils placed Diageo on their Top 25 list in 2009 and 2010, and The Great Places to Work Institute named Diageo as one of the Top 100 Best Places to Work in Canada.

Employee engagement

Aspiration:

Our aim is that our people believe that Diageo is truly a special place to be, a place where they can realise their potential. We also believe that achieving this will lead to superior individual and business performance.

There are many ways in which we achieve our aim but it can be summarised through our 'partners for growth' principles: truly get to know people as individuals, value them for their contribution and for who they are, and focus them on the highest value priorities.

Specific programmes to increase engagement are often developed locally. They include community work, 'My Diageo Assistant' (a free concierge service), flexible working, recognition schemes and increased communication and awareness building regarding rewards.

We have ambitious targets for engagement and measure our progress annually through our global Values Survey.

90% of our employees responded to our 2010 Values Survey which accounts for the highest ever response rate rising from 81% in 2009. Super-engagement is Diageo's primary measure of employee engagement on the Values Survey and demonstrates what employees are thinking and feeling. Our goal is to have 50% of our people super-engaged by 2011. According to the 2010 survey, 41% of our employees are super-engaged, which is a 6% increase from 2009.



When compared with external benchmarks our scores generally remain very strong and we are typically in the upper quartile of best in class organisations. There are a number of areas for continued focus including our aspiration that everyone in Diageo works for a great people manager and an ongoing determination to make employees' working lives easier.

Rolling out rewards in North America

This year saw the launch of an extensive range of rewards programmes for Diageo employees in North America: sessions with College Coach, a leading provider of educational counselling services that helps parents to plan and pay for a college education for their children; My Diageo Assistant, a popular free service that helps to manage time-pressured lifestyles; and membership in Quorum Federal Credit Union, which offers a range of highly competitive financial products.

Restructuring

2009 and 2010 have seen significant organisational change within Diageo as we reacted to the pressures of the global economic downturn and the need to ensure the long term sustainability of our business. This has resulted in restructuring parts of the business and a few site closures in different regions, including the announcement of the closure of our Kilmarnock packaging site and distillery in Scotland. Diageo offered a comprehensive package of support to help employees at closure sites decide their future with strong efforts made to find new roles for those who wished to stay with the company. In Scotland, Diageo opened up targeted voluntary redundancy at other sites where employees impacted indicated they would like to relocate – leading to around a third of employees securing an alternative role elsewhere within the company. Where people have been impacted by the restructuring programmes, we have operated under a set of people principles that are consistent with our values, ensuring that people were treated with sensitivity and dignity and provided with the support they needed. In addition, in communities where Diageo is a significant employer, we are working closely with local agencies on the regeneration of the local community.

Reward and recognition

Aspiration:

Celebrating our people by rewarding their contribution to performance through a market competitive package that provides individual recognition and choice.

We believe that reward and recognition programmes can play a key role in engaging and motivating our employees.

We regularly benchmark our rewards within local markets to ensure we are paying people competitively, so that the company attracts and retains great talent and so that our employees are paid fairly for the work that they do.

We aim to provide local benefits that support the needs of employees at different stages of their life and that, wherever possible, enable individual choice and flexibility. For example, a new voluntary benefits programme was launched in the UK in 2010 providing employees with access to cash discounts with popular high-street retailers. The programme has had a fantastic uptake with approximately 3,000 employees registering on the benefit website within the first two months of the scheme's launch. This year also saw the launch of a new long-term incentive plan that allows employees to elect how they want to receive their annual award, either through share options or restricted stock or a combination of both. The flexibility that this provided was enthusiastically received by participants in the US, where the plan was piloted, with 97% of responding survey participants agreeing that they valued the opportunity to have choice.

Our reward programmes are designed to engage employees in the goals of the business through transparent linkages between performance and reward. Thus, performance-related salary increases and annual bonus awards are driven by the achievement of individual or collective objectives that are linked to Diageo's business performance goals.

We strongly believe in the value of our employees sharing in the company's success and actively encourage employees to become shareholders. We seek out opportunities to extend employee share ownership around the world and in 2010 the number of countries operating an employee share plan will increase from 25 to 32. The launch of Diageo's international sharematch plan in 2010, combined with existing employee share plans, further extends the opportunity to the majority of employees across a significant number of Diageo's markets to share in the company's growth and success. As at 30 June 2010, 15,785 past and present employees held 0.74% (2009: 1.2%) of Diageo's issued ordinary share capital.

We bring to life our goal of celebrating life every day, everywhere through local market recognition programmes that are designed to celebrate employees' achievements and to inspire our employees to strive for the best. For example, in September 2009, the Asia Pacific Hero

Awards recognised the achievements of individuals and teams across the region with winners from Thailand, Japan, Korea, Taiwan and Australia coming together at an awards ceremony hosted by the region's executive team in Mumbai. In North America in February 2010, a new recognition programme called 'Celebrating You' was launched for employees to nominate exceptional contributors for a range of awards linked to the company's strategic goals and values. Diageo North America also launched a recognition booklet that provides employees with suggestions on simple and creative ways to say 'thank you', so that employees feel valued for the everyday contributions that they make to Diageo.

Our reward programmes also have a part to play in the long-term welfare of our employees, for example, through healthcare benefits and the provision of long-term retirement benefits. We are committed to providing employees with pension and retirement provisions that are sustainable, competitive and appropriate for the long-term. In line with our broader commitment to corporate social responsibility, the Diageo UK pension scheme has a requirement for the schemes' active investment managers to take social, ethical and environmental aspects into account when assessing investments.

Employee Share Ownership

	2010	2009	2008	2007
Countries operating schemes	25	26	26	16
Employees* holding shares	15,785	15,964	17,974	14,714
Employees* holding more than 1,000 shares	48%	50%	47%	49%
Shares held by employees*	33m	34m	33m	31m

* Past and present.

Human rights

Aspiration:

Promote and protect human rights and freedoms in everything we do.

Diageo recognises its responsibility under the Universal Declaration of Human Rights to use our influence to promote and protect human rights so that our business operations do not contribute directly or indirectly to human rights abuses.

The Diageo Human Rights Policy sets out the global minimum standards we apply in interactions with employees and the communities within which we operate. We seek to establish and adhere to clear ethical standards for ourselves and foster similar standards in all third parties who act with us or on our behalf. In particular, we expect our suppliers to meet all applicable legislation and the Diageo standards under our Supplier Standards Policy: Partnering with Suppliers.

The Human Rights Policy includes standards across the following topics:

- Dignity at work
- Life balance
- Releasing potential
- Reward – wages and benefits
- Valuing people
- Employee engagement and rights to organise
- Respect for national sovereignty
- Working environment – health, safety and welfare
- Community



Any breach of the Human Rights Policy is also a breach of the Diageo Code of Business Conduct. As such, all breaches are expected to be reported to the global compliance and ethics team through the breach reporting process. The compliance and ethics team will monitor breaches, including issues raised through SpeakUp and engage with business leaders where necessary so that the policy is embedded and complied with. The Diageo Audit and Risk Committee also receives regular reports on compliance with this policy.

