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Highlights

Signed up to the UN Global Compact and Global Business Coalition on HIV/AIDS

Relaunched code of business conduct and confirmed compliance at 94%

Relaunched code of marketing practice and completed employee training

Participated in industry dialogue with World Health Organisation

Diageo included among the best companies to work for in surveys in nine countries

Anti-retroviral drugs made available in Africa to employees and dependants with HIV

1% of operating profit again spent on community investment

Diageo-supported social investments recognised by governments in many countries

Established six further server training programmes

Diageo USA airlifted supplies to an orphanage and a children's hospital in Baghdad

Launched Diageo Earthwatch programme

On track to meet three out of five environmental targets

7% organic growth in operating profit

Published local triple-bottom-line corporate citizenship reports in four markets

Our journey so far

	Half year to 30 June 1998	Year to 30 June 1999	Year to 30 June 2000
Diageo plc	<p>Merger of Grand Metropolitan and Guinness creates Diageo with four divisions: UDV, Guinness, Pillsbury and Burger King.</p> <p>Anthony Greener and Sir George Bull appointed chairmen; John McGrath appointed chief executive.</p>		
Strategy and policy	<p>Our values established as integral part of governing objective.</p> <p>Group activities reviewed in consultation with internal and external stakeholders.</p> <p>Code of business conduct adopted and employee whistleblowing help line established.</p>	Global corporate citizenship guidelines; 'Global brands, local citizens'; published.	International Business Leaders Forum on human capitalism chaired by Diageo chief executive.
Social responsibility and alcohol	Marketing codes and employee alcohol policy first developed.	<p>Development and publication of ICAP 'Framework for responsibility'.</p> <p>Diageo sponsors educational toolkit for UK primary schoolteachers.</p>	Diageo launches responsible bar server training in Brazil and New York State.
Community involvement	<p>1% of operating profit committed annually to community investment.</p> <p>Diageo Foundation created.</p>	<p>Community investment programmes guidelines and toolkits published for Skills for Life, Water of Life, Local Citizens and Our People focus areas.</p> <p>Global benchmarking exercise to guide best practice in factory closures.</p>	<p>One million employee volunteer hours first recorded.</p> <p>Revised covenant to 2022 agreed with Thalidomide Trust in the UK.</p>
Environment	<p>Environmental steering group chaired by executive director.</p> <p>Environmental working group established.</p> <p>Confirmed support for Business Charter for Sustainable Development.</p>	Environmental policy adopted.	<p>Environmental report first published.</p> <p>Implementation of principles, standards and goals.</p>
Measuring and reporting	<p>London Benchmarking Group (LBG) template adopted to measure community investment.</p> <p>Social and economic model developed to measure 'footprint'.</p>	<p>Community investment report published.</p> <p>Economic, social and environmental report on Diageo in Poland published.</p>	Full LBG global community annual report first published.

Year to 30 June 2001	Year to 30 June 2002	Year to 30 June 2003
<p>Lord Blyth of Rowington appointed chairman.</p> <p>Paul Walsh becomes CEO.</p> <p>Guinness and UDV divisions merged.</p>	<p>Diageo becomes one business with one name.</p> <p>Acquisition of Seagram spirits and wine brands.</p> <p>Sale of Pillsbury to General Mills.</p> <p>Sale of Burger King to Texas Pacific Corporation.</p>	
<p>Corporate citizenship committee established, chaired by CEO.</p> <p>Corporate citizenship guide 2001 published.</p> <p>Compliance programme established and global compliance director appointed.</p>	<p>World Economic Forum global corporate citizenship statement endorsed by Diageo CEO.</p> <p>Human rights policy adopted.</p> <p>Partnering with suppliers policy adopted.</p>	<p>UN Global Compact endorsed by Diageo CEO.</p> <p>'What we stand for' leaflet published.</p> <p>Code of business conduct revised, with e-learning and training modules implemented across business.</p> <p>Occupational health and safety policy revised.</p> <p>Membership of Global Business Coalition on HIV/AIDS.</p> <p>Records management policy formulated.</p>
<p>Diageo launches 'ServeWise' responsible bar server training in Scotland.</p>	<p>Audit and stakeholder consultation on code of marketing practice.</p> <p>Diageo sponsors 'Respect It' alcohol educational materials for UK secondary schoolteachers.</p>	<p>Code of marketing practice revised and relaunched with global training programme.</p> <p>Hospitality training for unemployed young people launched in Thailand and Seychelles.</p>
<p>Water of Life helps half a million people gain access to clean drinking water.</p> <p>Diageo Foundation launches Global Brands focus area.</p>	<p>Tanqueray four-year bike ride campaign in the US raises \$180 million for HIV/AIDS.</p> <p>Diageo pledges \$1 million to set up Spirit of America Fund after 9/11.</p>	<p>Johnnie Walker Keep Walking Funds now launched in five countries.</p> <p>120th UK Foyer for young homeless people opened in Foyer Federation's 10th year.</p>
	<p>Environmental policy revised.</p> <p>New product review process, NaviGate, includes check with environmental policy.</p>	<p>15 Earthwatch fellowships awarded to employees.</p> <p>Diageo environmental management system rolled out.</p> <p>Summary report for supply employees published.</p>
<p>Corporate citizenship area on www.diageo.com launched, reporting on 150 community activities around the world.</p>		<p>KPIs agreed for each stakeholder group.</p> <p>Corporate citizenship reports on Diageo in Australia, Nigeria, Poland and Scotland published.</p>

Proud of what we do

Around the world our business creates brands people enjoy, generates returns for investors and provides jobs. Through the taxes we pay, the skills we develop in our people, the goods and services we buy and the business we bring to customers, our economic contribution to governments and communities is substantial.

We believe all the communities in which we operate should benefit from our presence and, in working to achieve this, we give priority to areas where our impacts are greatest. It is common knowledge that, treated irresponsibly, alcohol products can lead to a range of health and social problems. That's why, as the world's leading premium drinks business, we have made social responsibility and alcohol a primary focus. We also strive to play a positive role in the well-being of the communities of which we are a part. And we pay appropriate attention to the environment, recognising that our operations can impinge on the natural world, both around our sites and globally.

Diageo's record in these areas shows our dedication to good corporate citizenship. As our endorsement of the UN Global Compact shows, this commitment starts at the top and extends to all parts of the company. It permeates our major management processes and contributes to Diageo's unique culture. Our industry leadership confers an important duty to set the priorities and standards. Underlying our approach is an ethos of unshakeable integrity and values which are vital to our future success.

We have a proud history of community and environmental achievement. But there are areas where we fall short. This report doesn't only highlight our successes. It casts a clear light on our key areas for improvement.

This publication – our first full corporate citizenship report – has been prepared in accordance with the 2002 Global Reporting Initiative *Guidelines*. We believe it represents a balanced and reasonable presentation of Diageo's social, environmental and economic performance. In sharing our corporate citizenship agenda openly, we see the publication of this report as a milestone on our journey towards the social, environmental and economic sustainability of our business. We would be grateful to receive your comments on our report and the issues it raises.



A stylized, handwritten signature in dark ink.

Lord Blyth of Rowington
Chairman



A stylized, handwritten signature in dark ink.

Paul S Walsh
CEO

Who we are

Diageo is the world's leading premium drinks business with an outstanding collection of brands across spirits, wine and beer categories. Operating in some 180 countries around the world, the company is becoming truly global. Diageo is listed on both the London Stock Exchange and the New York Stock Exchange.



Total assets £million

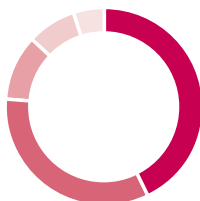
2002	18,493
2003	16,197

Turnover £million

2002	11,282
2003	9,440

Turnover by region %

	2003
Europe	42.8
North America	33.5
Asia Pacific	10.7
Rest of world	7.9
Latin America	5.1



Operating costs £million

2002	9,629
2003	7,579

Employees

2002	23,919
2003	24,561

Premium drinks business only.

Product sold millions of equivalent units

2002	113.6
2003	119.3

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

Our markets

We categorise our markets as major, key or venture according to the scale of our business in those territories and the business model we use there. The four major markets – North America, Great Britain, Ireland and Spain – make the largest contribution to our business and generate nearly 60% of operating profit.

The history of our global priority brands

It took over two centuries to create the Diageo brands that today we designate our global priority brands. Justerini & Brooks, the creator of J&B, can trace its origins back to London in 1749; Arthur Guinness established a brewery in Dublin in 1759; José Cuervo first produced tequila in 1795; Johnnie Walker set up shop in Kilmarnock, Scotland in 1820; and Charles Tanqueray formulated his recipe for gin in 1830. Smirnoff became the official vodka of the Russian imperial court in 1886; the Captain Morgan Rum Company was formed in Jamaica in 1944; and the recipe for Baileys Original Irish Cream was devised in 1974. Much more about our heritage can be found on our web site.

Global priority brands millions of equivalent units

	2003	2002
Smirnoff	23.0	21.8
Johnnie Walker	10.8	10.6
Guinness	11.4	11.1
Baileys	6.2	5.7
J&B	6.0	6.3
Captain Morgan*	2.5	2.6
José Cuervo	4.2	4.2
Tanqueray	1.9	1.9

*Half year only.

Scope of this report

This report covers the year ended 30 June 2003 and includes wholly-owned Diageo businesses as well as joint ventures in which Diageo has a controlling share. Within these businesses, the social section on pages 6 to 17 covers all sites while the environmental section on pages 18 to 21 covers only production sites, reflecting the more significant impacts of these locations. The economic section on pages 22 to 26 draws on information for the whole business included in the Diageo annual report.

Diageo in context

Despite the extent of Diageo's operations as profiled in this report, the business accounts for a very small percentage of total alcohol production worldwide.

North America	
Turnover	£2,828m
Employees	3,914
Equivalent units sold	44.6m
Major brands: Smirnoff, Johnnie Walker, José Cuervo	

Europe	
Turnover	£3,925m
Employees	11,625
Equivalent units sold	41.6m
Major brands: Smirnoff, Guinness, Baileys	

Asia Pacific	
Turnover	£993m
Employees	2,681
Equivalent units sold	11.2m
Major brands: Johnnie Walker, Smirnoff, Guinness	



- Major market
- Key market
- Venture market
- Major production or distribution site

Premium drinks business only.

Latin America	
Turnover	£463m
Employees	1,316
Equivalent units sold	8.0m
Major brands: Johnnie Walker, Smirnoff, Baileys	

Africa and Middle East	
Turnover	£752m
Employees	5,025
Equivalent units sold	13.9m
Major brands: Guinness, Johnnie Walker, Smirnoff	

What we stand for

Diageo's business activities directly affect the lives of millions of people around the world – as consumers, employees, investors, neighbours and business partners. This brings a duty to be a responsible corporate citizen, so that all those with a stake in Diageo may prosper.

For Diageo, being a good corporate citizen is a natural part of doing business. As with all business activities, we rigorously manage, measure and evaluate our progress in addressing our impacts on the world around us.

Our values

Corporate citizenship means 'acting with integrity'. By this we mean dealing with issues in their entirety while living Diageo's values:

> **Proud of what we do** We act sensitively with the highest standards of integrity and social responsibility. We enjoy and benefit from diversity

> **Be the best** We set high standards and try hard to exceed them. We deliver results, win where we compete and celebrate our success

> **Passionate about consumers** We're innovative, constantly searching for new ideas that drive growth and developing them across the business

> **Freedom to succeed** We give ourselves and each other the freedom to succeed because this fosters an entrepreneurial spirit.

Defining corporate citizenship

Being a good corporate citizen involves all the ways in which our business and products interact with society and the natural world, and encompasses the balance between acting responsibly and the right to trade freely. It includes ethics, governance, relations with employees, customers, consumers and suppliers, communities, health and safety, and the environment. To be most effective, we focus our efforts on areas where our business has the greatest impact – particularly social responsibility and alcohol – and where our efforts can have the greatest benefit.

Good corporate citizenship:

> helps create a sustainable business environment

> builds awareness among our people

> builds trust with our stakeholders

> develops team spirit, capabilities and skills

> enhances our reputation and the value of our brands.

Engaging with stakeholders

We define our key stakeholders as those people – individuals and groups – with an interest in, or affected by, our business or our operations: consumers, employees, investors, customers, suppliers, business partners, media, government and the community.

With distinct groups, such as major institutional investors, we discuss corporate citizenship issues directly with interested members. Our communications programme in the past year has included presentations to socially-responsible investment (SRI) analysts as well as one-to-one meetings.

With wider and more varied groups, such as consumers, we carry on a continuous dialogue. Our primary aim is to gain insights into their motivations as purchasers of our brands. But we're building that dialogue to address concerns consumers have in the areas of social and environmental responsibility. Employees too are a group with whom our dialogue on these issues is being strengthened.

More generally, our ability to understand and respond to the needs and objectives of our stakeholders is critical. In the future, we will be measuring and reporting our progress in this regard.

'Can a drinks company ever be truly responsible?'

We make a product that people have been enjoying for thousands of years but which can cause harm if consumed irresponsibly – something alcohol has in common with many other products. Our approach is to promote the proper use of our products by adults and help tackle the causes of irresponsible consumption.

'You're only interested in selling more drink. Social responsibility is a cover for commercial motives.'

Diageo views social responsibility as a critical aspect of good corporate citizenship, and is committed to promoting the responsible consumption of alcohol. In the long term, the sustainability of our business depends on fulfilling our duties as a good corporate citizen. It makes good business sense and creates value for our shareholders.

'Social responsibility is a matter for the whole drinks industry. What good can individual companies do?'

While we work with industry bodies around the world, as the leading business Diageo has a vital role to play in encouraging the responsible consumption of alcohol.

'Corporate citizenship is just the latest business fad.'

Diageo not only has a long track record of good citizenship, but also has a long-term perspective. A responsible approach is crucial to our future success and our journey to sustainability. It is integral to the way we do business.

The benefits of good corporate citizenship

The chart below summarises the key impact areas identified in our policies and the approach we take to each issue. The benefits to society, contributing to progress towards sustainability, form the basis

of the next three sections of the report which cover our social, environmental and economic impacts and performance. The benefits to Diageo add up to an ever-strengthening relationship with society within which the business can continue to prosper.

