

DIAGEO

CORPORATE CITIZENSHIP
REPORT 2008



CELEBRATING LIFE,
EVERY DAY, EVERYWHERE

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To find out more about our
corporate citizenship please visit
us online at www.diageo.com.
The content of our website
should not be considered part
of this document.

OUR VALUES

WE ARE PASSIONATE ABOUT CONSUMERS

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

WE VALUE EACH OTHER – we seek and benefit from diverse people and perspectives. We strive to create mutually fulfilling relationships and partnerships.

WE GIVE OURSELVES THE FREEDOM TO SUCCEED

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

WE ARE PROUD OF WHAT WE DO

and how we do it – we act responsibly with the highest standards of integrity.

WE STRIVE TO BE THE BEST

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

OUR PRIORITIES

RESPONSIBLE DRINKING

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

COMMUNITY INVESTMENT

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

EMPLOYEE DEVELOPMENT

- > Raise levels of employee engagement, as measured by our annual values survey
- > Embed health, safety and quality standards in all parts of the business

ENVIRONMENTAL MANAGEMENT

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

ECONOMIC CONTRIBUTION

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

VALUE CHAIN

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

CONSUMER CHOICE

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



GOOD BUSINESS

'The most powerful way for a business to do good is to do good business.'

PAUL WALSH, CHIEF EXECUTIVE

An astute modern business doesn't treat responsible behaviour as a tick-box process or a marketing exercise; rather it is a driver of long-term growth and an essential component of a company's all-round success.

It is a truism, but one worth repeating, that a business cannot survive in isolation. That it needs employees, customers and suppliers has always been obvious. What has happened in more recent years is that businesses have realised that there are other occupants of their world – their broader stakeholders. And it is also dawning on humanity generally that the earth itself is more finely balanced and prone to damage and that the resources on which we all depend are more fragile than we thought.

This dependency on our stakeholders, communities and environment means we have a strong interest in their future. We benefit from working with our stakeholders, from the prosperity of our communities and from the stability of the environment. Contributing to these ends is an investment in our own continuing success and the sustainability of our business.

The most powerful way for a business to do good is to do good business. Conducting our operations responsibly and with integrity, our activities around the world bring pleasure to consumers and opportunities to employees and business partners. A good example of how growing our own business leads directly to development in our communities is given on page 29 of this report. There, we review our encouragement of grain cultivation locally in Africa, the most recent example of which, in Cameroon, was showcased by the UK government this year as part of its Business Call to Action.

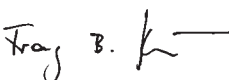
Knowing that we cannot change the world on our own, we aim to lead by example – for instance, through our continuing support for the principles of the UN Global Compact detailed on page 35, the huge ambition of our Water of Life One Million Challenge described on page 14 and the big improvements

we have made and plan to make in relation to the environment (starting on page 21). There are times too when it is appropriate to lead by exhortation and this year we endorsed the World Economic Forum's challenge to business to help strengthen public governance (see page 27), the Bali Communique on climate change (page 21) and the CEO Water Mandate (page 4).

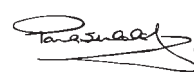
This approach of setting a good example and encouraging others is of particular importance in the area of responsible drinking, the issue that impacts most directly on the sustainability of our business. As in previous reports, the section covering this topic abounds with examples of our responsible marketing activities and our efforts to reduce harm by encouraging consumers and others to adopt responsible attitudes to alcohol.

We hope these examples show that, for us, responsibility isn't merely a bolt-on function, but an attitude which we bring to the way we do business. It's what helps define our business because it's what ensures our sustainable future.

We intend this report, which we have prepared by applying the G3 guidelines of the Global Reporting Initiative, to paint a compelling picture of Diageo as a good corporate citizen. We welcome your views on the report and its coverage of your concerns, our priorities and our development as a sustainable business.



Dr Franz B Humer
Chairman



Paul S Walsh
Chief executive

Outstanding brands by volume

millions of equivalent units*



Smirnoff	Johnnie Walker	Guinness	Captain Morgan	Baileys	J&B	José Cuervo	Tanqueray
29.6 2008	16.3 2008	11.4 2008	8.3 2008	7.5 2008	6.1 2008	5.0 2008	2.1 2008
28.1 2007	15.6 2007	11.3 2007	7.8 2007	7.4 2007	5.8 2007	5.2 2007	2.1 2007

Key figures

Sales £million	
08	10,643
07	9,917

Volume millions of equivalent units	
08	145.0
07	141.3

Operating costs £million	
08	5,864
07	5,322

Operating profit £million	
08	2,226
07	2,159

Total assets £million	
08	16,027
07	13,956

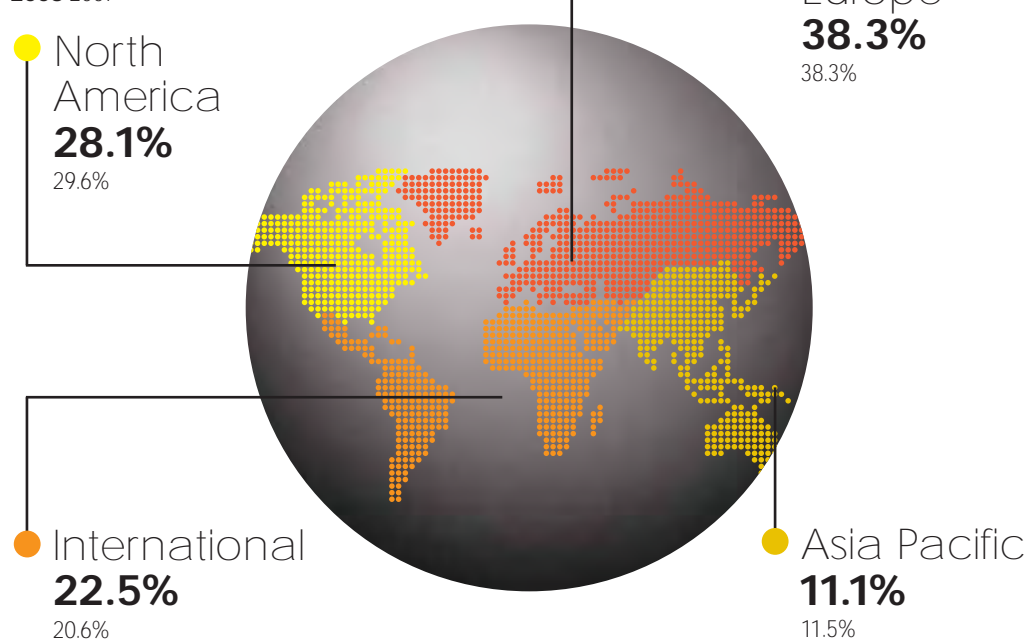
Capitalisation £million	
Equity	Debt
08	29,729
07	32,016

Employees	
08	24,373
07	22,520

Greenhouse gas emissions kt CO ₂	
08	727
07	727

Water used m ³ million	
08	24.4
07	24.6

Sales by region**



Key figures by region

EUROPE	
Sales	£4,046m
Employees	11,642
Volume (equivalent units)	41.6m
Top three brands (by volume)	Smirnoff, Guinness, J&B

INTERNATIONAL	
Sales	£2,376m
Employees	5,610
Volume (equivalent units)	39.1m
Top three brands (by volume)	Johnnie Walker, Smirnoff, Guinness

NORTH AMERICA	
Sales	£2,965m
Employees	4,123
Volume (equivalent units)	51.1m
Top three brands (by volume)	Smirnoff, Captain Morgan, Crown Royal

ASIA PACIFIC	
Sales	£1,168m
Employees	2,998
Volume (equivalent units)	13.2m
Top three brands (by volume)	Johnnie Walker, Smirnoff, Bundaberg

* An equivalent unit is the volume of beverage which contains the same number of servings as a nine-litre case of spirits.
 ** Corporate sales excluded. Ready-to-drink beverages included.



ABOUT DIAGEO

180
MARKETS

150
BRANDS

Many of our businesses have been noted – for many decades – for an enlightened approach to developing their people and supporting their communities. From these historic origins we can trace a strong connection with Diageo's corporate citizenship today.

STRONG TRADITIONS

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

Many of our forerunner businesses, and the brands at their heart, have a rich heritage. We can trace the origins of J&B, José Cuervo and Guinness to the 18th Century. Ketel One vodka comes from a family that began distilling in the Netherlands in 1691. But our most venerable major brand is Bushmills Irish whiskey which this year celebrated the 400th year of whiskey-making in the region. Many of our brands were the creations of entrepreneurs known for their inventiveness. Through an active programme of research and development, we continue this tradition today by innovating and introducing new products, some of which we hope will become the heritage brands of the future. Many of our precursor companies were also noted for their strong tradition of philanthropy, acknowledging their responsibility to develop their people and support their communities. From this way of doing business we can trace an unbroken connection with Diageo's corporate citizenship today.

BUSINESS PROFILE

Our aim is to create value by producing and marketing alcohol beverages. Measured by market capitalisation in 2008, Diageo was ranked by the *Financial Times* among the 150 largest companies in the world. Our primary share listings are on the

London and New York stock exchanges. Headquartered in London, Diageo trades in some 180 markets. Marketing, sales and distribution – known as demand functions – are organised into four regions: North America, which in 2008 generated around 38% of operating profit, Europe (30%), International (25%) and Asia Pacific (7%). The manufacture, packaging and distribution of our brands is the responsibility of our supply organisation. About 80% of volume is produced by Diageo subsidiaries, some of which are companies quoted on local stock exchanges. We operate 35 distilleries, 15 breweries and 12 wineries, supported by 19 blending and packaging plants and 24 warehousing and other facilities. The most significant of these are located in Australia, Canada, Cameroon, Ghana, Ireland, Jamaica, Kenya, Nigeria, Uganda, the UK (most importantly Scotland) and the USA. The remaining 20% of output is produced in many further countries by joint-venture businesses or under contract with commercial partners.