Other people case studies

Building recognition in Mexico

Feedback from the Diageo Values Survey informed the development of the Celebrate! local recognition programme for Diageo in Mexico, which invites employees to vote for colleagues in four categories: Inspirational Leader, Breakthrough Execution, Living the Values, and Ethics and Integrity.

Diageo Convention

With Trust as its theme, Diageo Santa Vittoria brought together all its employees for their annual meeting, on 18 December 2009. The convention was designed to instil a sense of trust at the heart of the organisation. Participants presented their interpretation of trust through poems, photos, sketches and videos.

Guinness Nigeria commended for its HIV/AIDS Workplace Programme for supply chain companies

Guinness Nigeria's HIV/AIDS workplace programme for supply chain companies was commended at the Global Business Coalition (GBC) awards on 8 June 2010 in New York. The programme, a collaborative effort by Diageo, Heineken and Unilever received commendation in the Partnership category of the awards for reaching more than 12,000 people with critical disease-prevention training and for the innovative partnership between the participating companies, which provides a model for supply chain engagement that can be deployed across Africa.

Providing childcare support for parents

Diageo US has teamed up with the Bright Horizons Family Solutions' Back-up Care Advantage programme, giving employees access to a national network of high-quality childcare solutions that can provide support when regular caregivers are unavailable and ease the transition back to work following maternity leave.

Ready to listen

Diageo Australia's Employee Assistance Programme (EAP) provides professional counselling and support for Diageo employees who seek such services. The service covers issues outside the workplace as well as within it. All discussions are treated as entirely confidential.

Compliance
and ethics

The way we work, every day, everywhere

We strive to act with the highest standards of integrity. This commitment is reflected in our interactions with our consumers, customers, employees, government officials, suppliers, shareholders and other stakeholders.

Overview

We strive to act with the highest standards of integrity.

This commitment is reflected in our interactions with our consumers, customers, employees, government officials, suppliers, shareholders and other stakeholders. Acting with integrity is critical to our reputation and the overall success of our business, and our reputation can only be enhanced by behaviours of which we can all be proud. Pride in what we do is core to our purpose.

We are committed to conducting our business responsibly and in accordance with the laws and regulations to which our business activities are subject. The Diageo board of directors has put in place a comprehensive compliance and ethics programme to support achievement of this commitment.

We are intent on demonstrating our commitment to being one of the world's most trusted and respected companies.

Sustainable and ethical procurement

We seek to build mutually rewarding relationships with our suppliers through our Supplier Standards Policy ('Partnering with Suppliers') which holds our business partners to the ethical and environmental expectations we have for our own operations.

More on this activity, see page 68.

Compliance and Ethics programme

Aspiration:

Create an exemplary compliance environment with an embedded compliance and ethics culture across our business.

We are committed to conducting our business responsibly and in accordance with the law and regulations to which our business activities are subject. Our board of directors has put in place a comprehensive compliance and ethics programme to support achievement of this commitment. Our Global Compliance and Ethics Director has management responsibility for running this programme worldwide, and reports directly to the Chief Financial Officer on all compliance and ethics matters.

Code of Business Conduct

Diageo's Code of Business Conduct ("CoBC") sets out the guidelines for the way we work and our commitments to each other and to the business and sets the standard for what is expected of all Diageo employees. Our CoBC continued to be supported by a comprehensive mandatory training programme throughout the year, and we are substantially on our way to providing CoBC training to all 24,000 Diageo employees – a target we expect to achieve by the end of calendar 2010. We will continue to act to increase the competence, confidence and understanding of our employees in this area.



The CoBC contains guidance in a number of areas, including:

- Marketing and Innovation
- Quality
- International trade and free zone sales
- Gifts and entertainment
- Conflicts of interest
- Insider trading
- Bribery and improper payments
- Competition and anti-trust
- Money laundering
- Accurate reports and accounts
- Data privacy
- Health, safety and security
- Discrimination and harassment
- Responsible drinking
- Brand protection
- Confidential information
- Information security
- Records management
- External communications
- Political activity
- Community and charitable giving
- Human rights
- Environment

All senior employees are required to complete an annual certification to confirm their compliance with our CoBC and to identify any areas of possible non-compliance. Both Diageo's Audit Committee and the Audit and Risk Committee review the operation of the compliance programme.

Other policies

The Diageo Marketing Code, together with our Digital Code of Practice, establish the principles that Diageo follows in relation to advertising and marketing of its products. Refresher training on the Diageo Marketing Code was carried out across the regions during the year to increase understanding of its guiding principles.

Training and education activities around the compliance agenda, including e-learning courses available worldwide, were undertaken throughout the year.

All compliance programme guidelines specify the manner in which any potential violations of our CoBC and other Diageo policies should be handled, including line manager reporting and a confidential help line, SpeakUp.

Code of Business Conduct global roll out

Our Code of Business Conduct (CoBC) sets out guidelines for the way we work, our commitments to each other and to the business and sets the standard for what is expected of all Diageo employees. We also expect all third parties acting on behalf of Diageo to act in accordance with the principles of our CoBC.

Our CoBC was designed based on our values and our aspirations. The CoBC provides guidance on key areas of compliance and outlines our responsibilities. Our revised CoBC, first circulated in January 2009 and further reviewed in June 2010, does this with improved clarity, and focuses on key risk areas for our business. Our CoBC is available in 19 languages, reflecting

the geographical breadth and multi-cultural nature of our operations.

We have also raised the profile of our confidential help line, SpeakUp, an independently run, confidential phone line and email address where employees are able to report any concerns, potential issues or breaches of the CoBC or any other Diageo policy that they do not wish to raise directly with their line managers. The SpeakUp help line reports potential issues raised to our Global Compliance and Ethics Director for escalation, and as appropriate, to Diageo's Audit Committee.

The full texts of our CoBC and other Diageo policies that comprise the compliance programme are available on the Corporate Governance section of our website.



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- 71 Consumer and customer CSR strategy
- 73 Local economic development

Cross-priority activity

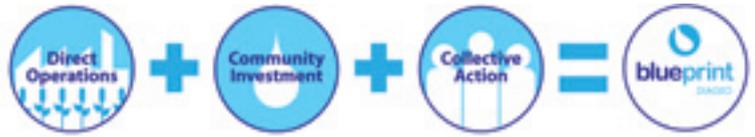
We are focusing on a variety of initiatives that help to integrate our priorities throughout our value chain – from our supply chain to our brand management. In this section you will find out about how we work with our suppliers and customers on both sides of the value chain on social and environmental issues. We explain how increasingly we hope to

engage and seek to influence the attitudes and behaviours of our consumers because they have a large role to play in this agenda. We also highlight our holistic approaches to water and local economic development that coordinate our efforts within our operations with our work in community engagement and investment.

Blueprint water strategy

Aspiration:

Addressing the global water challenge within our operations, in the communities where we operate and through collective action.