Key impact area	See page	Our approach	Benefit to society	Benefit to Diageo
Social				
Responsible drinking	6 – 8	Market responsibly and promote sensible drinking	Responsible drinking patterns	Industry leadership
Consumer responsibility	9	Deliver product quality and consumer information	Consumer choice	Brand loyalty
Releasing potential	10 – 11	Develop employees' skills and foster self-learning	Quality of workforce	Work quality and productivity
Reward	11	Recognise contribution through fair employment terms	Prosperity	Attract and keep the best people
Life balance	11	Respect employees' commitments at home and in the community	Community involvement	Employee satisfaction
Employee engagement	12	Keep employees informed and respect collective representation	Citizens and corporations in balance	Employee empowerment
Working environment	12	Ensure health, safety and welfare of employees	Healthy employees	Compliance and productivity
Dignity at work	12 – 13	Treat employees solely according to their ability	Diverse communities	Employee diversity
Valuing people	13	Pay special attention to the needs of young people	Protection of vulnerable groups	Long-term employee relationships
Community	14 – 17	Actively engage with society	Community challenges addressed	Closer relationships with markets
Environmental				
Energy and climate change	19	Minimise energy use and greenhouse gas emissions	Climate change curbed	Compliance and utility savings
Water management	19	Minimise water use and harmful emissions	Water resources conserved	Compliance and utility savings
Materials and recycling	20	Reuse by-products, reduce packaging and minimise waste	Materials and habitats conserved	Material and landfill cost savings
Economic				
Indirect financial contribution	22 – 23	Manage business effectively	Employment and business opportunity	Increased efficiency
Investment	23	Build total shareholder return	Investment opportunity	Greater influence and leverage
Direct financial contribution	24	Pay taxes as required	Public wealth	Compliance
Supply chain	24 – 26	Encourage business partners to share our approach	Business sector integrity	Better goods and services
			Progress towards sustainability	Continuing commercial success and licence to operate

Social impacts

'We recognise that alcohol beverages may be consumed irresponsibly, creating problems for individuals and for society. This is why we want to ensure that Diageo brands are advertised and marketed responsibly and why we are actively involved in initiatives that educate consumers about responsible drinking or help tackle alcohol misuse.'



Rob Malcolm
President, global marketing,
sales and innovation

Social responsibility and alcohol

Drinks containing alcohol have been enjoyed for at least 7,000 years and are found in most societies. Treated responsibly, alcohol is associated with enjoyment and celebration, but it is common knowledge that excessive or inappropriate consumption can cause health and social problems for individuals and society. The nature and seriousness of any problems related to alcohol misuse vary from one country to another and are influenced by varying cultural attitudes. These issues are acknowledged by the drinks industry as a whole; as the world's leading premium drinks business, they are particularly important for Diageo. Our approach is based on the following key principles:

- > moderate and responsible consumption of alcohol, whether beer, wine or spirits, can be part of a balanced and healthy lifestyle for most adults
- > the industry should work together to promote responsible drinking and ensure that self-regulation of marketing practices is effective
- > adults should be able to make informed choices about drinking – or not drinking. Young people need appropriate education and guidance from teachers, parents and other role models.

We believe that brand advertising that depicts responsible drinking as a relaxed, sociable and enjoyable part of life can help promote a responsible approach to alcohol. Whilst independent scientific research shows that advertising has measurable effects on both market share and consumer switching between brands, several other studies suggest that alcohol advertising does not increase levels of consumption overall. Similar assessments of advertising have been reached by independent third-party reviews, such as the 10th Special Report to the US Congress on Alcohol and Health (2000) and the Plan for Action on Alcohol Problems prepared by the Scottish Executive (2002).

Responsible marketing

Diageo seeks to build market share in a competitive environment and our aim is to have Diageo's marketing activities recognised as the best in our industry, setting the standards for responsible marketing.

In addition to abiding by local and national laws and regulations relating to alcohol advertising, we aim to comply with self-regulatory codes of practice drawn up by the drinks industry or by advertising standards authorities. Supported by effective complaints and enforcement mechanisms,

self-regulation is more flexible and ultimately more effective than legislation. In 2002, we prepared a toolkit to promote self-regulation in emerging markets and the developing world. This has been published by the International Center for Alcohol Policies (ICAP).

In addition to industry codes, we also have our own code of marketing practice, first implemented when Diageo was established in 1998. In 2001 we appointed an independent auditor to report on our compliance with this code. The auditor examined the promotion of 27 brands in 47 countries – reviewing about 1,000 advertisements – and found a high level of compliance with the code. The review suggested a number of ways in which the code could be strengthened and many of these suggestions have been included in the revised Diageo code of marketing practice. We also consulted a range of alcohol policy experts, governments and intergovernmental organisations. Feedback from these sources were used to update and strengthen the code.

The new code, which sets minimum standards of practice for all Diageo marketing activities around the world, was launched in October 2002. Since then, all our marketing teams and key



Diageo Taiwan played a leading role in establishing the Taiwan Beverage Alcohol Forum, which targeted younger drivers with an anti drink-drive advertising campaign.



As with all our brands, the responsible marketing of our ready to drink products is important to us.



Hon MEC Thabang Makwela and Tshidi Seane, Diageo South Africa external affairs director, launching the Be Safe, Be Seen road safety reflector campaign.

agency people have been trained in the use of the code and new compliance processes put in place in every country. This work has greatly increased responsible marketing awareness and capability throughout Diageo; during the coming year our aim is to further strengthen these processes and to embed the code fully in our business culture.

An increasing trend is advertising with a specific responsibility message. In the US, 20% of Diageo's broadcast advertising budget is dedicated to branded responsibility advertisements. Smirnoff Ice, Smirnoff, Johnnie Walker Black, Baileys, Captain Morgan and Crown Royal have all developed television commercials with a responsibility message.

We take complaints about our marketing activities very seriously. If a complaint about a Diageo advertisement is upheld, it is withdrawn immediately. In Britain, one advertisement was withdrawn out of 187 separate advertising campaigns run across 15 brands in 2002 – a rate of about 0.5%. In the following year again one advertisement was withdrawn, this time out of 224 campaigns covering 22 brands, representing a rate of 0.4%.

Innovation

Innovation is crucial to Diageo's long-term success. We innovate to create new products and to develop extensions of existing brands.

Ready to drink products in particular have attracted much criticism based on the perception that they appeal to underage drinkers or are a cause of binge drinking by young adults. This is not supported by studies of young people's drinking patterns, such as the US Federal Trade Commission investigation in 2002 and research commissioned by the Portman Group in 1997 and 1999. We do observe, however, that there are RTD products in some markets that are not compatible with the high standards set out in Diageo's code of marketing practice. To be effective, self-regulatory systems need to be capable of ensuring that such products are removed from the marketplace.

Recognising the importance of these issues, we have structured the stages of our product development process to ensure that new products are fully compliant with the code.

Alcohol and health

While there may be health benefits associated with moderate alcohol consumption for some people, we do not encourage people to drink for health reasons. The Diageo code of marketing practice specifically states that we will not present abstinence in a negative light nor imply that it is wrong or foolish to refuse a drink.

We are committed to open dialogue with public health authorities, research and academic communities and others with an interest in alcohol's impact on health. We are a signatory to the Dublin Principles, which set out the ethical basis for co-operation between the drinks industry, governments, scientific researchers and the public health community. Weblink: www.icap.org/about_icap/dublin.html

We keep up to date with research into the impact of alcohol on health – for example, through our membership of the industry-funded Centre for Information on Beverage Alcohol. As a member of the Alcohol Task Force of International Life Sciences Institute Europe, we have co-funded a range of peer-reviewed research overviews and publications.

The social costs of misuse

As with other products that have the potential to be abused, there are a range of health and social costs associated with alcohol misuse, including the cost of alcohol-related accidents and alcohol's contribution to the global burden of disease. These have to be considered alongside the benefits that alcohol production and consumption bring to society, including tax revenues and possible health benefits as well as the enjoyment



Diageo-sponsored anti-drink-drive campaign in Thailand.

that the responsible consumption of alcohol brings to many people. The total picture is complex and both the costs and the benefits are difficult to quantify. We believe that the correct response to alcohol misuse is for drinks companies, governments, health authorities, health professionals and interested citizen groups to work together to find common ground and ways of promoting responsible drinking.

Young people

We share widely expressed concerns about underage and binge drinking by young people. Young people sometimes experiment with drinking and can encounter problems if not given appropriate education and guidance. Parents and teachers, as role models, need to know the facts about alcohol and lead by example. Diageo has a role to play and has helped develop world-class education materials for use with young people and campaigned to prevent sales of alcohol to those underage.

Industry marketing practices are often cited as contributing to underage drinking and abusive drinking patterns by young adults. Evidence, based on independent research, suggests that many different influences shape young people's drinking attitudes and behaviour. Since most alcohol consumed worldwide is not advertised, it appears these other factors – especially parental and peer influences – are more powerful.

In our marketing activities, we never target people under the legal purchase age, which varies from country to country. In addition to this, in countries where there is no legal purchase age, or where the age is set at less than 18, it is Diageo policy not to target our products at people under 18. We believe that all governments should set an age limit for legal purchase at not less than 18 years. Equally, it is essential that controls are in place to ensure that such laws are observed and enforced.

As a member of the Century Council, Diageo has helped develop alcohol education materials for use in colleges in the United States.

The Diageo Foundation sponsored the production of education materials by the UK's Teacher's Advisory Council on Alcohol and Drugs Education (TACADE), including *The World of Alcohol* for primary school teachers. The Foundation-funded *Respect It* materials for UK secondary school teachers are being amended for use in Australia.

Drinking and driving

We believe that all governments should set legal blood alcohol concentration levels for drivers and we support tough penalties for those convicted of drink-driving. Through representation by ICAP, Diageo supports the work of the Global Road Safety Partnership (GRSP), a public-private initiative of the World Bank that aims to improve road safety in the developing world. Diageo chairs the GRSP in Ghana

and leads the drink-drive committee of GRSP in South Africa.

As further examples of drink-driving initiatives taken during the year: in Canada Diageo is partnering drink-drive organisations OCCID (Ontario Community Council for Impaired Driving), TAID (Take Action Against Impaired Driving) and the Toronto RIDE campaign to promote education about the issue; and in the 2002 festive season in Seychelles we worked with the police and ministry of health on a public education project on the consequences of drink-driving. In Kenya, Diageo sponsored radio advertisements that encouraged people on a night out to designate a non-drinking driver.

Responsible serving

Those who serve alcohol to consumers in bars across the world have the opportunity to influence the way in which it is consumed. Diageo is a strong supporter of responsible server training initiatives. Examples include ServeWise in Scotland, developed by Alcohol Focus Scotland.

In the United States, we have supported the TIPS server training initiative for several years; in May 2003 we launched a Spanish-language version (see right). In Seychelles, Diageo sponsors training on responsible serving and product knowledge to bar staff in hotels and bars across the main island of Mahé. Through our membership of the Irish social aspects organisation MEAS, we support a responsible

serving programme in partnership with the department of health and CERT, the training body of the Irish hospitality industry. Over 2,000 bartenders have now been trained under the Diageo-funded scheme in Kenya. Bartender training programmes have also been established in Brazil, Nigeria and Thailand.

Our employees

As our ambassadors, we expect our employees to demonstrate a responsible attitude to drinking in and out of the workplace. Our long-established employee alcohol policy defines appropriate behaviour and covers topics such as alcohol and the workplace, drinking and driving, enforcement and problem drinking. The vast majority of the time our employees are exemplary in their conduct in this area. Where breaches do occur they are dealt with through our codified disciplinary policies and occasionally result in dismissal.

Partnerships

We often work in partnership with other drinks companies and a range of external bodies on responsibility initiatives. We are members of many social aspects organisations (SAOs) around the world which focus on tackling alcohol misuse and promoting responsible drinking. Where possible, such organisations are co-funded by representatives of the beer, wine and spirits sectors. The geographical spread of the SAOs to which we subscribe covered two-thirds of Diageo's business by revenue in 2003.

Diageo memberships of social aspects organisations

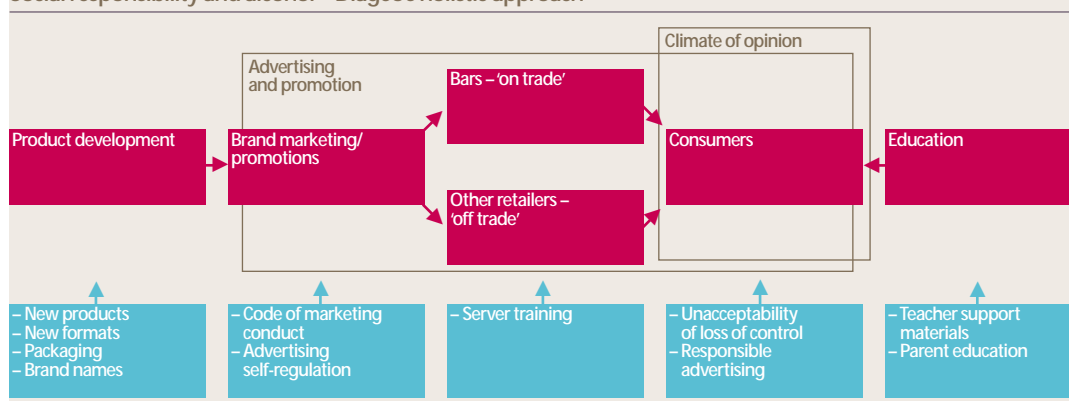
Goda, Denmark
Entreprise et Prévention, France
MEAS, Ireland
FISAC, Mexico
Stiva, Netherlands
ARA, South Africa
FAYs, Spain
TBAF, Taiwan
The Portman Group, UK
The Century Council, USA

Diageo is a sponsor of the International Center for Alcohol Policies (ICAP), a not-for-profit organisation which works to help reduce the abuse of alcohol and to promote understanding of the role of alcohol in society through dialogue and partnerships involving the beverage alcohol industry, the public health community and others with an interest in alcohol policy. Diageo is also a member of the Amsterdam Group, an alliance of leading European alcohol beverage companies which work together as well as with governments and other interested groups to address social problems related to the excessive or inappropriate consumption of alcohol.

Further information

ICAP produces reports on issues connected with the impact of alcohol on society, such as the significance of different drinking patterns for individuals and society, the social cost, violence and health warning labelling. ICAP reports can be found at www.icap.org. Also available on the site is 'A Suggested Framework for Responsibility', fully supported by Diageo, which sets out a checklist of actions for ensuring the responsible marketing of alcohol in the developing world and emerging markets.