Our strongest drivers of growth are our eight global priority brands, shown opposite, which accounted for around 60% of total volume in 2008 and five of which are world leaders in their categories. Of our remaining approximately 150 brands, many lead their market category locally. More information about Diageo brands, and links to some dedicated websites, are available at diageo.com. This year we sold a total of 145 million 'equivalent units' of product, an equivalent unit being 272 servings of each beverage, the same as the number of spirits measures in a nine-litre case. Expressing the total in more familiar terms, each day around the world consumers enjoyed 82 million measures of Diageo spirits, 18 million glasses of stout and other beer, five million bottles of our ready-to-drink brands and two million glasses of wine.

'Nothing in nature is more essential to our business than water. Conserving precious water resources is a vital part of our environmental programme and helping ensure that our communities in Africa have supplies of clean drinking water is central to our community investment. I have signed the CEO Water Mandate to show how seriously we take the sustainability of our business and our communities and encourage others to join us.'

PAUL WALSH, CHIEF EXECUTIVE

THE MEANING OF SUSTAINABILITY



OUR SUSTAINABILITY ISSUES



SOCIETY

Responsible drinking,
consumer choice,
community investment,
employee development



ENVIRONMENT

Climate change,
water management,
and waste



ECONOMY

Financial contribution,
value chain management

For us, sustainability means the enduring success of our business – which we aim to achieve by working to meet our stakeholders' concerns, developing our communities and respecting the environment.

SUSTAINABLE BUSINESS

Because prosperous communities in a stable natural environment are the most likely context for commercial success, it makes good business sense to contribute to the long-term development of the places where we operate.

Considering issues broadly, and not just according to short-term financial considerations, is a principle underlying our policies and the way we work, showing our aspiration to be a truly sustainable business. And enduring success forms a virtuous circle. It not only creates value for our investors and opportunity for our employees, commercial partners and others with a stake in Diageo, but also gives us flexibility to invest further in social and environmental improvements.

Ignoring pressing issues in our communities or environment does nothing to reduce the risks they present to our business. If issues that could compromise the needs of future generations are not effectively addressed, sooner or later they will impact our consumers, our industry and our business. For example, without enterprise and opportunity, consumers may be less able to afford our brands; without clean water, our breweries and distilleries will suffer along with the communities in which they are located; if HIV/Aids goes unchecked, it is our employees, suppliers and consumers whose families could be endangered; and if alcohol beverages are consumed irresponsibly, families and society are put at risk.

We cannot solve these problems alone, but we can make a meaningful contribution. We take responsibility for our actions and aim, as a minimum, to address our impacts on society and the environment by striving to live by our values and commit to our comprehensive range of codes and policies. Sometimes – for example, when investing in community enterprise or infrastructure projects or when responding to natural disasters – we go beyond our immediate operations to help develop or support communities in need.

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

OUR PRIORITIES

For a business as large and complex as Diageo, the variety of issues which face us dictates that we must focus our efforts on priority areas – those of concern to our stakeholders, those that present significant business risks, and those that support our immediate communities or business partners or underpin Diageo's values, policies or strategy. We also work where we can use our resources and expertise to make the most positive difference.

Using less water so others have more

Vital to life, water in its many aspects is essential to the sustainability of our business. Our brands depend on water quality; living standards in some of our communities are limited by restricted access to water; some of our production plants are in areas where water shortages are forecast; and climate change is exacerbating water scarcity in many parts of the world. Our adoption of the CEO Water Mandate this year has provided a framework for integrating our approach to these issues.



The CEO Water Mandate

The mandate is a call to action on water issues: sustainable use, conservation, community engagement and reporting. By endorsing the mandate we have pledged to continue to improve our own performance in these areas, encouraging commercial partners and others also to sign up. The pledge on transparency includes describing the actions we have taken on water. While these are covered in different parts of this report, in summary, we have:

- > achieved a 20% increase in our water efficiency since 2003
- > set new targets for 2015: to halve the non-ingredient water we use at water-stressed sites and increase our overall water efficiency by 30% compared with 2007
- > provided drinking water access to 1.6 million people in Africa in the last two years
- > committed to provide water access to a further million people every year until 2015
- > urged the leaders of the G8 nations, meeting in Tokyo, to do more to help communities without water.



In the Australian corporate responsibility index, Diageo Australia's score increased this year from 69% to 87%, and was rated 'Silver' (the second of four categories)



DIAGEO IS THE MOST ADMIRABLE COMPANY IN OUR INDUSTRY

(Survey: Management Today)



FTSE4Good



Diageo was selected by some of the leading socially-responsible investment indices

PERFORMANCE MEASURES

To monitor our progress and provide stakeholders with a meaningful picture of what Diageo has achieved as a corporate citizen, we maintain a range of performance indicators and additionally seek opportunities, through independent assessments, to compare ourselves with other companies.

Major inputs to determining which performance indicators we should use were the Global Reporting Initiative, the concerns of socially-responsible investors, peer companies which publish results and senior Diageo people responsible for our engagement with stakeholders. A list of the resulting indicators, and where they are addressed in this report, is given in the form of a GRI content index, available on the website.

We routinely compare our performance as a corporate citizen with that of our peers. We have participated in a number of benchmarking projects – for example, the Beverage Industry Environmental Roundtable which aims to measure and share best environmental practice in our sector.

INDEPENDENT VIEWS OF DIAGEO

For the last four years, Diageo has been included in the Global 100 list of most sustainable companies, for which businesses were evaluated according to how effectively they managed their environmental, social and governance risks and opportunities, relative to their industry peers (global100.org).

The votes of business leaders placed Diageo top of our industry for the third year running in *Management Today's* 'Britain's Most Admired Companies' 2007 survey, and ninth overall, a ten-place improvement on last year (managementtoday.co.uk).

We have participated in the Carbon Disclosure Project since it was established six years ago. CDP is an initiative by investors to interrogate major quoted companies on their approach to climate change – both their impact on it and their preparedness for its effects. Diageo was the only company in our industry to be placed in CDP's Climate Leadership Index 2007 (cdproject.net).

We have participated in many assessments which seek to evaluate our management systems and performance on behalf of particular audiences, including many of our stakeholders. We have used the results to keep our strategy in tune with best practice and stakeholder concerns.

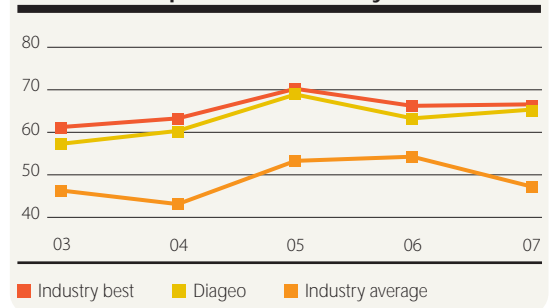
The graph below shows trends in our performance as assessed by BITC's corporate responsibility indices. BITC placed Diageo in the 'Silver' band overall (the third of four, down from 'Gold' last year) and in the 'Platinum' band for community (up from 'Gold'), 'Gold' for environment (no change) and 'Silver' for workplace (a new index).

BITC indices: Diageo scores %



For the last six years Diageo shares have been selected for some of the leading socially responsible investment indices, including FTSE4Good (ftse4good.com) and the Dow Jones World and STOXX indices (sustainability-indexes.com). SAM, the research organisation behind Dow Jones, judged Diageo to be in the top five companies in our sector, all of which were classified as 'Bronze' (the third of three).

Dow Jones Corporate Sustainability Assessment %





UGANDA Building on strong community relationships in Kapchorwa, Uganda, where farmers grow barley for our brewery, we trained local artisans to build and maintain rainwater harvesting systems and so generate new income. As well as constructing 120 tanks to provide water for 3,000 people, the project included developing domestic sanitation and so contributed to community health.



JAMAICA In September the Red Stripe employee volunteer group, Reach, distributed emergency supplies to victims of Hurricane Dean in Jamaica's Portland Cottage community. The contribution included two 250-gallon tanks of drinking water, 20 cases of bottled spring water and some 25 boxes of clothing, shoes and other items, many of which were donated by employees.



NORTH AMERICA We marked Diageo's tenth anniversary by celebrating our 'best ambassadors for responsible drinking'. Selected for their extraordinary commitment, winners Pat Hamlin from Relay, Maryland, Kerry Hunnius from Plainfield, Illinois and Ed Reichert from Gimli, Manitoba won VIP seats at a Washington Redskins home game and a weekend break in the US capital.



KOREA When a damaged supertanker spilt 10,500t of oil into coastal waters off South Korea, catastrophic ecological damage was predicted. Joining dozens of oil-spill control vessels and helicopters, thousands of troops, police and other volunteers, 35 Diageo employees braved harsh December winds to help clear the oil and prevent pollution destroying fisheries and natural habitats.



HUNGARY In a 'Helping Hands' initiative, 300 employees from our Budapest service centre worked in four-hour shifts to clear over 100 cubic metres of illegally-dumped rubbish from the nearby Buda hills. They reported: 'With strongly engaged people, you can literally move mountains and make a real difference in society'. 'I have never felt so proud to work for Diageo. It was a superb experience.'



INDIA Visitors to KAM at Aurangabad, Diageo's largest spirits bottling partner in India, are often encouraged to plant a tree. The activity was also an important part of World Environmental Day at the site when employees enjoyed a number of awareness-raising activities concerning climate change and Diageo's programme of environmental improvement.