Targets:

- Improve safe drinking water access for 8 million people by 2015
- Improve our water efficiency by 30% against our 2007 baseline
- Reduce the water wasted at water stressed sites by 50% against our 2007 baseline
- Decrease the polluting power of wastewater by 60% against our 2007 baseline

Stress on water resources is a serious and growing issue for Diageo's business globally. Water is an essential ingredient in our brands and a critical resource for our operations. However, water is also vital to our markets, consumers and local communities:

- Water scarcity affects every continent and 4 out of 10 people in the world (World Health Organisation)
- Nearly 1 billion people lack access to safe drinking water (UNICEF)
- 2.6 billion people do not have improved sanitation (UNESCO)
- These issues are most acute in Africa, where it is estimated that by 2025, 50% of the population will face water stress (UNEP)

Diageo is addressing the global water challenge internally within our operations and externally in communities where we operate and beyond. In addition to our work to achieve our water targets in our direct operations, our Water of Life (WOL) campaign aims to provide safe

drinking water to people in need. Since June 2006, Diageo has begun over 150 WOL projects in 14 countries, mostly in Africa, supporting a range of projects including boreholes, hand dug wells, rainwater harvesting and domestic filtration devices.

While Diageo has demonstrated progress and impact through these efforts, we have also initiated working with other organisations on the water access challenge demonstrating catalytic leadership as a member of the UN Global Compact's CEO Mandate.

A 'Blueprint' for Future Action

Building on past success, Diageo will move into the future with a strategic 'blueprint' based on three platforms designed to affect substantial, sustainable and measurable change: direct operations, community involvement, and collective action. This 'blueprint' is integrated into a simplified, holistic framework that builds on our leadership position amongst benchmark companies. Key platforms are outlined below:

Direct operations

We endeavour to work to reduce water impacts in our production facilities and supply chains. Activity includes efforts toward improving water efficiency and decreasing water pollution across our bottling facilities and engaging directly with suppliers in water stressed countries where we operate to encourage more sustainable agriculture strategies.

Community involvement

We will work to reduce water poverty where we operate by becoming a positive contributor to the stewardship of water resources through watershed protection and sustainable water management.

Collective action

We aim to work with others to accelerate progress on the water/sanitation Millennium Development Goals while educating consumers and stakeholders on the value of water. Positive action can be generated through the concerted efforts of our employees, consumers, customers, suppliers, NGOs, governments and other business through targeted campaigns of action.

An example of collective action on water – bringing business together

In March 2010, Diageo partnered with the International Business Leaders Forum (IBLF) to launch a series of business roundtables in Cameroon, Ghana, Kenya, Nigeria and South Africa. The programme provides an African perspective on corporate engagement with public policy, and forms part of the business sector's contribution to the UN Millennium Development Goal 7 – improving access to water and sanitation. A series of papers, covering each country, captured the shared commitments from roundtable members on improving access to water and sanitation, and all were presented as a collected paper at the United Nations Global Compact Leaders Summit in New York held on 24 June, 2010.

In bringing the private sector together on water issues, the roundtable programme has enabled Diageo to benchmark our own performance on water against those of our peers, share best practice on improving water efficiency and reducing our impact on resources, and identify opportunities for collective action. These roundtables also demonstrate our growing leadership on community water issues and speak to the ideals of the United Nations' Global Compact CEO Water Mandate, to which we are a signatory.

"Ensuring water security and improving access to clean water and sanitation will be one of the greatest leadership imperatives of the future for both governments and business. It is already a major challenge in parts of Africa where water stress is high and institutional capacity for water management is weak. Diageo offers a good example of the different ways in which a company can play a leadership role. First, through managing and improving the water footprint of its own core business operations. Second through proactively supporting locally-led solutions and community partnerships to improve water access and security, through its 'Water of Life' initiative. And third through cooperating with other companies, government entities and non-governmental organisations to improve watershed management and water policy more systemically. The Africa water roundtables illustrate the potential of this collaborative approach."

Jane Nelson

Director
CSR Initiative
Harvard Kennedy School

Sustainable and ethical procurement

Targets:

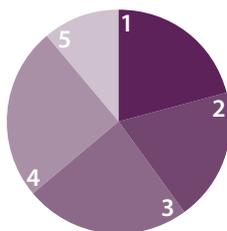
By 2011

- Diageo launches Sustainable Agriculture Sourcing Guidelines
- An initiative on cream is developed with the Baileys brand team, as the first of our priority raw materials
- The 700 'potentially highest risk suppliers' are assured through SEDEX
- Diageo commissions audits of 50 of the highest risk suppliers and works with them to improve performance
- 50% of electricity for supply sites is renewable
- 30 suppliers are engaged in projects to support Sustainable Packaging improvements
- Key suppliers' environmental performance is included in our Sourcing and Supplier management processes

Building relationships with our suppliers occupies a vital role in our broader CSR strategy as it represents one channel through which we create value for the communities and economies in which we operate. Diageo sources materials, ingredients, energy and services from approximately 30,000 businesses worldwide through a mix of global, regional and local supplier relationships. The role of Diageo's Global Procurement team is to extract the maximum protection, assurance and creation of value from these relationships. We recognise the success of this work depends on the long term sustainability of our suppliers. Towards this goal, we seek to build mutually rewarding relationships with our suppliers through our 'Supplier Standards Policy: Partnering with Suppliers' which holds our

business partners to our ethical and environmental expectations. To the extent possible, we aim to work with local suppliers in the regions in which we operate to help optimise the social and environmental impact of our supply chain.

Total procurement managed Spend 2010 (£3.5 billion)



- 1 Packaging
- 2 Raw materials
- 3 Logistics and manufacturing services
- 4 Marketing
- 5 IS and other indirect spend

Supplier relationships

Diageo has established standardised structures for our supplier relationships that aim to include a standard payment terms and compliance with policies on labour relationships, health and safety, environmental management and business integrity. We aim to provide equal opportunities to potential suppliers to bid for our procurement contracts.

Our ingredients and raw materials are sourced from a combination of global, regional and local suppliers. We have an interest in sourcing an increasing proportion of these materials from local suppliers as this reduces costs and environmental impact and provides immediate benefits to local communities.

We must balance this interest with the need to meet our sustainability standards and ensure that our standards are met with respect to the quality of the ingredients used in our brands and products worldwide.

Managing 'responsible' procurement

We have developed a 4-stage process for managing the social and ethical risks in our supply chain, which allows us to focus and work with suppliers to mitigate these issues:

Stage 1 – Screening

We conduct an initial screening of all our suppliers by considering the following associated risks:

- The country of origin – to consider possible risks to human rights or labour practices
- Whether significant 'temporary or casual' manual labour is used (and whether the conditions for this labour give cause for concern)
- How closely the material is associated with our global priority brands

Stage 2 – Pre-qualification

Our global standard procurement 'pre-qualification process' includes a questionnaire which covers a series of key questions on social and ethical risks, with particular focus on areas of concern raised in Stage 1. We use this questionnaire for both potential new and existing suppliers, on a regular basis.