Social responsibility and alcohol – Diageo's holistic approach





Bartender training

The Diageo-supported TIPS – Training for Intervention Procedures – programme teaches bartenders about the responsible serving of alcohol. The Spanish-language version of TIPS has been launched and will be run in US cities with large Hispanic populations. Our goal is to provide similar schemes in Latin America and the Caribbean.



World Health Organisation

Representatives from Diageo, with 16 other major beverage alcohol companies, met senior officials of the World Health Organisation (WHO) in Geneva (pictured). The meeting was an opportunity to discuss issues relating to alcohol and public health. Together with other industry representatives, Diageo briefed WHO on its social responsibility and alcohol initiatives. Additionally, discussions took place on drink-driving and the marketing of alcohol and young people.

Serving consumers

We're passionate about consumers and committed to providing them with brands developed, produced and marketed to the highest standards of quality, safety and responsibility.

Product quality

The quality management systems operated by our businesses ensure customers and consumers receive consistently excellent service, value and quality. Our products are monitored through manufacture, storage, distribution and at point of sale to ensure they reach consumers in pristine condition. This monitoring will be supported in future by the new internet-based 'track and trace' system we are currently introducing in Europe to make batches fully traceable along the supply chain. In the rare event of a product having to be recalled (there were no such events during the year), the system will allow this to be done quickly and efficiently, minimising the risk to consumers. During the year there were also no breaches of food safety regulations by our products.

Consumer satisfaction

We value the views we receive from consumers. If there are complaints, these are resolved wherever possible to the satisfaction of the consumer. Complaints about our brands are shared with our production staff and contribute to the continuous improvement of our manufacturing methods.

Consumer complaints
per million cases

	2003	2002	2001
Europe and North America	36	46	88

The number of complaints in Europe and North America has fallen considerably over the last three years. The time taken to resolve product problems has also been reduced – from 7.9 days in 2001 to 7.2 days last year.

Product information

Consumers have an interest in the ingredients of the drinks they buy and, where possible, we respond positively to their enquiries. We do not, of course, divulge our recipes.

All our brand labels indicate the alcohol content by stating the percentage of alcohol by volume where permitted and required. In some countries, Diageo labels also state the number of units or standard drinks contained in the bottle or can. Because the definition of a standard drink varies significantly from one country to another, it has so far not proved practical to introduce such a system in all markets.

Genetic modification

Public opinion on genetic modification varies from country to country and is evolving over time. In North America, where there is widespread application of the technology, GM maize may be included in the grain used to make some Diageo spirits, but GM ingredients are not currently used in any other products. It is worth recording that the compounds directly affected by genetic modification – DNA and proteins – are absent from the final product as they are excluded by the distillation process. We will continue to monitor consumers' views, review legislation and provide information to consumers in response to their concerns about the ingredients used to produce our brands.

Consumer privacy and data protection

We work to build long-term relationships between our brands and their consumers. To ensure privacy, we do not contact people unless they expressly give us permission to do so. All of our marketing activities – including web sites, emails, texts and direct mail – comply with the eight EU Data Principles, the highest standard of consumer privacy and data protection in the world. We do not sell or trade consumer information.

Counterfeiting

Forgery is an unfortunate part of any premium goods business, and an issue about which we are very concerned. Recently, quantities of counterfeit whisky, falsely labelled with a Diageo brand, were found to contain dangerously high levels of methanol, which is harmful to health. This illegal activity also impacts on the taxes recoverable by governments, damages our brand values and loses our business an estimated £70 million a year. To protect the well-being of our consumers and the reputation of our brands we make our packaging difficult to copy and invest in technology to authenticate our products.

We support the work of governments and trading standards authorities around the world by providing training and information to help them track down and prosecute people involved in counterfeiting. For example, in Taiwan we trained over 100 customs officers in how to distinguish between fake and genuine products and helped the government set up a new anti-counterfeit task force.

The road ahead

We have created the policy environment and put in place the management structures within which we can succeed as a responsible drinks business. In the future, we plan to respond to changing expectations by engaging more actively with many stakeholder groups – particularly consumers, educators and parents.

'Diageo has some of the very best talent in business today. The values of our business and our commitment to all areas of corporate performance are essential in attracting, motivating and retaining that talent.'



Gareth Williams
Human resources director

Releasing the potential of our people

Releasing the potential of every employee is one of Diageo's core strategic imperatives. Achieving this goal will create sustainable value in the business. By valuing our people as individuals and providing an inspiring and inclusive work environment we support the growth of both our people and our business.

Releasing the potential of every employee has shaped our employee policies (summarised on page 29) and will govern the practices and priorities we pursue over the next few years.

During the year we had 24,500 direct employees in Diageo premium drinks companies operating in most markets of the world.

Employees	2003	2002
Europe	11,625	11,658
Africa	5,025	4,813
North America	3,914	3,486
Asia Pacific	2,681	2,684
Latin America	1,316	1,278
Total	24,561	23,919

In 2002 we moved to become one business with one name, Diageo, across our operations. The change represented a step in the creation of a globally connected business pursuing a focused premium drinks strategy. It marked a significant cultural development for Diageo. We have always valued the creativity, knowledge and skills in our individual businesses and

markets. While keeping the best of what is local we also want to achieve greater consistency in those areas of strategy, policy and practice which we know will support the long-term business aspirations for our community of Diageo companies.

Developing our people

The capability and training needs of our employees are assessed and addressed through the annual organisation and people reviews which take place in every business unit. Two areas of primary focus in the past two years have been *people* and *brands*. Training programmes have been developed in each area and are delivered by our own staff.

High performance coaching is a two-day manager's programme designed to enhance the quality and depth of performance and development conversations and outputs between managers and employees. In the past two years almost 4,000 employees have been through this programme.

The Diageo way of brand building is a collection of world-class marketing development programmes which has successfully brought best practice in brand building processes and marketplace experience to over 6,000 employees.

All employees are expected to have regular performance and development conversations with their managers. Achieving this in all parts of the business is a goal we are pursuing with employees and their representatives which will become a key performance indicator for all our businesses.

Training people in new skills performs an important social and economic function, particularly in developing countries. In Nigeria, for example, Diageo employees benefit from having access to both local and international courses on management and acquiring skills. During the year, over £275,000 was spent on training for the 1,500 employees in Nigeria and the proportion of the workforce with IT skills increased from 54% to 73%.

We believe that the international development of a significant proportion of our population is essential for a true global business. We currently have approximately 300 international assignments which represent over 10% of our management population. 67% of that population is British or Irish. We aim to increase the mix of other nationalities on international secondments by ten percentage points over the next four years.

Employee benefits awards

> Diageo in the UK won two ProShare awards in 2002: for best performance in fostering employee share ownership and most effective communication of an employee share plan.

> Awards won by the UK pension plan include Best Large Scheme in the 2002 Professional Pensions Awards 2002 and Private Sector Scheme of the Year in the UK Pensions Awards 2002.

> Diageo was awarded 'European Leader; Fund Structure and Administration' for the second consecutive year in the Investment and Pensions Europe Awards 2002. The winner was selected from a field of 28 country leaders.

Strong attention is given to providing opportunities for our people to develop their careers within Diageo. To make those opportunities even more accessible, we are rolling out an open global recruitment system and intranet to support both internal and external job applications. Launched in the USA in July 2003, it will take approximately two years to become fully operational in all parts of our business.

Recognition and reward

We believe in providing compensation packages for our employees which are competitive in the markets in which we operate. We regularly benchmark our position against other relevant employers by market.

We are keen to promote employee share ownership as we believe there are very clear benefits in linking employee and shareholder interests in respect of personal value creation. Across our companies we have a variety of plans to promote share ownership. Some of the key statistics are:

> 18,000 employees of Diageo companies, past and present, own Diageo shares with 44% of these holding over 1,000 shares

> *Sharesave* plans, offering employees shares at a discounted rate, operate in 16 countries, with coverage of further countries planned. The highest participation rate is in Korea where 94% of employees take part

> Diageo was one of the first companies in the UK to launch a share purchase/share match plan under 2002 legislation. 51% of employees participate in the plan.

Our compensation packages include a range of benefits which, when added to the cash element, support our goal of attracting and retaining talented people. Increasingly, we offer our employees a choice of benefits. In many countries, company pension plans are an important part of that benefit mix. At a time when pension plan design and cost is coming under increasing external scrutiny, we are maintaining our plans in their present forms, although we do continually monitor their effectiveness and cost.

Sharesave plans	2003
Countries where plan offered	16
Employees covered	66.8%
Employees participating where plan offered	37.4%

Life balance

Our employees have a strong commitment to the company. We recognise that our people have commitments away from the workplace and encourage patterns of working that allow a balance between their home life and career. Such flexibility is dependent on the nature of the work being done, but recent developments in a number of our businesses have allowed for periods of home or remote working supported by company-funded IT connections. Such arrangements cannot be provided universally but are particularly advantageous to employees with long commutes to work.

Employment by category	2003
Full-time	95.4%
Part-time	4.6%

Many of our people are active members of their communities, with important voluntary roles. Some examples of the great work done by our people are given, right. These, and the efforts of thousands of other employees not listed here, make us very proud of the people who work for Diageo.



Employee volunteering and fundraising

Employees of Diageo Argentina raised funds to buy food, clothing and school equipment for the Escuela General Las Heras (pictured).

Diageo Ireland employees raised over £11,000 for a new cystic fibrosis unit at Our Lady's Children's Hospital, Crumlin, through a Guinness triathlon. Employees of Diageo Germany raised over £23,000 to support victims of the flood disaster in Dresden.

In October 2002 Daniel Braden, marketing manager in Taiwan, was killed in the Bali bombing. To commemorate his life, Daniel's family set up a trust to support education in Indonesia to which Diageo and its employees have given their support. Daniel is fondly remembered by friends and colleagues. The trust's web site is www.encompasstrust.org.

Employees from our Scottish malt distilleries clocked up over 11,000 hours of voluntary work over the year. Our employees in Scotland are great charity fundraisers, generating over £300,000 in a year, a figure boosted by matching contributions from the Diageo Foundation.

Employee engagement

We put great value on keeping employees informed of developments within the business at global and local levels. During the year we produced a suite of brochures for all our people detailing our values, ways of working, language and policies. In a further initiative, we distributed a booklet *How we do things*, summarising the business's human resources policies and practice.

Employees are encouraged to express their views through a variety of channels. A respected employee opinion research company, ISR, helped us construct and run a global values survey which we use to monitor views on living the Diageo values. Individual businesses can add questions to the core survey to deal with particular local issues. The results of the survey are independently benchmarked against a 'high performance norm' derived from leading global companies.

Within each value area the survey explores the levels of employee engagement with their roles and with Diageo. We believe there is a link between employee engagement (broadly measured by the questions in the table below) and business performance.

Where employees did not rate their response 'favourable' they had either a neutral or unfavourable response to the question. We are pleased with the results of the survey, though it demonstrates areas for attention. Because we are committed to listening to our employees, each business develops an action plan focusing on priority areas from the survey. These will be embedded into local performance goals and reviewed regularly by senior management.

Global values survey		High performance norm
	Diageo score*	%
Our values		
Proud of what we do	84	74
Be the best	n/a	n/a
Passionate about consumers	70	77
Freedom to succeed	78	55
Survey results		
People in my team are good ambassadors for our brands outside the workplace	82	n/a
People in my team can question whether we should keep doing things the same way	81	55
My manager generally understands the problems we face in our jobs	74	55
How satisfied are you with your freedom to get on with the job?	73	n/a
Diageo is seen as a responsible member of the community	79	67
I have high stretching objectives agreed with my manager	70	n/a
People in my team are focused on results	90	n/a
My manager tells me regularly how I'm doing in my job	62	57
I am proud to work for Diageo	90	81

*Employees responding favourably. n/a: not available.

Occupational health and safety

Our operating units around the world conform to the Diageo occupational health and safety policy, summarised on page 29. The new policy has already been applied at production sites; all office locations will be fully compliant with the new risk management standards by June 2005.

Health and safety	2003
Fatalities	0
Regulatory notices received	6
Fines imposed	2

The main causes of incidents resulting in lost time were head injuries, lacerations and back strain. Four of the regulatory notices related to an explosion which occurred in a spirit storage tank at Huntingwood, Australia. The incident fortunately did not cause injury and prompted a major safety upgrade of the storage area. The other two notices, which resulted in fines totalling £1,300, were received following accidents at a Diageo site in California.

Our global HIV/AIDS policy centres on providing a variety of workplace programmes that cover non-discrimination, awareness and prevention, voluntary counselling and testing, and employee support. Because of the scale of the issue in several of the African countries in which we operate, we have taken the decision to make anti-retroviral drugs available to Diageo employees and their immediate dependants who are infected with HIV.

Such drugs have proven that they can, with the right treatment regimes, prolong life significantly. Consequently, our support for HIV-infected employees will continue even if they leave the company. For anti-retroviral drugs to work effectively they must be administered as part of a total healthcare solution. Each of our African subsidiaries will ensure that such mechanisms are in place.

Severe acute respiratory syndrome (SARS) impacted our business and employees in several countries during the year. A special action group, chaired by an executive committee member, was formed to co-ordinate our approach and take timely decisions. A small number of employees were quarantined to guard against infection.

Dignity at work

We encourage the uniqueness of individual contribution within a team environment. One of our core values, 'freedom to succeed', promotes openness and teamwork, invites employees to challenge convention and encourages trust in people. Measures of our progress in this area are included in our global values survey.

Diversity by gender	Men %	Women %
Senior managers	80	20
Managers	72	28
Employees	68	32

We are committed to inclusion and value the diversity of our employees. Gender and nationality are two universal indicators from diversity's many dimensions. The Diageo board comprises nine men and one woman. Of our 930 senior managers, 20% are women; of our 275 most senior managers, two-thirds are British. We are committed to further diversification of the gender and nationality of this leadership population.

Our global diversity action plan will cover three areas:

- > the way that internal and external recruitment processes enable the attraction and selection of a diverse pool of talent, both now and in the future
- > increasing the accessibility and acceptability of flexible work policies and practice
- > developing and recognising great practice in our leaders in respect of attracting, retaining and developing diverse talent.

Over the next 12 months, these goals will be given greater substance and targets will be set to measure progress over the next three years.

There were no substantiated claims for harassment or abuse of employees during the year.

Valuing people

It is not usual for us to employ people under the age of 18 unless they join through a recognised apprenticeship programme. We support a range of work experience schemes which expose school students to a work environment.

Neither Diageo, nor its primary partners, makes use of any form of forced or compulsory labour.

