



DIAGEO

Celebrating life, every day, everywhere
Corporate Citizenship Report 2005

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Highlights

- **Assessed as one of the world's 100 most sustainable corporations**
- **40 responsible drinking programmes in progress in all regions**
- **Clearthinking responsible drinking Fund established**
- **New consumer information policy developed**
- **Drew up sustainable packaging guidelines for our brands**
- **Advanced development of a long-term energy strategy**
- **Launched programme to improve corporate citizenship standards in our supply chain**
- **Responded to the South-East Asian tsunami with immediate aid and long-term reconstruction projects**
- **Tomorrow's People Trust achieved independence**

KNOWING WHAT'S IMPORTANT



Ask anyone in Diageo and they will tell you that being a good corporate citizen is vital to the long-term success of our business. Its inclusion as an element in all our major business initiatives has the support of the whole organisation. It is enshrined in our own Diageo values and reinforced through our continuing commitment to the ten principles of the UN Global Compact. That commitment identifies Diageo as a company willing to be judged against international standards for its performance as a corporate citizen.

For Diageo, corporate citizenship means acting responsibly in everything we do – where our business impacts on society and the environment, how we govern our company and conduct ourselves in business. As with individual citizenship, we believe such responsibility confers rights – to trade freely and be treated fairly. Clearly, this balance is essential to the sustainability of our business.

During the year Diageo was assessed as one of the world's 100 most sustainable corporations (www.global100.org). These were defined as those 'that produce an overall positive impact on society and the environment' and that stand the best chance of being around in 100 years because of their demonstrated performance and strategic ability to manage social, economic and environmental issues. We appreciate the recognition from this and other independent surveys, but we do not feel our task is anything like complete. Although we have made good progress during the year and list opposite the main highlights from across our business, we still have a lot to do.

We are often asked what the main citizenship issues are that face Diageo and how we know our stakeholders share our priorities. We put a lot of effort into talking and listening to people with an interest in our business – our stakeholders. This process is explained in more detail in this report. It is vital for us. It confirms what's important and helps us concentrate our efforts where we can do the most good. Many of the big issues are similar to those facing any large consumer products business – for example, providing fulfilling employment, supporting our communities and managing our environmental impacts. Our efforts in these areas are all covered in this report.

But one topic dominates – you only have to follow the news to know that the issue most important to the future of our business is the role of alcohol in society. We are certain that alcohol beverages have a sustainable future, but we know that it is inappropriate consumption which most attracts criticism of our industry. Diageo alone cannot put a stop to irresponsible drinking, but we are committed to join others and lead the industry in finding ways of addressing inappropriate consumption and promoting responsible drinking.

Community actions are another strong theme of this report. Our history of partnership with Tomorrow's People, the daring interventions of teams under the Spirit of the Americas programme and the response of Diageo colleagues from across the world to the South-East Asian tsunami disaster are all testament to the meaning we place on the idea of responsibility. They are also evidence that our people really do know and care about what's important.

This third report has been prepared in accordance with the 2002 Guidelines of the Global Reporting Initiative and we believe it represents a balanced and reasonable presentation of Diageo's social, environmental and economic performance. We have prepared the report for the widest stakeholder readership possible, attempting to address all the material issues which interest and concern them. We welcome your views on our coverage of your concerns, our priorities and our performance.

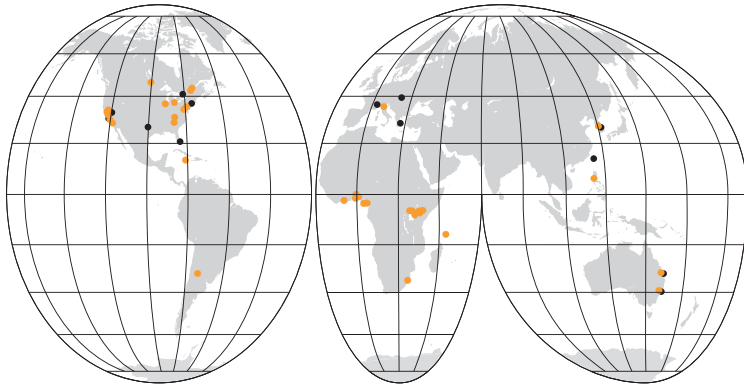
Lord Blyth of Rowington
Chairman

Paul S Walsh
Chief executive

DIAGEO PROFILE

Our markets

Europe, North America and International.



Key

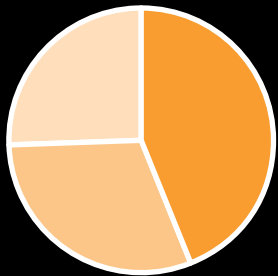
Major production or distribution site



Major office



Turnover by geography 2005



● Europe
● North America
● International

Turnover %	2005	2004
Europe	43.9	44.1
North America	29.4	30.4
International	26.7	25.5

Europe

Turnover	£3,966m
Employees	11,150
Equivalent units sold	40.7m

Major brands: Smirnoff, Guinness, J&B

North America

Turnover	£2,655m
Employees	3,456
Equivalent units sold	46.1m

Major brands: Smirnoff, Crown Royal, José Cuervo

International

Turnover	£2,415m
Employees	8,360
Equivalent units sold	38.8m

Major brands: Johnnie Walker, Guinness, Smirnoff

Priority brands millions of equivalent units	2005	2004
Smirnoff	25.2	24.2
Johnnie Walker	12.3	11.7
Guinness	11.4	11.6
Baileys	6.7	6.6
Captain Morgan	6.5	6.0
J&B	5.9	6.0
José Cuervo	4.5	4.2
Tanqueray	1.9	2.0

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

Total assets £million



Turnover £million



Operating costs £million



Operating profit £million



Employees



Equivalent units sold million



Diageo is the world's largest premium drinks business, providing consumers in 180 countries with an outstanding collection of brands across spirits, wine and beer categories.

Great brands

Our brands are leaders around the world, making occasions special every day, everywhere.



Diageo was formed in 1997 through a merger of Grand Metropolitan with Guinness. Four years later, we acquired additional spirits and wine brands from Seagram. Each predecessor company brought brands with rich heritage. For example, Justerini & Brooks, the creator of J&B whisky, was founded in London in 1749 and Arthur Guinness began brewing in Dublin in 1759. John Walker was born 200 years ago this year and began distilling whisky in 1820. Both well-known London gin distillers, the Gordon's and Tanqueray businesses were merged in 1898. Smirnoff vodka was the toast of the Imperial Russian court in the last decade of the 19th Century.

Today, these and many other widely-recognised brands are the basis of Diageo's business. Manufactured on six continents and marketed in 180 countries around the world, our brands have their own individual attractions for consumers, yet they share high quality ingredients, care and skill in manufacture, all underpinned by the reputation of Diageo as a successful business and responsible corporate citizen.

Diageo is organised into three regions: North America, representing approximately 37% of the business by operating profit, Europe (33%) and International (30%). Within each region are Diageo-controlled supply functions (manufacturing, packaging and warehousing) and demand functions (distribution, marketing and sales). The supply business, which makes around 80% of all Diageo products, operates 36 distilleries, 13 breweries and four wineries supported by 20 blending and packaging plants and 20 warehousing and ancillary sites. The remaining 20% of our products are produced by companies in which we have a minority holding or under contracts with commercial partners.

Our strongest drivers of growth are our eight priority brands which accounted for 59% of total volume in 2005. Four – Baileys, Guinness, Johnnie Walker and Smirnoff – are identified for additional

investment support based on their global reach. Alongside these is a range of around 140 other brands, many of them local market leaders in their categories. More information about Diageo brands, with links to brand websites, is available at www.diageo.com.

Measured by market capitalisation, Diageo is ranked among the 200 largest companies in the world. The company's primary listings are on the London and New York stock exchanges.

Seeing Diageo in context

Although Diageo is one of the world's largest alcohol beverage producers by turnover, the company's products account for less than three per cent of the alcohol sold for consumption through formal channels throughout the world. If the significant volumes produced by people illicitly or at home were to be included, our share of total alcohol consumed would be lower. This context provides us with both challenges and opportunities as we aspire to lead our industry in setting standards for responsible conduct and in finding a sustainable place for alcohol in society.

The scope of this report

This report is on Diageo plc and covers the year ended 30 June 2005. Financial and employee information applies to the whole of Diageo and is consistent with audited figures included in the annual report. Community data cover wholly-owned Diageo businesses and joint ventures in which Diageo has a controlling share; environmental data cover manufacturing sites and large office locations (those at which more than 50 employees are based) within the same businesses. Performance data from businesses acquired during the year will be included in the next report.

The previous report was published in September 2004. This, the 2003 report and separate reports on Diageo's businesses in individual markets are available in print and at www.diageo.com.

VISION AND STRATEGY

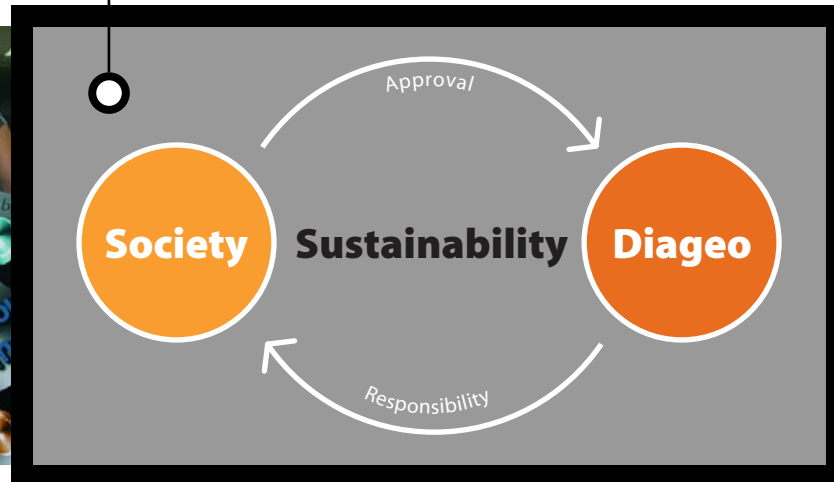
Values

The Diageo values form the theme of our annual photographic competition for employees.



Corporate citizenship

Acting responsibly confers the right to trade freely.



Living our values

We put the five Diageo values at the heart of everything we do:

- we are **passionate about consumers** – our curiosity and consumer insights drive our growth. We cherish our brands, we are creative and courageous in pursuing their full potential. We are innovative, constantly searching for new ideas
- we **value each other** – we seek and benefit from diverse people and perspectives. We strive to create mutually fulfilling relationships and partnerships
- we give ourselves the **freedom to succeed** – we trust each other, we are open and seek challenge, and we respond quickly to the opportunities this creates
- we are **proud of what we do** and how we do it – we behave responsibly with the highest standards of integrity
- we will strive to **be the best** – we are always learning, always improving. We set high standards, we stretch to exceed them, and we celebrate success.

Understanding our stakeholders

Our business activities affect the lives of millions of people around the world. This brings the commitment to ensure that all those with a stake in Diageo can benefit from the relationship. We define our key stakeholders, whose continuing goodwill is essential to the future of our business, as our investors, employees, commercial partners, government, community, the media and consumers. 'Commercial partners' includes suppliers, customers, distributors and joint venture partners.

We engage with these groups in a variety of ways, ranging from one-way communication to close relationships. We inform stakeholders about our progress through reports, websites, newsletters and presentations; we consult with stakeholders in forums, discussions and meetings; we support stakeholders through

community projects and skills transfer; and we form partnerships where there are advantages in working together. Diageo businesses in all markets are required to draw up plans to ensure that appropriate engagement takes place and effective relationships are maintained which enable us to:

- communicate what we stand for, our priorities and how we work
- listen, seek out concerns and gather early warning of issues to make better-informed business decisions
- discuss contentious issues and establish trust, enabling us to test plans and approaches before decisions are made
- where necessary, agree to disagree.

This effective engagement keeps us informed about the issues that concern stakeholders. It allows us to share the dilemmas we face in balancing the sometimes conflicting interests of different groups. The understanding we gain from this dialogue powerfully influences the formulation of our policies, actions and reporting. For example, we took full account of the views of ethical investors when shaping environmental strategy and addressing secondary impacts via the supply chain. It was a recommendation from a group of employees from across the business that led to the adoption of the fifth Diageo value. Further examples are given throughout this report.

Following publication of our first corporate citizenship report in 2003, we brought together a forum of specialists in corporate citizenship and invited them to challenge our approach to reporting the issues. This year we reconvened the forum including representatives of Alcohol Concern, Transparency International and the World Wide Fund for Nature and have accommodated many of the points they made in this report. Of particular value were their comments on stakeholder engagement, the alignment of social responsibility with business strategy, the presentation of environmental performance data, the supply chain and public policy.

Our vision begins with a set of simple and clearly-stated values. These form the basis of our policies and inspire the actions of everyone that works for Diageo.

Stakeholders

Many training and partnership programmes help develop our customers' businesses.



Holistic performance

Acting with integrity supports Diageo's strategic focus.



Responsibility

Encouraging responsible consumption is fundamental to the way we do business.



Our vision for sustainability

We want Diageo to be a good corporate citizen with a responsible approach to addressing the impacts that our activities and products have on society and the environment. This approach has advantages for our business, its stakeholders and society at large. Our business will be more successful in the long term – and will provide greater benefits and create greater value for employees, investors and other stakeholders – if, in the communities in which we trade, the economy thrives, social issues are addressed and a healthy environment is maintained. Despite making progress in all of these areas, we do not claim to have reached a sustainable conclusion, a point confirmed by this report in which we detail our continuing journey towards sustainability.

The main issues

For a business as geographically spread and as complex as Diageo, sustainability is not a state which can be instantly attained. Progress can be limited by external factors (such as the availability of renewable energy). The competitiveness of the markets in which we operate means that our approach to implementation must be measured.

The breadth of issues on which we hope to advance dictates that progress cannot be at the same pace in all areas. Instead, we focus our efforts on areas of particular stakeholder concern and where we can use Diageo resources and expertise to make the most positive difference. The result is a primary emphasis on the following important sustainability issues:

- **social** – the social aspects of alcohol, product quality and information, community investment, employment
- **environmental** – energy and climate change, water management, waste and recycling
- **economic** – returns for investors, the supply chain.

Corporate citizenship is aligned with Diageo's overall business strategy in that it contributes to sustainable, profitable growth. By acting with integrity – by which we mean adhering to fundamental principles and approaching issues in their entirety – we support Diageo's strategic focus on our people, our brands and our holistic performance. Through our membership of the Global Leadership Network, a research and benchmarking initiative of Boston College, USA and AccountAbility, we want to be able to make the connection even closer.