Stage 3 – Qualification

All of our suppliers identified from the above process as 'potentially high-risk', must register and complete a self-assessment questionnaire on the Suppliers Ethical Data Exchange (SEDEX) to provide us with more information.

Stage 4 – Audit

Suppliers that are judged to represent the highest potential risk (on the basis of the three previous stages) are then audited against the standards set out by SEDEX. By working with these suppliers to improve standards, we are ultimately able to broaden the scope of our potential suppliers.

Diageo is also a member of 'AIM-Progress', a collaboration between major consumer goods companies that is working towards harmonising supply chain activities in this area and minimising the impact on suppliers as a result. Over 20 companies and 8,000 suppliers are involved with this effort, enabling more than 4,000 audits to be available for sharing to reduce 'audit fatigue'.

Sustainable procurement – Broadening the scope of the application of our supplier standards

We believe the highest-profile risks associated with our supply chain are those surrounding non-compliance with social and ethical standards. Because of this, we have focused initially on establishing a structure to monitor these risks and work with suppliers to mitigate them.

However, we recognise that we need to make improvements across the whole scope of 'sustainable

procurement', so we are extending our focus to the environmental risks associated with our supply chain as well. We aim to identify and commence working with the main suppliers who are responsible for the majority of our supply chain's environmental impact, in order to improve their performance.

Supporting sustainable agriculture

At Diageo, we rely on a wide range of high-quality ingredients from all parts of the world. Of our overall procurement spend, agricultural inputs such as cereals, grapes, sugar and dairy cream account for approximately 15%. These are sourced from about 150 suppliers worldwide.

Our agricultural supply chains involve a complex network of players – from large agri-businesses to smallholder farmers with whom we have both direct and indirect relationships. We believe we have a responsibility to work with all areas of these supply chains towards better and more sustainable sourcing practices.

Diageo has a policy of sourcing ingredients from local farmers where possible, helping to develop the commercial capabilities of local economies. Following an assessment of our approach in this area of sourcing we identified the need for a global framework for the support of sustainable agriculture. The result is the creation of group-wide sustainable agricultural sourcing guidelines, which outline our approach to managing these particular supply chains more effectively.

Our priority raw materials

As part of our sustainable agriculture sourcing strategy, we have identified our priority agricultural ingredients, where our sustainable sourcing decisions have the potential to make a difference in supporting local, sustainable production. In identifying the following four materials, we assessed the size and nature of our spend and the risks and opportunities involved:

- **Malting barley** is one of our largest ingredients by spend, used for a range of Diageo brands including Guinness and Johnnie Walker. We mainly source our barley from Scotland, Ireland and Kenya, where it is processed locally.
- **Sorghum** is a high-profile ingredient for Diageo's beer brands. We source it mainly from Nigeria, Ghana and Tanzania. As a drought-tolerant crop, sorghum offers opportunities for further local sourcing and processing in Africa.
- **Sugarcane/spirit** is sourced from the main sugarcane growing countries of the world, and used in a wide range of Diageo brands, including Smirnoff, Baileys and Captain Morgan.
- **Cream** is the single largest ingredient for Baileys, with a very strong supply base in Ireland. We are committed to working to engage relevant stakeholders on improving sustainable cream production in Ireland.

Our activity with these priority materials

- **Barley and sorghum** In Africa we have continued to source ingredients from local producers despite more favourable import costs, as part of our commitment to building viable local economies. Recently we have extended our work and focused on improving local sorghum markets as an alternative to importing barley. Barley requires abundant rainfall and thus puts a strain on the local climate. Sorghum is less water intensive and can be grown in conditions throughout Africa. This provides farmers with a sustainable crop and an established commercial market, and also helps us to reduce our water footprint.
- **Sugarcane/spirit** Diageo, through AIM-Progress have joined the 'Better Sugarcane Initiative' and are working through this collaborative organisation to create certifiable minimum standards for sugarcane production. We believe this will help raise standards in the agricultural sector. For more details visit www.bettersugarcane.org.
- **Cream** Our agricultural sourcing assessment also identified cream as one of our priority ingredients. This year we are piloting work to understand better our cream supply chain for Baileys. In the forthcoming financial year, we will engage with the key stakeholders involved with the aim of creating an initiative to develop a more sustainable supply of cream in every sense: economic, social and environmental.

We are excited about our plans to implement a more holistic approach to sustainable procurement, especially to support a more sustainable sourcing process for our agricultural inputs, and look forward to sharing more of our journey in next year's report.

Working with suppliers to raise standards

We undertook an audit of a longstanding supplier, who had a good track record of service and product quality. However, we uncovered certain non-conformances to our supplier standards. As a consequence, the issues were reviewed with local senior management and a remediation plan was developed. Ultimately, the supplier was re-audited, which confirmed that their corrective action programme is successfully progressing. As a result, the supplier is continuing to do business with us.

Building markets for sustainable agriculture in Cameroon

Working with Winrock International and the farmer groups CROPSEC and FAPEN we have this year helped to improve the capacity of over 2,000 small-scale farmers in Cameroon, encouraging the cultivation of Sorghum, improving farmers' business skills and providing them with a secure market for their crops.

Consumer and customer CSR strategy

Aspiration:

Working with our customers and using our brands as a vehicle for change.

Diageo's brand and sales teams have an important role to play in enriching lives, communities and the environment through good business, whether it is through responsible marketing, consumer and customer campaigns or other initiatives that foster awareness about social and environmental issues. By working alongside our customers in our corporate social responsibility (CSR) programme, we have been able to leverage the positive impact of our business by reaching more people with our campaigns.

Brand and customer activities are divided into three general categories:

- Responsible marketing
- Cause-related campaigns
- Social and environmental stewardship

Responsible marketing

For us, world-class marketing includes responsible marketing and promoting responsible drinking. All of our marketing material, from our television commercials to digital engagement through point of sale in the on and off trade complies with the Diageo Marketing Code, which is designed to market our brands responsibly to adults.

Cause-related campaigns and initiatives

Brand activity

Many of our brands actively promote responsible drinking. Our brand teams are driven by a desire to connect with their consumers on an issue and in a manner that resonates and builds brand affinity. Following are some highlights of this activity.

In the US, 20% of our brand broadcast advertising budget is dedicated to messages promoting responsible choices about drinking – or not drinking.

Since 2005, we have used Johnnie Walker's sponsorship of the Vodafone McLaren Mercedes Formula One team as a platform to promote responsible drinking to a key audience. This global campaign, with local activation, is now in its fifth year. It uses former and current Grand Prix champions Mika Hakkinen and Lewis Hamilton as its Ambassadors in a campaign called Join the Pact (see: www.jointhepact.com) to encourage consumers not to drink drive and to designate a driver. So far, over 750,000 consumers have signed a pledge not to drink drive. Research from our Join the Pact execution in China showed that 93% of consumers who participated said it would change the way they thought about drinking. In Latin America and the Caribbean, Mika Hakkinen filmed a public service announcement that the local business units continue to run.