ENGLAND When flooding around Tewkesbury and Gloucester left communities stranded, colleagues at our Runcorn packaging plant responded to a call for help from UK government minister Hilary Benn. Within 24 hours, eight Guinness tankers were cleaned, prepared and driven 100 miles to deliver 200,000 litres of drinking water to families affected by the emergency.



AUSTRALIA Tony Szczygiel, shown with his family, is production supply manager for Australia. When he and the Water Watch Team won the 2006 Spirit of Diageo Australia award, Tony spent his winnings on six solar panels for his house. Since August 2007, he has generated 1,000kW of power and saved 550kg of CO₂. With a government rebate on the cost, he expects to break even in a year.



SCOTLAND The new Diageo malt whisky distillery at Roseisle – the biggest in Scotland – is due to begin operating in 2009. While traditional craftsmanship will be employed to create the whisky, new technology in the design of the plant and integration with our maltings nearby will make our newest distillery environmentally very efficient.

PROMOTING RESPONSIBLE DRINKING



110

DIAGEO
RESPONSIBLE
DRINKING
INITIATIVES IN
45 COUNTRIES



Mika Häkkinen, as our responsible drinking ambassador, encouraged motor racing fans to pledge never to drink and drive



Golfing champion Jeev Milkha Singh promoted the message 'Winners always stay in control. Don't drink and drive' at the Johnnie Walker Classic in Mumbai

Neither we nor society benefits when consumers misuse our products. Our work to change attitudes and encourage responsibility aims to promote the sustainability of our business and of society.

In many parts of the world, alcohol beverages have been a popular source of enjoyment and a common ingredient of social occasions for centuries. With a traditional role in many ceremonies and celebrations, alcohol plays a role in the cultures and economies of many societies. The industry that produces and distributes spirits, wine and beer brings additional benefits, such as generating tax revenues, providing employment and creating business opportunity. We are proud that so many people choose Diageo brands for simple enjoyment or to accompany great times in their lives. We also acknowledge that – like many other products – when misused, alcohol can lead to problems for individuals, families and society.

We believe that this potential for harm is preventable and that there is a sustainable role for alcohol in society. To help achieve this, we want to play our part in reducing alcohol misuse and making responsible drinking a valued, enjoyable part of life for those adults that wish it. We strive to maintain high standards of responsibility in our own activities and promote these strongly in our industry. We also invest in practical campaigns that aim to tackle misuse by changing people's attitudes to alcohol. We cannot achieve this without the participation of others – consumers, retailers, educators, non-governmental organisations, law enforcers and governments – with whom we are involved in the debate and as partners in our activities.

The three strands of our strategy are:

- > **combating alcohol misuse** – for example, drink-driving and underage or irresponsible drinking – either alone or in partnership with others
- > **raising consumer awareness** and encouraging dialogue to help people make informed and responsible decisions about drinking, or choosing not to drink, alcohol
- > **responsible marketing and product innovation**, setting world-class standards in our industry.

COMBATING ALCOHOL MISUSE

An important part of our programme to help reduce incidences of alcohol misuse is our work in four priority areas: drink-driving; server training; the behaviour of young adults; and underage drinking. This year we led or supported over 110 initiatives in these areas in 45 countries. The Diageo Responsible Drinking Fund, which had resources this year of £400,000, provides expertise and financial support

to these initiatives. In most cases, our businesses themselves contribute further funding and manage each project in partnership with an external body such as a government agency or other group with specialist knowledge or expertise.

Drink-driving We believe governments should set legal limits for the blood alcohol concentration of drivers and take tough measures to enforce the law. We support such actions through campaigns to raise awareness of the risks of drink-driving and encourage people to change their habits and so reduce the number of drink-drivers on the road. Our projects are often run in partnership with organisations such as the police or road safety organisations.

The Johnnie Walker brand team continued to develop its responsible drinking programme through sponsorship of F1 Team Vodafone McLaren Mercedes. Our pioneering campaign, which used the strapline 'Winners always stay in control – don't drink and drive', benefited from the active support of Mika Häkkinen, twice Grand Prix world champion and Johnnie Walker responsible drinking ambassador. During the year, Mika visited nine countries in Europe, Latin America, North America and Asia. He launched our 'Join the Pact' campaign in Asia by driving a racing car on the streets of Singapore in front of 10,000 spectators, and also in Canada where he encouraged more than 3,500 Montrealers to pledge in writing never to drink and drive. In Latin America and the Caribbean '*Piloto de vez*' (in Portuguese) and '*Conductor alternativo*' (in Spanish) were Johnnie Walker campaigns that encouraged consumers to designate a driver rather than drink and drive. Mika will continue his journey across the globe with a tour of Latin America, a first visit to India and a return to the Far East in the coming year.

In India, golfing champion Jeev Milkha Singh became Diageo's responsible drinking ambassador for the Johnnie Walker Classic, which was held in Mumbai in February 2008. Jeev was the first to sign 'the Pledge' never to drink and drive and encouraged golf fans to do the same.

'Safe rides home' is the programme begun in 2003 by Crown Royal whisky in the US to encourage people to plan how they will get home safely. The campaign includes a series of TV public service announcements featuring Nascar driver Jamie McMurray in humorous situations to make this serious point. This year, we

PROMOTING RESPONSIBLE DRINKING



Nascar driver Jamie McMurray is the face of the Crown Royal whisky 'Safe rides home' programme in the US

took the campaign to a new level by partnering with attorneys general from 14 states to help reinforce the responsible drinking message. The announcements have aired over 1,200 times on dozens of television stations.

In Spain we held a series of events to support the anti-drink-drive campaign 'La mejor formula – el que conduce no bebe' ('The best formula – the driver doesn't drink'). We distributed 200,000 leaflets to promote a new taxi service and remind people about responsible drinking. Two big events were held in partnership with town councils and public transport officials to promote alternatives to driving. Evaluation showed that 94% of people understood the message. Later, we launched an advertising campaign featuring Grand Prix champion Fernando Alonso to encourage the use of designated drivers.

In Italy we continued to grow our partnership with the Italian Automobile Club to promote designated drivers with the message 'Guida il tuo team' ('Lead your team'). This year we ran events in Rimini, Turin and Veneto. We also launched a campaign in Athens, Greece that encouraged consumers to write and inspire others with their don't drink and drive message. These were uploaded to a dedicated website to urge others to change their behaviour (dontdrinkanddrive.gr).

Server training Bar staff are often in a good position to influence the attitudes and behaviour of their customers and deal with situations of misuse. We currently have programmes in 15 countries to help bartenders acquire skills in responsible serving.

Our longest-running programme is offered by the Johnnie Walker Bartender School in Seoul, Korea. Founded in 1989, the school runs a variety of training courses free of charge for bartenders, Diageo employees, employees of other companies and individuals, providing them with a knowledge of drinks, responsible bartending skills and a professional appreciation of the role of alcohol beverages in occasions of celebration. More than 800 bar staff graduate each year, making a total of 17,000 alumni since the school was established. With a wide curriculum, strict attendance requirements and written and practical exams, a qualification from the school is highly respected in the hospitality industry.

Young adults In some countries there is a prominent public debate about the irresponsible attitude to alcohol of some young adults over the legal purchase age. We share the concerns about the possible social and health impacts of misuse and have helped address the issue with initiatives in many markets.

In the UK, 'The choice is yours' was the first fully integrated national responsible drinking campaign

by a drinks company. The campaign involved broadcast, outdoor and print advertising, as well as an interactive website, and formed part of a pan-European plan to help change attitudes to alcohol among many of our stakeholders: consumers, media, government and employees. In follow-up UK research, 62% of respondents said they were more likely to consider drinking responsibly as a result of seeing the advertisements and 95% said it was good to see alcohol companies advertising a responsible drinking message (thechoiceisyours.com).

In Spain, our campaign, which we ran for three months over Christmas, posed the question: 'A night to remember? Or to forget? The choice is yours.' Advertisements promoting this message of personal responsibility on TV and in newspapers *El Pais* and *El Mundo* were reinforced by responsible drinking 'commandos' who distributed posters, magnet stickers and T-shirts. In January, we followed up with research among 18-to-35-year-olds to assess the impact. Half of respondents said they were more likely to drink responsibly as a result of having seen the campaign, and 41% of the other half said they already behaved responsibly. Among bar-goers, 20% said they would change their attitude in future and 22% that they had moderated their consumption on the night of our in-bar activity.

Underage drinking We support the strict enforcement of laws setting age limits on the purchase and consumption of alcohol. During the year we supported sensitively-designed initiatives in a number of countries to help address the issue of drinking among those below the legal purchase age.

In East Africa, we launched the 'We ID' campaign with the National Alcohol Beverages Association of Kenya. The initiative involved placing eye-catching signs, posters and staff badges in bars that reminded customers of the rule: 'we don't sell alcohol to persons under 18 years.' And we trained retail staff on the scheme and on checking proof of age before serving customers who appeared to be underage. We commissioned interviews with 160 bar managers and consumers to assess the effectiveness of the campaign. Among consumers polled, 81% were aware of the We ID campaign and 75% understood its purpose. Around a third reported an increase in requests for ID at their regular pub, while more than 40% had noticed a reduction in underage drinkers.

In Thailand, we joined with the police and entertainment industry to launch 'Finger scan'; a user-friendly age-verification system that helps venue operators prevent under-20s from entering adult-only premises. On first visit, customers swipe their ID card and also scan their right index finger. The machine connects the finger scan with date-of-birth data so

'The campaign you implemented serves as an example of how business and social interests can come together.'