Our corporate citizenship committee sets policies in social and environmental performance with which compliance is assured by an annual attestation by all senior managers. Acting responsibly in all aspects of our work is a common theme of employee communications and given prominence within Diageo offices. Citizenship measures are included in assessing business performance and, for some employees, are part of performance reviews. Sustainability issues are factored into investment decisions and into the selection of suppliers. Finally, we make our social, environmental and economic performance, as set out in the following sections of this report, an important part of our communications with stakeholders.

RESPONSIBLE DRINKING

Leadership in responsible drinking

Consumed responsibly, alcohol has long been associated in many parts of the world with enjoyment and celebration. We are proud of the role our brands play in the lives of so many people, but we also acknowledge that excessive or inappropriate patterns of alcohol consumption may cause health and social problems. We seek to be at the forefront of industry efforts to promote responsible drinking and combat misuse. Our approach is based on three principles:

- set world-class standards for responsible marketing and innovation
- combat alcohol misuse, working with others to reduce alcohol-related harm
- promote a shared understanding of responsible drinking.

The social balance

As with other products that have the potential to be abused, there are health and social problems associated with alcohol misuse. We recognise that the alcohol beverage industry has a role to play in preventing or addressing alcohol-related harm. Such problems should be seen in context alongside the benefits of alcohol production and consumption, including tax revenues, employment and business creation as well as the enjoyment that responsible drinking brings to many adults.

We work extensively on responsible drinking initiatives in partnership with other organisations, including other companies and industry bodies, government departments, NGOs, police, licensing authorities, road safety institutes and the hospitality industry. We welcome open dialogue with public health authorities, research and academic communities and others.

Diageo was a founder sponsor of the International Center for Alcohol Policies (ICAP) and currently chairs the organisation. We are a signatory to the Dublin Principles (www.icap.org), which set out the ethical basis for co-operation between governments, scientific researchers and the public health community. We often work in partnership with social aspects organisations (SAOs), industry-funded bodies that work to tackle alcohol misuse and promote responsible drinking. We have been instrumental in founding many SAOs around the world. For example, this year we worked with the federal government and industry partners in Australia to create DrinkWise. The organisation is made up of beer, wine and spirit manufacturers and on- and off-trade retailers and is dedicated to establishing responsible drinking programmes throughout Australia.

Diageo is also a member of the Amsterdam Group (www.amsterdamgroup.org), a European alliance of leading alcohol beverage companies which works with governments and other interested groups to address the social problems of alcohol misuse.

In May 2005, the World Health Assembly (WHA), the governing body of the WHO, adopted a resolution entitled 'Public health problems caused by harmful use of alcohol' which calls on the

Diageo memberships of social aspects organisations

DrinkWise, Australia	
GODA, Denmark	www.goda.dk
Entreprise & Prévention, France	www.ep.soifdevivre.com
MEAS, Ireland	www.meas.ie
FISAC, Mexico	www.alcoholinformate.org.mx
STIVA, Netherlands	www.stiva.nl
ARA, South Africa	www.ara.co.za
FAYs, Spain	www.alcoholysociedad.org
TBAF, Taiwan	www.tbaf.org.tw
REACT, Thailand	
Portman Group, UK	www.portman-group.org.uk
Century Council, USA	www.centurycouncil.org

WHO to develop, implement and evaluate ways of reducing the harmful consumption of alcohol. We continue to seek constructive engagement with the WHO and other key stakeholders on the issue. We welcome the commitment of the WHO to involve the industry openly in identifying and implementing the most appropriate strategies for alcohol harm reduction.

Diageo co-authored a chapter on the role of the alcohol beverage industry in a new ICAP-published book, *Corporate social responsibility and alcohol: the need and potential for partnership*. Further information is available at www.icap.org.

Marketing our brands

Advertising by the alcohol beverage industry is often cited as contributing to the problems of alcohol misuse. However, research studies including a 2002 review by ICAP, *Industry views on beverage alcohol advertising and marketing, with special reference to young people*, have found no conclusive evidence of increased levels of alcohol consumption nor that advertising encourages particular drinking patterns. We use advertising to promote choice and compete for market share. Our aim is to beat the competition by attracting more responsible consumers above the legal purchase age to our products and to encourage them to trade up to higher quality brands.

The Diageo code of marketing practice defines the principles by which we and our agencies work when creating advertisements and promotions in all media and when bringing new brands to market. It also governs our market research. The code was last updated in 2002 and is regularly reviewed as new issues emerge.

Compliance with the code is critical. We provide in-depth training to marketing and innovation teams, to our agencies and to new recruits as part of their induction. Compliance is also embedded within the way we develop our advertising and promotional activities, with a systematic review process at key stages.

Our consumer understanding and marketing skills, developed and proven in promoting our brands, are also employed to champion responsible drinking.

We may also seek external expert advice from individuals with long-standing experience within independent self-regulatory organisations. Every identified breach is investigated. We seek to ensure that similar mistakes do not occur again and, where appropriate, disciplinary measures are taken against individuals responsible for non-compliance.

In the UK, there are a number of channels through which the public can register complaints about marketing and promotional activities. The Advertising Standards Authority (ASA) works to keep advertisements legal, decent, honest and truthful and has a process to review and resolve complaints. Last year, the ASA ruled against an Archers Aqua poster for linking the product with sex and the advertisement was withdrawn. No other complaint about Diageo broadcast or non-broadcast advertisements has been upheld in the last three years. The UK alcohol beverage industry-based Portman Group considers complaints about any drinks brand thought to contravene its code of practice – which is similar in scope to the Diageo code of marketing practice. Again, no complaints against Diageo have been upheld in the three-year period.

UK complaints upheld	2004	2003	2002
<i>By ASA, non-broadcast</i>			
All industries	1,705	1,855	2,536
Alcohol beverage industry	8	5	6
Diageo	1	0	0
<i>By Portman Group</i>			
Alcohol beverage producers	10	9	7
Diageo	0	0	0

In addition to having our own strict code, Diageo is an active core contributor to shaping wider industry codes. We work with key stakeholders to formulate tough standards with effective review and enforcement procedures. This approach has resulted in the establishment or strengthening of marketing codes for the industry in Europe, the USA and Jamaica.

Programmes and initiatives

This year we established the Clearthinkingresponsibledrinking Fund, with a budget of approximately £1 million, to provide kick-start funding and expertise in establishing responsible drinking programmes. These are often run in partnership with our businesses and with external bodies such as government agencies and interest groups.

Promoting responsible drinking

As well as promoting our brands, we use our marketing expertise to present information about alcohol beverages and to encourage responsible drinking. Such efforts build our relationships with consumers, government and other stakeholders and promote behaviour which contributes to the sustainability of our business.

In the UK, we worked with both Alcohol Concern and the industry-funded Portman Group to develop websites dealing with different aspects of alcohol consumption and misuse. The Portman Group site, www.drinkaware.co.uk, features an alcohol unit calculator and sections for pregnant women, young people, parents and drivers. The Alcohol Concern site, www.howsyourdrink.org.uk, is targeted at those who think they may be drinking too much, or are worried about the drinking behaviour of a friend or relative. It includes a test, tips on cutting down and advice on drinking problems.

Around the world, our marketing campaigns frequently include a responsible consumption message in addition to promoting a brand. Some advertisements have such a message as their sole or core objective.

In the USA, we spent 20% of our broadcast advertising budget on branded responsible drinking advertisements, amounting in the year to more than £13 million. In an independent study of alcohol advertising on US television, the Center for Alcohol Marketing to Youth (CAMY), while critical of the low level of responsibility advertising by the industry in general, praised Diageo for being 'the only distilled spirits marketer (out of 13 placing product advertising on television) to sponsor televised responsibility ads in 2003. Diageo was the only product advertiser to devote this high a percentage of its television spending to responsibility messages.' CAMY's report can be read at www.camy.org.

Two motorsport sponsorships demonstrate our commitment to find innovative ways to promote responsibility to a broad audience. The partnership between Crown Royal and the US stock car racing organisation NASCAR allows us to connect with millions of adult motor racing fans and remind them of the importance of moderate drinking. At the Hungarian Grand Prix we began a partnership between Johnnie Walker and the Formula 1 McLaren Mercedes team. This will enable us to reach an audience of more than two billion annually, providing a unique global platform for us to promote responsible drinking.

Responsible drinking by employees

As our ambassadors, we require our employees to demonstrate a responsible attitude to drinking both in and out of the workplace. Our employee alcohol policy sets the standards of behaviour we expect. Programmes to communicate how important this is to our business have been established in many markets. For example, in Australia, employees have been provided with important facts about alcohol at an interactive half-day *DrInQ* seminar which is now part of the induction of new employees.

In Spain the *Sintonía* programme uses the intranet and a quarterly newsletter to spread awareness about social responsibility activities amongst employees and their families. Colleagues receive news of current Diageo campaigns and articles on issues such as the effects of alcohol, and teenagers and drinking. These messages

Brazil

Drivers received the anti-drink-drive message at motorway tolls.



Thailand

Care4Friends promotes responsible drinking in Thai universities.



Peru

'If your friends drink, make sure they don't drive.'



are reinforced at an annual presentation for all employees that reminds them that social responsibility is a fundamental part of company strategy.

In response to a new question in the annual employee values survey (see page 16), 84% agreed that Diageo's initiatives have been effective in promoting responsible drinking.

Helping combat misuse

This year we continued to focus on four strategic priorities: campaigns against drink-driving, support for programmes to combat underage drinking, initiatives targeted at young adult consumers, and server training.

Campaigns against drink-driving

We believe all governments should set legal limits for drivers' blood alcohol concentration and we support long-term publicity campaigns as a good way of raising awareness of the risks of drinking and driving. But education on its own is not enough. Such campaigns must be backed up by strict penalties for those convicted of drink-driving and by tough levels of enforcement.

This year we continued our support of the World Health Organisation's 'Safe Roads' anti-drink-driving campaign and launched campaigns in many countries. In Brazil we targeted drivers aged 18 to 24 using the motorways between São Paulo, Rio de Janeiro and Niterói. Toll bridge cashiers handed out 150,000 leaflets to remind drivers of the law and the risks of driving while under the influence of alcohol.

In Canada we worked with the Ontario Ministry of Transport to develop a video on impaired driving for use in schools. Following the success of the film, we were asked by the ministry to partner with the Student Life Education Company in adapting the video for nationwide distribution. We provided funding for this and will also work with the Canadian liquor boards and government to encourage take-up by education establishments across the country.

In Peru we ran an extensive campaign against drink-driving with the theme 'good friends don't let their friends drink and drive', using billboards, magazines, newspapers, posters, banners, drinks mats and radio. The message was supported by non-Diageo communications showing how drink-drive laws were being enforced, including footage of police seizures, accidents and the consequences for offenders. Fatal accidents caused by drunk drivers showed a significant reduction in the months of the campaign.

In Norway we extended this theme to a 'don't drink and sail' campaign in four major summer resorts. As part of the campaign we used coasters and other materials in bars and restaurants to deliver the safety-at-sea message, provided information for bartenders on responsible serving to boat-owning customers and circulated information to the media to raise public awareness of the issue.

Underage drinking

There are widespread concerns about underage drinking. Although alcohol retail is outside our direct control, we endeavour to influence how our brands are sold, working with bars, pubs, retailers, hospitality organisations and industry bodies on initiatives to protect young people. The way our brands are formulated, packaged and advertised is directly our concern. The Diageo code of marketing practice explicitly forbids marketing activity that might appeal disproportionately to underage drinkers. It covers packaging, the design, content and placing of advertisements and promotions, access to websites and the licensing of brand names.

Diageo funded a tour by UK theatre group CragRats ReAct whose interactive performance, *Wasted*, examined the issue of drinking with 11-14 year olds. Characters in the play faced dilemmas about alcohol and their motivations were explored by students in an interactive workshop. Teachers received materials for use in class after the event. The tour reached 22,000 students in schools across Scotland and England. An independent evaluation of the programme found that the performance was rated very highly by both students and teachers.

India

All 14 students of the new Delhi bartender training course found employment after graduating.



Canada

We partnered with the Montreal police on the *Maestro* designated driver programme.



Greece

Athens students received responsible drinking facts on CD.



Diageo has funded the production of video materials to support the UK pilot of the *Strengthening Families Programme 10-14*, an alcohol education initiative sponsored by the Alcohol Education and Research Council and the Home Office Drug Strategy Directorate, based on a successful programme from the USA.

In Germany, we developed the *18 plus* initiative. As beer can legally be purchased by 16-year-olds in Germany, but spirits or spirit-based ready-to-drink brands can only be sold to those aged 18 or over, we devised a comprehensive information toolkit to help retailers understand and communicate the different age restrictions.

In the USA a survey revealed that, while two-thirds of adolescents identify parents as their strongest influence not to drink, only 36% had actually spoken to them about it. In an attempt to address this issue, the Century Council, to which Diageo is the largest contributor, worked with Nickelodeon to create an interactive programme, *Ask, Listen, Learn*. Designed by educators and psychologists, the programme helps parents have effective conversations about alcohol with their children, using booklets, public service announcements and a website. An independent evaluation found the materials to be highly effective – for 92% of parents they facilitated conversation with their children about alcohol, and 81% of children said the programme made them think about the risks of drinking.

Drinking behaviour of young adults

We recognise that binge drinking by young adults over the legal purchase age for alcohol is also a cause for concern and are committed to addressing the issue. For example, in the UK Diageo partnered with the National Union of Students on the *What's in it?* campaign to deliver responsible drinking guidance on alcohol units at five British universities. Glass and bottle stickers, post-it notes hidden in library text books and stickers on washroom mirrors were

all employed to show how much alcohol is contained in popular drinks. The campaign is to be independently evaluated to assess the feasibility of a wider roll-out.

In Thailand, www.rakgan.com is an awareness-raising initiative of the Diageo-supported Care4Friends Club, an organisation which promotes safe drinking behaviour in Thai universities. With nearly 10,000 members, Care4Friends reminds students of the effects of alcohol so they can make informed decisions about their drinking and, in turn, share tips with their friends.

In Ireland, Diageo has invested more than £2.5 million over the last three years in a campaign targeted at young adults, encouraging them to think about their drinking behaviour. In research, 76% of respondents said the campaign made them more likely to drink more responsibly.

In Greece, we partnered with Athens Pandion University to produce an information CD-Rom for students on the effects of alcohol on health, behaviour and society. The project team consisted of students from the university and the Diageo Hellas corporate relations team. The medical school examined and approved the material. The CD was distributed to 1,500 students.

Server training

Our responsible server programmes raise awareness among bartenders of behaviours known to discourage hasty or excessive consumption. Building on experience gained from our involvement with ServeWise in Scotland, ESTIPS (Empire State Training for Intervention Procedures) in the USA and our responsible server programme first launched in Brazil in 2000, we have rolled out programmes in Colombia, France, India, Ireland, Jamaica, Kenya, Korea, Nigeria, Seychelles, Thailand, the USA and Venezuela, involving more than 24,000 trainee bartenders.