In Latin America and the Caribbean, the 'Join the Pact' campaign has received a number of compliments or endorsements, including those from the Vice President and Minister of Youth for the Dominican Republic, the Vice President and Minister of Public Health and Social Welfare of Paraguay, the Sub-Secretary for Public Health in Uruguay and the Mayor of Chacau in Venezuela.

Beyond the platform of responsible drinking, some of our brands have started engaging consumers on community issues. One of the best examples is Buchanan's Forever.

Partnerships with customers

We seek to engage all of our stakeholders in order to maximise the value of our corporate social responsibility work. We operate in the same communities as our customers and share the goal of addressing social and environmental issues of mutual concern through collective action. We plan to increase this collaborative approach in the coming year across our priority areas. Following are a few samples of our on-going activity:

In Poland, Diageo and Real (part of the Metro Group) partnered together this year to spread the message "Alcohol is responsibility". Shoppers were exposed to responsible drinking hints and tips via leaflets, posters, displays, shelf liners, cashiers' badges and bottle neck hangers and hostesses directed shoppers' attention to the promotion.

Thanks to the third partner of the campaign – Nałęczowianka (a Polish bottled water producer) – every shopper purchasing Diageo products during the campaign received a free bottle of water, to reinforce the message about hydration, spacing or alternating drinks. Diageo and Real also organised a consumer contest by

answering the question, 'What does responsible drinking mean for you?' Shoppers had the chance to win a safe driving course. Real dedicated a full page of their consumer magazine, which is sent to over 200,000 consumers, to the campaign's messages, and Diageo sales managers rolled out a mini-DRINKiQ-style information programme to all Real's cashiers, with the potential to be built into Real's e-learning system for all employees. Shoppers were very receptive and responded favourably to the initiative, with around 80% positively evaluating the campaign and finding it very relevant to both Diageo (and its brands) and Real, and deeming it necessary (74%), believable (61%) and informative (58%). Initiatives such as this one led to a senior executive at Metro Group endorsing Diageo's work on responsible drinking as an example of best practice in corporate social responsibility.

In Latin America, we have continued our campaign with Wal-Mart in Brazil to prevent the sale of beverage alcohol to underage purchasers through training and age verification checks and consumer information material. We are also working with Wal-Mart in Brazil to promote recycling through in-store recycling receptacles, with a high level of success, and are currently exploring the potential of extending a successful glass recycling scheme in Brazil to Costa Rica.

In the United States, Diageo has worked for many years with on and off premise retailers to promote responsible consumer and retailer behaviour. For example, we have worked together with retailers to

promote the Federal Trade Commission's 'We Don't Serve Teens,' a high-visibility effort aimed at both retailers and adults to prevent underage access to alcohol. These combined efforts have meant a bigger and potentially more sustained reach to promote responsible drinking.

"America's beer, wine and spirits retailers recognize and value our partnership with Diageo when promoting responsible sales and service of beverage alcohol. The partnership that Diageo and ABL share demonstrates that our industry is stronger and more effective when we work together to reduce drunk driving and underage drinking."

Harry Wiles, Esq.
Executive Director
American Beverage Licensees
Bethesda, Maryland

Social and environmental stewardship

Increasingly our brand teams are looking into their supply chains for ways to increase their overall social and environmental performance. Our Innovation teams are also looking for opportunities as more and more consumers and customers are interested in products that embrace or promote social or environmental sustainability.

This year, working internally with our brand teams and externally with our customers, Diageo developed Sustainable Packaging Guidelines to embed specific design principles and robust implementation plans to help minimise our environmental footprint. These guidelines state that every Diageo pack should be made from materials and energy sources that will not be limited over time and that the pack should be technically recyclable or reusable, while retaining the required functionality and brand cues and meeting our quality standards. The new guidelines will build on, support and formalise the several sustainable packaging initiatives that are already in place across the company. They also provide us with a framework for establishing sustainable packaging standards along our supply chain.

As one example of a brand linking environmental elements to consumer insights, Sterling Organic is a new innovation offering both Chardonnay and Sauvignon Blanc with organic grapes. At the time Sterling Organic was launched, no brand of Sterling's size had a line of organically grown wines. Both varieties are sourced from certified-organic Mendocino vineyards. In addition, the brand uses only Forest Steward Council certified packaging and 80% recycled materials in all shippers.

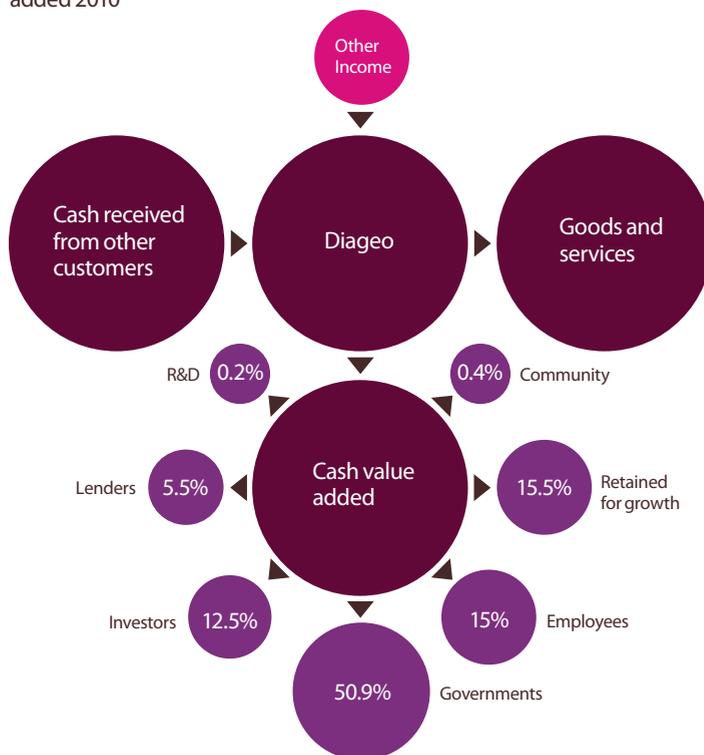
Local economic development

Aspiration:

Contribute to local economic development through our operations, investment, community projects and stakeholder partnerships.

Our business is reliant on the sustainable growth and development of our local communities. Inclusive, sustainable and successful business increases the ability of our consumers to choose our products and the likelihood that our suppliers and customers can provide high quality and reliable goods – and services. Diageo appreciates that its broader contributions can help to contribute to community development. As part of doing good business, Diageo aims to provide local jobs, build local talent and leadership, foster an enterprise culture throughout our value chain, source from local businesses where feasible, play a proactive role in promoting effective policies, maintain high governance standards and address local concerns through community investment programmes in those communities in which we operate. We also pay local duties and taxes and in some markets create wealth on local stock exchanges. Fundamental to all of this is the engagement of our partners and local stakeholders.