BERNAT SORIA, SPANISH HEALTH MINISTER, WRITING ABOUT OUR ANTI-DRINK-DRIVE CAMPAIGN



Our responsible drinking campaign: 'A night to remember? Or to forget? The choice is yours.' was the most ambitious we have run in Spain



Our Spanish campaign 'The best formula – the driver doesn't drink' drew on the huge popularity of Formula One champion Fernando Alonso



Following our 'We ID' campaign in Kenya, more than 40% of consumers noticed a reduction in numbers of underage drinkers at their regular pub

'Diageo, one of the UK's largest producers, ran a full-scale advertising campaign aimed at young men and women with a very simple message – everyone has a choice on a night out. Industry attitudes are shifting, and I've no doubt that they can help to shift consumers' attitudes too.'

**JACQUI SMITH MP,
HOME SECRETARY, SPEAKING
ON THE BRITISH GOVERNMENT'S
ALCOHOL STRATEGY.**

that, on subsequent visits, the card isn't needed and access for adults is assured by a finger scan alone. The voluntary process proved popular with customers at 11 pilot outlets in Bangkok who said the measure was convenient and made them feel safer. Over the next year, scanners will be installed at 100 venues.

RAISING CONSUMER AWARENESS

While the vast majority of people who choose to drink alcohol beverages do so responsibly, others do not. Producers, retailers, the hospitality industry and others have a vital role to play in encouraging responsible attitudes and behaviour in this minority. We support projects that aim to raise people's awareness and help them make informed decisions about drinking or not drinking.

Views about alcohol vary widely around the world and there is no universal definition of responsible drinking. However, people generally have a sense of what responsible drinking means to them, and know that alcohol abuse can lead to problems. This year we developed a new website – DRINKIQ.com – to help people reflect on the factors that inform their decisions about drinking or not drinking. DRINKIQ.com is a resource designed to help combat alcohol misuse and promote responsible drinking through the sharing of best practice tools, information and initiatives. The site is intended for a range of stakeholders and is an attempt to raise the collective 'drink IQ'.

This year's 'Start a party' campaign promoted J&B Scotch as the No 1 party whisky. In designing the programme, our marketers started with the premise: 'J&B doesn't just include responsible marketing in its communications – it's at the core'. Dressed in a yellow tuxedo and with the ultimate party accessory – a mirror ball – for a head, wherever he went Mirror Ball Man reminded consumers that partying is about having the right state of mind. Handing out water and responsibility advice at parties, the character's message – while fun – included the serious point that great parties start and end responsibly. This year Mirror Ball Man has appeared in 13 countries in Asia, Africa, Europe and Latin America. In research that followed the campaign in Mexico, three out of four people said that Mirror Ball Man's message made them more likely to consider drinking responsibly in future.

We used Diageo's sponsorship of the Washington Redskins American football team to promote responsibility messages. With the overall theme of 'Responsibility is a team sport', the programme included a variety of initiatives. Fans sitting in the first three rows of 'Diageo Dream Seats' enjoyed free food and non-alcoholic beverages and the cupholder at each seat contained responsible drinking materials such as brochures and CDs. The end-zone video

display boards featured a public service announcement – produced by the Redskins and Diageo – starring two players and promoting designated drivers. And during each post-game broadcast on Redskins Radio, fans who called in and correctly identified the 'Diageo Safe Drive of the Game' could receive four Diageo Dream Seats for the next home game.

RESPONSIBLE MARKETING AND INNOVATION

Advertising, promotion and other marketing activities help us to inform consumers about the choices available and to compete for market share. We aim to beat our competitors in every category by attracting those adult consumers who drink to Diageo brands and by encouraging them to trade up within the ranges we offer. Our marketing colleagues and external agencies observe the strict standards of responsibility enshrined in the Diageo marketing code.

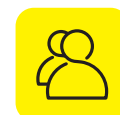
We also work within frameworks established by external bodies – for example, the Common Standards for Commercial Communications of the European Forum for Responsible Drinking (EFRD) and the Discus (see page 10) Code of Responsible Practices. The Common Standards, applied by all EFRD member companies and also accepted by the European Spirits Organisation, as well as the Discus code, were updated this year with new guidance on digital marketing that builds on Diageo's expertise in this area.

Training in our own marketing code forms part of the induction programme for relevant new employees; and our marketing and innovation teams and agencies regularly attend refresher courses on its interpretation. Major training sessions were held this year in South Africa, India and Benelux countries, across Latin America and the Caribbean, for our Technical Innovation colleagues, and in a host of other markets. These workshops were complemented by online e-learning materials, which are available in French, English and Spanish to both Diageo employees and our agency partners.

Our digital code of practice sets standards for marketing in new formats and using technologies such as mobile phones, websites and social networking channels. A core function of the code is to help marketers limit underage exposure to our digital advertising – for example, it requires every Diageo brand website to have an age affirmation gateway page. During the year we held digital code training sessions in many countries in Latin America, Africa and Asia Pacific.

As it progresses, we review each brand development or marketing project at each key stage to check that it meets our standards. If we find a potential breach, we make changes to bring the project into compliance before it can proceed. We use an online tool called 'SmartApprove' to co-ordinate approval by marketing,

PROMOTING RESPONSIBLE DRINKING



Mirror Ball Man's skill is to convey a serious message about overindulgence without spoiling the party mood at J&B events

93%
OF OUR
EMPLOYEES
SAID DIAGEO
WAS EFFECTIVE
IN PROMOTING
RESPONSIBLE
DRINKING



Washington Redskins fans who sit in the 'Diageo Dream Seats' are provided with social responsibility materials while enjoying free food and non-alcoholic drinks

legal, intellectual property and corporate relations functions within Diageo and maintain a record of the process. To date, SmartApprove has been implemented in nearly 20 countries and will be introduced in others in the coming year.

Should a potential violation of our marketing code slip through this process, we investigate it, take remedial action and seek to ensure that something similar doesn't happen again. In June 2007, an article within a Red Stripe publication in Jamaica attracted complaints, and following a review that supported the complainants' concerns, the magazine was immediately withdrawn and all remaining copies destroyed. Red Stripe's managing director personally apologised to the complainants and publicly addressed the issue in the media. An investigation was promptly undertaken, and all its recommendations – including changes to the sign-off process in Jamaica, priority adoption of SmartApprove, and refresher training in our code for staff and agency partners – were implemented.

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

Complaints about advertising upheld

		2008	2007	2006
ABAC, Australia	Diageo brands	–	–	1
	All alcohol beverages	8	3	3
ASA, Ireland	Diageo brands	–	1	–
	All alcohol beverages	1	1	–
ASA, UK	Diageo brands	–	1	–
	All alcohol beverages	4	5	5
Portman Group, UK	Diageo brands	–	–	–
	All alcohol beverages	4	2	3
Discus, USA	Diageo brands	–	2	1
	All alcohol beverages*	12	15	7

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

In the US, the Federal Trade Commission (FTC) reported on the effectiveness of our industry's efforts at self-regulation. The FTC is the federal agency charged with consumer protection. Their report was based on a detailed examination of advertising expenditures and placements by 12 leading suppliers, including Diageo. The FTC found 'high levels of compliance' with the industry's target for a 70% adult audience

for advertising, with more than 92% of all TV, radio and print ad placements meeting that standard. Diageo adopted the 70% standard in 1999, and Discus and the Beer Institute followed suit in 2003.

ENGAGING WITH OTHERS

We welcome open dialogue with public health authorities, the scientific community and others on responsible drinking and related issues.

In 2008 the World Health Organisation's executive board and World Health Assembly adopted a resolution that called on the WHO director-general to prepare a draft global strategy to reduce the harmful use of alcohol. We support this resolution and, through our membership of the Global Alcohol Producers Group, intend to participate constructively in consultations with the industry on ways to contribute to the aims of the resolution.

Over the years, Diageo has helped establish many social aspects organisations (SAOs) around the world. These are industry-funded bodies that tackle alcohol misuse and promote responsible drinking. We often work with SAOs to develop codes of responsible marketing or raise awareness in areas of alcohol misuse. The countries covered by SAOs in which we are involved accounted for 66% of Diageo's business by volume in 2008.

Diageo memberships of social aspects organisations

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

In Ireland, we invest in responsible drinking initiatives through the social aspects organisation MEAS (Mature Enjoyment of Alcohol in Society). Examples this year included 'Had enough', a hard-hitting advertising campaign that concentrated on the effect drunken behaviour can have on others, such as neighbours, taxi drivers and nurses. The aim was to undermine social permission for public drunkenness and anti-social



In Ireland, 'Had enough' was a hard-hitting advertising campaign that concentrated on the effect drunken behaviour has on others



In Poland we encouraged the industry to invest in an awareness-raising campaign on drinking and driving



'Initiative 18+' introduced age-warning software to Real hypermarket checkouts in Germany

behaviour. Following the campaign, a survey found that over eight in 10 adults polled agreed that excessive drinking was becoming less acceptable and that there was a growing awareness of the effects of it. The research found a 14% reduction since last year in those who reported having a hangover in the last month as well as a 17% reduction in those who said that they drank 'more than they should have'.

Through partnership with the Irish Road Safety Authority, a 'morning after' campaign raised awareness of the dangers of drink-driving in the morning hours. Radio advertisements and posters displayed in pubs and clubs explained how traditional 'stomach liners' or 'cures' cannot eliminate alcohol from the body. A further initiative this year was the publication of 'Alcohol, sport and you', a guide about how and why alcohol affects the body and impacts on performance. Copies of the guide were given to runners in the 2007 marathon and 2008 ladies mini-marathon in Dublin (drinkaware.ie).

In Poland our encouragement led the spirits industry to partner with the government's National Road Safety Council on an awareness campaign, 'Start thinking – don't drink and drive'. The project began with research which showed that 73% of respondents viewed drinking and driving as the biggest cause of road accidents. The results were used to design a pilot campaign in Lubin including advertisements on billboards, city buses, radio, TV and cinemas. Research after the campaign showed that many of the respondents' attitudes had been influenced by the advertisements. For example, the proportion who said they would prefer not to drive when returning home from a party increased from 46% to 58%.