UNDERSTANDING CONSUMERS

We invest in research to keep abreast of social and consumer trends. The knowledge we gain helps us develop trust through loyal, two-way relationships with consumers and, by understanding what consumers want, drive brand growth.

High quality brands

Our aim is to ensure that our products reach consumers in optimum condition, always tasting their best. Our brands often win quality awards; at this year's San Francisco World Spirits Competition, Diageo came away with 34 medals.

Our quality policy requires each business to implement a quality management system and to monitor and continuously improve performance. This covers the specification of incoming ingredients and packaging materials, and manufacturing, warehousing and distribution processes to the point of sale. We review, challenge and continuously improve the way we work across all our markets. Our manufacturing sites are regularly audited to ensure compliance with legislation and with Diageo's quality and risk management standards. During the year there were no notified breaches of food safety regulations.

Brand integrity

Brand forgery can involve illicit manufacture or the refilling of labelled bottles with inferior brands. In the worst cases, illegally-produced drinks can present a health hazard. A black market in counterfeit alcohol also impacts on the taxes recoverable by governments, damages our brand values and loses our business an estimated £70 million a year. In protecting our consumers and the reputation of our products, our first response is prevention and we employ covert pack markings, anti-refill fitments and other measures to foil counterfeiters. Another technique is to add trace indicators to spirits to aid in verifying their authenticity. Scotch whisky, from which such indicators are barred, can be verified by using the Diageo-developed Authenticator, a hand-held testing kit which produces results in less than a minute.

Innovation

Diageo maintains a culture of creative innovation in which new brands are introduced and existing ones developed to satisfy consumers' changing tastes. An example of how innovation can address economic and social issues is provided by our business in Kenya. A worsening economic climate has had unwelcome effects on the drinks market there, including growth in the consumption of unregulated drinks with potential health risks. East African Breweries identified a need for an affordable beer made under hygienic conditions. The launch of Senator Keg was received positively by consumers, has created employment opportunities in distribution and a new source of government revenue from consumers who previously favoured untaxed brews. It is also hoped that, with Senator Keg as an accessible alternative, the well-publicised tragedies caused by drinking unregulated alcohol will diminish.

Information for consumers

We recognise that consumers want to make informed choices, on the basis of facts, about what they drink. Our new consumer information policy, which applies to all Diageo brands in all markets, aims to give consumers information by the most appropriate means, including labels and secondary packaging, a website and consumer care lines. The policy covers responsible drinking reminders and facts on nutrition, allergens, alcohol content and serving size. Around 10,000 packaging variations worldwide will be changed during the roll-out of the policy over a five-year period from July 2005. New product launches, packaging renovations and promotional packaging changes will include the consumer information. We are not aware of any reported breaches of product labelling regulations by our products.

Genetic modification

The biotechnology used to create genetically modified organisms (GMOs), while widely accepted in some parts of the world, is a cause for public concern in others. The issues under debate include the possible health, environmental and economic impacts of growing and using GMOs, particularly as ingredients in food and drink. Until scientific research reveals more about these possible impacts, our policy is to avoid using GM ingredients to make our brands except where local sources of raw materials make this impracticable.

Consumer privacy

The relationships developed between our brands and their consumers are based on trust and respect for privacy. We do not contact people unless they give us permission to do so and each e-mail, text or direct mail message includes an opportunity to opt out of future communications. We take steps to ensure that communications are sent only to people over the legal purchase age and we do not sell or trade consumer information.

Consumer satisfaction

If a consumer raises an issue about one of our brands, this is resolved wherever possible to the satisfaction of the consumer. Such issues are shared with our production and distribution colleagues to ensure that any practicably preventable cause is addressed to prevent recurrence. 'Careline' phone services provide consumers with information about our brands and have improved levels of satisfaction. In Europe and North America, where we collect data on consumer complaints, such issues have reduced significantly over the past five years. The time taken to resolve consumer complaints has also fallen, from eight days in 2001 to five last year. This year, we have begun to record 'high severity consumer complaints' that are repetitive or have particular cost impacts and will be tracking performance against this measure in the future.

Europe and North America

per million case equivalents	2005	2004	2003	2002	2001
Consumer complaints	19	22	36	46	88
High severity consumer complaints	0.5				

COMMUNITY INVESTMENT

Korea

Projects like this Local Citizens heritage site clean-up encourage employee teambuilding.



UK

Our Skills for Life initiative at Govan, Scotland has prepared 300 students for employment.



Community investment

When Diageo was created, we committed to invest one per cent of operating profit in our communities around the world. In 2005, the investment amounted to £22.6 million – 1.2% of operating profit. Most of this money came from Diageo businesses. Contributions were also made by the Diageo Foundation which was established to support our community activities.

We are proud of our record of supporting the many varied communities of which Diageo is part. Since members of these communities include our employees, consumers and commercial partners, their sustainability contributes to Diageo's long-term viability. Community investment is not simply a matter of charitable donations, though we do contribute to philanthropic causes when appropriate; for us, the challenge is about using human and financial resources to create positive and long-term change within our communities. We focus these resources, concentrating on key themes and working in partnership with others.

Our focus areas

Diageo's community activities fall into three focus areas:

- **Skills for Life** projects with unemployed or disadvantaged people help them find worthwhile work or start new business ventures. For example, we have worked with the Govan Initiative in Scotland to support its Hill's Trust Learning Academy. The academy provides pre-vocational training and modern apprenticeships to disaffected or under-performing school students and unemployed 16-19-year-olds. Over 300 students have attended the academy since 2002; over 55% have gone on to secure employment.

- **Water of Life** projects are those that help protect the environment or improve access to safe drinking water in developing countries. For example, water shortages are faced by 58% of Kenya's population, so making a clean, safe supply available is a priority not only for our business but for everyone. Last year, a devastating drought left 3.3 million people in need of emergency food relief, towards which East African Breweries donated millions of shillings. This year, the company supported a Water of Life project in the semi-arid Makueni district that will benefit more than 55,000 households. As part of the £35,000 scheme, the African Medical Research Foundation (Amref) will work with the community to rehabilitate polluted boreholes and install pumping equipment.
- **Local Citizens** projects support our businesses and employees in community activities or involve responding to disasters with emergency relief. Descriptions of major emergency projects are given on page 13. Diageo Korea has adopted a cultural heritage site as part of its Local Citizens activity. Employees are encouraged to take part in volunteer programmes to help preserve the site and raise awareness of conservation issues.

The Millennium Development Goals

In September 2000, under United Nations leadership, the heads of state of virtually all countries declared their support for eight Millennium Development Goals as a concerted attempt to remove the constraints which hold back economic progress in developing nations. Although the goals were set by governments, companies have a role to play in supporting the broader development objectives outlined in the declaration and in addressing some of the specific targets which it sets for achievement by 2015. When we established reconstruction projects in the South-East Asian countries impacted by the tsunami in December 2004, we made support of at least one of the Millennium Development Goals a specific selection criterion. Examples of some of the areas in which Diageo is addressing the challenges of the Millennium Declaration are given at www.diageo.com.

Seychelles

We sponsored educational developments at the Aride Island Nature Reserve under our Water of Life programme.



UK

Employees at Cameronbridge and Leven in Scotland raised money to rebuild two fire engines. The first is now in service in Paraguay.



Working in partnership

Diageo community projects are carefully planned with well-defined objectives and professional management. For each focus area we have produced a toolkit to help our businesses and community partners address the challenges they may face in creating and managing projects effectively. There is guidance on:

- understanding our impacts on the local community
- seeking out and engaging with partners to ensure that projects address local needs and respect cultural sensitivities
- striking a balance for mutual benefit between Diageo and its community partners
- agreeing at the start an exit strategy that will prevent over-dependence and ensure that the project's benefits are sustainable
- building awareness of projects among our teams, external opinion leaders and community audiences; providing partners with communications support.

Employee volunteering

By volunteering their time to work on projects our people can become actively involved in their local communities and demonstrate our Diageo values in action. Employees can choose to join an existing community activity such as mentoring young trainees under the server training programme in Brazil or becoming an Earthwatch champion by joining a biodiversity research project. Alternatively, one-off activities and team challenges can be tailored to achieve the objectives of an individual employee or team. This year our employees took part in 18,025 hours of volunteering activity.

The Diageo Foundation

The Diageo Foundation was established to support our community investment activities around the world. The Fund, with a budget last year of approximately £1.4 million, provides kick-start funding and expertise in establishing projects, some of which are run in partnership with our businesses. The Foundation also makes charitable donations and provides longer-term social investment in areas where we can make the most difference.

The Foundation's incorporation under UK charity law precludes it from promoting Diageo's direct commercial interests. And its independence is maintained by trustees, appointed by the Diageo board from around our businesses. The trustees work 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 by which Diageo engages with its communities globally. It provides evaluation modelling, promotion of best practice and a skilled team of advisers which offers counsel and support to our businesses and their community partners. To achieve more from the Foundation's investments we have developed systems for replicating successful programmes from one location to another. By providing seedcorn finance, the Foundation attracts additional support such as third-party matched funding, employee volunteering, the transfer of business skills and product donations from our businesses.

Projects supported by the Foundation are run with community partners and, where appropriate, also involve our local businesses and employees. During the year, the Foundation received 21 fully-developed new project-funding proposals and 601 external enquiries. These were assessed according to our funding criteria and the successful projects approved by the trustees. When a community project involves a partnership between an NGO and one of our businesses, the Foundation's grant supports the community aspects of the project, any promotional activity involved being paid for separately by the Diageo business.

Using our resources to address some of the issues faced by our communities contributes to the sustainability of society and of our own business.

India

Peter Wright from Diageo helps build a fishermen's shelter near Colachel, India, following the tsunami.



Thailand

Distributing household goods in Phang Nga, an area badly affected by the tsunami.



USA

A Diageo generator aids the Hurricane Charley clean-up in Florida.



The Diageo South-East Asia tsunami appeal

Diageo employees were shocked by the consequences of the South-East Asian earthquake and tsunami on 26 December 2004. Our first response was to confirm the safety of our colleagues and offer support to those affected. Having consulted the authorities of each country in the region, we made immediate emergency funds available to appropriate local disaster funds in the affected countries. Across Diageo many employees asked how they could make a longer-term contribution to the recovery efforts. On 6 January we opened a Diageo Tsunami Relief Fund and matched pound-for-pound all donations made by employees. This fund, when added to Diageo Foundation and local business contributions, exceeded £1 million.

After consultation with our businesses and community partners in the affected countries, the funds were invested in medium- and long-term reconstruction projects in India, Indonesia, Sri Lanka and Thailand. Each project was designed to support one or more of the UN Millennium Development Goals. Work includes reconstruction of housing and infrastructure, rehabilitation projects and support for the tourist industry. Where possible, Diageo employees will visit these projects to monitor progress. Funds have also been donated to local aid agencies in Malaysia, Maldives and Seychelles and a £50,000 Champion a Charity fund has been set up to provide grants to tsunami projects with which Diageo employees are personally involved.

Countless personal stories emerged from the tragedy. A Diageo Australia employee whose sister died in Thailand describes the response he received from colleagues: 'What an amazing company Diageo is. This level of support would not be possible without the Diageo culture we are so proud of. At times it is unclear what the culture talk is all about. Then, when you have an experience like I have had, it is clear as day that Diageo is different.'

Emergency relief in the Americas

Spirit of the Americas is a unique humanitarian relief programme inspired by a tragedy – the 9/11 terrorist attacks on New York and Washington in 2001. The reaction of employees prompted Diageo North America to establish the Spirit of the Americas Fund which raised around £1 million in three months from employees, customers, business partners and Diageo itself.

In the experience we found a clear sense of mission for our relief efforts and took the decision that Diageo North America would be the company that our communities could call on for emergency help in the first hours of a disaster – natural or man-made. This year Spirit of the Americas has been called into action on six occasions. In just over a month, Hurricanes Charley, Frances, Ivan and Jeanne lashed the south-eastern USA and Caribbean and left hundreds of thousands of people in need.

As Charley and Frances swept across Florida, we provided large generators to power waste disposal, water supply and law enforcement services. Four days later, our focus moved to the victims of Hurricane Ivan in the Caribbean. We responded swiftly, bringing food and emergency supplies. To help Ivan's Jamaican victims, we airlifted disaster relief to Kingston. As the hurricane headed for the USA, we sent generators to Alabama to keep essential services going.

Each humanitarian effort is coordinated by Diageo employees working with local government agencies and disaster relief officials in the affected areas. A Diageo senior manager accompanies the cargo to the impacted region. The benefits for people helped by Spirit of the Americas are tangible – swift relief from difficult situations. There are also benefits for Diageo. We have helped our people live the Diageo values and satisfy their need to make a practical contribution. We have also earned the trust and respect of important stakeholders around the world who now have a better idea of who we are and what we stand for.

Independence for Tomorrow's People

Tomorrow's People Trust (www.tomorrows-people.co.uk) is a pioneering organisation which tackles long-term unemployment in the UK, providing a vital link between employers, government initiatives and community support groups. In March 2005, the trust became legally independent from Diageo.

Created by our predecessor business 20 years ago, we have invested £25 million in the trust and dedicated significant management time to helping it achieve its very worthwhile objectives. An independent evaluation, available on the Diageo website, showed that the trust has helped 382,000 people into employment and estimates the benefits to society at £450 million. Tomorrow's People's independence is an example of empowering the organisations we help to become self-supporting. The transition will deliver significant benefits – a greater sense of community ownership and freedom to engage new supporters and form new partnerships. We have a commitment to invest in Tomorrow's People for a further five years.

Thalidomide Trust settlement

Thalidomide was distributed under licence in the UK by the pharmaceutical subsidiary of the Distillers Company (DCL). It was withdrawn in 1961 when the side-effects for unborn children were discovered. In a 1973 agreement, DCL paid money to the parents of the victims and to the independent Thalidomide Trust set up to provide support and manage dialogue between the victims, DCL and government. In 1986 Guinness acquired DCL and, in 1997, became part of Diageo. In 2004 the Trust reviewed the well-being of the victims and found that many were facing new challenges due to ageing and retirement. Diageo was approached for additional funds, and is now working through a series of proposals with the Trust and beneficiary representatives. Diageo currently pays £2.8 million annually to the Trust although in 2005 an additional donation of £4.4 million was made. It is expected that in future the annual payment will increase to around £6.5 million and that this will be index-linked. As has always been the case, Diageo will continue to work with all parties to address the issues and help ensure that thalidomide victims, currently numbering around 450, are treated sensitively and justly.