Distribution of cash value added 2010



Cash value added statement

	2010 £ million	2009 £ million
Cash from customers	12,958	12,283
Other income	157	214
Subtotal	13,115	12,497
Cost of goods and services	(5,779)	(5,345)
Cash value added	7,336	7,152
To Government as tax	3,734	3,567
alcohol taxes	(3,178)	(2,972)
other taxes	(556)	(595)
Paid to employees	(1,102)	(1,247)
Paid to investors	(914)	(1,224)
Retained for growth	(1,136)	(561)
Paid to lenders	(412)	(513)
Community investment	(25)	(23)
Research and development	(13)	(17)
To providers on repayment of non-equity shares	0	0
Distribution of cash value added	(7,336)	(7,152)

The above 'Cash Value Statement' demonstrates Diageo's cumulative economic contribution.

At a regional level, below are examples of the ways in which we aim to positively impact local economies.

Local stock exchanges and equity markets

The growth of equity markets can create an important catalyst for growth of local businesses and serve as a catalyst for sustainable development in local communities in which those businesses operate. Diageo plc owns stakes in companies in various parts of the world that are listed on local stock exchanges, such as Guinness Nigeria with nearly 80,000 shareholders and East African Breweries Limited with over 27,000 shareholders.

Local job creation and leadership development

Recruiting, developing and retaining local talent is one of the more direct ways Diageo can impact local communities. We are committed to further developing our leaders to reflect the diversity of all our local populations.

This year we launched an early career recruitment programme in the Sichuan province of China. We recruited eight graduates from local universities with a combination of Masters and other graduate degrees and placed them in jobs in our Finance, Distilleries, Technology Lab, Human Resource and the Labour Union departments. We believe recruiting talent in their early career stages, and fostering an environment where they are encouraged to develop, helps develop successful leaders and also promotes loyalty within the company.

In addition to direct employment, we indirectly sustain jobs in local companies that service our business or depend on it on other ways, such as farmers, other suppliers, distributors and retailers. For example in Scotland, where Diageo has nearly 50 sites – including 28 malt distilleries – we spend around £400 million every year with Scottish suppliers.

Research and development

Diageo is committed to continuous innovation which when produced and sourced with a regional focus can have positive impacts on local job creation. As just one example, many important brands have been created in Asia Pacific, representing a primary growth driver for the region. In 2009 we successfully launched 12 new products across multiple markets in the region, representing approximately 10% of the region's total sales value.

Community investment, building skills and enterprise development

As part of our community investment strategy, Diageo contributes to a variety of skills based programming. For example, the Learning for Life programme in Latin America and the Caribbean has provided more than 17,000 students with trainings in the hospitality sector and beyond.

Other programmes at Diageo aim to provide training to directly build a source of potential local employees and/or business partners in our value chain. As one example, East African Breweries has partnered with Jomo Kenyatta University of Agriculture and Technology to establish a training institution called the Tusker Academy. The institution aims to provide entrepreneurial training to small and medium enterprises in the region. The Academy which is run by the University through its JKUAT Enterprises provides training in best practices to the distributor, retail and customer service industries.

As outlined in the Sustainable and Ethical Procurement section, working with local suppliers is a priority for the company in particular communities. As one example, two decades ago all the grain Diageo purchased for its Africa beer business was purchased from abroad, which was recognised as a lost local business opportunity. In the years following, Diageo offered farmers in Nigeria, Uganda, Sierra Leone seeds, farming equipment and training. This training resulted in a 35-50% increase in yield and a 50% uplift in the price they could receive for their crop. Today our breweries in Nigeria source 95% of their grain from local farmers, sustaining 35,000 jobs.

In addition to skills research, Diageo recognises that social barriers – such as health – can impact local business success. As such, we have developed social programmes such as a partnership with the Nigerian Business Coalition against AIDS to improve access to disease prevention in one of the companies in our supply chain.

Making progress through collective action

With all of this work towards contributing to local economic growth, we recognise that governments and other stakeholders have a critical role to play in contributing to social and economic stability in our communities. This is why a key piece of our strategy is working collectively with local governments, businesses and industry groups and other organisations to create an enabling environment on issues of mutual concern – such as water and alcohol policy. For example, we worked with the International Business Leaders Forum to host a series of round tables to help us address what we and the rest of the private sector can do to address the water access challenge. See our blueprint strategy.

These programmes help Diageo contribute to the Millennium Development Goals relevant to our business. Given that a little more than a quarter of our business by revenue is from countries that the World Bank defines as low and medium income, our global efforts to provide jobs and promote social enterprise, address social needs such as clean water and HIV/AIDS, and partner with other companies and stakeholder groups help us contribute to these inspiring targets set by the United Nations to combat poverty.

Local reporting

Several Diageo local business units periodically issue local corporate citizenship reports describing their specific impacts and programmes in a given area. This year Diageo Hellas published its third such report and received positive reviews for its holistic approach to corporate social responsibility in Greece.

I appreciate the Corporate Profile and Citizenship Report 2007-2009 that you kindly sent me... I am particularly pleased that dynamically growing and pioneering companies, such as Diageo, are not limited to viewing their activity in the light of maximum financial benefit – which is anyway the reasonable and fair target of any business – but also realize that their presence can have multifold positive impact on broad society and act to this end. I would, therefore, like to sincerely congratulate the management and staff of the company and wish you success in the future.

Sincerely yours,

Theodoros Pangalos

Vice-President of the Greek Government

About this report

In this report we are proud to report on our achievements from the past year, ranging from our work to drive a positive role for alcohol in society, drive progress against our environmental targets to helping contribute to the local economic development in the communities in which we operate.

We identify how these programmes are managed across our operational footprint – from our suppliers to our operations to our business partners and consumers. We set targets and performance indicators for key initiatives and we explain the challenges we still face in managing and reporting on sustainability across the group. We have reported on our Corporate Citizenship annually since 2003.

This report covers the global operations of Diageo plc in the financial year ending 30 June 2010. 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 Diageo's stakeholders. This year, to make our report more engaging and accessible to all stakeholders, we have moved from a printed report to an online report. In addition, we have published a shorter summary report which we will make available to our employees and shareholders and distribute selectively to other stakeholder groups. We have structured this report around the themes of our new strategy as well as our cross-priority activities: Alcohol in Society, Environmental Sustainability, Our Communities, Our People, Compliance and Ethics, Sustainable and Ethical Procurement, Consumer and Customer Activity, and Local Economic Development. We have prepared this report by applying the G3 guidelines of the Global Reporting Initiative (GRI). We have covered all significant topics of common concern to our stakeholders.

Stakeholder views

We welcome stakeholders' views on our report and on our approach to sustainability. To give your comments on this report please contact us csr@diageo.com. We hope that you enjoy this report and encourage your feedback.

Diageo commentary 2010 – Professor David Grayson

Diageo and other global drinks companies will never satisfy their extreme critics who see alcohol as a 'sin' industry and want the marketing and sale of alcohol severely restricted. Most of us, however, would regard alcohol – consumed sensibly – as something positive. If asked to think about it, we would probably also recognise that alcohol companies – like any other business sector – do have to accept some responsibility both for the potential misuse of their products, and to be proactive in marketing responsibly and in using their corporate power to promote responsible drinking messages.