We have worked this year with customers on a range of responsible drinking initiatives. For example, in Sweden, we partnered with Harrys, a chain of restaurants, on an anti-drink-drive campaign which ran in seven cities for a month around Christmas and the New Year. First, we trained Harrys staff in responsible serving and the law as it applies to alcohol. This was followed by a promotional campaign – consisting of point-of-sale materials in Harrys restaurants and editorials placed in local newspapers – that reminded restaurant guests not to drink and drive. Harrys estimates that 50,000 people were exposed to the message of the campaign which received positive feedback from licensing authorities.

Following an increase in the legal purchase age for alcohol from 18 to 20 in Thailand, we trained the staff of 7-Eleven, which operates more than 4,000 convenience stores in the country. The guidance we provided covered knowledge of the new legislation and emphasised the importance of checking the ages of customers who appear younger than the new minimum before serving them with alcohol beverages.

In Germany, we worked in partnership with the hypermarket chain Real on 'Initiative 18+', a programme to help check-out employees comply with laws on purchasing alcohol beverages. Initiative 18+ has two elements: a checkout warning system and staff training courses. The warning system on checkout terminals requires appropriate age ID every time a product is scanned – 16 for beer and wine and 18 for spirits-based drinks. To help Real employees implement this system, we developed an e-learning course for all 14,000 checkout staff which prepares them for dealing with young people effectively.

OUR EMPLOYEES AS AMBASSADORS

Every one of our employees is an ambassador for Diageo and we encourage them to support our responsible drinking activities – perhaps volunteering on awareness-raising campaigns – and themselves adopt a sensible attitude to drinking both in and out of the workplace. In this year's global values survey (see page 19), 93% of responding employees said they thought Diageo was effective in promoting responsible drinking, up from 91% in 2007.

We developed an information campaign to help our 2,200 employees in Ireland understand our position on responsible drinking and the part they as individuals can play in creating a more positive role for alcohol in society. Having established from focus groups what people wanted to know and how they wished to receive the information, the campaign was launched as a series of posters, an email magazine, a drink unit calculator and a prize quiz. A survey after the campaign showed that most employees had learnt from the materials about the effects of alcohol and Diageo's commitment to and leadership of responsible drinking in our industry.

In 2002, a group of Diageo employees in Australia met to consider how to make celebrations occasions to remember and not to regret. They developed an interactive session they called DRINKiQ that was so popular and so informative that it became part of Australia's employee induction programme. It also spread outside the business and programmes were run for customers, regulators and sports clubs sponsored by Diageo brands.

Within Diageo, the DRINKiQ programme has now been presented to over 3,000 employees in many parts of the world. The aim of the sessions is to raise our collective drink IQ; making participants better informed and more aware of the choices they make as consumers. We also want to equip our people with the tools and confidence they need to be effective ambassadors for responsible drinking. In a follow-up survey, 82% of respondents said attending a DRINKiQ session made them feel better equipped to have conversations about responsible drinking with their friends and family.



VENEZUELA 'Cuando bebas ponle pausa' ('Pause before you drink') encouraged 18-25-year-old consumers to stop and think about their actions around alcohol. Engaging 'crash test dummy' characters delivered messages about responsible drinking – including the importance of drinking water and designating a driver – through movie commercials, billboards, print advertisements and other media.



USA During the holiday season, Johnnie Walker offered free taxi rides home to consumers of legal purchase age in New York City. Golfing celebrity Jim Furyk was on hand to chaperone several rides from Manhattan's Union Square and demonstrate his commitment to the safe driving message. The campaign later travelled to the World Golf Championships in Miami.



SCOTLAND Since 2005 we have been developing a machine to remove the closure from mis-filled or badly labelled bottles to allow the bottle to be reused and the aluminium cap recycled. This year, we have perfected the technique at Leven in Scotland and more than 50,000 bottles a year will now be refilled, capped and labelled instead of being sent for glass recycling.



JAPAN During Japan's *hanami* or cherry blossom viewing season, it is traditional to hold outdoor parties under the flowering trees. In recent years, excessive drinking and littering by *hanami* revellers have become issues at Tokyo's Shiba Park. In support, this year 35 Diageo Japan volunteers displayed responsible drinking messages in the park and collected over 2,000 litres of rubbish.



THAILAND We collaborated with supermarket chain Tesco Lotus to present our 'Clear thinking responsible drinking' campaign to shoppers. Covering over 80 hypermarkets and smaller stores across Thailand, the messages were carried on colourful mobiles hanging in the drinks sections of the stores and included 'designate a driver', 'look out for your friends' and 'watch out for top-ups'.



PHILIPPINES Colleagues joined the Save Silang-Santa Rosa River Foundation, some 40km from Manila, to help plant 200 tree seedlings, most of them the large deciduous narra tree, the country's national species. When mature, the trees will help restore habitats close to the river and also improve the amenity for the local community.



AUSTRALIA We developed Smart Shout water in Australia to remind consumers to behave responsibly by remembering to rehydrate or have a spacer between drinks. Last year we distributed 165,000 bottles. In PJ O'Brien's Irish pubs in Sydney, Adelaide and Melbourne the bar was closed for ten minutes up to midnight so free Smart Shout water could be distributed to customers.



TRINIDAD Members of the Diageo local executive joined Trinidad employees to help build a home as part of a programme to house 900 needy people in four countries. The programme was funded by a donation of \$1 million from the Johnnie Walker 'Know your boundaries' campaign and managed by housing NGO Habitat for Humanity in Trinidad, Guyana, Jamaica and South Africa.



USA Diageo has joined the SmartWay Transport Partnership between the US Environmental Protection Agency and the freight industry which aims to reduce greenhouse gas emissions by, for example, reducing engine idling and increasing the use of rail. By adopting these practices in the last six months we have reduced our logistics carbon footprint in North America by 12%.

INVESTING IN OUR COMMUNITIES



1.1%

OF DIAGEO'S
OPERATING
PROFIT WAS
INVESTED IN
COMMUNITIES



In Korea, voice-trained colleagues have recorded 20 audio books for visually-impaired students in our broadcast-standard studio



Joe Maguire was part of a team that climbed the highest peaks in England, Scotland and Wales to raise £5,000 for our Water of Life programme

Within our areas of focus – water, skills, volunteering and emergencies – we support sustainable programmes that aim to bring lasting benefit to our communities.

Our aim is to use our skills and experience, and our financial resources, to support long-term sustainable initiatives in our communities. As well as the direct benefits, community investment is a powerful factor in engaging our employees, building our reputation and enhancing relationships with government and other stakeholders.

We are proud of our record of community investment which stretches back for many decades. Today, our financial commitment to our communities is to invest 1% of Diageo's operating profit in social projects. In 2008 the total of £23.9 million actually represented 1.1% of operating profit. Most of this came from Diageo businesses in the form of cash, in-kind donations and volunteer time. It also included grants from the Diageo Foundation and support for the community aspects of responsible drinking projects from our Responsible Drinking Fund.

WORKING IN PARTNERSHIP

Our community initiatives are implemented in partnership with external organisations which have local specialist knowledge. Projects are managed to achieve well-defined objectives, for example to:

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

THE DIAGEO FOUNDATION

The Diageo Foundation provides focus and support for our community investment programme by helping to create sustainable change in our communities, concentrating on projects which make the most difference. Targeting areas of humanitarian need in developing countries in Africa, Latin America, Asia and Eastern Europe, the Foundation acts as a catalyst for:

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

The Foundation is funded entirely by Diageo. It awards grants to support projects or causes proposed by Diageo businesses and externally. In 2008, the Foundation received 510 such proposals and, following assessment against its selection criteria, approved 15 new projects for assistance. During the year, the Foundation made payments totalling £883,000.

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

COMMUNITY FOCUS AREAS

Our four focus areas are the basis for the community investment programmes of our businesses. Below we give examples in each area of the many projects we were involved in this year around the world.

Skills for Life – projects that help unemployed or disadvantaged people start new business ventures or prepare for the world of work.

This year we partnered with the Korean Welfare Foundation for the Visually Impaired to provide Braille and audio versions of academic books for schools and libraries to benefit visually handicapped students. Colleagues in Korea underwent a programme of orientation – including a 'blind experience' – and professional voice training to prepare them for recording audio books in our broadcast-standard studio. So far, our readers have recorded a total of 20 audio books while a separate team input 20 volumes for transcription into Braille.

EABL, our business in Kenya, established a new academy to encourage entrepreneurship and enterprise by providing training to business partners in retail and distribution. More than 400 sales managers, sales crew and distributors have received training. Named after Kenya's iconic lager, the Tusker Academy was launched in partnership with the Jomo Kenyatta University of Agriculture and Technology, on whose campus the first development session took place. The Academy will begin as a peripatetic service with sessions in major cities, then settle into a permanent home in Nairobi and extend its offering to the wider business community.

INVESTING IN OUR COMMUNITIES



WATER OF LIFE

1m

CHALLENGE

Beneficiaries reached in 2008

Nigeria	420,000
Kenya	372,690
Ghana	158,960
Cameroon	75,000
Tanzania	60,000
Uganda	60,000
Ethiopia	14,000
South Africa	11,500
Burkina Faso	7,000
Rwanda	500
Total	1.18m



Access to water is fundamental to development. It improves health, economic opportunity and school attendance

Water of Life – projects that improve access to clean drinking water in developing countries or that aid environmental conservation.