Confronting challenging decisions

Where we have taken decisions to close a plant or make posts redundant, we have aimed to handle such events in a manner which is fair, transparent and supportive to those impacted.

When we decided to close the Strathleven packaging plant at Dumbarton, Scotland in 1999 our implementation programme included careful consideration of the effect the closure would have on employees, their families and the local community, as well as consumer reaction. We promised that people affected would be consulted throughout the process and assisted in planning for their future.

To ensure best practice we commissioned research on plant closures around the world. We established a counselling service to help people look for new roles inside and outside the business. Local taskforces were established, with representatives of employees, community, government and funding agencies.

When the closure was complete, the House of Commons Scottish Affairs Committee reported, 'We believe that Diageo displayed a well-developed sense of corporate responsibility and employed a sympathetic approach to its former workforce. The approach adopted by Diageo at Dumbarton may have lessons for other communities that have been affected by closure.'

Another example comes from North America where overcapacity following the Seagram acquisition led during the year to the closure of two production sites in Toronto, Ontario, and LaSalle, Quebec. It was a difficult decision: the Toronto plant had been running for over 70 years and the 51

employees affected had up to 40 years service. At LaSalle, the average age was 47 and employees had served an average of 19 years.

The principle we adopted was to treat employees fairly, maintain their dignity during the closures and help their transition to the next stage of their lives. As a strict rule, as soon as a decision was taken, we openly communicated the impacts of it to our employees. We conducted face-to-face meetings regularly to share information on areas of concern and on the progress of the closures. To ensure a smooth transition, we provided:

- > active on-site human resources support
- > open and frequent communication with employees to diffuse tension
- > information on benefits and pension issues
- > advice on job transfers, job-hunting, education and retirement planning
- > modified benefits to help employees with the transition.

Although we believe we did the right thing for our people, these decisions are sometimes challenged. At LaSalle, there is a pending complaint about transfer to another plant that we believe will be effectively resolved.

The road ahead

In many surveys of employees, Diageo is rated a great place to work. We make a point of allowing our people the freedom to succeed and – an important indicator – treat them fairly and with dignity when their services are no longer required. The competition to attract and retain the best people can only intensify in the future. Increasing the diversity of our workforce in years to come will open up new sources of talent and add to the rewarding experience of working for Diageo.

Employer of choice awards

> Diageo Australia received a highly commended award in the 'Best Companies to Work For' survey 2003 – for the third year running.

Weblink: www.afrboss.com.au

> Additionally, over the past year Diageo in the following countries has been independently rated one of the top employers of choice: Hungary, Ireland, Italy, Jamaica, Kenya, Portugal, Spain and the UK.

'We want to be able to contribute actively to the communities in which we operate and play a leadership role in helping others to help themselves. I am proud that in Australia we have developed the Helping Hands programme with huge enthusiasm from our employees.'



John Pollaers
Managing director,
Diageo Australia



Water of Life

Clean Water Project, Nigeria

Begun by Guinness Nigeria in 2003, the purpose of this programme is to provide 10 communities with basic clean and safe water. Local communities are involved in planning, constructing, managing and maintaining their own projects, which provide opportunities for unemployed people to contribute their skills and labour. When our involvement is complete at the end of 2003, the amenities will be transferred to local communities; the choice of technologies employed in their construction will help ensure that the projects are sustainable.

The £150,000 cost of the project was borne by Guinness Nigeria, with a £50,000 contribution from the Diageo Foundation.

Alcohol Education

Guinness Storehouse, Ireland

The Guinness Storehouse at St James's Gate, Dublin is Ireland's most popular tourist attraction. A new installation at the Storehouse has been designed around the theme of responsibility. By using sophisticated communication techniques and accommodating large groups of visitors, the 'Choice' zone promotes a balanced understanding of the place of alcohol in society. Find more at: www.guinness-storehouse.com.

The total cost of this project was £800,000; the Diageo Foundation contributed £250,000 towards the educational aspects of the zone.

Our communities

Diageo has a long and proud record of community involvement through its predecessor companies Grand Metropolitan, Guinness and JE Seagram & Sons. For us, community involvement is a vital part of corporate citizenship. The key is 'involvement'. It marks the difference between simply making charitable donations and taking action within the community.

Local investment

We consider the impacts on our communities when we make commercial decisions – for example, when investing or disinvesting in a local plant. We have benchmarked best practice in this regard around the world and developed a toolkit to guide our decision making and implementation.

1% commitment

When Diageo was created in 1997, the company committed to invest 1% of its worldwide operating profit on community

involvement and established the Diageo Foundation to help channel the money and to support the community activities of our businesses around the world. By committing more resources to fewer projects, focusing on key themes and working in partnership with others, we have gone a long way towards achieving our aim of maximising the effectiveness of our community investment.

Diageo's community activities concentrate on three focus areas which reflect where our business activities have greatest impact on society:

> **Alcohol Education** Helping people make responsible decisions about drinking

> **Local Citizens** Investing in communities where Diageo businesses operate by encouraging and supporting our employees and businesses in their community activity. Immediate response to disasters falls within this focus area

> **Water of Life** Supporting humanitarian and environmental projects.



Working in partnership

Our community projects must be focused, proactive and professionally managed. During the year we revised our guiding principles which define the characteristics of many successful projects and developed toolkits to help our businesses and community partners design and manage community programmes effectively. These address many of the challenges we face in establishing community projects:

> researching and understanding our impacts on the local community

> seeking out and engaging with local partners to ensure that each project is in tune with local needs and cultural sensitivities

> school and youth projects – Diageo is actively involved in community-based alcohol education projects with schools and youth groups, many funded by the Diageo Foundation in conjunction with community partners

> community partnerships – a balance is struck between Diageo and its community partners for mutual benefit

> employee involvement – We recognise and support our employees' contribution to the community. We allow employees time off at their managers' discretion to volunteer on company-led programmes

> leaving and sustaining projects – we take a long-term view of our community involvement and work with partners to develop sustained and measurable benefits even after the partnership has been dissolved. Having a mutually understood exit strategy from the start of the project prevents over-dependence

> communications – we aim to build awareness of projects among our teams, external opinion leaders and community audiences. We are often called upon to provide partners with communications support.

The road ahead

Our key objective is to develop and support community projects with the widest impact. Within this broad objective, during the year we set two specific targets:

> implement community projects in all major and key markets by June 2005

> ensure that the focus areas and project support criteria continue to meet the needs of our communities and our business.

Local Citizens Guinness Skills for Life Centre, South Africa

Nelson Mandela approached our business to become involved in rebuilding South Africa and, in consultation with local authorities and community representatives, we created the Guinness Skills for Life Centre. This provides a range of valuable community amenities for the people of Colesburg in South Africa's Northern Cape including HIV/AIDS advice, an enterprise unit, adult education, entrepreneurial training and a communications centre. The project was funded by our business in South Africa, with a contribution of £250,000 from the Diageo Foundation.

Local Citizens

Tomorrow's People Trust, UK
Since its launch, Tomorrow's People has helped over 350,000 people – including into training, education and employment – in partnership with public sector agencies and over 50,000 employers, including Diageo companies. The charity's pioneering work has inspired other innovative projects throughout the world, including the Foyer Federation and the Gateway Training Centre for young homeless people in the UK and the Tomorrow's People bar skills course in Brazil. All these projects build the self-esteem and work skills of disadvantaged youngsters. There is more information at www.tomorrows-people.co.uk. Diageo Foundation support (worth £20 million to date) has attracted £150 million from other funders.



The Diageo Foundation

The Diageo Foundation was established to support the community involvement activities of our businesses around the world. Its annual budget of approximately £3.5 million (which is included in the 1% community investment commitment) provides kick-start funding and expertise in establishing projects which are then supported locally by our businesses. In some cases, the Foundation provides longer-term social investment in areas where we can make the most difference.

The Foundation's incorporation under UK charity law ensures that its funds do not support the direct commercial interests of the business. The Foundation's trustees are appointed by the

Diageo board from around Diageo businesses and functions. The independence of the Foundation is maintained by the trustees working closely with external advisers and not-for-profit organisations with specialist expertise in our focus areas.

The Foundation plays an important role in developing the principles, disciplines and processes through which Diageo engages with its communities globally. Its evaluation modelling, best practice promotion and, above all, its skilled team of advisers are on-hand to offer counsel, support and inspiration to the business and its partners. To enable the Foundation's investments to stretch further and to achieve more in the community, we have developed systems which allow successful programmes to be replicated from one location to another. By providing seedcorn finance, the Foundation leverages other support such as third-party matched funding, employee volunteering, the transfer of business skills or product donations from our businesses.

Funding applications

Projects supported by the Foundation are sponsored by our businesses, which submit funding proposals guided by toolkits developed for each focus

area. During the year, the Foundation received 37 fully-developed new project proposals from our businesses and over 700 external applications. These were assessed according to their long-term business value as well as their potential community benefit. The Foundation makes grants to support only the community aspects of the project, any promotional objective being paid for separately by the local Diageo business.

We work closely with our charity partners to track project outcomes and assess their changing needs. We also commission independent research to evaluate some of the key projects we support.

Evaluating community investment

We want to make sure that the money our businesses allocate to community activities, and the grants contributed by the Diageo Foundation, result in the maximum benefits for the community and, in the longer term, for our business. We use the London Benchmarking Group (LBG) model, which we helped pioneer in 1994, to put a realistic, conservative value on our contributions (inputs), and to measure the benefits (outputs/impacts) of our community investments.

The overall spend (input) by our premium drinks business during the year amounted to £19 million, which was 1.1% of operating profit (excluding associates and minority interests). This is a decrease of 3% against the 2002 group spend, but an increase of 12% against the comparative premium drinks figures for 2001 and 2002. The increase was primarily due to a 66% greater investment in alcohol education programmes (2003 – £6.1 million; 2002 – £3.7 million). In addition the business spent £23.5 million on social responsibility advertising which has not been included in the spend analysis.

Community spend			
	2003 £000	2002 £000	2001 £000
Continuing business (Premium drinks)	19,001	16,971	15,256
Discontinued business (Pillsbury, Burger King)	-	2,639	4,524
Total	19,001	19,610	19,780

The outputs and impacts of our community programmes cannot be aggregated but we have included a representative sample of our project performance evaluations.

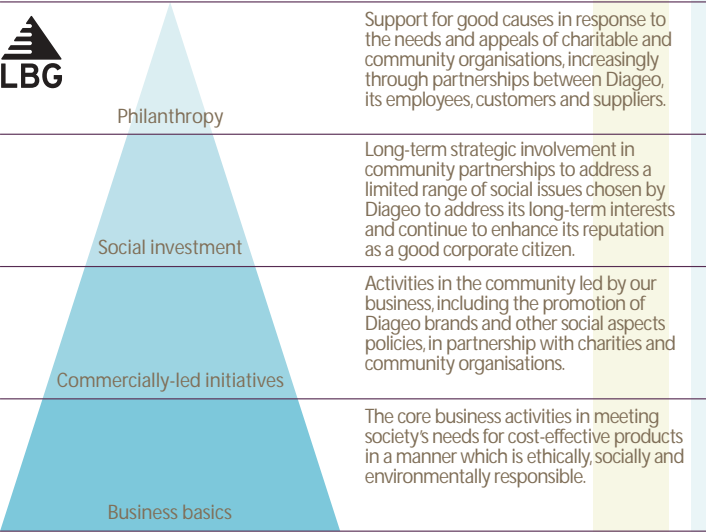


Diageo team first into Baghdad

The Diageo Spirit of America fund was set up following the terrorism in the US on 11 September 2001, donations from employees being matched by the company up to US\$1million.

The fund's Diageo Iraq Humanitarian Airlift became the first US civilian mission of its kind to Iraq when a team of New York City firefighters and police, three Diageo US and UK employees and a representative of Diageo's US distributors set out for Baghdad.

Starting in New York and pausing in Amsterdam to load a DC-8 cargo plane with milk powder, vegetable oil, rice, sugar, infant formula and protein supplement, the team were greeted by US troops in Iraq and travelled to two children's hospitals before delivering the supplies to a Baghdad orphanage.



Evaluating some of Diageo's community investments using the LBG model

	Inputs		Outputs	
	Diageo Foundation	Leverage	Community benefits	Business benefits
Philanthropy				
Spirit of America (USA)	£360,000 in matched funding and emergency grants.	£180,000 from employees and business partners. £300,000 from Diageo North America.	Money, services and equipment for fire and ambulance services. Specialist help for young people affected by terrorist attacks. Humanitarian airlifts of supplies for Afghanistan and Iraq.	Programme recognised by the New York mayor, US State Department and international humanitarian agencies. Diageo employees feel proud of their support for the community.
Helping Hands (Australia)	£25,000 to act as kick-start funding.	AUS\$62,000 from Diageo Australia in matching employees' contributions. Diageo Australia manages project and ensures all contributions go directly to charity.	Significant help for the fundraising revenue and activities of four Australian charities.	Employees feel involved and proud of their community work. The Australian government has commended Diageo for the project and cites it as best practice.
Social investment				
Foyer Federation (UK)	Diageo has contributed over £1,000,000 over the 10-year partnership. The Foundation is funding an independent research project to evaluate the overall effectiveness of the Foyer movement.	There are over 120 Foyers across the country helping over 10,000 homeless and disadvantaged 16-25 year olds each year. For example, the Gateway Foyer was the first centre of its kind in the UK and provides both housing and training.	Three-quarters of young people are in work or further education on leaving the Gateway Foyer compared with less than a third on arrival. Welfare cost savings for the UK economy from the Foyer movement amount to £6-20 million per annum.	Public acclaim and positive media coverage. Foyer movement has been commended by UK chancellor of the exchequer. Employees have broadened their horizons and developed new skills.
Water of Life (Nigeria)	£50,000 over two years.	£50,000 from Guinness Nigeria, which also managed the project. Through connection with Michael Powers film Critical Assignment, project was launched at four film premieres in Nigeria. Local Earthwatch champion appointed.	Ten boreholes and treatment centre providing communities with drinking water. Employment created in planning, construction, managing and maintaining projects. Project being scaled up to provide a further 70,000 people with water.	Demonstrates our community commitment and complements environmental investment. Employees feel proud of their community work. Links strengthened with local government and health community.
Bar Skills (Brazil)	£166,000 over three years.	£20,000 from Diageo Brazil which also managed the project and monitored the quality of teaching and assessments. 40 volunteers from Diageo trade partners contributed time to the programme.	Young, low-income unemployed people provided with bar skills training. On target to achieve 85% employment of students. The programme has been successfully replicated in other countries.	Diageo Brazil established as an industry leader in tackling alcohol related issues. Strengthened relationships with major business clients and government agencies.
Commercially-led initiatives				
Storehouse Choice zone (Ireland)	£250,000 grant.	Guinness contributed £750,000 and 10% of the time of two executives.	Additional zone enhancing Storehouse for 700,000 visitors.	The zone has attracted very favourable comment as an appropriate response from a drinks company to alcohol misuse.
Keep Walking Fund (Mexico)	£100,000 over three years.	£423,000 from Johnnie Walker. A senior Diageo employee sat on the grant making panel. Business leaders from Diageo and other companies volunteered as mentors to successful applicants.	Talented young Mexicans enabled to achieve their career potential. Johnnie Walker consumers have been inspired to start their own walk of progress. The programme has been successfully replicated in other countries.	Brand awareness for Johnnie Walker in Mexico. The campaign attracted 8,000 grant applications and 20,000 web site hits.