The direct and indirect impacts of the use of their products are, rightly, identified by Diageo as amongst the company's most material impacts. Diageo has been active for many years both internally with campaigns like DRINKiQ and with consumers and other stakeholders. This is now an established and mature part of Diageo's Corporate Citizenship, and is presented as such in the report. Even here, however, new challenges continually emerge. For example, what responsibility does a global company have when pranksters and otherwise unauthorised individuals hijack company advertising collateral for spoof campaigns. The report describes one such incident in the USA when Smirnoff Ice advertising was used to promote a drinking game – in breach of trademark and contrary to the company's responsible drinking stance. The case raises interesting questions of how far a company's responsibility extends: how proactive

does it need to be in checking the entire Internet for possible misuses of its advertising and subversion of its corporate messages? Clearly, a global, digital-media savvy company like Diageo should be expected to be alert to these dangers and taking steps to safeguard itself.

That is one example of how changing external conditions create new expectations in terms of business responsibilities. The report discusses Diageo's growing response to a much more pressing challenge for global business and society: the increasing pressures on water supply from a combination of population growth, industrialisation and rising consumer demands, and Climate Change. Diageo's work through the CEO Water Mandate and other initiatives will become a greater feature of future Corporate Citizenship reports. Again, this will demand continued innovation and commitment as corporate responsibilities inevitably increase for water use along its value-chain and not just in its own direct operations. Indeed, it would be helpful to have greater clarity about what is within the scope for Diageo's existing water targets.

Impacts along the value-chain from initial sourcing through to final consumption are becoming increasingly important for all companies. Diageo is well-established with customers and consumers. It is increasing work with suppliers. If one was being pernickety, then the target to help thirty suppliers to improve their environmental and social performance might seem a modest one for a leadership company. The suggestion from previous Corporate Citizenship report commentators to conduct a full Life-cycle analysis on one of Diageo's global brands might help here.

The company rightly acknowledges that its tax policy is an integral and important part of its Corporate Citizenship, and is clear on its approach. Next year's report might similarly provide more context on Diageo's approach to corporate lobbying – both nationally and internationally – and both directly and that done via trade associations and industry umbrella bodies.

Finally, one associates Diageo with compelling and memorable advertising. Insofar as its formidable marketing expertise has been deployed on social marketing this has rightly focused so far on responsible drinking. In future, can this expertise be used to help to promote environmental messages, for example? And, just as DRINKiQ has evolved from an internal to an external campaign, so too might the environmental, employee-engagement GREENiQ campaign also one day be extended to consumers?

David Grayson
August 2010

Prof David Grayson CBE joined Cranfield as director of the new Doughty Centre for Corporate Responsibility (www.doughtycentre.info) in April 2007, after a thirty year career as a social entrepreneur and campaigner for responsible business, diversity, and small business development. This included serving as a joint managing-director of Business in the Community – a coalition of leading international companies promoting responsible business. His books include: "Corporate Social Opportunity: Seven Steps to make Corporate Social Responsibility work for your business" (Greenleaf – 2004 www.greenleaf-publishing.com) and "Everybody's Business" (2001) – both co-authored with Adrian Hodges.

Forward looking statements

This report 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 restructuring programmes, anticipated tax rates, expected cash payments, outcomes of litigation 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 report 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 2010, which is 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 with regard thereto 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 any documents which it publishes and/or files with the SEC. All readers, wherever located, should take note of these disclosures. Past performance cannot be relied upon as a guide to future performance.

Environmental reporting guidelines

This section details the basis of calculation for the following metrics:

- Greenhouse gas (GHG) emissions
- Water consumption

Environmental data is reported on the basis of our financial reporting year, running from 1 July to 30 June.

Reporting boundaries

Environmental data is collected and reported for all sites over which Diageo has operational control, as defined by the World Resources Institute/World Business Council for Sustainable Development (WRI/WBCSD) Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, Revised Edition. Diageo believes that by including 100% of environmental data from sites under its operational control, its environmental reporting will be consistent with reporting on other operational activities.

Acquisitions and disposals

Environmental data with respect to acquisitions is included in our calculations from the date of purchase, and with respect to disposals included until the date of sale, unless otherwise specified. Baseline data is recalculated where information is available to take into account the impact of acquisitions, and excluded from baseline data with respect to disposals.

Uncertainty and estimates

While we make every effort to capture all information as accurately as possible, it is neither feasible nor practical to measure all data with absolute certainty. Where we have made estimates or exercised judgment this is highlighted within these reporting guidelines.

Prior year restatements

Environmental data is restated where more accurate information has become available, errors in methodology or calculations have been identified, or policy changes have been implemented, which have a material impact on the environmental data reported in previous years. Any restatements are highlighted within the Corporate Citizenship Report.

Greenhouse gas (GHG) emissions

GHG emissions data has been prepared in accordance with the WRI/WBCSD Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, Revised Edition (WRI/WBCSD GHG Protocol). A summary of the key elements of this standard and their application to Diageo's business are outlined below.

Boundary and scope

Diageo has adopted the operational control approach, as defined in the WRI/WBCSD GHG Protocol, as the basis for consolidation of environmental data for supply sites and includes 100% of the GHG emissions from these operations in its reported figures. Environmental data from joint ventures and associates has not been included within the reported figures.

Scope 1 emissions (i.e., direct GHG emissions) from on-site energy consumption of fuel sources, such as gas, fuel oil and diesel, are reported for all sites where we have operational control. Scope 2 emissions (i.e., indirect GHG emissions) from purchased electricity and steam is also reported for these sites. Diageo at present does not report on its Scope 3 emissions. Carbon dioxide emissions from the fermentation process are not included within our reported environmental data as these emissions are from a biological short cycle carbon source.

Diageo exports excess electricity from its combined heat and power (CHP) plants to the national grid in Scotland and Ireland. The GHG emissions associated with the exported electricity have been disclosed in the reported environmental data, and the fuel used to generate the electricity has been included in Diageo's group data within our Scope 1 emissions (direct GHG emissions).

Calculation methodology for GHG emissions

The GHG emissions data is reported in tonnes of carbon dioxide equivalents (CO₂e). CO₂e is the measure used to compare the emissions from various greenhouse gases based on their global warming potential (GWP). The CO₂e for a gas is derived by multiplying the tonnes of the gas by the associated GWP. The GHG emissions data has been calculated on the basis of measured or estimated energy and fuel use, multiplied by the relevant CO₂e conversion factors. Where possible fuel or energy use is based on direct measurement verified through purchase invoices. In a minority of cases it has been necessary to make estimations, for example where invoices or meter readings have not been available.

The most reliable and up-to-date emissions factors have been used to convert energy use to CO₂e using:

- the kWh/CO₂e factor provided by energy suppliers where a contract is in place with respect to the energy supplied to the relevant site;
- the relevant conversion factors to the country of operation (for example, national conversion factors supplied by the relevant government); or
- the International Energy Agency (2008) conversion factors.