Access to water is fundamental to development. It improves health, economic opportunity and school attendance, yet an estimated 400 million people in Africa lack this basic amenity. In response to a UN challenge to companies to 'adopt a Millennium Development Goal' (see opposite), last year Diageo Africa made an ambitious commitment to support Target 10 of Goal 7 concerning water. Our businesses in the continent agreed to set aside half of their community investment budget – itself 1% of operating profit – to establish the Diageo One Million Challenge with the aim of providing one million people with access to water every year until 2015. This will make a significant contribution to MDG Target 10, which is to halve the proportion of people without sustainable access to safe drinking water by the same date.

Great progress has been made. Working with governments and community partners, and supported by the Diageo Foundation, by June 2008 we had begun or completed 40 projects in ten countries. These employed a variety of technologies – boreholes, rainwater harvesting or water filters – according to the need in each area. To mark World Water Day, we commissioned an independent validation (available on diageo.com) of the numbers of people who benefited from our projects in the first year and to evaluate the sustainability and wider economic and social impacts of the programme. This year, our projects provided water for a further 1.18 million people, bringing the total number of beneficiaries from the One Million Challenge to date to over 1.6 million people.

Local Communities – projects that support our employees as community volunteers.

Taking time out to volunteer on Diageo programmes to support our local communities is increasingly

popular among our employees. This year they spent 10,000 days participating in events in over 40 countries. For example, in Russia, employees cleared rubbish around an orphanage to allow a new outdoor area to be built; in the Philippines, colleagues planted 200 native tree seedlings as part of a conservation project; delegates at our Ireland sales conference raised €10,000 for the children's wing of Limerick hospital; in North America we supported a social housing project and homeless shelter; in Trinidad our people helped to build houses for disadvantaged families; and in the UK employees worked on projects in seven locations across the country. Many more markets could cite further examples.

In Colombia we partnered with Best Buddies, an organisation that works for the social inclusion of people with learning difficulties, to form 'buddy' relationships between our employees and those with special needs. One in five Diageo Colombia employees now volunteers as a buddy. The training, reading and conversations they arrange help to increase the self-esteem and confidence of our colleagues' new friends – and our employees have discovered that the positive impact on lives is mutual.

Our employees have also committed to support longer-term volunteering programmes. For example, employees in Korea volunteered every week for three months to help clean up local rivers and every week for nine months to support the Red Cross in cooking and delivering meals to needy families. Across Latin America our employees volunteered as mentors to young disadvantaged people attending our Project Bartender programme.

Disaster Relief – our response to major disasters, including emergency relief, long-term reparation projects and support for employees' fundraising efforts.

In May 2008, an earthquake hit China's Sichuan province, killing over 68,000 people and making

Analysis of the One Million Challenge using the LBG model

Motivation	Inputs	Outputs	Impacts
Social investment	Funding	Leverage	Community benefits
Commitment to bring water to one million people a year in Africa every year until 2015.	More than £2m in 2008, raised from: > half of the community investment budget of our African businesses; > employee time; > support from the Diageo Foundation.	We drew on strong relationships with government and local communities; raised co-funding and engaged employees. In Uganda, existing links with farmers in Kapchorwa led to the construction of 20% more water tanks than planned.	Enhanced government and community relations; increased employee motivation and pride.
		Water supplies and sanitation close to home has led to an increased sense of security, particularly among women. Health benefits, increased social harmony and new sources of income have resulted from the projects.	More than 1.6 million people have benefited to date. In the coming years we plan to extend the initiative to more African countries.



Buchanan's Forever provided funds for 'Learning for Life', our education and training programme that aims to make a difference in our communities in Latin America



Diageo volunteers in Colombia 'buddy' with people with learning difficulties

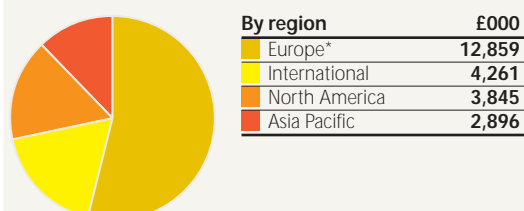
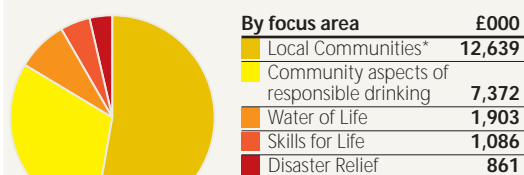
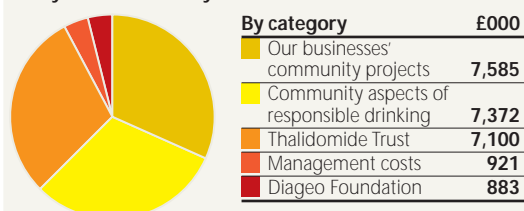
'The openness with which this [One Million Challenge evaluation] report shares the successes and failures during the year is commendable. Revised definitions of sustainability and how to identify real beneficiaries both suggest that Diageo wants to get the practicalities right, which is a good omen for the future of this programme.'

WILLIAM DAY, CHAIRMAN OF WATER AND SANITATION FOR THE URBAN POOR

Community investment

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

Analysis of community investment



* Includes charitable donations of £7.1 million (2007: £6.8 million) to the Thalidomide Trust

more than five million homeless. Our business in China raised funds for the relief effort by launching a campaign which contributed over £160,000 towards providing clean bottled water to the victims. With support from the Diageo Foundation, an on-line giving website was also set up for our employees globally, and their donations were passed to the Red Cross Society of China to further their relief activities.

CAUSE-RELATED MARKETING

Buchanan's Scotch whisky hosted a series of live music events in Mexico, Venezuela and Colombia this year, featuring popular artist Jon Bon Jovi, who performed with prominent Latin American musicians. The proceeds from the Buchanan's Forever concerts were contributed to a number of local causes that will leave a lasting impact on iconic cultural institutions. The programme is an example of cause-related marketing where a brand and a good cause work together for mutual benefit.

This year in North America we launched another cause-related programme, 'Something to share', to promote economic independence among low-income

women. Run as a partnership between our brands and the non-profit organisation Dress for Success, the programme raises funds to provide business attire and a range of career-development tools to 40,000 women annually in the US, Canada, the UK and New Zealand.

EVALUATING COMMUNITY INVESTMENT

For quantitative analysis of our community investment, we use the London Benchmarking Group (LBG) model – which we helped pioneer in 1994 – to put a realistic, conservative value on our investment (inputs) and to measure not only the 'outputs' or direct benefits of our community involvement but also its 'impacts' in terms of the lasting benefits it brings. As an example, an LBG analysis of our Water of Life One Million Challenge is given on page 14.

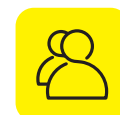
THE MILLENNIUM DEVELOPMENT GOALS

Eight years ago, UN members agreed a vision for the world in 2015 in which there will be less poverty, hunger and disease, improved survival of mothers and infants, better education, equal opportunities for women, and a healthier environment for all. The nations pledged to meet eight Millennium Development Goals (MDGs) to help achieve these aims. The UN's 2007 MDG report shows that, while progress has been made, more action will need to be taken if the goals are to be achieved, particularly in sub-Saharan Africa.

Companies have an important part to play in supporting the development goals. Diageo's primary contribution comes from the economic value-creating activity of our businesses, which are particularly significant in the economies of some developing countries. Nearly one-fifth of Diageo's production sites are in such countries, accounting for more than half of our global brewery output and providing more than 5,000 jobs to local people. Local sourcing of many raw materials and services reinforces the positive economic impact of these operations.

Our impact is extended through the production of our brands by many licensees and joint ventures. Including these, our brands are manufactured in 22 African countries. A further contribution comes through the taxes levied on our products and businesses which fund public projects. In addition to these benefits from our core business activities, we promote equal opportunity and minimise our environmental impacts, and our community investment in developing countries contributes towards particular MDGs or targets – for example, by providing access to clean drinking water (see opposite), working against HIV/Aids (see page 17), or promoting local agriculture (see page 29). This year, we signed the UK government's 'Business Call to Action' as a sign of our commitment to Millennium Development Goal 8 – to support a global partnership for development.

DEVELOPING OUR PEOPLE



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

By providing opportunities for employment, Diageo exerts one of its greatest impacts on our communities, contributing to economic development. To achieve these benefits and our stretching ambitions for Diageo, we need to attract, retain and develop the best talent available.

In Mexico, where workplace benefits for new parents are unusual, this year we launched a 'Maternity and Paternity' programme, which gives new parents the flexibility to enjoy their family and their job in a balanced way. Both mothers and fathers have 10 days of paid time off to bond with their newborn. When mothers are ready to restart work, they have flextime options for six months. Fathers may take one month with a part-time option. Additionally, we offer financial help with nursery care for two years.

Over the past four years, the proportion of women in senior management – a key diversity indicator – has risen from 20% in 2003 to 25% in 2008.

In the USA, Diageo scored 95% in the 2008 Corporate Equality Index. The Human Rights Campaign Foundation, part of the USA's largest advocacy group for gay, lesbian, bisexual and transgender (GLBT) Americans, produces the index annually and ranks corporations based on their policies regarding their gay and lesbian employees and the GLBT community.

We encourage local employees to progress to leadership positions where they are suitably qualified. On the other hand, Diageo is an international business and the opportunity of working abroad is attractive to many of our people. Around 320 assignees were working away from home at 50 locations this year. To maintain diversity among international assignees, we encourage employees from outside the UK to take up overseas secondments. This proportion has grown from 33% to 52% over the last five years.