Community spend by type

Philanthropy £000

2001 5,475

2002 2,131

2003 2,366

Social investment £000

2001 8,176

2002 12,110

2003 11,249

Commercially-led initiatives £000

2001 1,615

2002 2,730

2003 5,386

Total £000

2001 15,266

2002 16,971

2003 19,001

Community spend by focus area

Alcohol Education £000

2001 4,500

2002 3,700

2003 6,151

Local Citizens £000

2001 10,606

2002 13,071

2003 12,690

Water of Life £000

2001 160

2002 200

2003 160

■ Business ■ Foundation

Community spend by region %

2003

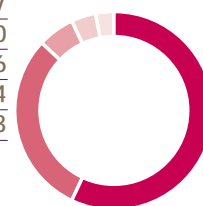
■ Europe 57

■ North America 30

■ Africa 6

■ Asia Pacific 4

■ Latin America 3



Premium drinks business only.

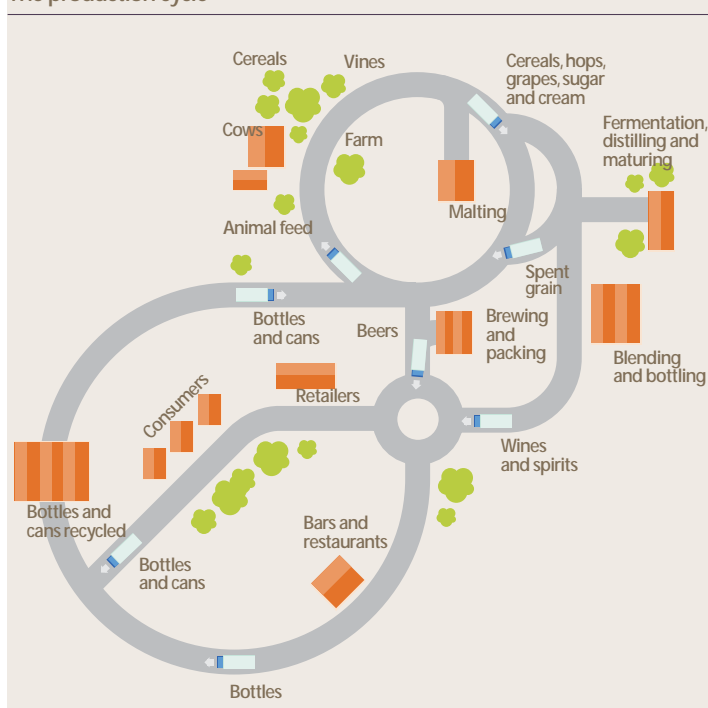
Environmental impacts

'Diageo's operations – particularly in manufacturing – have impacts on the environment. Our approach is to identify and measure these impacts and to do as much as we can to reduce them, setting ourselves targets to aim for. We want a business which is sustainable and which causes no long-term degradation of natural resources.'



Ian Meakins
President, European major
markets and global supply

The production cycle



Although our policy is to achieve continuous improvement in all aspects of environmental performance, our efforts are concentrated on areas of greatest impact:

> **use of energy** Making drinks requires energy – for heat during brewing and distilling, space heating, lighting, powering equipment, and transport. The release of carbon dioxide and other greenhouse gases when energy is generated from fossil fuels has a well-documented effect on the climate

> **water management** Water is an obvious requirement of the drinks industry, as an ingredient and for washing and cooling during manufacturing. As a significant water user, we are competing with local flora and fauna and the quality of discharged waste water has a potential impact on the municipal sewerage system or body of water that receives it

> **materials and recycling** The ingredients of Diageo drinks are natural materials such as cereals, hops, grapes, cream and yeast. The by-products are largely reused rather than wasted. The small proportion of waste that cannot be reused or recycled is normally sent to landfill, thereby consuming an environmental resource. The environment is also impacted by the disposal of bottles, cans and other packaging.

Environmental management

Our overall approach to environmental protection is set out in the Diageo environmental policy which ensures that all parts of the business are challenged to keep improving their performance. Day-to-day environmental management and compliance with the policy are the responsibility of each Diageo business.

All Diageo businesses are required to adopt an environmental management system (EMS). During the year the EMS of our site in Belfast, Northern Ireland was certified to the international standard ISO14001, bringing the total with this achievement to four. Eight more facilities around the world plan to achieve this level of recognition within the next three years.

The Diageo environmental management system, linked closely to the group's risk management framework, covers policy, responsibility, incident investigation, monthly recording and reporting of environmental data, site audits and staff training. 14% of supply sites have fully implemented the system or conform to ISO14001; at 79% of sites implementation is underway. Nearly 80% of sites operate a programme of environmental audits.

Key performance indicators

To allow for variations in the profile of the business we target improvement in performance relative to production volumes. We have made good progress in three out of five targets, as discussed in the following sections.

Considered as totals our five key performance indicators showed increases over the previous year. This was due to increases in production, the increasing importance of ready to drink products – which require additional water as an ingredient and energy for pasteurisation – and improvements in our data collection systems which allowed us this year to include 11 sites for which information was unavailable in the past.

Energy and climate change

The main environmental impact of using energy – in the form of gas, fuel oil, diesel oil, and electricity generated from such fossil fuels – is that it releases greenhouse gases into the atmosphere. In line with general practice, we express the climate-changing potential of greenhouse gases as CO₂-equivalent emissions.

Our approach to reducing these emissions is to use energy more efficiently or to switch fuels – from, say, oil to gas. One approach to improving efficiency adopted by two sites has been to install combined heat and power (CHP) plants which make use of the heat that is normally wasted during electricity generation.

2001 saw the introduction of the climate change levy in the UK and we have agreed energy improvement targets with the government which must be achieved by 2010 in line with the UK's undertaking at the Kyoto summit to reduce the country's greenhouse gas emissions.

Energy used and greenhouse gases released per unit of production showed an increase in 2003 over the previous year rather than the decrease targeted. The increase was almost wholly due to the inclusion of data from sites excluded in the past; the failure to improve on the prior year performance was due to the changing mix of product types and, at some sites, the running in of new equipment.

The logistics required to move raw materials into production sites and carry finished products away represents a significant environmental impact, mostly

due to the use of fuel. Transport services are predominantly contracted to haulage companies. An area of focus for us in the future is to quantify and manage the impacts of these transport services and set targets for improvement.

Business travel is an area with similar impacts on the environment, though distances travelled have been reduced in recent years by the use of teleconferencing, a trend we will continue to encourage. Flights taken by employees based in four countries with significant Diageo operations – Ireland, Netherlands, UK and USA – contributed an additional 21,000 tonnes of CO₂ emissions during the year. We are working to improve our data collection systems to allow the reporting of emissions from other countries and other means of transport in future years.

Water management

Water quality is crucial to the character of Diageo drinks and, with resources under pressure from development in many parts of the world, we are committed to managing water use and wastewater discharges responsibly. Water forms the focus for the Diageo

Foundation's conservation and humanitarian support programme, Water of Life.

The water we use comes principally from boreholes or municipal mains supplies. Water use during the year showed an increase due to the changing mix of product types, but performance remains on track to meet our target next year.

The effluent from our production plants can have a high BOD (biological oxygen demand – a measure of its organic content) and may be slightly acid or alkaline or warmer than the receiving water.

Liquid effluent relative to production showed a decrease last year and this performance indicator is on track to meet the improvement target in 2004.

Energy used	
Total GWh	
2001	2,700
2002	2,700
2003	3,307
Relative to production kWh/case	
2001	9.2
2002	9.8
2003	10.1
2004	Target 8.6
Greenhouse gas emissions (as CO ₂)	
Total tonnes	
2001	685,400
2002	656,100
2003	858,433
Relative to production kg/case	
2001	2.3
2002	2.4
2003	2.6
2004	Target 2.1

Water used	
Total million m ³	
2001	22.8
2002	21.4
2003	26.6
Relative to production litres/case	
2001	77.3
2002	77.2
2003	81.4
2004	Target 86.0
Liquid effluent	
Total million m ³	
2001	17.8
2002	15.6
2003	17.1
Relative to production litres/case	
2001	60.4
2002	56.4
2003	52.3
2004	Target 50.4

Solid waste landfilled	
Total tonnes	
2001	30,200
2002	18,300
2003	23,710
Relative to production kg/case	
2001	0.10
2002	0.07
2003	0.07
2004	Target 0.10

A case equals nine litres of product.

Diageo Earthwatch programme

Under the Diageo Foundation-funded Earthwatch programme, 15 employees were selected from hundreds of applicants to take part in six two-week Earthwatch research projects. On their return to their home countries, our 15 champions are sharing their enthusiasm for environmental issues and their new knowledge of field work with their colleagues, and helping introduce new approaches to biodiversity and sustainability around the business.

Thirteen incidences of non-compliance with effluent consents were noted by the authorities during the year, one of which – for excessive suspended solids in the outfall from our Philippines site – resulted in a £340 fine. At a number of sites in Africa our own audits have revealed effluent quality that has been a cause for concern – for example, outflows may not have reached prescribed standards in BOD, suspended solids, pH or temperature. A programme of corrective action, involving the construction of new treatment plants or the improvement of existing facilities, has begun, with the bulk of the work scheduled for completion by December 2004. The work represents an investment of nearly £18 million.

Materials and recycling

Finding sustainable ways of working involves conserving the earth's natural resources and reducing landfill disposal of waste. We use materials from renewable or recycled sources where feasible and reduce the amount of waste by finding ways to recycle it or use it for other purposes.

The bulk of the materials we use are ingredients. Being organic, these provide many opportunities for the reuse of unwanted residues. For example, after extraction, spent grain is usually sold for processing into animal feed. The pulp left after extracting the juice from grapes is composted and used as agricultural mulch. Excess yeast is processed for use in animal feed, as is waste from the malting process. Overall, 95% of solid waste is reused or recycled.

Our other main use of materials is in packaging which incorporates a wide variety of materials including glass, metals, plastics and cardboard. Some of these materials are derived from recycled sources and most are recyclable by consumers after use where facilities exist. Improving the sustainability of packaging means reducing the total amount of material used and increasing its recycled content.

Initiatives to lessen the environmental impact of packaging materials concentrate on two main areas. First, we address the type and quantity of packaging needed to protect our brands on their way to the consumer and, second, we aim to decrease the landfilling of waste packaging materials from each site, including damaged bottles and cans, waste board and plastics. The increase in landfilled waste in 2003 was due to the addition of new sites; performance relative to production remains on track to meet the target next year.

Over the last five years there has been a concerted programme of 'lightweighting' bottles, usually by around 20%. Lightweight bottles use less raw material and take less energy to make and transport. Further transport fuel savings have been achieved by receiving more bottles direct from the factory, rather than via storage warehouses. The suppliers we use are actively engaged in glass recycling and currently our bottles have an average recycled content of around 30%, varying between about 12% in colourless bottles to over 50% in green or amber ones. Using recycled glass as a raw material reduces the bottle makers' energy consumption by up to a quarter and their emissions by up to a fifth. In many markets we use bottles that can be returned and refilled. In Africa, for example, all our beer is packaged in this way and nearly 90% of bottles are returned.

Aluminium cans, too, have been lightweighted over several years and are a prime candidate for recycling. Reforming a can from recycled aluminium takes only 5% of the energy needed to make it from raw materials. This makes used cans a valuable commodity and encourages waste companies to extract them from the waste stream.

Diageo in Italy supports the local corrugated cardboard industry in the use of recycled paper, testing types of recycled paper on our production lines to help suppliers find the best balance between cost and performance. In 1994, when we began producing RTDs, we started to use cases made with 100% recycled paper. Extending what we learnt to other brands, we are now using over 90% recycled paper across all our production range.

**Diageo Italy
Use of recycled paper %**

2001	86.9
2002	90.0
2003	90.4

Air emissions

Maturing whisky loses a certain proportion of its volume each year by evaporation, known as the angels' share. In this process, essential to create the desired flavour, ethanol, a volatile organic compound (VOC), is released into the atmosphere. Though ethanol is relatively non-reactive, VOCs can lead to ground level ozone formation which can present a health hazard. In 1999, an estimated 15,000 tonnes of ethanol were released in this way in Scotland. However, the country has relatively good air quality and ground level ozone formation is limited by the relatively low levels of NOx gases from other sources. In addition, ethanol is water-soluble and much is removed from the air by rainfall. It is also biodegradable.

**Earthwatch report 1****Rainforests of northern Australia**

Colin Burt, pre-distillation assistant controller in Cameronbridge, Scotland, travelled to the rainforests of northern Australia to join a team researching the effects of agriculture on the local habitat, and its subsequent impact on fruit-eating animals on which many rainforest trees rely. Back in Scotland, Colin is working with wildlife rangers to target key species and habitats within a disused part of the Cameronbridge site, developing management techniques that will ensure their future sustainability.



Earthwatch report 2

Great Rift Valley, Kenya

The Great Rift Valley is a source of biological diversity and is important to local people for water, agriculture, fishing and tourism. The future of the area is threatened, with shorelines a focus for horticulture. Albert Ogundipe, a technician from Diageo's Benin brewery in Nigeria, joined a team looking at three lakes in the valley, with the challenge to understand its biology and advise on its restoration. Since his return to Nigeria, Albert has been planning a project to provide a local community with a well to give access to fresh water.