For the CO₂e emissions associated with electricity exported to a national grid, the proportion of fuel used to generate the electricity has been identified and converted to the relevant CO₂e data.

Baseline GHG emissions data

The GHG emissions baseline was set in Diageo's financial year ended 30 June 2007, applies to Scope 1 and Scope 2 emissions as described above and has been prepared in accordance with the GHG emissions calculation methodology set out here. This baseline GHG emissions data is used as the basis for calculating progress against Diageo's publicly stated target for greenhouse gas emissions, first announced in September 2008.

The continued relevance of 2007 as the baseline year is reviewed on an annual basis. The baseline emissions data is adjusted to reflect acquisitions and disposals, as described in more detail above.

Low carbon electricity

A number of sites have entered into contracts for 'green tariffs' for their electricity use. The CO₂e emissions from these tariffs have been zero-rated where the contract specifies that the supply onto site is from a 100% renewable source.

Water consumption

Diageo collects water consumption data from across the production sites over which it has operational control, as described above, using internally developed reporting guidelines. In addition to tracking total water usage, Diageo also collects information to calculate 'water efficiency', meaning ratio of the amount of water required in order to produce one litre of product packaged. Using the WBCSD Global Water Tool and data from the United Nations' definition of 'water stressed', Diageo has designated ten of its production sites as being located in areas which are 'water stressed', identifying them as higher risk in terms of having a sustainable water supply in the coming years. For example, in Africa, approximately half of Diageo production sites are located in water stressed areas.

Boundary and scope

Diageo has adopted the operational control approach, as described above, as the basis for consolidation of water consumption data for supply sites and includes 100% of the water used by these operations in its reported figures. Joint ventures and associates have not been included within the reported figures.

Calculation methodology for water consumption

Diageo uses internally developed reporting guidelines, which define water usage based on the total amount of water abstracted from source (split between groundwater, surface water or mains) less any clean water provided back to local communities directly from a site and water returned for agricultural

irrigation. Cooling water abstracted and returned to the same source under local consent is excluded from water consumption data reported so long as there is no chemical change to the water. All water consumption data is reported in cubic meters.

The data has been calculated on the basis of measured or estimated water use at the point of abstraction and discharge where necessary. Water meters were not installed and operational for the full period reported at all of our sites, and accordingly, the water consumption data reported contains some estimation. The same estimation methodology has been used for all water consumption data reported, and with respect to the financial year ended 30 June 2010 approximately 16% of the water consumption data reported for the group was based on estimated data.

Two types of estimation techniques have been used:

- Industry standard estimates for water consumption: These estimates are based on industry standards of inputs and outputs for distilleries and maltings adjusted for the relevant level of activity. This type of estimate has been used for approximately 11% of the water consumption data reported with respect to the financial year ended 30 June 2010. Water metres have now been installed at all sites, permitting actual consumption data to be collected for the financial year ending 30 June 2011.

- Process water estimates: These estimates are based on process water which was collected for the full period reported, with other data estimated and included for uses between abstraction and production. This type of estimate has been used for approximately 5% of group the water consumption data reported with respect to the financial year ended 30 June 2010. Metres to measure water abstracted have been in place since February 2010, permitting actual consumption data to be collected for the financial year ending 30 June 2011.

Baseline water consumption data

The water consumption baseline was set in Diageo's financial year ended 30 June 2007, applies to water usage as described above and has been prepared in accordance with the internal reporting guidelines set out here. The baseline water consumption data is used as the basis for calculating progress against Diageo's publicly stated target for water consumption, first announced in September 2008.

The continued relevance of 2007 as the baseline year is reviewed on an annual basis. The baseline emissions data is adjusted to reflect acquisitions and disposals, as described in more detail above.

Production of packaged product

To calculate efficiency ratios, Diageo uses litres of product packaged as the standard measure for comparison as this highlights the environmental impact associated with production of our products. This information is collected, as other environmental data, through a common database from all sites over which Diageo has operational control.

Boundary and scope

Diageo has adopted the operational control approach, as described above, as the basis for consolidation of packaged product production figures for supply sites and includes 100% of the packaged product production from these operations in its reported figures. Production for joint ventures and associates has not been included.

Calculation methodology for production figures

Litres of product packaged includes the number of total litres of product packaged as product enters finished goods warehouse at operationally controlled sites plus any product sent to a third party for packaging (i.e., a non-controlled site).

Damaged product is not included in these production figures.

LBG Assurance Statement – Diageo

“Diageo is an active member of the LBG (London Benchmarking Group). The LBG model helps businesses to improve the management, measurement and reporting of their corporate community involvement programmes. It moves beyond charitable donations to include the full range of contributions (in time, in kind and in cash) made to community causes, and assesses the actual results for the community and for the business. (See www.lbg-online.net for more information).

“As managers of the Group, we have worked with Diageo to ensure that it understands the LBG model and has applied its principles to the measurement of community involvement programmes during the year to 30th June 2010. Having conducted an assessment, we are satisfied that this has been achieved. Our work has not extended to an independent audit of the data.”

Zoë Hatherly, Assurance Statement

Introduction

An independent assurance provider was asked to review certain indicators within Diageo’s Corporate Citizenship Report 2010. This statement sets out a summary of the assurance work done and its results. It has been prepared for Diageo’s management, and is not intended to be relied upon by any third parties.

Scope of work

The scope of the work covered the following indicators:

- Water used and related efficiency ratios
- Effluent BOD load and related efficiency ratios
- Greenhouse gas emissions and related efficiency ratios
- Hazardous waste
- Waste to landfill and related efficiency ratios
- Waste reused/recycled
- Waste: total solid output
- Complaints about advertising upheld
- Employee engagement (‘super-engagement’)
- Safety performance.

The work conducted comprised:

- Agreeing prior year figures to the prior year report and investigating any unexplained or unreasonable differences
- Checking data integrity for example that data collection sheets fed through correctly to the consolidated data (on a sample basis)
- Checking a sample of calculations
- Checking significant assumptions/ conversion factors used
- A review of data trends, investigating any large/unusual changes compared to prior year figures and any stated prior year expectations/targets
- Checking that data is consistent with the related report text.

Results

Satisfactory explanations were received to all queries. The only corrections required as a result of the assurance process were immaterial data entry errors. Restatements to prior year figures were reviewed and judged appropriate. Nothing was found to suggest that Diageo had not followed its Environmental Reporting Guidelines.

Diageo’s management has been provided with a fuller report, noting strengths and making recommendations for further improvement.

Zoë Hatherly

Independent sustainability consultant
London, August 2010

GRI

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, and have assessed our report as A. For more information please contact csr@diageo.com

Contact us

**If you have any comments
in respect to this year's
report please contact:**

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If you have any comments or queries
on any aspect of our business, please do
not hesitate to contact us and we will pass
your enquiry on to the relevant individual.

To order a Summary Corporate
Citizenship Report:
diageo@dsine.co.uk