SAFETY AT WORK

This year's launch of our 'Zero Harm' strategy demonstrates the importance of safety to everyone working at Diageo. The strategy addresses our goal of 'Everyone going home safe, every day, everywhere'. The essentials of achieving this are set out in our occupational health and safety policy and are supported by risk management standards that define the minimum requirements for controlling risks and reducing the likelihood and severity of accidents. Our ultimate target is to reduce accidents resulting in lost time to zero. Working towards this, we set ourselves the goals of reducing accidents by 15% by this year (which we have achieved), an additional 15% by 2009, and an overall halving of the total between 2007 and 2011. Many locations and business units have achieved zero lost time this year – for example,



Supporting community ventures such as Business Clean Up Australia Day makes many employees proud to work for Diageo

Employees

	2008	2007	2006
Europe	11,642	11,033	10,694
International	5,610	5,300	5,658
North America	4,123	3,719	3,751
Asia Pacific	2,998	2,468	2,516
Total	24,373	22,520	22,619

INCLUSION AND DIVERSITY

In a diverse workforce, the contribution made to the business by each employee, through the variety of their personalities, experiences and perspectives, makes for a stimulating and rewarding working environment. Having colleagues from many different backgrounds also gives us deeper insights into consumer needs and enhances our relationships with stakeholders.

Gender diversity by level % women

	2008	2007	2006
Board	20	18	18
Senior managers	25	24	23
Other employees	35	35	35
Total workforce	34	34	34

Encouraging diversity, our policies set out our commitment to treat people fairly, both at recruitment and during their careers. They include undertakings to advertise vacancies routinely, encourage suitable internal candidates, and assess people fairly. Opportunities for career progression are determined only on the basis of ability and performance. We aim to create opportunities that are attractive to a wide range of suitably qualified candidates and make working for Diageo compatible with a variety of lifestyles. Where roles lend themselves to flexible working options, many Diageo businesses offer opportunities such as career breaks, flexible locations, school term-time working, compressed-time working, flexible retirement, job sharing, annualised hours and flexible compensation.

95%

DIAGEO'S
SCORE IN THE
2008 USA
CORPORATE
EQUALITY INDEX



25%

PROPORTION OF WOMEN IN SENIOR MANAGEMENT



The 'Live Life' programme in Africa encouraged employees to discover their HIV status through confidential tests



Colleagues at our Kilmarnock bottling plant were awarded the Healthy Working Lives Gold Standard

Bushmills in Ireland and our Latin American business. We launched a safety awards scheme to recognise best practice in safety performance and celebrate individual contributions towards achieving our goal.

Safety performance

	2008	2007	2006
Accidents per thousand employees			
Europe	8.4	11.1	
North America*	29.3	38.0	
Asia Pacific	2.0	5.0	
International	10.0	15.6	
Total	12.4	16.5	20.4
Fatalities			
Europe	–	–	–
North America	–	–	–
Asia Pacific	–	–	–
International	4	1	1
Total	4	1	1

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

* North America figures include employees who returned to work on restricted or lighter duties following an accident; without these the figure for 2008 was 14.9 (2007: 11.4).

Regrettably, there were four work-related fatalities during the year in Africa. Two of these occurred as a result of road traffic accidents and two in relation to manufacturing operations. We have implemented a targeted safety training programme and recruited ten additional safety professionals to support our African businesses.

OCCUPATIONAL HEALTH

The activities involved in people's jobs at Diageo should not harm their health. To monitor any impact on employees' well-being and recommend corrective action, our Occupational Health Service carries out health surveillance programmes, which may be required by law or best practice. For example, these may cover colleagues working in noisy areas, in laboratories or with grain dust at production sites. We also run educational programmes such as healthy heart advice, manual handling techniques, support to travellers and guidance on avoiding malaria.

Our bottling plant at Kilmarnock this year won the new Healthy Working Lives Gold Standard Award. This follows a successful long-term project in which the site secured bronze and silver Scotland Health at Work (Shaw) awards in 2005 and 2006 respectively.

In Africa, we have worked to reduce the impact of HIV/Aids on our employees, their families and our business partners through a workplace programme, community involvement and partnerships. Since the programme's launch in 2003, every Africa-based employee has attended an information session.

HIV/Aids is also covered by our induction programme for new employees. We have trained peer educators to encourage people to take prevention measures, support those affected by HIV/Aids and promote voluntary counselling and testing. Palliative care and treatment for opportunistic infections is provided along with access to anti-retroviral drugs.

This year in Africa we launched 'Live Life', a programme that promotes a holistic approach to health and wellbeing and aims to reduce the stigma attached to accessing HIV prevention and care. 'Live Life' encourages employees to take responsibility for their own health and demonstrate leadership to others. The launch raised awareness of our HIV/Aids programme, which is non-discriminatory, voluntary and confidential, and has four elements, all of which are provided free of charge:

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

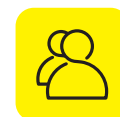
CAPABILITY AND DEVELOPMENT

The key to developing Diageo people is Partners for Growth (P4G), our performance review and goal-setting programme. The aim of P4G is to build on employees' strengths and overcome any barriers to achieve their aspirations and realise their potential. The emphasis is on honest, continuing conversations between employees and their managers – discussions that support their progress towards achieving business and personal objectives. Such conversations may take place informally at any time and more formally twice a year. Through the P4G process, employees identified as capable of more senior positions or of enhancing their skills in a different area may be suitably prepared. We nominate successors for senior positions to ensure business continuity, with open posting of vacancies to encourage talented candidates to apply.

A key priority this year has been to improve the skills of our line managers. The main vehicle for this has been the 'People manager' development framework which includes modules such as managing self, coaching, managing inclusively and team effectiveness. To date approximately 2,700 Diageo managers have participated in the programme.

The specific behaviours, skills and knowledge that we need to meet our ambitious objectives are set out in two documents. The Leadership Standard describes the great leadership we expect of senior managers, while the Diageo Capabilities Standard applies to all other employees. They both help define the way our people

DEVELOPING OUR PEOPLE



Our leadership performance programme aims to prepare 800 senior employees for the challenge of achieving Diageo's ambitious plans

should behave to be successful. During the year we progressed a comprehensive programme of leadership development for around 900 senior Diageo managers. This included 40 hours of one-to-one coaching from their line manager and an external coach.

Our supply business in Scotland participated this year in an Investors in People 'Profile' assessment, a process that challenges progressive employers to improve the management and development of their people. We were ranked fourth among large UK organisations and second in Scotland overall.

Recognition came too in the Caribbean where, for the second time, Red Stripe received an award for excellence in human resource focus from the Jamaica Bureau of Standards. The award acknowledges the achievements of companies in employee development, work systems, reward and recognition, skills and cross training, appraisal and employee wellbeing and satisfaction.

Opportunities to develop our employees' capabilities are provided by the Diageo Academy, an intranet portal that gives access to courses and support. The main opportunities available to employees as appropriate are high performance coaching, people manager development and career development. This year, following a re-launch, employee registrations on the Academy site soared from 1,000 to an average of 5,500 each month. While the geographical focus of the Academy is currently Ireland, North America and the UK, a global roll-out is planned.

We want to give talented employees the chance to develop their careers within Diageo. Our on-line Career Shop allows people to submit their CVs, in five languages, to be considered when suitable roles become available. Over 62,000 applications were made during the year, 89% of them from external candidates. More than 3,800 roles were filled during the year, 55% of them by internal candidates.

REWARD AND RECOGNITION

Aiming to keep our businesses competitive in every market, we benchmark remuneration packages against those offered by comparable employers. In most cases an element of pay is performance-related to reward employees' contributions to the business. For some employees with specialist responsibilities, remuneration is linked to the achievement of social or environmental objectives.

There are a number of employee schemes to promote share ownership. These enable colleagues to benefit from the growth of the business by acquiring shares at a discount. At year end, 18,000 past and present employees held around 1.2% of Diageo's issued ordinary share capital. This year we extended schemes

to employees in ten more countries. The qualities of our sharesave programme were recognised when we won the 2008 Global Equity Organisation Award for the most innovative and creative scheme design.

Employee share ownership

	2008	2007	2006
Countries operating schemes	26	16	16
Employees* holding shares	17,974	14,714	16,179
Employees* holding more than			
1,000 shares	47%	49%	54%
Shares held by employees*	33m	31m	34m

* Past and present

Through its investment decisions, the Diageo UK pension scheme has the potential to encourage good citizenship in other companies. Acknowledging that companies are more likely to achieve long-term success by following socially responsible strategies, it is a requirement of the scheme's active investment managers to take social, ethical and environmental considerations into account when assessing the suitability of investments.

ENGAGING OUR EMPLOYEES

An important part of valuing our employees is to keep them well informed about the business and to create opportunities for their views to be freely expressed. This engagement is fostered through a variety of communications beginning with the induction of new colleagues and continuing through dialogue with line managers, team meetings, newsletters and intranet.

Intranet sites are commonly used to keep employees informed and provided with tools to help them do their jobs more effectively. In Mexico, a new site known as the 'Bridge' carries information on our values, reward and compensation, who's who in the business, our brands, the code of business conduct and other policies.

We established the Global Functions Employee Forum this year as an elected team of employees from central departments. The forum will provide a platform for discussion and consultation between senior management and employees on a range of important business issues and future initiatives.

When we make changes in the way we do business, we aim to treat those employees impacted with dignity and respect, consulting them as appropriate. We have grievance procedures for resolving issues that may arise between employees and their managers. In the UK and Ireland, an independently-run, confidential helpline called tik2 provides free counselling, legal and financial advice on issues such as work-related stress and changes at work. Across the world, all Diageo employees are free to join trades unions; membership is not monitored.



Red Stripe won an award for excellence in HR focus from the Jamaican Bureau of Standards



42%
OF OUR
EMPLOYEES
SHOWN TO BE
SUPER-ENGAGED

'I have never been so proud to work for Diageo as I have been this year. My manager and I discussed my desire to participate in some volunteering which involved time away from work. My manager was completely supportive of my involvement in the community and approved the flexibility for me to participate.'