Earthwatch report 3

The Pantanal, Brazil

Tanja Gorman, demand development leader at Baileys in Ireland, joined a team in the Pantanal, an important wetland ecosystem with high levels of biodiversity. Tanja's task included a project to catch, weigh and tag bats and to study the small pig-like peccaries. The data collected from these activities are needed to help create policies for the sustainable management and conservation of the Pantanal. On returning to Ireland, Tanja is planning an environmental project involving the Camac River which runs through the Dublin site.

Ozone-depleting substances

Some man-made chemicals, released as gases into the atmosphere, can damage the protective ozone layer, allowing harmful ultraviolet radiation to reach the earth. The chemicals chiefly implicated as ozone-depleting are halons, used in fire suppression equipment, and CFCs and HCFCs, used in refrigeration and air conditioning equipment. Nine sites were made free from halons and CFCs during the year, leaving 17 where one or the other is still present, usually in very small quantities. We will continue to replace these materials with less harmful alternatives.

Biodiversity

Diageo is committed to encouraging biodiversity by protecting habitats within its control and through the Water of Life programme.

At the Diageo-owned Gleneagles Hotel estate in Perthshire, Scotland, the glacier that created the world-renowned golfing landforms in the last ice age also provided unique habitats to support biodiversity. Nineteen glacial kettle holes, identified as sites of scientific interest (SSIs), now have an abundance of rare marginal plant life – bottle sedge, bog cotton, southern marsh orchid and cranberry – as well as a variety of mammals and invertebrates. Of particular interest is the raised dome sphagnum peat mire, a site of special scientific interest (SSSI) which is managed in conjunction with Scottish Natural Heritage.

The hotel's environmental management plan, accredited to the pan-European Certificate for Environmental Excellence, ensures the compatibility of human recreation with the continued protection of our natural assets. A corridor of oak and pine trees has been established as a habitat for red squirrels and a glacial melt-water channel, which supplies a series of lochs stocked with different varieties of fish, has been incorporated into the golf course design.

Spills and other incidents

Four sites reported incidents with potential environmental impacts during the year. The most serious occurred at our brewery in Cameroon when 30,000 litres of fuel oil spilled into the storm water drainage system. The immediate cause of the incident was the inadequate colour-coding of oil and water valves; failure of the bunding around the oil tank contributed to the seriousness of the spill. The oil polluted an extensive area, including a stream, marsh land and surrounding streets. A £5,000 fine was imposed as a result. A clean-up operation was immediately put into place to collect, measure and incinerate the pollutant, an exercise that required a total of 14,000 man-hours. The other incidents involved an oil spill on to the foreshore at Burghead, Scotland, a spillage of propionic acid at our distillery at Cameronbridge, Scotland and a spill of caustic soda into the Camac River from our Baileys site in Dublin. In each case, action has been taken to prevent recurrence of the incident, none of which resulted in a fine.

The road ahead

The first part of Diageo's environmental journey has concentrated on measuring impacts and targeting performance improvements at production sites. In the future, we intend to broaden this process to our marketing and distribution locations.

We will also be engaging with stakeholders to take a wider view of our environmental impacts, particularly of packaging, throughout the product life cycle, and examining ways of accounting for environmental costs.

Economic impacts

'Through the taxes and duties we pay, the returns we create for shareholders, the employment we provide and the suppliers and other business partners we support, we contribute significantly to the markets in which we operate and to the world economy.'



Nick Rose
CFO

With a turnover of £9.4 billion, Diageo's business has a strong economic impact and our activities benefit the communities in which we operate in many ways – including generating revenue for governments, providing employment, supporting ancillary industries and capital investment. Our business can have a particularly significant impact on small economies where our brands are well established. In Seychelles, for example, 13% of the

government's tax revenue is currently derived from the Diageo brewing business in the islands. The sum total of our impacts around the world comprise our economic footprint, illustrated by the diagram on page 23.

Last year we employed over 24,500 people in our premium drinks companies across some 180 markets around the world, spent £4 billion on goods and services from suppliers and business partners, committed over £300 million to investment

in plant and buildings and directly contributed approximately £2.3 billion, in the form of taxes and duties, to public spending.

In addition, the business generates indirect tax revenues. These include sales and value-added taxes paid by consumers, income taxes paid by employees, taxes paid by suppliers and business partners and alcohol duties paid on the proportion of production delivered from bonded warehouses. While not easily quantifiable, these indirect taxes represent a very significant further contribution to public funds. As an example, the proportion of the selling price of a bottle of vodka in the UK that goes in taxes and duty is shown diagrammatically below.

After paying our suppliers and employees, repaying lenders and settling taxes due, from the remaining profit we paid £1.6 billion to the shareholders who provided us with our capital and retained the balance in our business for investment in future growth. As direct community investment, we have pledged 1% of operating profit – worth £19 million in 2003 – to community causes around the world.

The way in which wealth is created by Diageo – or value added to the raw materials we buy from suppliers – and distributed to each of these key stakeholder groups is demonstrated by a cash value added statement.

Cash value added statement	2003 £ million	2002 £ million
Net cash generated		
From customers	9,440	11,282
Other income	139	123
Sale of subsidiaries ¹	970	5,100
Subtotal – net cash generated	10,549	16,505
Payments to suppliers for goods and services	(4,042)	(5,649)
Cash value added	6,507	10,856

Distribution of cash value added

To governments		
– Excise taxes	2,166	2,119
– Other taxes	177	411
– Subtotal – to governments	2,343	2,530
To shareholders for providing capital	1,619	2,416
To employees as remuneration for services	1,069	1,322
To lenders as a return on borrowings	355	400
Capital investment	361	528
Community investment	19	20
Research and development	15	28
Retained for re-investment	589	20
Purchase of subsidiaries ²	137	3,592
Total	6,507	10,856

1. Principally: 2002 Pillsbury/General Mills; 2003 Burger King.

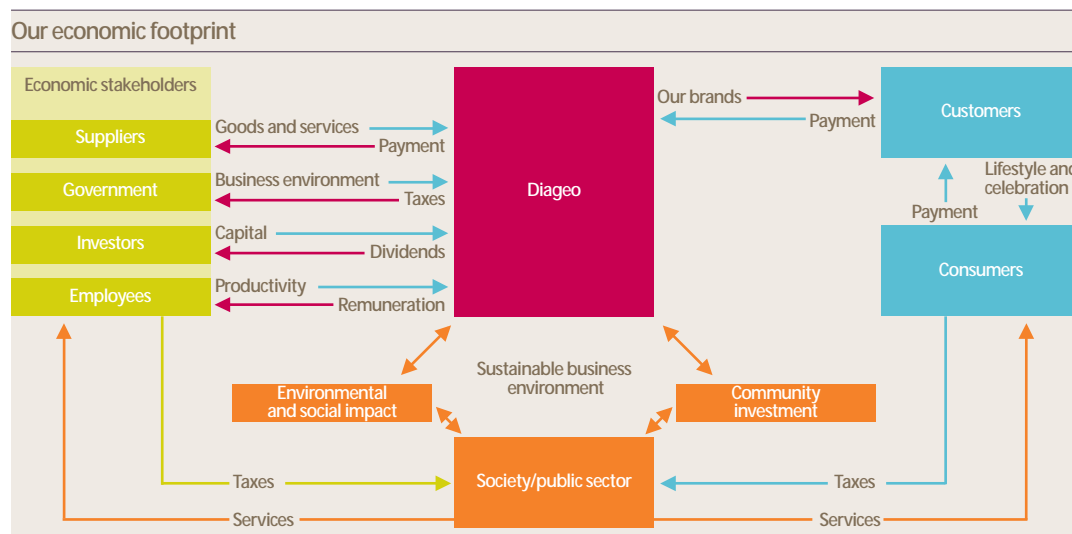
2. Principally Seagram spirits and wine business.

Where the money goes



Breakdown for 70cl bottle of Smirnoff Red vodka sold in an average UK off-licence in 2003.

* Includes money distributed to suppliers, shareholders, employees, lenders and communities and retained in the business.



One area where cash spending is relatively discretionary is capital investment. The broad geographic split, shown below, demonstrates how money re-invested is distributed to projects around the world.

Pension schemes

Added to the economic impact of the business is the significant contribution of Diageo's pension schemes. These operate in some 30 countries – the three principal plans covering the UK, US and Ireland – and have combined total assets of approximately £3.5 billion. The UK plan – the biggest – covers some 70,000 members and pays about £120 million to some 32,000 plan pensioners and dependants. The trustees of the fund have asked their investment managers to take social, ethical and environmental considerations into account when assessing investments for the pension scheme.

Returns for investors

Over 90% of our business is owned by institutional investors, the remainder being held by private shareholders who include thousands of employees and former employees. We aim to engage actively with the investment community on our corporate citizenship agenda. Some Diageo companies offer a proportion of their shares on local stock markets. We encourage the participation of these shareholders as they bring local knowledge to our business and facilitate direct involvement in the community.

We assess the value provided to shareholders by total shareholder return (TSR) which measures the relative return from the movement in the share price together with the dividends received. Dividends and capital repayments are treated as reinvested and TSR is calculated in local currency. TSR in the table is measured from 1 July 2000

using the average share price over the previous 12 months as the starting point and the 12 months to 30 June 2003 as the end point. Diageo is ranked 4th in its peer group on this measure, achieving our target of being in the top five.

As part of maximising TSR, we are committed to return capital to shareholders in the most efficient way possible. During the year shareholders received £767 million in dividends and over £852 million via the repurchase of shares.

Information on the Diageo share ownership profile can be found in the annual review.

TSR ranking in peer group

1	Altria	74%
2	Anheuser-Busch	47%
3	Yum! Brands	42%
4	Diageo	38%
5	Unilever	30%
6	Allied Domecq	25%
7	Carlsberg	23%
8	PepsiCo	21%
9	Kellogg	17%
10	Procter & Gamble	7%
11	Nestlé	7%
12	Colgate-Palmolive	2%
13	Heinz	(3%)
14	Heineken	(9%)
15	Coca-Cola	(15%)
16	Gillette	(15%)
17	Campbell Soup	(32%)
18	McDonald's	(52%)

Distribution of cash value added by recipient %

	2003	2002
Government	36.0	23.3
Shareholders	24.9	22.2
Employees	16.4	12.2
Lenders	5.5	3.7
Capital investment	5.5	4.9
Community investment	0.3	0.2
Research and development	0.2	0.2
Retained for re-investment	9.1	0.2
Purchase of subsidiaries	2.1	33.1

Capital investment by region £ million

	2003
Europe	175
North America	64
Africa	39
Asia Pacific	24
Latin America	13
Total	315

Excludes Burger King spend of (£67 million), disposals of fixed assets £41 million and net purchases of investments (£20 million).



Supporting tax reform

In recent years we have been helping the Colombian government develop an orderly market in beverage alcohol and have financed an independent study of spirits taxation in the country. The report's recommendations for tax reform and transparent tax management have been endorsed by the International Monetary Fund.

Paying government taxes

Over one-third of cash value added by our business goes to governments in the form of duties and taxes. This figure excludes the sales taxes, such as VAT, which are paid on our brands and which boost the total direct financial contribution to public wealth. We generate additional contributions to public funds through the income taxes and other dues paid by our employees, investors, suppliers and other business partners.

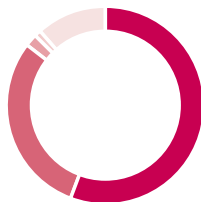
The prices that an international company puts on items bought and sold between subsidiaries in different countries affects its local tax liability. Diageo's policy on this transfer pricing is to determine prices for our products at open market rates by following established guidelines and using arm's-length comparable third-party information.

Working with governments

The level and collection of taxes can have dramatic consequences on the amount of money raised, and on patterns of alcohol consumption. We work with governments in many countries to help them address the undesirable outcomes of higher levels of alcohol taxes. These consequences which negatively impact on total tax revenue, include:

Purchases by category £ million

	2003
Raw materials	2,252
Marketing	1,203
Lease payments	81
Maintenance	43
Other	463
Total	4,042



Engaging with suppliers

Nearly 40% of the cash we generate – over £4 billion last year – flows to the businesses which supply the raw materials and packaging for our brands as well as the goods and services required by our operations. This volume of purchasing has a significant impact on the local economies in which we do business. While focused on the commercial imperative of procuring goods and services of the required specification and quality on the most favourable terms, to secure supplies which are sustainable in the long term we work collaboratively with our suppliers, ensuring that contracts are fair and that our business relationships are mutually beneficial.

Given the international nature of the group's operations, there is no group standard in respect of payments to suppliers. Operating companies are responsible for agreeing terms and conditions for their business transactions when orders for goods and services are placed, ensuring that suppliers are aware of the terms of payment and including the relevant terms in contracts where appropriate. These arrangements are adhered to when making payments, subject to the terms and conditions being met by the supplier.

> **Informal trading** – high taxes create an incentive to trade outside formal business channels. This may involve consumers importing more than is permitted for personal use or re-sale or, in extreme cases, more systematic smuggling

> **Illicit production** – high taxes can encourage people to distil their own alcoholic drinks. For example, in Sweden, which has some of the highest spirits taxes in the world, it is estimated that illicit production represents 40% of consumption. Such practices can have dangerous consequences for health

> **Counterfeiting** – high taxes encourage the counterfeiting of well-known brands, a practice that brings health risks, particularly as counterfeit spirits are sometimes adulterated. For more information on counterfeiting, see page 9

> **A decline in revenue** – high taxes can be counterproductive for governments and lead to a reduction in revenue rather than the increase anticipated. They also tend to be regressive, representing a larger proportion of the incomes of poorer consumers than those of the better off.

Diageo resources are frequently employed to support our relationships with suppliers. For example, in Scotland, the decision was taken recently to rationalise haulage services from two logistics companies to one. To support the company that lost the business, we built in an extended transition process – even though this reduced the potential savings of the consolidation – and provided Diageo staff to help with the transfer of employees from one company to the other.

Our responsibility for our supply chain goes beyond promoting the economic stability of our business partners. We are also concerned that the social and economic impacts of the companies on which we depend – and, further up the supply chain, the companies which supply them – are managed to the same level as those of our own businesses.

In addressing these indirect impacts, we concentrate our efforts where our involvement and relationships are strongest – with our first-tier suppliers. During the year we launched our *Partnering with suppliers* programme which will be applied across all categories of procurement. We produced a guide which sets out how we expect to work with suppliers on ethical business practice, human rights, core labour standards and environmental management. Three pilot assessments under this programme have been carried out.

Over the coming year we will include these corporate citizenship standards as criteria in our assessment and selection processes for all key suppliers. We foresee a considerable challenge in implementing strict standards in some parts of the developing world and have allocated resources to develop special strategies for these areas. Our aim is to encourage and help suppliers in developing countries to achieve world-class standards, raising the level of local capability.