Evaluating community investment

We want to make sure that our community investment results in the maximum benefit. For a quantitative analysis, we use the London Benchmarking Group (LBG) model – which we helped to pioneer in 1994 – to put a realistic, conservative value on our investment (inputs), and measure the benefits (outputs) of our community involvement. The overall investment during the year amounted to £22.6 million. The increase was mainly due to the additional Thalidomide Trust payment described above. As an example, an evaluation of the tsunami projects described on page 13 is summarised here and given in full on the website.

	2005	2004
Community investment £000	22,624	17,522
By category £000		
Philanthropy	1,915	1,072
Social investment*	14,667	11,764
Commercially-led initiatives	6,042	4,686
By focus area £000		
Responsible drinking	7,431	6,354
Skills for Life	2,051	1,749
Water of Life	1,101	375
Local Citizens*	12,041	9,044
By type £000		
Cash*	21,119	16,120
In kind	1,273	1,217
Volunteer time	232	185
By region £000		
Europe*	15,940	10,303
North America	4,173	4,766
International	2,511	2,453

*Includes charitable donations of £7.2 million (2004: £2.7 million) to the Thalidomide Trust.

Summary classification of tsunami projects using the LBG model



	Inputs		Outputs	
	From Diageo	Leverage	Community benefits	Business benefits
Philanthropy	£20,000 emergency aid £5,000 worth of drinking water	Local support from government and NGOs	Immediate relief	Builds local trust
	£50,000 Champion a Charity	Employee volunteering	Supports small charities	Employee team building and morale
	£150,000 donation	£140,000 employee donations	Support for employee-backed charities	
Social investment	£250,000 employee donation matching	£100,000 employee donations	Sustainable reconstruction, youth counselling, education, and clean water projects	Rebuilding local communities and economies, employee expectation of good corporate citizenship and employee engagement
Commercially-led initiatives	£600,000 from Johnnie Walker Keep Walking Fund	Support for Thai government and tourist industry	Regeneration of Thai tourist industry and local economy	Improves stakeholder engagement and relations
	£100,000 Bundaberg Rum and Johnnie Walker sponsorship	£6m raised at Melbourne cricket match	Investment in community projects	Brand trust with consumers

RELEASING THE POTENTIAL OF OUR PEOPLE

Maintaining effective relationships with employees is a key element of business success. It requires greater emphasis on developing skills and capabilities, transferring knowledge and motivating our workforce. To achieve our stretching ambitions for Diageo's performance, we must attract and retain the very best talent and, by inspiring, developing and providing them with a stimulating environment, ensure that their full potential is released.

The Diageo human rights policy outlines our approach to making the most of our human resources. This ensures that relationships are mutually beneficial, that employees are treated fairly and supported in their personal development and that everyone at Diageo can make a positive difference to the business.

Employees	2005	2004
Europe	11,150	11,373
International	8,360	8,605
North America	3,456	3,742
Total	22,966	23,720

Inspirational leadership

A number of our businesses have been recognised as good employers by independent bodies. These are examples of the awards and rankings we have received during the year:

Employer awards and rankings
Employer of the Year in Africa Investment Magazine's inaugural awards
In top 18 of Best Employers in Australia and New Zealand
East African Breweries named Employer of Choice for the fifth year in a row
In top 50 Best Workplaces in Germany
In top ten of Best Companies to Work for in Ireland
16th in Best Workplaces in Italy
Red Stripe named Employer of Choice by Jamaica Employers' Federation
In top 50 of Best Companies to Work for in Mexico
Seventh in Best Workplaces in Portugal
Fourth in Best Workplaces in Spain for the second year
Diageo Venezuela 21st in Best Employers in Latin America

Change is a way of life in most large corporations. Significant alterations to the structure of the business – involving headcount reductions – were made during 2005, and further changes are expected in the coming year. As with all changes, we aim to ensure that people whose jobs are impacted are treated fairly and with respect and that they receive clear and timely information. To make the process as transparent as possible, we have drawn up a set of 'people principles' and an employee charter. The principles define how changes are to be implemented in the two years to 30 June 2006. At their heart is our commitment to 'Valuing each other'. Examples of commitments to colleagues affected by change are: access to full and timely information, fair selection processes

for vacant positions and full exploration of redeployment options. The employee charter shows how these principles are applied in practice by setting out what employees can expect from the company and what the company expects from them.

Early in 2005, in response to improving technology and changing market conditions, Guinness Nigeria went through a restructuring that involved more than 450 redundancies. Our primary concern was for our affected workforce, their families and communities. In addition to offering enhanced redundancy terms, we set up training workshops which covered investment, putting together a CV, interview techniques and setting up in business. We gave departing colleagues the opportunity to become distributors, providing them with the necessary materials free of charge to support their first steps. We thought it important too to address the concerns of remaining colleagues and the managing director attended roadshows at each facility to answer wide-ranging questions on the future of the business.

The biggest challenge in closing the Park Royal brewery in London was the loss of all 90 jobs, the majority filled by skilled people with many years' service. The brewery team was determined to maintain production standards for the 14 months between the announcement and the closure – and this goal was admirably delivered. The company communicated fully and openly about the reasons for the decision, and helped everyone explore their options and decide future personal and professional goals. Consultants worked with managers to provide coaching and identify training needs. By mid June 2005, three-quarters had decided their next move – another job with Diageo or elsewhere, or retirement. The people who have worked at Park Royal since 1936 have made a huge contribution to the success of Guinness and, as the passion for making great beer continues within Diageo, can look back on their time there with pride.

People give their best when they are kept informed and when they are encouraged to express their views freely. The sense of pride that employees have in working for Diageo is fostered through a wide range of communications beginning with induction of new recruits and continuing through team meetings, newsletters, email, intranet and posters. Throughout the organisational changes we have employed these means and have consulted openly and regularly with our employee representative forums and trade unions.

Diageo businesses in many countries have forums at which employees are consulted on business decisions. One of the largest, the Diageo European Forum (DEF), is a group of nominated management and elected employee representatives from 19 countries. The forum is chaired by the president of Diageo Europe and meets once a year. Consultative groups provide feedback, ideas and suggestions to senior managers, helping to shape and deliver business strategy. Less formal, or ad hoc,

Latin America

Latin American colleagues brainstorm supplier standards.



UK

Closing Park Royal brewery after 70 years presented a challenge to company and employees alike.



Philippines

Trusting partnerships encourage business and personal growth.



engagement is also used for information sharing. For example, in Ireland, members of the executive committee hold 'Connect' sessions with teams from other functions. An open agenda ensures that employees can quiz management on the issues that concern them and leaders can gauge thinking within the workforce.

The annual Diageo values survey is our primary means of monitoring employee engagement and in particular assessing how our values are lived across the organisation. This year's survey was distributed to 19,650 employees, with a response rate of 80%, up on the previous year's 68%. Three new questions were introduced to assess opinions on how action plans are driven from the outcomes of the survey and on Diageo's effectiveness in promoting responsible drinking. Each of the 21 core questions was worded to align it with one of our five values. The survey scores were analysed to determine where performance has improved (or not) since 2004.

Global values survey favourable responses

Our values	2005 Diageo score % ⁽¹⁾	2005 Diageo score % ⁽²⁾	2004 Diageo score ⁽²⁾
Proud of what we do	78	77	77
Be the best	64	76	78
Passionate about consumers	80	80	81
Freedom to succeed	79	79	80
Valuing each other	67	67	69

1. Including new questions. 2. Comparable score, excluding new questions; 2004 scores restated to allow comparison.

While 'Passionate about consumers', 'Freedom to succeed' and 'Proud of what we do' remain our strongest values, the survey shows a slight decrease in favourable responses to questions relating to 'Valuing each other' and 'Be the best'. Some of this can be attributed to the organisational change experienced during the year. We are confident that the full implementation of the Partners for Growth programme discussed on page 18 will reverse this trend.

Global values survey favourable responses

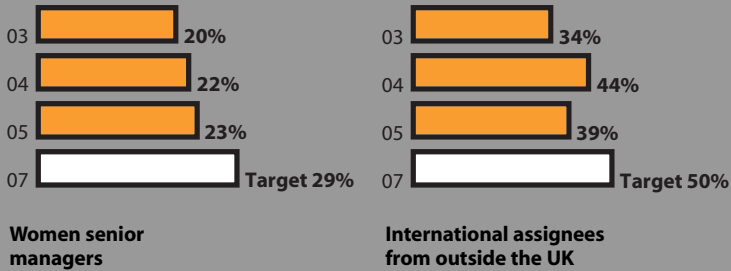
Core questions	2005 High performance norm %	2005 Diageo score %
Proud of what we do		
I am proud to work for Diageo	87	89
Diageo makes a real contribution to the communities in which it operates	79	71
Be the best		
My manager gives me regular feedback on my performance	66	65
I feel significant actions have been taken as a result of previous surveys	48	41
I believe Diageo leadership acts on issues/opportunities identified in the survey	66	50
Passionate about consumers		
My team actively seeks to understand consumer needs	85	79
People in my team are encouraged to come up with innovative solutions	76	78
Freedom to succeed		
People in my team can challenge existing ways of doing things	62	84
My manager generally understands the problems I face in my job	75	73
My manager trusts my judgement within my job	64	84
Valuing each other		
My manager inspires me to give my best	69	69

Scores on 11 of the core questions can be compared against an external benchmark, defined by a group of 'high performing' companies whose financial performance is typically in the top three in their sector. The score on 'Freedom to succeed' is significantly

We are creating a simpler structure in which decisions are faster, accountabilities clearer and individual achievement encouraged.

Diversity

We monitor progress on a range of diversity measures.



Talent

One employee's photographic interpretation of 'Valuing each other'.



ahead of the high performance norm, particularly in the areas of challenging existing ways and trust. We recognise that we have an opportunity to improve the visibility and effectiveness of actions taken as a result of the insights gained from the survey.

An example of where actions were taken in response to the 2004 survey is provided by our spirits supply business in Scotland. A low response (39%) to the statement, 'People in my team are good at celebrating success', in 2004 led the Scottish team to introduce a new recognition programme this year. Supported by the business's Joint Consultative Committee of employees, the scheme will provide ways for excellent contributions to the business to be recognised. Informally, it will encourage a culture of praising colleagues who have done a good job, while formal recognition will culminate in an awards ceremony in which achievement of the Diageo values is celebrated.

Inclusion and diversity

In each part of our business, we aim to attract and maintain a diverse workforce with a wide variety of individual characteristics, perspectives and experiences. The business gains from the flexibility that such diversity provides, and from the wide range of views and opinions that can inform decision-making. Greater variety helps us gain deeper consumer insights and manage our customer relationships better.

The basics of our approach to encouraging diversity are set out in our human rights policy. This states that, in recruitment, compensation and benefits, training, promotion, transfer and termination, we treat individuals justly, solely according to their abilities to meet the requirements and standards of their role. Last year our executive committee agreed an inclusion and diversity action plan and we have taken many steps to achieve the targets we set ourselves for increasing the diversity of our employee population.

Diversity by gender %	2005		2004	
	Men	Women	Men	Women
Board	90	10	91	9
Senior managers	77	23	78	22
Other employees	68	32	69	31
Total workforce	69	31		

The proportion of women in senior management positions – a key diversity indicator – has risen from 20% in 2003 to 23% in 2005. Our target is 29% by 2007. These gains have been achieved by making the Diageo working experience more compatible with a greater range of lifestyles and ensuring opportunities are attractive to all suitably qualified candidates.

We recognise that our employees have commitments away from the workplace and encourage working patterns that balance home life and career. Not all roles lend themselves to all flexible working options. Where they do, we offer such possibilities as career breaks, flexible locations, term-time working, compressed-time working, flexible retirement, job sharing, annualised hours contracts and flexible compensation.

A number of supporting materials have been developed to underpin our inclusion and diversity objectives – for example, our flexible working framework and inclusive behaviour training module. In the Canaries, Spain, where some of these materials have been piloted, we can demonstrate significant improvements in key measures of flexibility.

Employment by category %	2005	2004
Full time	97	95
Part time	3	5

As Diageo has developed from its historical roots to an organisation with truly global perspectives, there has been an increasing need for mobility in our workforce. For many senior people this includes a spell abroad and we currently have 247 employees on international assignment. Our goal is that by June 2007 at least half of assignees will be from outside the UK; the current figure is 39%. We are also committed to growing local talent, particularly in developing markets. The number of international assignments to Latin America and Africa have decreased by around a third over the last year, showing the growing capability of local employees.

Partnership and belonging

Our ambitious performance goal of beating the competition in every market will be achieved only by releasing the potential of every employee. Our new high quality performance management system, used consistently by all, will be critical in achieving this goal. The programme, known as Partners for Growth (P4G), is about creating a better kind of relationship for employees with the business, through their managers. This relationship is to be founded on mutual trust and will be reciprocal. It will be about encouraging great performance from individuals and the business through better, more regular conversations. P4G requires leaders in Diageo to know their people, to focus them on the strategic priorities and to value them as individuals for their diverse and unique talents.

We want to give talented employees the opportunity to develop their careers within Diageo. Our on-line Career Shop allows people in 30 countries to post their CVs in one of four languages to be considered when suitable roles become vacant. Over 5,000 resumé have been posted by employees, in addition to over 14,500 submitted by external candidates. Career Shop showcased 1,177 roles during the year, two-thirds of which were filled by internal candidates.

We have a variety of schemes to promote share ownership. These enable employees to benefit from the achievements and growth of the business by acquiring shares at a discounted price. Participation rates during the year varied between countries from 10% in Italy to 81% in Korea and 90% in Germany (where the eligible population was small). In the UK, 78% of employees saved under Diageo's largest plan. The number of employees holding shares, and the total number they hold, both decreased this year. Two of the factors involved were reduced employee numbers in the UK and the maturing of the UK profit share scheme.

Employee share ownership	2005	2004
Countries operating schemes	16	16
Employees* holding shares	16,486	17,800
Employees* holding more than 1,000 shares	44%	43%
Shares held by employees*	33.1m	34.5m

*Past and present

Respect for personal lives

A programme has been underway to implement the Diageo occupational health and safety policy. This has been completed at all production sites worldwide, as well as at office locations in the UK. As a result, around 60% of all employees are now covered by a health and safety policy to a consistent Diageo standard. The policy is partially implemented at all other office sites. Work continues to meet our roll-out targets and address identified shortfalls.

The policy roll-out reinvigorated safety activity at our production locations, where safety continues to be a core element of our strategy. For example, in Santa Vittoria, Italy reportable accidents were reduced by 80% this year by implementing tailored training programmes.

The collation of occupational health performance data globally has proved challenging. Factors included the standardisation of definitions and the robustness of reporting processes. Safety data have been collected from all production sites and UK offices for the full year. Approximately half of other office sites have also reported safety data. Performance data in the table for 2005 are therefore not strictly comparable with those for 2004.

Safety	2005	2004
Injuries per million man-hours*	9.2	16.1
Fatalities	–	–
Regulatory notices received	9	10
Fines imposed	2	1

*Injuries resulting in lost time of at least a day, beginning the day after the accident, reckoning 1,920 hours worked per year per employee.

In our African markets we run comprehensive programmes that aim to prevent the spread of HIV/Aids and to support and treat colleagues and their families should they contract the syndrome. All parts of the programme are free of charge. Workplace training for employees and their immediate dependants aims to raise awareness, prevent proliferation of HIV and combat discrimination. The same group has access to counselling, testing and other forms of support. Those diagnosed as HIV-positive are provided with anti-retroviral drugs as part of an overall treatment regime. The support continues even if the employed family member leaves the company. Where possible, programmes are located in the employee's home community as this can encourage the development of the local infrastructure and capability needed to combat the disease. In Nigeria and East Africa our HIV/Aids awareness and prevention programmes have so far reached employees and dependants at 10 locations. In South Africa a *Know Your Status* campaign at the workplace encouraged 71% of employees to participate in a counselling and testing programme.

CONSERVING OUR ENVIRONMENT

As with every other enterprise, the environmental sustainability of our business is limited by nature's finite capacity to generate resources and assimilate waste. Our priority, through careful environmental management, is to improve our practices to require fewer resources and generate less waste.

Environmental management

The implementation of environmental management systems (EMSs) is now well advanced at most production sites and all facilities are expected to become compliant with our policy requirement for an EMS during the coming year. At 10 sites the EMS is certified to the international standard ISO14001 – an increase of six over last year – with 12 more locations planning to achieve this level of recognition within the next three years.

During the year the Diageo environmental working group reviewed our environmental policy and determined to formulate a more detailed approach to issues of growing importance – for example, biodiversity, sustainable agriculture and renewable energy. Meanwhile, the requirements of the policy have been more specifically defined and implementation criteria set through risk management standards. Compliance with the standards is to be checked annually under the new Licence to Operate framework (see page 28).

Implementation of an intranet-based data collection and management system has further improved monitoring this year, incidentally uncovering some errors which mis-stated performance both positively and negatively in previous reports. Data in the graphs have been corrected to reflect these findings, including some targets which are calculated as percentage reductions of corrected data. We will continue to refine our procedures to maximise the accuracy of our information. Monitoring of performance data is backed up by a programme of site audits. In the last two years, 88% of production sites have undergone an environmental audit.

Targets for continuous improvement

Measurements of our most significant environmental impacts – use of energy and water, and emissions of greenhouse gases, solid waste and liquid effluent – are our primary indicators of performance. The data are collated from all production and large office sites and expressed as both totals and ratios relative to Diageo's packaged beverage production volume – a measure of the activity of the business. In 2004, three-year targets were set for improvement in relative indicators. This was done by amalgamating projections of best performance by each geographical region. Data required to track progress against our targets are collected monthly and considered by the Diageo environmental working group at its quarterly meetings. This is an opportunity for regions to share best practice and review procedures for possible improvements. Examples of some actions are given below.

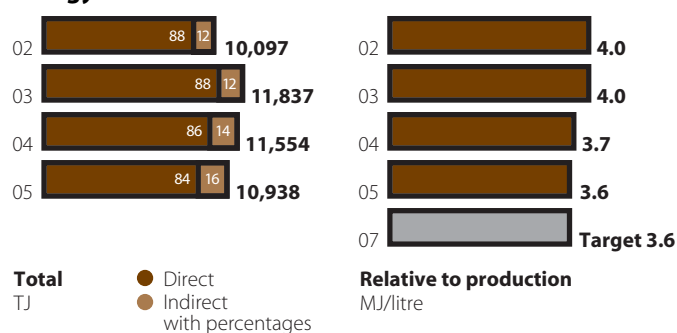
Our Cameronbridge distillery in Fife, Scotland announced plans this year to invest £4 million in transforming the initial stages of the production process. The distillery, which makes grain whisky, vodka and gin, is the largest of its type in the world. Distilling uses large amounts of steam – and thus energy and water – to cook the cereals that are the source of fermentable sugars. Adapting a technology common in breweries, the plant will crack the hard grain open to enable more of the starch inside to be converted to sugar. The change will increase the amount of spirit produced from each tonne of grain and, because the energy required is in the form of electricity rather than steam, is expected to save over 100TJ of energy and 340,000m³ of water a year.

Energy and climate change

Begun last year, a major global energy management initiative is currently underway. The objective of the project is to devise an innovative long-term energy strategy that will deliver environmental, economic and reputational benefits. Priorities for the project are to:

- identify, evaluate and rank energy reduction projects according to their benefits, ensuring that the best are budgeted for
- ensure that the cost of carbon is routinely included in capital project evaluations
- ensure compliance with the EU Emissions Trading Scheme (EU-ETS)
- seek opportunities under the EU-ETS to reduce greenhouse gas emissions wherever in the world it is most efficient to do so
- benchmark the performance of our manufacturing sites against others in the industry
- identify opportunities to exploit renewable energy sources such as wind, hydro and biogas.

Energy used



We have reviewed the available energy sources for our most energy-intensive facilities and identified the best carbon-saving projects. We are evaluating the replacement of a steam-driven vapour compressor drive with an electrical powered unit in the evaporation plant at our Gimli distillery in Manitoba, Canada. This improvement could save 3,000 tonnes of CO₂ per year.

Conserving our environment continued

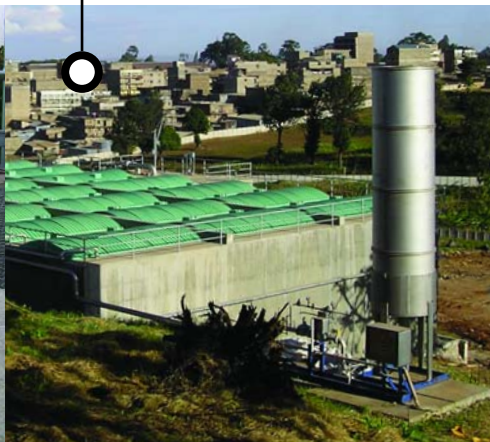
Nigeria

Brewery effluent before and after treatment at the new plant under test in Ogba, Nigeria.



Kenya

The Kenya Breweries treatment plant in Nairobi was commissioned this year.



Uganda

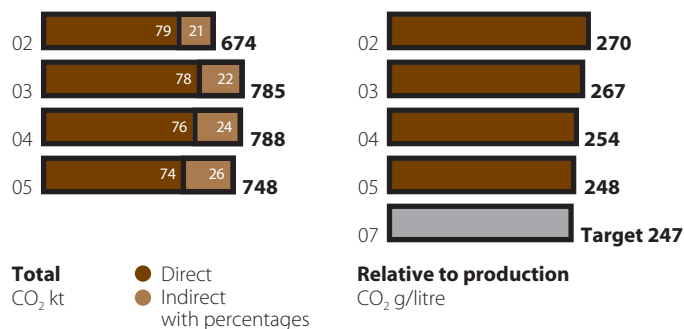
The new plant at Uganda Breweries treats wastewater flowing into Lake Victoria.



The European Union Emissions Trading Scheme was introduced in 2005 to incentivise industry to reduce carbon emissions. Under the 'cap-and-trade' system, facilities with a combustion capacity over 20MW are allocated CO₂ emission limits. Emissions over these limits must be covered by purchased allowances, while emitting less than the cap earns allowances that can be sold. Currently, seven Diageo sites in Ireland and the UK are included. Because the caps are set below current performance levels, we will need to purchase carbon allowances in the short term. Through the period of the scheme from 2005 to 2012, our focus on carbon reduction is planned to result in compliance with EU-ETS cap levels without the need to buy carbon allowances.

Energy use and greenhouse gas emissions were both reduced as totals this year, and efficiency initiatives, including those described above, have also reduced these indicators relative to production in line with our targets.

Greenhouse gas emissions

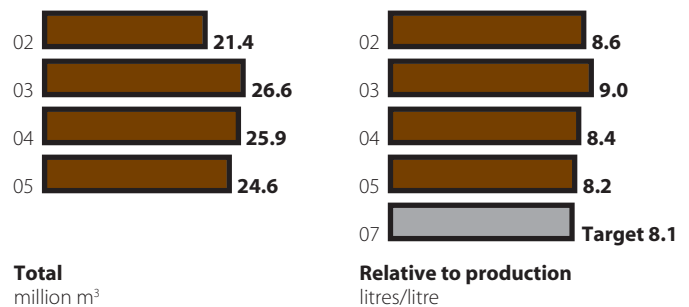


Business travel also has an impact on climate change. Flights and car trips taken by employees in some of our largest markets resulted in further greenhouse gas emissions of 22,600 tonnes. We are working to extend data collection to further countries.

Water management

We take about 43% of the water we need from wells or boreholes and a further eight per cent from streams or other surface water. The remainder – about half the total – comes from mains services. One of our key environmental objectives is to reduce the amount of water we use to make our brands. In response to water restrictions in Sydney, Australia, our team at Huntingwood has been working with Sydney Water, which encourages water efficiency in local companies. Since 2001, Huntingwood has reduced the amount of water used to make a litre of product from 2.1 to 1.4 litres, resulting in an annual saving of over 9.5 million litres. An employee volunteer group has been established to look for more ways to conserve water and regularly reports on progress and plans for new water-saving initiatives.

Water used



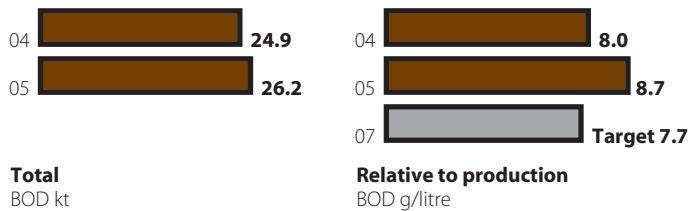
Programmes like this have helped us reduce the total amount of water we used during the year. Our performance indicator of water used relative to production has fallen in line with the target we set for 2007.

Our approach to the disposal of wastewater is tailored to the conditions prevailing at each site. About 46% of effluent is sent to municipal facilities where we pay to have it treated.

This year we have made significant advances in environmental management and in addressing each of our key impact areas.

A further three per cent is spread on agricultural land. About nine per cent is treated on site before discharge to a river, lake or the sea. The remaining 42% flows to water either untreated or after pH balancing. The majority of these outflows are subject to consent by local environmental authorities and are closely monitored to ensure that no damage is caused to ecosystems. At locations where this has not been the case, we have been constructing our own treatment plants. These are now operational or under construction in Cameroon, Ghana, Kenya, Nigeria and Uganda; a new facility in Jamaica is at the planning stage.

Effluent polluting power



An increase in polluting power as measured by biological oxygen demand or BOD was recorded this year, caused by a surge in activity at one large distillery which was not matched by increased packaged production due to the time taken for whisky to mature. The new treatment plants in Africa will begin to impact BOD levels next year.

Materials and recycling

Most of the solid materials we use are ingredients from renewable sources such as grain, hops and grapes. The residues these materials leave after manufacture are mostly either sold for processing into animal feed or disposed of sustainably for use as agricultural mulch. Most other waste from manufacturing and office sites is also recyclable where facilities exist – glass and metals from rejected packaging, cardboard and paper are all commonly reprocessed. The St James's Gate site in Dublin now reuses or recycles all of its solid waste. Many other sites have made progress in reducing their output. For example, at our packaging plant at Menlo Park, California – where waste materials include glass, plastic, pallets, cardboard and charcoal – staff have been trained in recycling and are reminded of the benefits through newsletters, posters and contests. As a result, the plant has recycled over 700 tonnes of waste this year and had its efforts recognised by an Environmental Quality Award from the city of Menlo Park.

Overall, 93% of solid waste from our sites was reused or recycled, an increase over last year's figure of 91%. In addition, a reduction in total waste sent to landfill was recorded for the first time in three years.

A secondary environmental impact occurs through the disposal of packaging by consumers after use. The majority of the materials we use – glass, aluminium, steel, paper and plastics – are recyclable.

To encourage recycling and to make it more effective in practice, this year we launched an initiative which sets out for marketing employees and agencies the principles of sustainable packaging, including recyclability and minimisation.

Recyclability Our bottles already contain an average of 30% recycled glass. While innovating with new packaging types, we will use materials in a way that facilitates recycling. For example, the design of the plastic Smirnoff Ice bottle, used for safety reasons at public events, has recyclability in mind:



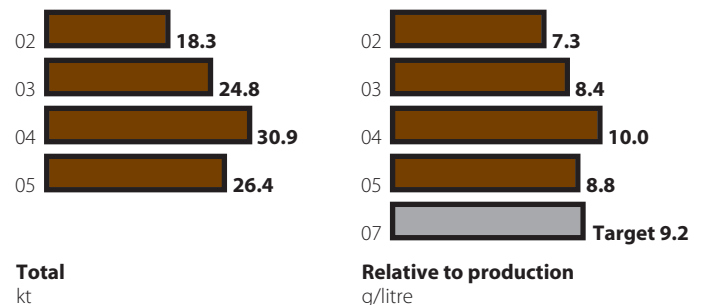
- The metal cap is fully removed on opening so it is easily separable from plastic waste
- Colourless PET plastic is easier to recycle than coloured
- A paper or plastic label with water-soluble adhesive detaches easily during recycling.

Minimisation We have been 'lightweighting' bottles and cans for many years – reducing the impacts of manufacturing, transporting and recycling – and have done the same with some outer transit packaging. For example, Guinness Draught packaging has recently been reduced in a number of ways:



- The can top is now 1g lighter, a 26% saving
- A new floating widgee, which generates the head, weighs only 3.6g, a 42% reduction
- With less headspace, the can is now seven per cent smaller but contains the same amount of stout
- The 24-can recycled-paper carton has been lightweighted by 4g without loss of strength.

Solid waste landfilled



Where distribution distances are short, refillable bottles are environmentally preferable to single-trip packaging. This is the system we use for beer bottles in Africa where over 90% are returned for refilling. In Jamaica also, beer bottles destined for the domestic market are returnable and have an expected life of 20 fillings before being recycled. For exported beer, it is environmentally better for bottles to be recycled in the country of use rather than being returned along long supply lines. Export bottles contain 20g less glass than those sold in Jamaica to minimise the energy required to manufacture, transport and recycle them.

Conserving our environment continued

Russia

Recording turtles in the Volga River Delta.



Kenya

Studying the use of water by wildlife and human communities.



South Africa

Measuring the effects of tourism on biodiversity and long-term sustainability.