In the case of multiple-tier contracts for the supply of point-of-sale items such as branded teeshirts, we will additionally require first-tier suppliers to help second-tier suppliers work to the standards, with audits being carried out to ensure compliance. Where central services are out-sourced, contracts will be structured to ensure that service providers have a strong commitment to Diageo's values and corporate citizenship standards.

Our aim is to see the principles and practices of good corporate citizenship adopted throughout the supply chains in which we are involved. We will assess progress towards this by polling priority suppliers concerning their policies and monitoring contracts with corporate citizenship requirements.

We have placed particular emphasis on our brewing suppliers' management systems in Europe where we have carried out over 330 audits of suppliers' sites over the past three and a half years. During the visits, a questionnaire is completed covering management systems, staff training and performance monitoring. Suppliers are provided with feedback and encouraged to address any weaknesses identified. Sites scoring less than 75% in the assessment are obliged to make improvements to meet Diageo requirements and a follow-up site visit is made to verify these. Since the audits began, 45 companies have taken steps to improve in order to continue their business relationship with Diageo.

During the year we conducted an environmental communication exercise with companies that produce Diageo brands under licence. This included information-sharing on our respective approaches to environmental policy and management with the aim of developing environmental best practice.



Developing Park Royal in partnership

Economic impact at a local level is shown by the Park Royal development in west London – the site of the first Guinness brewery outside Ireland. By the 1990s, advances in brewing technology and the changing needs of employees had made many of the brewery buildings redundant. In partnership with the local authorities and developers, we embarked on an ambitious building and landscaping scheme to bring the area up to date. The new office park is expected to create 6,200 jobs and represent a value of £45 million a year locally and £170 million a year to the wider economy.

The economic footprint of Guinness Nigeria

Economic impact at national level is illustrated by our business in Nigeria, a country where our contribution to wealth creation and to the standards of commercial life are particularly significant.

One of the first to be quoted on the Nigerian stock exchange, the Diageo company, Guinness Nigeria, today provides returns to more than 60,000 local shareholders, employs 1,500 people and helps support some 50,000 further jobs through relationships with more than 1,000 suppliers. Over half of the company's value added goes to the government in excise duty and tax.

Guinness Nigeria is committed to Diageo's values and standards of quality and implements Diageo's social and environmental policies, ensuring the company maintains its outstanding reputation as an excellent corporate citizen. During the year, the company published its first corporate citizenship report.



Supporting our customers

Our customers are the wholesalers, retailers and distributors of our brands with whom we deal in over 180 markets. We create business for our customers by providing them with products that people want to buy. We continually review our range of products and seek to meet consumers' needs through a programme of imaginative and technological innovation. During 2003, Diageo spent £15 million on research and development.

In the United States, suppliers must distribute products through third-party companies, which in turn sell through licensed retailers. We have embarked on a long-term strategy to build more effective and efficient relationships throughout this three-tier system. Our goal of consolidating to a single wholesaler or broker per state will allow us to meet consumer expectations by working through highly trained exclusive selling divisions within our chosen distributors. In the long term, we expect this strategy to deliver improved sales, more effective marketing spend and volume growth for suppliers, distributors and retailers.

In Scotland we provide on-trade customers with training and management advice to help them improve profitability, spending £1.5 million on such programmes in 2002. We also work closely with the off-trade, and spent £2.5 million in Great Britain advising independent retailers on displaying their stock and sharing consumer insights to help them grow their business.

Turnover by market type	2003 £ million	2002 £ million
Major markets		
– North America	2,795	2,669
– Great Britain	1,429	1,467
– Ireland	953	937
– Spain	424	380
Key markets	2,129	2,078
Venture markets	1,231	1,173
Total	8,961	8,704

Premium drinks business only.

The road ahead

Priorities for the future include engaging more systematically with our stakeholders throughout our supply chain to ensure that our investments in corporate citizenship initiatives are directed towards areas of greatest concern.

We will also be extending our work with suppliers and other business partners to encourage the adoption of the best ethical, human rights and environmental practices throughout our supply chain.

Awards for our brands

> Diageo received the Distiller of the Year Award 2002 in the International Wine and Spirit Competition. In the same competition, Diageo whiskies Brora, Cragganmore, Oban, Glenkinchie, Johnnie Walker and Lagavulin won gold medals while Talisker was voted best single malt Scotch whisky.

> Diageo was voted Distiller of the Year 2003 by the Whisky Academy.

> Diageo in the UK was voted top supplier by trade buyers for product quality, value for money and new product development.

> Diageo in the US was voted vendor of the year by two key customers for its 'high level of consumer insight'.

Management and policy

'A key element of corporate citizenship is compliance with the laws and regulations of countries in which we are privileged to work. Legal requirements are often minimum requirements and, where appropriate, our policies go beyond what is required by law.'



Tim Proctor
General counsel

Governance

Diageo's board and executive committee are committed to achieving the highest standards of corporate governance, corporate citizenship and risk management in directing and controlling the business.

This section represents only a brief summary of the governance of the business. Full details are available in the 2003 Diageo annual report which conforms to UK and US disclosure requirements.

Our board consists of the non-executive chairman, CEO, CFO and seven independent non-executive directors. The non-executive directors are experienced and influential individuals from a range of industries and geographies whose skills and business experience are a major contribution to the work of the board. New directors receive social responsibility training as part of their induction. Reporting to the board are audit, nomination and remuneration committees, each with clearly defined terms of reference, procedures, responsibilities and powers. The board reviews and approves the corporate citizenship report.

The executive committee, appointed and chaired by the CEO, consists of the individuals responsible for the day-to-day running of the business. The CEO has created several executive working groups and committees which include:

Corporate citizenship committee

Chaired by the CEO and responsible for making decisions and recommendations to the executive committee or board on business conduct, social programmes, community affairs, health and safety, and environmental matters. The committee prepares an annual report for the board.

Audit and risk committee

Chaired by the CEO and responsible for overseeing the approach to securing effective risk management and control, reviewing and challenging the adequacy of sources of assurance and reporting regularly to the audit committee or to the board.

Environmental working group

Develops strategies for compliance with the environmental policy, sharing best practice across the business and communicating environmental issues internally and externally.

Ad hoc task groups

Brought together as required to formulate responses to particular issues – for example, HIV/AIDS, genetically modified organisms and allergens.

Through these committees and groups we determine the detailed actions to be taken within our overall approach. Achieving a positive impact on the social, environmental and economic worlds in which we operate, this approach is to:

- > act with integrity, adhering to high standards of behaviour, encouraging leadership by senior executives, responsible decision-making and dialogue with stakeholders
- > be proactive in our focus areas – social responsibility and alcohol, community involvement and the environment
- > measure, report and communicate.

Awards for our companies

> Red Stripe won the 2003 Jamaica Manufacturers' Association Governor-General's Award for excellence in manufacturing and good corporate citizenship – the ninth time the Diageo brewer has won this top award since it was created 14 years ago.

> East African Breweries, Diageo's business in Kenya, Tanzania and Uganda, was voted Most Respected Company 2002 in a PricewaterhouseCoopers survey – the third year in a row it has been awarded this accolade.

Risk management

Our aim is to manage risk and control our activities cost-effectively. We do so in a manner that enables us to take up profitable business opportunities, avoid or reduce risks that can cause loss, reputational damage or business failure, support operational effectiveness and enhance resilience to external events. To achieve this, we have a process for identifying, evaluating and managing the risks we face, in accordance with the guidance of the Turnbull committee, which in 1999 made recommendations on the internal control of UK companies.

During the year we established a new emerging issues team whose role is to identify technical issues which could impact Diageo's products or manufacturing processes. Such issues could arise from changes in regulation, advances in research, activity in our markets or stakeholder concerns. The team assesses the risks presented by emerging issues and prepares considered responses.

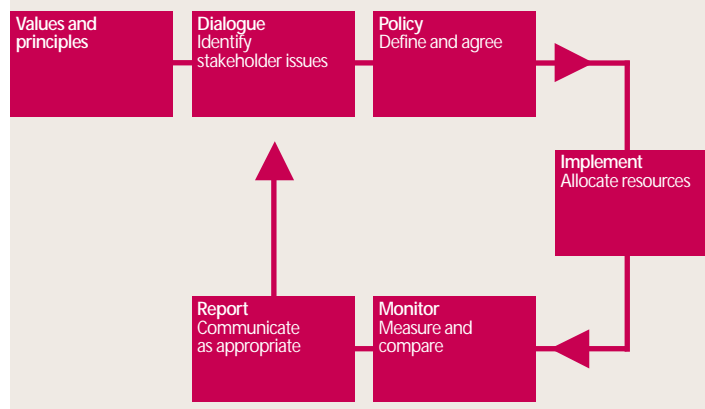
Our vision of sustainability

The World Summit on Sustainable Development in Johannesburg was a reminder that the challenge of sustainable development is a task for governments, non-governmental organisations, companies and individuals, working together in partnership. Diageo's stakeholders have a strong, and growing, expectation that we will seize this challenge.

Sustainability for us means assurance of long-term success within a stable world. We believe that, with the values we have established, and the policies and business practices developed from these, we are well prepared for the move towards sustainability. Our social impacts are clearly identified and a particular focus for our attention. Our environmental impacts, while not insignificant, are not unusual and have been subject to improvement programmes for many years. Diageo is a creator of wealth, without which many steps towards sustainability cannot be made. By addressing these issues creatively and rigorously, we believe we are developing a business that can be both commercially successful and socially and environmentally sustainable.

The long-term view of sustainability can be useful in resolving the dilemmas with which we are often presented in balancing the conflicting interests of different stakeholders. Our decisions are taken in the belief that our business will be more successful in the long term – and consequently provide greater returns for investors – if we trade in prosperous communities in which there is trust between us and society and in which social issues are addressed. With this perspective, the imperative to do what we can to create these conditions becomes clear.

Policy development



Policy development

Starting with our Diageo values, we identify the stakeholders affected by our operations and the expectations they have for the way we work and the relationships we have with all relevant segments of society.

The development of policies and codes of conduct, agreed globally, ensures that, despite the size and geographical spread of our business, we can advance everywhere on the same journey, knowing we enjoy the support of employees across Diageo.

An example of the consultation processes that contribute to policy formulation is the approach we took to documenting our commitment to human rights. The exercise was managed by a task group which represented the functions and geographical spread of the business. The group reviewed external human rights codes, including the Universal Declaration of Human Rights, the recommendations of the International Labour Organisation and the OECD Guidelines for Multinational Enterprises.

This input, adapted to the Diageo way of working, resulted in a draft policy on which we consulted widely among advocacy groups such as Amnesty International, socially responsible investment practitioners and interest groups local to our markets.

The amended draft, which crystallised practices which in many cases were already embedded in the business, underwent a similar process of consultation within Diageo to ensure that the approach resonated with Diageo culture and was supported by all parts of the business. Following endorsement at board level, the new human rights policy is now being communicated across the business and measures are being put in place to monitor its implementation.

Our codes and policies

We set our own codes and policies which often go further than local or national legislation. These are regularly reviewed to ensure that they continue to address the legitimate concerns of stakeholders and are in line with best practice. Below are some of the codes and policies we have focused on developing and implementing during the year. The full texts are available on our web site.

Code of business conduct

The code sets out standards on issues such as conflicts of interest, competition law, insider trading, corrupt payments and other illegal acts. The code is supported by an independently-run whistleblowing facility, the SpeakUp helpline. All senior managers are required each year to confirm compliance with the code or declare areas of possible non-compliance. Coverage in 2003 was 94%, compared with 76% in the previous year. Intranet-based learning on the code, currently being introduced across Diageo, augments compliance and governance workshops as part of a blended approach to education and training. The policy was updated during the year to include anti-money-laundering guidelines.

Code of marketing practice

The code provides marketing and advertising practitioners with guidance on the naming, packaging and promotion of our brands, setting standards which apply in every market, and are in addition to local laws and regulations. The code was updated during the year and a training programme launched to help embed the standards of the code in our ways of working.

Human rights policy

In addition to international, national and local legislation, we have developed our own global human rights policy covering respect for national sovereignty, community, working environment, dignity at work, life balance, employee engagement, releasing potential, and rewarding and valuing people. The policy has been rolled out to all Diageo operations.

Environmental policy

Covering management and standards in each of our main environmental impact areas, our environmental policy draws on best practice in environmental management and ensures that all parts of the business continue to be challenged to keep improving their environmental performance.

Supplier standards

The high levels we aspire to in our own behaviour are reflected in the expectations we have of our suppliers. The *Partnering with suppliers* guidelines outline Diageo's global positions on corporate citizenship issues which are currently being phased into our supplier standards, compliance monitoring and reporting.

Employee alcohol policy

The policy ensures that employees fully understand the nature and effects of alcohol and sets out the expectations Diageo has for their behaviour.

Occupational health and safety policy

We have introduced global guidelines which set out, at each of our locations, standards for risk assessment, occupational health, hazardous substances, first aid, noise, ergonomics, protective equipment, emergency evacuation, work permits, visitors and contractors and accident reporting. The revised policy will be rolled out across the business in the coming year.

Quality policy

The revised policy sets a framework for quality management systems and commits every business to continuous improvement in performance. The policy was rolled out across the business during the year and progress made on implementation and compliance.

External codes and charters

In addition to our own policies, Diageo is a signatory to certain external codes that define corporate citizenship principles and standards of conduct.

Business Charter for Sustainable Development

Diageo announced its support for the Business Charter for Sustainable Development following the company's formation in 1997. The charter, drawn up by the International Chamber of Commerce, sets out 16 principles of environmental management which influenced the approach we took in drawing up the first Diageo environmental policy.

UN Global Compact

In 2002, Diageo became the first global drinks company to sign up to the United Nations Global Compact. The compact, launched by UN secretary-general Kofi Annan in 1999, calls on companies to embrace nine principles covering human rights, labour standards and the environment.

World Economic Forum Leadership Challenge

In 2002, Paul Walsh, Diageo's CEO, was among the group of international business leaders who endorsed the Leadership Challenge, a pledge to apply the principles of good corporate citizenship to their organisations.

Dublin Principles

Diageo is a signatory to the Dublin Principles which set out the basis of ethical co-operation between the beverage alcohol industry, governments, scientific researchers and the public health community.