Hazardous substances and spills

Two production sites were made free from ozone-depleting halons and CFCs during the year, leaving 12 where one or the other is still present, usually in very small quantities. This year we began to record the quantity of hazardous waste disposed of at each site. The total – currently 3,314t – will be monitored over the coming years. Although some temporary non-compliances with emission consent levels were recorded at some sites, only one resulted in an official notice. Effluent levels were exceeded while our plant in the Philippines was being upgraded and a fine of £1,570 was imposed. No incidents were subject to official notice of environmental consequences. A fine of £350 was imposed on our Lehigh plant in Pennsylvania for late payment of emission fees.

Biodiversity

In the last few years we have placed priority on addressing our own direct impacts on the environment. Our impacts on biodiversity – which we have a policy commitment to support – are predominantly indirect. In future we plan to examine these impacts – for example, through the agricultural practices involved in producing ingredients for our brands – and understand the extent to which they can be mitigated to protect biodiversity.

Diageo is providing £100,000 funding for the Scottish *Native Woods Living Rivers* project. Working in partnership with landowners, tenants and local communities, the project will help restore and expand areas of native woodland within the catchments of the rivers Spey, Deveron, Dee and Lossie.

The Diageo Earthwatch champions programme plays an important part in implementing our policy on biodiversity. This was the third year of the programme under which 15 Diageo employees per year are selected to join a two-week conservation project. The projects, coordinated by the educational and research trust Earthwatch, take place all over the world and this year were in such diverse locations

as the Canadian Arctic edge, the Pantanal wetlands of Brazil and the forests of Madagascar. As a key part of the programme, returning champions commit to develop and implement their own environmental project in their workplace or community. Projects in the past have included raising environmental awareness, conserving natural spaces and making working practices more environment-friendly.

- **Recording turtles** Martha Bradbury, a sales co-ordinator from Winnipeg, Canada, joined a team in Russia to study the wildlife of the Volga River Delta – including turtles. Now back at her day job, Martha is hoping to improve water quality in Lake Winnipeg by encouraging her colleagues to assist a scientific research team monitoring the lake.
- **Efficiency management** The effective management of scarce water in Samburu-Laikipia, Kenya is essential for threatened savannah species. Challenges to wildlife and human culture in the area are population growth, burning, poaching and livestock overgrazing. Colin Parry, an auditor from Park Royal, London, and Colin Chung, brand executive from Kuala Lumpur, Malaysia, studied the use of water by wildlife and human communities. Colin Parry intends to use his experience to extend responsibility for water management further into Diageo's supply chain, understanding key risks and impacts to implement best practice.
- **Effects of tourism** Kirstie Papworth, commercial planning manager from the UK, and Colleen Zielinski from Plainfield, Illinois, USA, joined a project in eastern South Africa to collect data on invertebrates and measure the effects of eco-tourism on the area's biodiversity and long-term sustainability. Back at her office in London, Kirstie has arranged for information boards to be positioned around the landscaped grounds to show visitors what wildlife they might encounter, and what steps they can take to help protect our environment.

INVESTMENT AND CREATING VALUE

Diageo's primary purpose is to create value for investors by providing consumers with high quality brands. In many of the markets in which we operate, this activity makes Diageo a significant engine for economic growth. Our business activates supply chains, provides jobs, generates revenue for governments and invests in capital projects and in the skills of our people. A cash value added statement quantifies the value added to the raw materials and services we buy in the course of this economic activity and shows how it is distributed to various groups of stakeholders in exchange for their contribution to the business.

This section discusses the major recipients of cash value added: government, investors and employees. Value also flows to banks and other lenders as well as to the community through carefully targeted projects, many of which aim to tackle economic disadvantage and promote entrepreneurship. The balance of cash value added is invested in research and development – a source of innovation and technological advance – or retained in the business for growth, including the purchase of subsidiaries and capital spending on plant and buildings. Both items represent investment in Diageo for the benefit of stakeholders in the future.

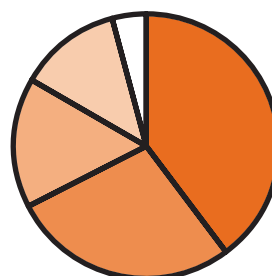
Cash value added statement	2005 £ million	2004 £ million
Cash received from customers	9,036	8,891
Other income	1,333	211
Subtotal – cash received	10,369	9,102
Cost of goods and services	(3,623)	(3,630)
Cash value added	6,746	5,472

Alcohol taxes	2,307	2,209
Other taxes	383	356
Subtotal – paid to governments as tax	2,690	2,565
Paid to investors for providing capital	1,861	1,106
Retained for growth	1,088	638
Paid to employees for their services	840	835
Paid to lenders as return on borrowings	228	299
Community investment	23	18
Research and development	16	11
Distribution of cash value added	6,746	5,472

Investing for sustained growth

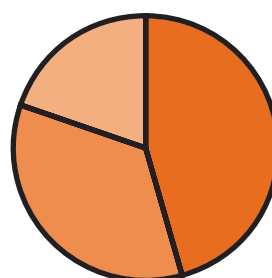
In its Value Added Scoreboard the UK Department of Trade and Industry ranks large European companies according to the value they add (using a measure slightly different from ours). The scoreboard shows how effectively these companies create wealth and reinvest to achieve continued growth. This year, Diageo remained top of the beverage sector despite a reduced value added compared with the previous year. Diageo is also ranked top for wealth creation efficiency with the most-increased score in the sector, showing how Diageo has become increasingly more efficient at adding value.

Distribution of cash value added 2005



● Governments	39.9%
● Investors	27.6%
● Retained for growth	16.1%
● Employees	12.5%
● Lenders	3.4%
● Communities	0.3%
● Research and development	0.2%

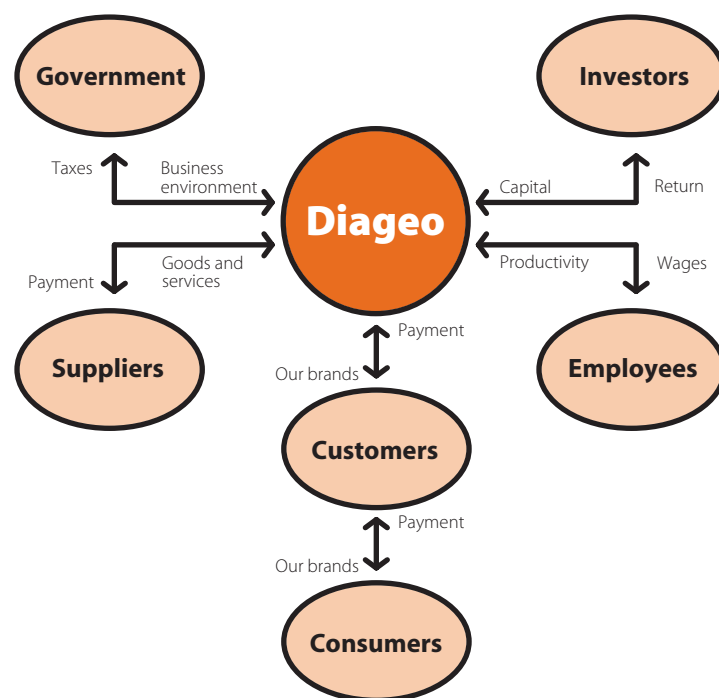
Capital investment by region 2005



● Europe	£130m
● International	£98m
● North America	£56m

Total **£284m**

Stakeholder returns



Value Added Scoreboard

European ranking	Value added £ million	Wealth creation efficiency %	Change %
1 Diageo	3,383	303	+35
2 Heineken	2,653	157	-2
3 Interbrew (now InBev)	1,968	154	+1
4 SABMiller	1,702	184	-8
5 Scottish & Newcastle	1,614	159	+15
6 Carlsberg	1,230	135	-4
7 Allied Domecq	1,128	224	-6

Source: DTI 2005 Value Added Scoreboard, based on 2004 accounts. The DTI uses the following definitions: value added = sales less costs of bought-in materials, components and services; wealth creation efficiency = value added as a percentage of employment costs plus depreciation; change = 2004 efficiency compared with average of previous four years. Website www.innovation.gov.uk.

Paying taxes

The main beneficiaries of the added value we generate continue to be governments which, last year, received 39.9% overall, amounting to £2.7 billion. Reports published by our businesses during the year show that the proportion paid in different countries can vary widely. In Greece, for example, 82% of value added flowed to the government, while in Jamaica it was 53%.

In addition to this direct contribution to the public purses of countries around the world are the other taxes paid by our businesses, such as local and property taxes. There are also the sales taxes, such as VAT, paid by our consumers, income taxes levied on our employees and investors and the various corporate taxes paid by our suppliers and customers as a result of the business we generate in these companies.

Tax policies

With responsibilities to many groups of stakeholders including investors and governments, we strive to organise our tax affairs efficiently within the law. As part of this effort, we consider options available to us for the location of Diageo's profits and hence tax liabilities. Such decisions are always based on a combination of commercial strategy, cost and levels of taxation. However, our approach includes a strong preference for locating tax liabilities in territories where Diageo also has significant commercial operations.

The prices charged for products bought and sold between Diageo subsidiaries in different countries affect their profitability and consequently their tax liability. Our global transfer pricing policy is based on the arm's length principle and is in accordance with OECD guidelines. We believe that this allows Diageo subsidiaries to earn fair and reasonable profits for the functions they perform in line with pricing evidence from comparable third-party, uncontrolled transactions.

Returns for investors

The second largest flow of cash value added from our business is to our shareholders. Over 90% of our business is owned by institutional investors, the remainder being held by private shareholders including thousands of current and former employees.

In recognition of the capital they provide, around £1.9 billion was returned to investors during the year, representing 27.6% of the total distribution of cash value added. We are committed to make such returns as efficiently as possible. In 2005, we paid £849 million in the form of dividends and £710 million via Diageo's share buy-back programme. A total of £7.7 billion has been returned to shareholders in buy-backs since Diageo was formed in 1997.

We assess the value that shareholders receive from Diageo by tracking total shareholder return (TSR). This measures the relative return from movements in the share price together with dividends received. In 2005, Diageo ranked 7th in its peer group. Detailed results are given in the Diageo annual review.

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

Sustaining employment

Economic development is about developing the skills of the workforce as well as financial flows. Globally, 12.5% of cash value added is passed to employees, underlining the important role our business performs of creating and sustaining jobs in the economies in which we operate.

The loss of educated, talented people through emigration is a particular economic problem for developing countries. Diageo's innovative talent strategy has played a part in reversing this 'brain drain' by engaging with the African diaspora in the first world. During the year, 16 executives and professionals have been recruited from this group to take up key roles in Diageo businesses in Africa. The initiative has reduced our reliance on expatriates – five out of six marketing directors and 100% of HR and corporate relations directors in our African businesses are now nationals of African countries.

Our business contributes to the wealth of society by providing employment, developing skills, paying tax and creating business for suppliers, customers and other commercial partners.

Promoting business in Africa

The success of Diageo Africa is a clear example of the opportunities available for international companies which invest in the continent. We are active in brewing or distilling in the majority of sub-Saharan countries, either through subsidiaries, joint ventures or other relationships. The connection is a long one; the first exports of Guinness to Africa were to Sierra Leone in 1827. Now the stout is brewed in over 20 African countries and is exported to many others. Nigeria is the third largest Guinness market and Africans drink around one-third of all Guinness in the world. Several Diageo companies in Africa are quoted on local stock exchanges. Guinness Nigeria, for example, has over 60,000 shareholders.

Private Investors for Africa (PIA) brings together seven companies with interests in the continent (Barclays, CFAO, Diageo, Heineken, Lafarge, Standard Bank and Unilever) to address a number of common challenges. These include creating the right conditions for investment, governance, taxation and business's response to HIV/Aids. To achieve its aim of improving the business environment in Africa, PIA shares knowledge on these issues, and seeks a constructive dialogue with the principal international institutions, non-governmental organisations, international funding bodies and national governments.

DIAGEO AFRICA BUSINESS REPORTING AWARDS 2005

Press features on doing business in Africa are rare and those that do appear are often negative in tone. To encourage fair reporting and provide a balanced view of the business opportunities that many African countries present, last year we launched the Diageo Africa Business Reporting Awards. Building on the success of the first awards, the 2005 competition, which was open to all journalists, regardless of geographical location, included two new categories – for best website and best photographer. The judges were looking for excellent research and insight, clear and balanced presentation, objectivity, journalistic flair and 'Afro-realism'. The award for best journalist went to Anver Versi.

The supply chain

In addition to the issues that arise directly as a result of our own activities are the impacts exerted by other businesses up and down the supply chain – businesses involved in providing raw materials, supplying other goods or services, or delivering our brands to consumers. Although demand for our brands ultimately drives these impacts, we do not have direct control over them. However, where we have strong relationships with supply-chain partners we have the opportunity to influence their approach to citizenship issues and ensure they maintain standards similar to our own. This is an area of focus for our procurement and customer relations teams and one where we have made significant progress during the year.

Assessing indirect economic impacts

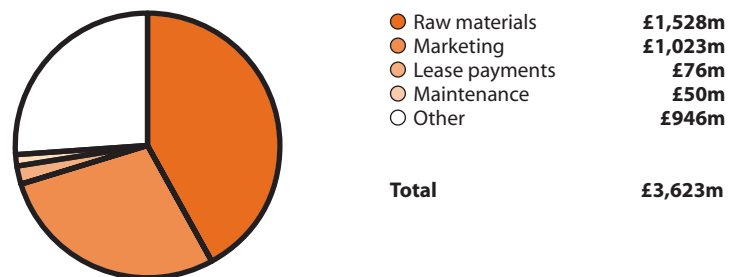
Our business indirectly creates employment with our suppliers – including outsourced support functions such as facilities and IT services – and demand for our brands supports jobs with wholesalers and retailers. In addition, the salaries earned by our employees, suppliers and customers create further employment when they are spent – the 'induced' effect. By adding the direct, indirect and induced effects together, an assessment of Diageo's total impact on employment can be made. An 'employment multiplier' relates the total number of jobs sustained to the number of direct employees. Employment multipliers vary with industry and market and tend to be greater in developing countries (where estimates as high as 25 or 30 have been published for the beverage sector) than in developed industrial regions where they can be in single figures.

Partnering with suppliers

Major supplier relationships are managed by procurement teams who ensure that what we buy represents the best value in terms of cost, quality, service and innovation. Developing strong relationships with suppliers helps ensure that supplies essential to our operations are sustainable, that contracts are fair and that the business we conduct together is mutually beneficial.

Supplier contracts include individually agreed payment terms and we recognise the importance to supplier relationships of settling accounts within these terms. All invoices from Europe and North America are now processed by one central team and this coverage is being extended to our International region. One of the team's key priorities is to monitor performance and target improvements where necessary, and we will detail our progress in future reports.

Purchases by category 2005



We also want the performance of companies which supply us with goods and services to be in line with our own principles of good citizenship. The task of measuring and monitoring our thousands of suppliers is a substantial one, and responding appropriately to any problems we find presents a number of dilemmas. Simply withdrawing custom from a non-compliant supplier could displace the problem rather than solving it. If it led to layoffs, our action could cause hardship to the supplier's employees as much as to its owners.

In a small community, the loss of business by the supplier could have wider economic implications. We must balance these possible outcomes and, building on our strong relationships, work with non-compliant suppliers to help them achieve minimum standards.

Last year we launched a Corporate Citizenship with Suppliers programme. With reference to external codes such as the International Labour Organisation conventions on human rights, we revised our set of supplier standards – covering business ethics, human rights and environmental management – and rolled this out, in a variety of languages, to our procurement teams around the world.

After consulting suppliers in Asia, North America and Europe we drew up a self-assessment questionnaire to evaluate existing suppliers' compliance with these standards. We used pilot studies in Europe, North America, Korea and Nigeria to receive feedback from suppliers and fine-tune the survey details. We sent questionnaires to over 500 companies widely distributed across the world, selecting them according to the value of their business with us and their potential risk profile. Questionnaires went to around 60% of high value and 90% of high risk suppliers. We have developed tools to assist our procurement teams in evaluating suppliers and developing joint action plans for improvement and will make these part of our procurement capability development programme.

We are currently in the process of analysing the 324 questionnaires returned. These represent 60% of suppliers identified as potentially high risk and 34% of high value suppliers. Together, they account for around a quarter of our annual procurement-managed supplies by value. Compliance with our standards is to be rated on a 'traffic-light' scale of green, amber and red.

Where suppliers are found to be non-compliant, our procurement teams will offer support to improve their performance and help them work towards achieving minimum standards. Initial audits of suppliers against our citizenship standards have been undertaken. We plan further training of our procurement teams and internal auditors to carry out the full range of assurance needed to verify completed questionnaires and ensure continuing compliance by suppliers. Only in cases of gross transgression where there is no willingness on the part of the supplier to move towards compliance, do we plan to use the sanction of seeking alternative sources of supply.

As the programme develops, we plan to extend our citizenship standards to further groups of suppliers not managed by the procurement teams. The standards are also being incorporated into criteria for evaluating new suppliers and into the contracts we sign with them.

Supporting our customers

Our customers are the distributors, wholesalers and retailers of our brands. We create business for customers by providing them with products that people want to buy and continually review our range of products and seek to meet consumers' needs through a programme of imaginative and technological innovation. During 2005, Diageo spent £16 million on research and development.

Our aim is to provide customers with the best overall service in every market. This means working closely with them to ensure that our standards of responsible marketing are maintained through the supply chain and to maximise mutual commercial advantage from our brands.

Our global duty free team has partnered with leading airport retailers to redefine the duty free shopping experience. We worked closely with our customers on store design, recruiting and training store staff, promotional strategy, store branding and signage. At Gatwick airport near London, Baileys recipes were presented by trained staff and passengers were invited to taste the drinks. Extensive research was conducted to evaluate the impact on shoppers' behaviour. The Baileys Experience doubled volume over Christmas and the store redesigns in other locations reported average volume growth of 20%.

In Britain this year we have trained around 30,000 staff in 15,000 pubs in how to serve our brands – and other brands – perfectly. The *Every Serve Perfect* programme, which represented a £3 million investment by Diageo, has been adapted by a number of UK pub operators.

Some distribution businesses are of significant local importance and the business support provided by Diageo may have a big impact on employment in their communities. For example, the companies that distribute our brands across Africa are typically privately-owned businesses employing 20-50 people. We invest time, money and training expertise in building relationships with these distributors to ensure a secure route to consumers for our products. The investment often includes such elements as:

- management training for distributors' employees (Ghana and Kenya)
- skills transfer to business owners and employees – for example, Diageo's brand building methodology (Cameroon and Kenya)
- support in compiling business plans (Cameroon, Ghana, Kenya and Nigeria)
- facilitated bank loans and overdrafts (Ghana and Nigeria)
- recruitment support for key professionals (Ghana and Kenya)
- IT and software development (Cameroon, Ghana and Kenya).

MANAGEMENT AND POLICY

Board and management structure

The work of the board and its committees is described in detail in the corporate governance report which is included in the Diageo annual report. What follows here is a brief summary of the governance structure of the business.

Diageo's board consists of the chairman, chief executive, chief financial officer and seven independent non-executive directors. The non-executive directors are experienced and influential individuals from a range of industries and countries whose skills and business experience are a major contribution to the work of the board. New directors receive training – for example, in assurance processes, environmental policy and social responsibility policies and practices. In relation to matters covered by this report, the board makes decisions and reviews and approves key policies and decisions of the company, including corporate governance, business conduct, risk management, citizenship and the environment. The board reviews and approves the corporate citizenship report. Reporting to the board are audit, nomination and remuneration committees, each with clearly defined terms of reference, procedures, responsibilities and powers.

The executive committee, appointed and chaired by the chief executive, consists of individuals responsible for the day-to-day running of the business. Tasks are delegated to a number of committees including the audit and risk committee and the corporate citizenship committee.

Management of citizenship issues

Chaired by the chief executive, the corporate citizenship committee is the body with primary responsibility for our approach to the issues covered in this report. With wide representation at a senior level (there were 13 members at year end), the committee is responsible for making decisions and recommendations to the executive committee or board on policies and codes, social programmes, environmental matters, community affairs, reputation issues and measuring and reporting our performance as a corporate citizen.

The membership of the committee rotates to maintain broad functional and geographical representation. Success is determined by the extent to which effective processes have been established and measurable performance targets set and achieved. Particular goals are to improve and maintain Diageo's overall reputation with our communities and its reputation as a good citizen with all stakeholders.

The committee is supported by specialist groups with responsibility for particular areas, such as the environmental working group whose role is to develop strategies for compliance with the environmental policy and share best practice across the business. This year we established the alcohol and responsibility executive working group to oversee issues related to alcohol in society. The group, comprising members of the executive and functional

specialists, reports to the executive committee on the development and implementation of policy on all matters relating to responsible drinking. Additional ad hoc task groups are brought together as required to formulate responses to particular issues.

Compliance with policy and achievement of performance improvement targets are included in the personal objectives of individuals located throughout the business.

Our priority to date has been to manage citizenship issues in businesses in which we have a controlling share. Diageo is also an equal or minority party to a number of important joint ventures. This year we began a process of engaging with our joint venture partners to monitor the citizenship activities of ventures in which we have a 25-50% holding. The first step is to ensure that all such companies have implemented a suitable range of policies covering, as a minimum, ethical business conduct, human rights, responsible marketing, environmental management and the supply chain. Progress on this initiative will be included in future reports.

Diageo policies

Policies and codes of conduct support the Diageo values and form the framework within which we act on governance and citizenship issues. Policy development involves referring to external codes and best practice and consulting widely both outside and within the company. Broad dialogue with interested groups ensures that our policies address the legitimate concerns of stakeholders, often going further than local or national legislation. Wide consultation within the business secures the support of employees across Diageo and ensures that, despite the size and geographical spread of our business, we can all work towards the same ends.

The Diageo **code of business conduct** sets out standards on issues such as conflicts of interest, competition law, insider trading, corrupt payments, money laundering and other illegal practices. In addition, the code acts as an overarching compliance instrument by including a requirement to comply with the company's other main policies. All senior managers – and junior managers in the UK and USA – are required to complete an annual compliance certificate. This year, certificates were completed by 100% of this population of around 2,000 managers, signifying compliance with the code not only by themselves but also by people reporting directly to them. Issues raised through this process are referred to the audit committee or audit and risk committee for attention and resolution.

Managers receive training on the code through both conventional workshops and intranet-based programmes. Project Integrity is a programme of half-day workshops on governance, risk and compliance which include case studies on anti-corruption and anti-money laundering. During the year around 500 managers completed the course in Jamaica, Kenya and Nigeria. Further workshops are planned across our International region.

Management and policy continued

In North America we enhanced our ethics, legal and compliance education programme by providing over 2,000 employees with a new online education resource called the e-theBest Ethics and Compliance Centre. This gives colleagues easy access to our codes and policies and to training programmes covering our code of business conduct and alcohol beverage trade practice standards. On e-theBest, employees deal with real-life ethical dilemmas in a virtual environment, learning to identify, evaluate and resolve legal and compliance risks and becoming adept at navigating the grey areas that inevitably arise in the course of business.

Compliance is further supported by an independently-run whistleblowing helpline. The service, which is confidential and anonymous, provides an opportunity for anyone to report a suspected policy violation, such as a conflict of interest or case of fraud, bribery, harassment or discrimination.

During the year a new framework was established in the manufacturing side of our business to manage compliance with legislation and with our own policies and standards. The Licence to Operate programme, which will be introduced over the next 12 months, will ensure that all our supply sites meet our requirements in the areas of quality, environmental management and occupational health and safety. The scheme's annual audit and management review programme will be consistent across the world and its single online reporting system will allow us to track progress at every site.

Diageo policies are regularly reviewed to ensure that they continue to achieve their objectives. The policies, the full texts of which are available on our website, are summarised below:

- the **code of marketing practice** provides marketing and advertising practitioners with guidance on marketing, promotion and innovation
- the **code of ethics** sets out standards of reporting and disclosure and honest and ethical conduct for specific senior officers of the company
- the **human rights policy** covers respect for national sovereignty, community, working environment, dignity at work, life balance, employee engagement, releasing potential and rewarding and valuing people
- the **environmental policy** covers management and standards in each of our main environmental impact areas
- our **supplier standards** ensure an ethical basis to business practice, the protection of human rights and the management of environmental impacts through the supply chain
- the **employee alcohol policy** ensures that our people understand the importance of responsible drinking and sets out the expectations Diageo has for their behaviour
- the **consumer information policy** specifies the availability of information on nutrition, allergens, alcohol content and serve size as well as a responsible drinking reminder for Diageo-owned alcohol beverage brands

- the **occupational health and safety policy** defines standards for risk assessment, occupational health, hazardous materials, first aid, noise, ergonomics, protective equipment, emergency evacuation, work permits, visitors and contractors, and accident reporting
- the **quality policy** sets a framework for quality management systems and commits every business to continuous improvement in performance.

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** The charter, drawn up by the International Chamber of Commerce and supported by Diageo since 1997, sets out 16 principles of environmental management which influenced the drafting of the Diageo environmental policy
- **Dublin Principles** Diageo is a signatory to the Dublin Principles which set out the basis of ethical co-operation between the alcohol beverage industry, governments, scientific researchers and the public health community
- **UN Global Compact** In 2002, Diageo signed the United Nations



Global Compact (UNGC) – the first global drinks company to do so – as a public commitment to leadership in social and environmental responsibility. The UNGC provided valuable input to the formulation of our human rights policy. Through membership of the Global Compact UK Forum of signatory companies, we contributed during the year to the agenda for a conference to determine new governance structures and the future development of the UNGC. A communication on progress in implementing the ten principles of the UNGC is given on page 31.

Managing risk

Our aim is to manage risk and control our activities cost-effectively and in a way that enables us to exploit 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 compliance with the requirements of the Combined Code on the internal control of UK companies.

Significant business units, groups of business units and the Diageo executive committee each perform a risk assessment at least annually as part of their strategic planning. Business unit risk assessments and the activities planned to manage those risks are reviewed by relevant executives. These risk assessment and management processes are also applied to major business decisions or initiatives such as systems implementations. The issues considered cover a wide range of business risks facing Diageo, some of which are disclosed in detail in the annual report.

Diageo is committed to achieving the highest standards of corporate governance, corporate responsibility and risk management in directing and controlling the business.

An emerging issues team identifies technical issues which could impact Diageo's products or manufacturing processes arising from changes in regulation, advances in research, activity in our markets or stakeholder concerns.

Public policy

Since its inception Diageo has been committed to building and sustaining its reputation as a good corporate citizen. Supporting this objective is our success in the public policy arena where we work with key government and industry stakeholders on issues that influence, protect, and promote our business strategy or impact our stakeholders.

It has been a busy year for us in defending against potential tax increases and continuing to advance market access initiatives. Our commitment to creating the conditions for our business to thrive has led to public policy successes, generating opportunities for the company and the industry, as illustrated by the following key public policy highlights:

- In the **USA** we worked with state legislatures to introduce 'administrative driver's licence revocation' legislation which penalises adults who unlawfully furnish alcohol to minors and toughens laws against minors who attempt to purchase, possess, or consume alcohol beverages. Applauded by government and other stakeholders, the legislation has been introduced in 18 states and has been successfully passed in five
- In **Australia**, we worked with key government and industry stakeholders to prevent a potential tax increase on RTDs that would have impacted local production of Diageo brands, such as Bundaberg Rum
- We secured a reduction in the multitude of product entry points from the USA into **Mexico**, reducing these from 80 to 15. The change furthered our fight against contraband and illegal parallel imports, while providing authorisation to have observers at the three main custom points to identify the activities of illicit importers
- In the **USA** we improved market access by securing the sale of alcohol beverages on Sundays in two states, while defeating potential tax increases in 20. We also successfully passed tastings legislation in four states
- In May 2005, we were instrumental in leading a cross-industry partnership involving the beer, wine and spirits federations, distributors and on-trade enterprises to sign a new alcohol convention with the government in **Belgium**. As a result, the same marketing provisions now apply to all forms of alcohol and self-regulation has been given legal force. The convention itself – which is largely consistent with the Diageo code of marketing practice – ensures that the highest standards of responsible marketing are maintained across the Belgian alcohol industry

- In the **USA** we have urged the federal government to support our labelling initiative (see page 10) by allowing spirits, beer and wine companies to voluntarily place helpful information on packaging. The issue has been opened up for public comment by the Treasury Department's Tax and Trade Bureau (TTB) and we responded by creating a website where consumers and other key stakeholders could learn about the issue and submit comments to the TTB. The website was designed to engage consumers in an issue that directly affects them and involve them in the political process to initiate change.

Progress on priorities

On the inside back cover, we report on the progress we have made in addressing the priorities we set out in our last two corporate citizenship reports. During the coming year, the corporate citizenship committee aims to review areas of current activity and define strategic citizenship priorities for the business for the next three-year period.

Measuring and reporting

We continue to refine the range of measures we use to track our performance to provide shareholders with a meaningful picture of our business. Measuring performance is an essential part of improving it. To ensure that we prioritise performance enhancements in areas of most significance, we consulted widely before drawing up a list of measures, most of which are included in this report with the remainder due to become available in the near future as our data collection systems are further developed. Major inputs to this process were the indicators of the Global Reporting Initiative, benchmarking measures used by socially-responsible investors and others, measures published by peer companies and consultations with senior people within Diageo responsible for our relationships with particular stakeholder groups. We continue to develop our range of indicators and improve data collection systems to track them. In the past year we have made advances in widening geographical coverage, in defining measures consistently and in accurately recording performance data.