The road ahead

We have in place a comprehensive set of policies and codes which serve as a framework for our approach to corporate citizenship but which are at various stages of implementation. Our task for the future is to ensure that all these policies are widely communicated and fully embedded in our ways of working, that systems of monitoring are in place to ensure compliance and that targets are set for continuous improvement.

Measuring and reporting

We do not yet have all the data we would like. The robust systems we are now developing are designed to provide greater scope for quantitative reporting in future years.

In a complex global organisation, the implementation of policies covering the full range of corporate citizenship concerns is a significant undertaking. Central to the process is monitoring progress, measuring performance and reporting regularly and publicly to our stakeholders.

Key performance indicators

We have a set of measures of our progress covering all of the areas of corporate citizenship which we have found to be of concern to our stakeholders and designated the most important of these key performance indicators (KPIs).

The data required for each of these measures from the hundreds of Diageo locations around the world are to be collected regularly. Environmental performance and community involvement measurements, which we have been collecting for a number of years, have their own methodology. Social performance requirements are being incorporated into a new finance data collection system, additionally allowing the integration of corporate citizenship measures into monthly, quarterly and annual business performance management and presenting the opportunity of sharing best practice across the business.

Targets

We set and publish targets for environmental and community involvement KPIs. Once we have an appropriate track record we will be extending this practice to KPIs in other areas.

During the year we established a new systematic method of setting environmental targets which will result in a new phase of stretching improvement goals for our production sites. While driving progress in performance figures for the business as a whole, the process allows for the fact that some sites have more room for improvement than others. It is also flexible enough to align our targets with those set at a national level – for example, commitments to reduce greenhouse gas emissions under the Kyoto protocol.

Reporting globally and locally

We intend to publish a Diageo corporate citizenship report annually, setting out our whole-company approach to important issues and reporting consolidated performance data and improvement targets. Such a report will be in addition to the coverage given to corporate citizenship issues in our financial reporting documents.

We acknowledge that many of the social, environmental and economic impacts of our

business work at a local level. Contributing to the prosperity of communities, sustaining jobs, serving consumers and working with suppliers are examples of issues with considerable local significance. At this level, we strive further to understand our impacts and inform our dialogue with local stakeholders and decision makers by measuring and reporting on our 'footprint' in the countries in which we operate. We have published 2003 corporate citizenship reports on Diageo in Australia, Nigeria, Poland and Scotland which reflect this. These are available on the web site and in print.

Reporting standards

We aspire to best practice in corporate citizenship reporting and, to help achieve this, have incorporated into our thinking many recommendations of widely-accepted external standards. For example, we have referred to the guidelines of the Global Reporting Initiative (GRI) in determining key performance indicators appropriate to our business and have prepared this report in accordance with the 2002 GRI *Guidelines*. Our aim is to make it easier for our stakeholders to compare our approach and performance with those of other companies. A GRI content index, locating information within the report, may be found on the web site.

We have also sought to complete the report in accordance with the three principles of the assurance standard AA1000 – materiality, completeness and responsiveness. These are explained in the assurance statement inside the back cover.

Assurance

The Diageo business risk assurance team validates issues that pose a possible threat to the company, including many of those areas covered by this report. An additional source of assurance is the Diageo control self assessment process, covering many corporate citizenship areas, which highlights areas of weakness in our procedures.

For this report we have not sought an additional audit of the measures underlying the narrative, commissioning instead a third-party attestation that the report represents an accurate view of Diageo's corporate citizenship journey and performance during the year. The external assurance statement can be found inside the back cover. As our measures and systems develop we will consider widening the scope of this assurance in line with stakeholder expectations.



The UN Global Compact

In 2002, Diageo announced that it had signed up to the nine principles of the United Nations Global Compact – the first global drinks company to do so – as a public commitment to leadership in social and environmental responsibility. The Global Compact provided valuable input to the formulation of our human rights policy. Through membership of a reference forum of UK-based signatory companies, we hope to contribute to the development of the Global Compact and give practical effect to its principles within Diageo. As a demonstration of our strong endorsement of the Global Compact, we intend to report annually on the progress we have made in implementing the principles.

Progress against the UN Global Compact

Principles	Progress to date
Human rights Businesses should: 1. Support and respect the protection of internationally proclaimed human rights	Policies on human rights, occupational health and safety and HIV/AIDS have been put in place. A programme of supply chain management has been established, extending our human rights standards to major suppliers of goods and services.
2. Make sure they are not complicit in human rights abuses	An annual compliance programme has been established.
Labour standards Businesses should uphold: 3. The freedom of association and the effective recognition of the right to collective bargaining	Disputes relating to trade union or staff association membership or collective bargaining rights are reviewed by senior management to assess compliance with this clause. No disputes were registered during the year.
4. The elimination of all forms of forced and compulsory labour	Confirmation is made annually by all parts of the business that no use has been made of forced or compulsory labour.
5. The effective abolition of child labour	Confirmation is made annually by all parts of the business that no use has been made of child labour other than in approved apprenticeship or job experience programmes.
6. The elimination of discrimination in respect of employment and occupation	A system is being established to monitor employment data by time worked, sex, ethnicity and age and to record any cases of harassment and abuse. Information on training and placement will also be collected.
Environment Businesses should: 7. Support a precautionary approach to environmental challenges	Work has begun on installing new effluent treatment plants or upgrading existing facilities at more than a dozen production sites in Africa. Following environmental audits at 25 further wholly-owned and contractors' sites during the year, corrective action plans have been drawn up and are being implemented.
8. Undertake initiatives to promote greater environmental responsibility	Our environmental policy has been rolled out to all production sites and environmental management systems, required by the policy, are in place or in development at 93% of these sites. A programme of supply chain management has been established, extending our environmental standards to major suppliers of goods and services.
9. Encourage the development and diffusion of environmentally friendly technologies.	Progress has been made in reducing resource use through lightweighting both primary and secondary packaging and by promoting recycling at all stages of production processes. Work is underway to adapt new more energy-efficient and environmentally-friendly refrigeration technologies to our 'cold' product delivery systems in the marketplace.

How we compare

With accountability at the top of the corporate agenda there are many opportunities for companies to benchmark their approach and performance as corporate citizens against their peers.



Socially responsible investment indices

Diageo is included in the Dow Jones Sustainability Indices and in the FTSE4Good UK, European and Global Indices, listings which help investors select companies with good records of corporate citizenship. To be included, companies must be judged to be working towards environmental sustainability; developing positive relationships with stakeholders; and upholding and supporting universal human rights.

Corporate Responsibility Index

In the UK, Business in the Community this year announced the results of its first Corporate Responsibility Index, an assessment of the social and environmental management and performance of 122 leading companies. Diageo scored 68% in the index, which placed us in the middle rank of participating companies.

Index of Corporate Environmental Engagement

The same organisation also compiles an Index of Corporate Environmental Engagement, assessing companies' approach to environmental management and performance in key impact areas. These companies are not necessarily the same as those in the Corporate Responsibility Index. This year Diageo scored 82%, an increase from 73% in the previous year's index, and was ranked 58th out of 168 participating companies. The detailed results of the survey have been considered by the Diageo Environmental Working Group and areas for improvement identified.

Index of Corporate Environmental Engagement	
Diageo score %	
1999	64
2000	73
2001	73
2002	82

Future priorities

Fully embed values, codes and policies into ways of working and performance reviews

Improve systematic processes to monitor stakeholder concerns

Specify accountability for corporate citizenship performance in annual business plans

Establish diversity action plan and set targets for progress

Ensure that there is an alcohol education initiative in every Diageo market

Continue to commit 1% of operating profit to community investment

Empower our community partners to develop sustainable programmes

Extend environmental programme to all parts of the business

Ensure Diageo-wide collection of key performance indicators

Ensure targets are set for all appropriate performance indicators

Deploy new health and safety risk management standards at all locations

Promote our standards of corporate citizenship throughout the supply chain

Publish country-level corporate citizenship reports covering important markets

Help establish corporate citizenship benchmarking for our industry

We value your views

We welcome your views on Diageo's first corporate citizenship report. Please use the reply card enclosed.

If you prefer, or if the card has been used, email your comments to corporatecitizenship@diageo.com

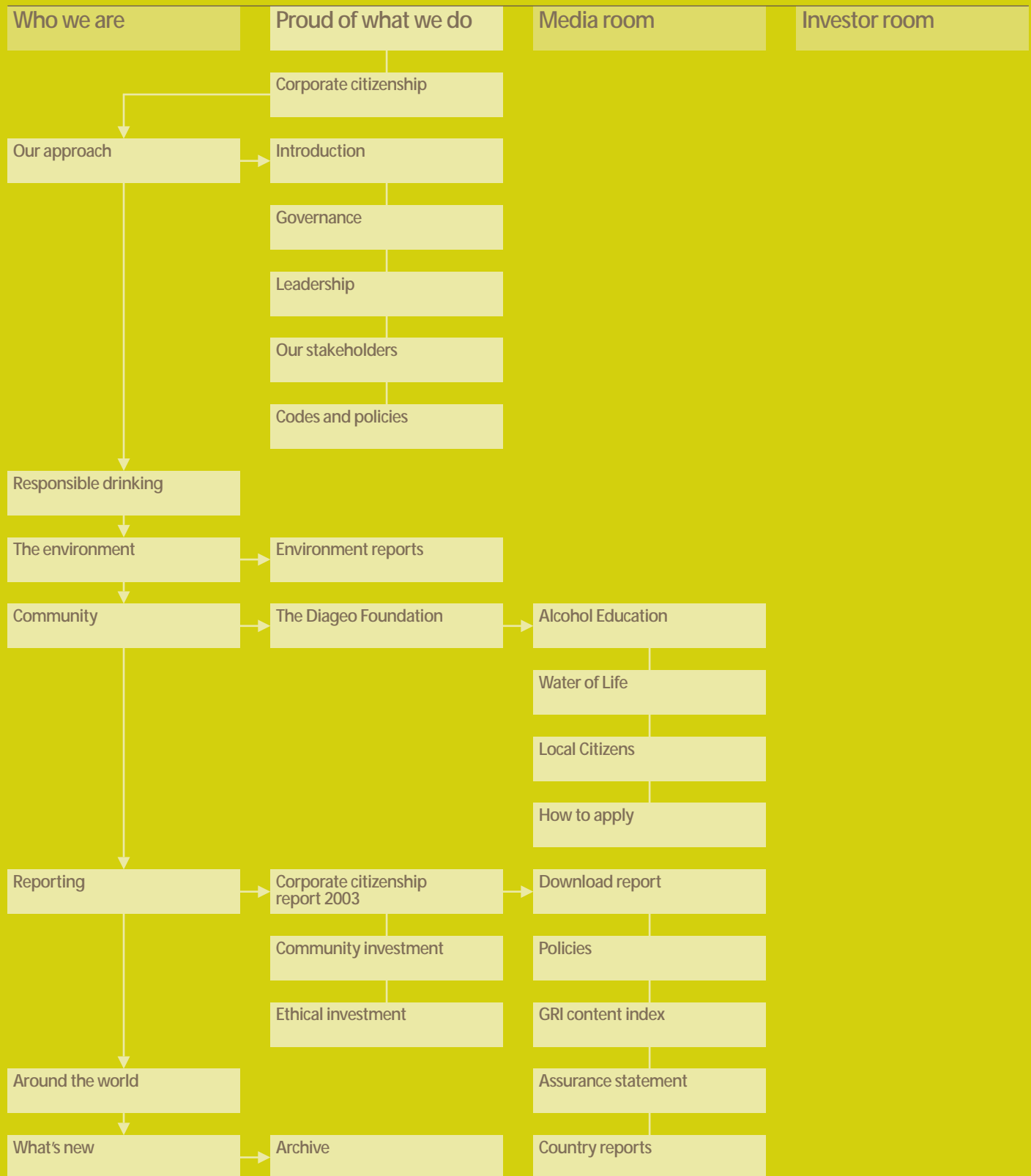
or write to:

Geoffrey Bush
Director of Corporate Citizenship
Diageo plc
8 Henrietta Place
London W1G 0NB
United Kingdom

Further information

For greater detail on the issues raised in this report, particularly those connected with the governance of the business, taxation and financial performance, please visit the website www.diageo.com.

Site map of www.diageo.com, showing corporate citizenship pages



External assurance statement and commentary

We have checked and are satisfied that the contents of this report are consistent with underlying records, mainly data provided by Diageo businesses and obtained from audited financial statements.

The Corporate Citizenship Company acts as specialist adviser to corporations that seek to improve their economic, social and environmental performance. Information about our capabilities as external assurers and our relationship with Diageo are available at www.diageo.com. Also available is a more detailed assurance statement and commentary, including an assessment of the extent to which this report has been prepared in accordance with emerging best practice, notably the principles of the assurance standard AA1000 and the guidelines issued by the Global Reporting Initiative.

In our opinion, the report provides a fair and balanced representation of material aspects of performance, with gaps in performance data and stakeholder views identified where appropriate. We have not independently verified otherwise unaudited data.

Diageo bases its approach to corporate citizenship on its values and policies. These address the full range of stakeholder groups and social responsibility concerns. On many issues, Diageo is a leader in its industry and good data are presented here, notably on:

- > governance and management systems relating to corporate citizenship

- > relations with consumers, responsible marketing and support for action on the social aspects of alcohol

- > investment in employees, staff satisfaction and employee alcohol policy

- > environmental performance in manufacturing

- > the worldwide community investment programme measured in accordance with the LBG model.

However, this first global corporate citizenship report does contain some important gaps in performance data. These include aspects of employee relations, stakeholder consultation, social responsibility in the supply chain, and environmental impacts beyond manufacturing such as the recycling of consumer packaging. We comment further on these in our full on-line statement.

Next year we recommend that Diageo reports more fully on social and environmental impacts in its value chain from suppliers to retailers. It should also strengthen and report better on its engagement with stakeholders, especially around responsible marketing and the social aspects of alcohol.

The Corporate Citizenship Company, London
4 September 2003
www.corporate-citizenship.co.uk

Diageo plc

8 Henrietta Place
London W1G 0NB
United Kingdom
Tel +44 (0) 20 7927 5200
Fax +44 (0) 20 7927 4600
www.diageo.com

Registered in England
No. 23307

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Diageo employs over 20,000 talented people. It is our people who make us who we are. Each one of them is passionate about our consumers and committed to delivering great performance and shareholder value. Featured on the cover of this report, in recognition of special individual contribution, are Willie Mackenzie and Kay Charles.

Designed and produced by
Radley Yeldar.

Printed by CTD Capita.