Common reporting standards



We aspire to best practice in reporting and aim to provide a meaningful account of Diageo's impacts and corporate citizenship activities which allows readers to track our performance over time and make comparisons with similar companies. We have prepared this report in accordance with the Global Reporting Initiative (GRI) 2002 Guidelines. A GRI content index, which locates information within the report against GRI indicators, is available on the website.

Management and policy continued

In response to stakeholder requests to add comparative detail in areas not currently covered by the GRI guidelines, we actively seek other common means of reporting our performance – for example, through membership of the London Benchmarking Group which provides an agreed method of evaluating community investment. This year we joined with others in our industry in a process, mediated by the International Centre for Alcohol Policies (ICAP), that we hope will lead to agreement on common standards of reporting on the social aspects of alcohol which will make company comparisons easier in the future.

As detailed in the external assurance statement on page 32, we have sought to complete the report mindful of the three principles of the assurance standard AA1000 – materiality, completeness and responsiveness.

External assurance

We want this report to provide readers with an understanding of our business, and to achieve this they need to be confident that we have covered the important topics and that the information we have included is right. We have commissioned The Corporate Citizenship Company to provide an external opinion as to whether Diageo's performance and progress during the year has been accurately portrayed. In addition, we have asked them to comment on what they consider to be the strengths and weaknesses of the report and have published this assessment in summary form on page 32 and in full on the website. We believe that this detailed approach to assurance is more useful to our readers than the more common limited opinion of veracity, a view endorsed by stakeholders in a feedback consultation we held during the year.

Reporting context

This corporate citizenship report is one element of Diageo's regular reporting cycle which includes the annual report and annual review and a wealth of background material published on the website. Detailed information which may be found useful in understanding the sustainability of Diageo's business is given in these other reports – for example, operating results, a fuller description of the governance of the business and the management of risk. All elements of the reporting programme are readily accessible via the website and so this information has not been repeated here.

Country reports

For a full understanding of Diageo's business, social, environmental and economic issues need to be considered not only from a global perspective but also closer to the point at which impacts occur at country level. While a subject like climate change benefits from a global viewpoint, contributing to the prosperity of communities, sustaining jobs, serving consumers and working with customers and suppliers are all examples of issues with considerable local resonance. Reports are now published or in preparation on Diageo in Australia, Canada, East Africa, Greece, Ireland, Jamaica, Korea, Nigeria, Poland, Scotland, Seychelles and Spain. All reports will be made available on the website and in print, often in a choice of languages.

Independent performance measures

We try to complete the many questionnaires we receive from investors – particularly ethical investors – and others which aim to assess our performance for the benefit of particular stakeholder audiences. We use these assessments, with their published indices or rankings, to ensure our strategy is in tune with best practice and stakeholder priorities.



Diageo is included in the FTSE4Good and Dow Jones Sustainability indices, listings which help investors select companies with good records of corporate responsibility.

To be included, companies must be judged to be working towards social, environmental and economic sustainability and be developing positive relationships with stakeholders.

Dow Jones Sustainability Index %

Social	2005	2004	2003	2002
Diageo	68	57	63	60
Sector	50	43	48	36

Environmental	2005	2004	2003	2002
Diageo	67	56	43	28
Sector	48	38	36	22

Economic	2005	2004	2003	2002
Diageo	71	66	63	61
Sector	59	47	51	44

Total	2005	2004	2003	2002
Diageo	69	60	57	52
Sector	53	43	46	35

Business in the

Community

The Business in the Community (BITC) Corporate Responsibility Index ranks companies' social and environmental management and performance. On an assessment of our worldwide business in 2004, Diageo was placed 32nd out of 132 participating companies. In the BITC Index of Corporate Environmental Engagement, which examines environmental management and performance, Diageo was ranked 38th out of 168 companies. Diageo was the beverage sector leader in both indices, an advance from two second places in 2003.

Corporate responsibility index %

	2004	2003	2002
Diageo	90	91	68

Environment index %

	2004	2003	2002	2001	2000	1999
Diageo	91	85	82	73	73	64

UN GLOBAL COMPACT COMMUNICATION ON PROGRESS

Principles	Progress to date	See page
Human rights		
1. Businesses should support and respect the protection of internationally proclaimed human rights	Our human rights policy, based on internationally-accepted standards, applies to all parts of the business.	15-18
2. Make sure they are not complicit in human rights abuses	Compliance with our human rights policy is assured by senior managers annually. Our Corporate Citizenship with Suppliers programme addresses this issue with major and high risk suppliers.	25-26, 27-28
Labour standards		
Businesses should uphold: 3. The freedom of association and the effective recognition of the right to collective bargaining	Changes in the business and in ways of working have been managed using an approach characterised by transparency, speed and fairness. We have fully complied with this principle and fulfilled our obligations to consult openly with representative forums and/or trade unions.	15-16
4. The elimination of all forms of forced and compulsory labour	We make no use of forced labour. Our Corporate Citizenship with Suppliers programme addresses this issue with major and high risk suppliers.	25-26
5. The effective abolition of child labour	We make no use of child labour. Our Corporate Citizenship with Suppliers programme addresses this issue with major and high risk suppliers. We run approved apprentice and job experience programmes.	25-26
6. The elimination of discrimination in respect of employment and occupation	Our human resource policies and practices are designed to ensure that individuals are treated solely according to their abilities to meet the requirements and standards of their role. Grievance procedures are established to allow employees to raise concerns where they believe they have been unfairly treated. A whistleblowing helpline is in place for employees to report instances of discrimination or harassment.	15
Environment		
Businesses should: 7. Support a precautionary approach to environmental challenges	Our approach to identifying and responding to our environmental impacts is precautionary in nature. Environmental issues are considered as part of the evaluation of major developments. For example, at our Baileys sites in Ireland, environmental risk assessment is part of the PROMPT system for evaluating new projects. Capital expenditure for any project over £3,400 cannot be approved without approval by the environmental site coordinator. The use of water, the emission of greenhouse gases and the generation of landfill in particular are issues where we take a precautionary approach. For example, process changes made during the year at our Cameronbridge distillery and described in the report are expected to save over 100TJ of energy, reduce greenhouse gas emissions by 5,200t and reduce water consumption by 340,000m ³ .	19-22
8. Undertake initiatives to promote greater environmental responsibility	Examples of initiatives included a focus in North American plants on waste reduction, reuse and recycling. At Menlo Park, by reducing waste and selling recyclable materials, landfill was reduced from 360t in 2004 to 250t last year. Construction of effluent treatment plants has been completed or is underway at a number of sites in Africa; the results in terms of reduced pollution should become apparent in next year's data. In Kilkenny, Ireland brewery waste products are used as feedstock in biofiltration plants where nutrients are absorbed by willow which is grown as fuel. Substituting for fossil fuels, this arrangement reduces the release of greenhouse gases. Vodka production at Cameronbridge historically resulted in around 25t of charcoal being landfilled each year. The charcoal is now mixed with compost and used to condition poor quality soil from construction sites, creating an alternative to topsoil.	19-22
9. Encourage the development and diffusion of environmentally friendly technologies	Many environmental initiatives involve the development, adaptation or transfer of technologies. One example concerns the disposal of spent roasted barley from our sites in Dublin and Waterford. Being unsuitable as animal feed, research was carried out into alternative uses for such 'dark grains'. It was discovered that mixing them with compost improved its horticultural performance. An added environmental benefit is that less peat is required to make the same volume of compost, so reducing the depletion of Ireland's peat bogs. Up to 20,000t of dark grains are now reused in this way each year. In Lehigh, we completed a project to eliminate chlorofluorocarbons (CFCs) – which are ozone depleting if released. Three CFC chillers were replaced with sealed ammonia units, taking around 2.7t of CFC out of circulation. The new system is also more energy-efficient, cutting greenhouse gas emissions by around 30%.	19-22
Corruption		
10. Business should work against all forms of corruption, including extortion and bribery	We have trained around 500 managers through Project Integrity workshops and around 2,000 via the online resources of the e-theBest Ethics and Compliance Centre. All eligible managers and senior managers completed a code of business conduct compliance certificate. Our Corporate Citizenship with Suppliers programme addresses this issue with major and high risk suppliers.	25-26, 27-28

EXTERNAL ASSURANCE STATEMENT AND COMMENTARY

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

Introduction

The Corporate Citizenship Company acts as specialist advisers to corporations that seek to improve their economic, social and environmental performance, as well as their social reporting. Information about our capabilities as external assurers and our relationship with Diageo is available at www.diageo.com as part of a more detailed assurance statement and commentary on this the third of the company's global citizenship reports. It includes an assessment of the extent to which this report and selected additional information on the Diageo website have been prepared in accordance with emerging best practice, notably the principles of the AA1000 assurance standard and the guidelines issued by the Global Reporting Initiative.

Assurance statement

For the last two years we have provided detailed assurance statements on Diageo's global citizenship reports. In preparation for these assurance processes, we consulted a cross-section of expert stakeholders about ways to change and improve Diageo's reporting, so it meets their needs more effectively. This year, in addition to incorporating these considerations, checking data systems and interviewing relevant managers at headquarters, we also conducted site visits at two of the company's key production sites, St James's Gate brewery, Dublin and Cameronbridge, Fife.

In light of these considerations and the data provided here, in our opinion this report provides a fair and balanced representation of the material aspects of the company's performance. Where there are still gaps in performance and stakeholder views, they are identified as appropriate. We have checked a targeted selection of company records, data and self-assessment procedures that underlie key aspects of the report, but we have not independently verified otherwise unaudited data.

Commentary

The company provides a clear account of the values, governance, management structures and policies which form the basis of its approach to corporate citizenship. Good data are provided here on all the stakeholder groups and company activities highlighted in this report in relation to:

- responsible drinking
- understanding consumers
- community investment
- employees
- environment
- economic impact, including supply chain.

In its 2005 corporate citizenship report Diageo has kept with the format of its previous two global reports and it continues to improve its reporting incrementally. We particularly welcome the inclusion of a section on the supply chain and look forward to reading about the outcomes and impacts of its Corporate Citizenship with Suppliers programme in future reports.

In some areas, notably in the employee section on pages 15-18, Diageo has used good data to demonstrate how the company uses engagement to support the development of corporate strategy. We would encourage Diageo to demonstrate more clearly how engagement with other stakeholder groups, such as consumers and governments, similarly helps to direct its decision-making. In keeping with this, last year we recommended that the company gives a more full account of its positions and activities regarding public policy. Diageo has begun to do this, but could still provide more information and discussion about its lobbying and other public policy activities.

Overall, we believe that Diageo is demonstrating a genuine and systematic commitment to operating responsibly and transparently, supported by its external reporting. It has built on its reporting efforts of last year and produced yet more country reports, on Jamaica, Greece and Spain. Its providing of additional detail and information on the corporate website is in line with emerging best practice in corporate reporting and is to be welcomed, albeit that it is still fairly limited at this stage. By incorporating the company's internal KPIs with the guidelines of the Global Reporting Initiative Diageo shows that it is considering the requirements of external stakeholders to help achieve its own target of being a leading company in the field of corporate citizenship. That leadership will be built by embedding corporate responsibility across the worldwide business, and through a sustained and constructive engagement with society. This report gives a valuable account of progress in these activities.

The Corporate Citizenship Company

London, 26 August 2005

www.corporate-citizenship.co.uk

PROGRESS ON PRIORITIES

In our 2003 and 2004 reports we summarised the issues of concern to stakeholders and set out the priority actions we planned. Below is a summary of these priorities and of the progress we have made.

Priority set	Progress report	Action for coming years
Social		
In all businesses, deliver an alcohol responsibility initiative and evaluate its effectiveness	Supported campaigns against drink-driving and under-age drinking, and initiatives for young adult consumers and server training.	Use marketing expertise to change attitudes and drinking behaviour.
Ensure employees understand responsible behaviour around alcohol	Employee alcohol policy, information on Diageo initiatives and 'hints and tips' on responsible behaviour distributed across the business.	Continue to engage with employees to reinforce the importance of responsible drinking to the business.
Roll out consumer information policy	New policy became effective on 1 July 2005.	New and developed brands will include new information. Diageo-owned alcohol beverage brands will be covered within five years.
Invest one per cent of operating profit in social and community programmes	Invested £22.6 million or 1.2% of operating profit.	Continuing commitment.
Empower community partners to develop sustainable programmes	Milestones achieved with major partners – eg, Tomorrow's People Trust.	Continuing priority.
Establish diversity action plan and set targets	Completed.	Actions in place to achieve 2007 targets.
Deploy new health and safety standards at all locations	Policy, standards and key performance indicators established at all production and UK office sites.	Complete roll-out to all office locations. Establish robust data collection methodology.
Environmental		
Extend environmental programme to all parts of the business	A scheme of environmental management suitable for office sites has been devised.	Launch scheme in all large offices, involving employees in planned environmental actions.
Complete environmental management systems at all production sites	EMS implemented at 39% of sites; 10 certified to ISO 14001.	Remaining sites to complete EMS implementation.
Devise a long-term energy strategy	Energy management tools created for project and carbon emission evaluation.	Implementation of tools in capital expenditure process to further energy reductions.
Economic		
Promote our standards throughout the supply chain	Launched programme, begun assessment of prioritised suppliers.	Begin to engage with non-compliant suppliers to raise standards. Extend assessment to more suppliers.
Governance		
Pioneer benchmarking in our industry and beyond	Participated in an ICAP study of reporting on the social aspects of alcohol with the aim of improving this across the industry	Map reporting of policies, management practices and performance measures by participating companies.
Implement stakeholder engagement plans in all markets	Top 50 markets have engagement plans in place and their implementation is monitored as part of the business strategic review cycle.	Establish best practice and share with all markets.
Report Diageo-wide key performance indicators and set targets where appropriate	Most indicators now regularly measured and targets set in environment and HR.	Review indicators and collection systems.
Publish further country-level reports	Greece, Jamaica and Spain bring total to nine in three years.	Reports on Canada, Ireland and Seychelles are in production.
Specify accountability for corporate citizenship performance in business plans	Implemented across the business.	Business performance defined holistically to include non-financial measures.
Fully embed values, codes and policies in supporting holistic performance	Online and workshop training in policies supported by 100% response to compliance certification.	Partners for Growth programme to link values and behaviours more explicitly to holistic performance.

We value your opinion

We welcome your views on Diageo's approach to corporate citizenship and about this report. Please use the reply card enclosed. If you prefer, or the card has been used, email your comments to corporatcitizenship@diageo.com or write to Geoffrey Bush, Director of Corporate Citizenship, Diageo plc, 8 Henrietta Place, London W1G 0NB, United Kingdom.



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