**EMPLOYEE COMMENT IN 2008
GLOBAL VALUES SURVEY**



Changes made in Ghana improved employee engagement with our values by 9-20%

Global values survey favourable responses %

Questions with external benchmark

	2008 Diageo	2008 Benchmark	2007 Diageo	2006 Diageo
Passionate about consumers	84	82	82	79
My team actively seeks to understand consumer needs	86	86	83	78
People in my team are encouraged to come up with innovative solutions for customers/consumers	77	78	74	72
Valuing each other	77	74	74	72
My manager inspires me to give my best	80	74	77	75
Freedom to succeed	83	81	81	79
People in my team can challenge existing ways of doing things	86	68	85	85
My manager generally understands the problems I face in my job	79	73	76	74
My manager trusts my judgement within my job	89	72	87	87
Proud of what we do	87	85	84	82
I am proud to work for Diageo	92	89	91	89
Diageo makes a real contribution to the communities in which it operates	85	83	80	76
Be the best	77	74	74	71
My manager gives me regular feedback on my performance	75	72	72	70
I feel significant actions have been taken as a result of previous surveys	60	53	54	50
I believe Diageo leadership acts on issues/opportunities identified in the survey	68	73	64	60
Engagement*	89	87	87	85
I believe strongly in the goals and objectives of Diageo	91	88	89	86
I would recommend Diageo as a good place to work	88	84	86	84
I am proud to work for Diageo	92	89	91	89
I fully support the values for which Diageo stands	93	91	91	89
I work beyond what is required in my job to help Diageo succeed	94	90	93	92

* Not all regions answered these questions in 2006

GLOBAL VALUES SURVEY

The importance of effectively engaging our people makes our annual values survey, which monitors employee opinion around the world, a valuable tool in shaping strategy and designing ways of working. Many of the survey's 34 questions refer to one of our five values, allowing us to assess the extent to which colleagues live the values in their work. Some questions (shown in the table) are comparable with an external benchmark derived from a sample of 'high performing' companies.

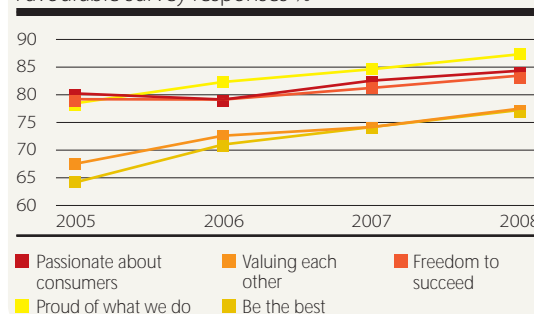
This year, 89% of employees took part in the survey, up from 88% last year and the highest response to date. Every question which was asked globally last year showed an improved response and, although the results are not consistent across all parts of the business, every business group showed an improvement in scores this year. The proportion of 'super-engaged' employees (those who gave the most favourable response to all six questions on engagement) increased from 29% to 42% this year.

The results of the survey were communicated to teams throughout the business and managers urged to run 'results-to-action' sessions to convert lessons learnt from the survey into improvements for employees in ways of working. For example, last year in Ghana, a team of employees looked into the issues that caused a low 2006 super-engagement score.

They devised a plan to improve relationships between managers and their teams that involved: merging working areas that were previously divided; one canteen and an in-house bar at each site; and a clubhouse in both Accra and Kumasi – all accessible to all employees. More job vacancies are now being filled internally and there has been significant investment in training for managers. The effect on values survey results in Ghana was dramatic. Engagement with each of the values showed increases of 9-20% and all were at least 7% above the benchmark of high performing companies.

Living our values

Favourable survey responses %





RUSSIA More than 100 volunteers from our Moscow office turned out to help clear the ground at an orphanage for blind and deaf children. After removing six truckloads of rubbish, the area was ready for construction of a special landscape where the children will learn to navigate city streets. Apart from the community benefits, the day was also a valuable team-building exercise.



CANADA Several Diageo sites in North America have a history of supporting the United Way, a coalition of charitable organisations. Employees at our Crown Royal whisky bottling plant at Amherstburg, Ontario donated and fundraised \$130,000 for the United Way this year, completing a quarter of a century of support for its community-specific aims.



AUSTRALIA Sponsored by Diageo bourbon Slate, Sydney's Homebake music festival was the first such Australian event to levy a drinks container deposit – of \$1. The organisers reported that the response from the 20,000 music lovers attending was very positive – the venue was kept clear of litter and last year's recycling rate of 30% was boosted to over 90%.



IRELAND Kristina Blome, who suffers from rheumatoid arthritis (RA), had the chance to spend a day with Padraig Humby, St James's Gate quality representative, as part of Arthritis Ireland's RA Work a Day programme. We were one of a number of organisations that supported this project which aims to boost the confidence of RA sufferers who are thinking of getting back into work.



LATIN AMERICA More than 250 Diageo volunteers made a difference to about 9,000 students from 12 schools in Brazil, Uruguay and Paraguay. During the community day, colleagues helped with lectures, sports activities, refurbishment and reading sessions, enhancing the education of the youngsters by developing skills of teamwork, innovation, socialisation and coordination.



USA Now in its third year, *Estamos unidos con un propósito* (We are united with a purpose) is a partnership between Diageo and the National Council of La Raza which provides financial education to US Hispanics to help them become more financially literate and economically involved. This year's programme is funded by up to \$250,000 raised from Diageo brand sales.



PHILIPPINES To mark Earth Hour on 29 March and to convey the message that it is possible to take positive action on global warming, colleagues in the Philippines joined 3,500 businesses and 30 million people in 35 countries by plunging our supply plant at Santa Rosa into darkness for an hour.



SCOTLAND Diageo is the only Scotch whisky business with its own team of cooperers to make and maintain copper stills. We also own two cooperages where whisky casks are made for our 27 malt distilleries. We have recruited six apprentices to learn one of these two traditional crafts – but they will also learn how to operate the latest technology.



GUATEMALA In Jocatan, women hand-weave the palm leaf 'petate' bands that are placed on each bottle of Zacapa rum, a brand Diageo began to distribute this year. More than 250 families benefit from a partnership between Zacapa and the community to generate new sources of income, empower women and invest in education and other life-enhancing activities.

ENVIRONMENTAL SUSTAINABILITY



0.003%

DIAGEO
GREENHOUSE
GASES AS A
PROPORTION OF
TOTAL WORLD
EMISSIONS

Source: IEA 2008, based on
2005 emissions from fuel use

On our journey to sustainability, we're working to reduce the energy, water and materials we use and the waste we generate.

What stands between us and true sustainability is the fact that our planet's resources are finite and its capacity to assimilate waste – whether in land, water or air – is limited. Our journey to this goal involves reducing our dependency on resources and waste sinks that are themselves not sustainable. We do this by reducing the energy, water and materials we use and the waste we generate, by improving efficiency and by switching to renewable resources and finding ways to re-use or recycle by-products and waste.

MANAGEMENT AND POLICY

The main body that sets Diageo environmental policy was reconstituted this year at a more senior level. The new executive environmental working group is chaired by the managing director of Diageo Supply and includes functional leaders from across the business. The group is supported by an environmental leadership team covering production sites and also by a new sustainable packaging working group.

Our environmental policy makes clear our commitment to continuous improvement. Its standards are an integral part of our risk management framework which sets implementation criteria and provides a mechanism for monitoring compliance. Our commitments do not depend on having full scientific proof of specific environmental damage, thus supporting the precautionary approach introduced with the Rio Principles.

Diageo production sites are required to have an environmental management system (EMS) and 90% of these were assessed this year as fully or mostly implemented. EMSs at 18 sites are now certified to the international standard ISO14001, representing 51% of production by volume. One site that achieved this recognition during the year, our winery in Mendoza, Argentina, is a good example of the role standards can play in driving improvements. As well as ISO14001, the site is certificated to the quality standard ISO9001 and the health and safety standard ISO18000, and is only the second winery out of 1,300 in Argentina to have achieved this.

Our office buildings have a smaller environmental footprint than production sites, altogether contributing around 1-4% of the Diageo total. Each office with more than 50 employees is tasked with raising employee awareness of the policy and improving environmental performance.

Measurements of our most significant impacts – the use of energy and water, and the production of solid waste, liquid effluent and greenhouse gases – are our primary indicators of performance. We collect data monthly from all 105 production sites and annually from 41 large offices and aggregate the results both as totals and – to track environmental efficiency – as ratios relative to production volume.

We have done much to promote environmental awareness and improvements in our own industry and beyond. Our active membership of the Beverage Industry Environmental Roundtable allows us to share experience with others in our industry and agree consistent approaches to measurement and reporting.

In November 2007, we were one of 150 companies to endorse the Bali Communiqué, an initiative of the Prince of Wales's Corporate Leaders Group on Climate Change. The communiqué called on world leaders at the Bali climate negotiations, among other things, for a legally-binding international framework to tackle climate change (balicommunique.com). And, taking the opportunity afforded by our CEO's chairmanship of the Scotch Whisky Association, we have provided leadership among our peers this year by introducing a new and challenging environmental approach for the industry and gaining wide support.

TARGETS

This year, for the first time, we've set targets to mitigate the total level of each impact, rather than aiming to reduce impact measures relative to production volume. In the case of water, we have also retained a target for overall water efficiency. The reason for the change is that we believe that tracking reductions in totals – overall greenhouse gas emissions, for example – is a more meaningful way of quantifying the environmental benefits of our initiatives. It may be necessary to reset total targets in future in the light of any significant changes to the business – for example, by acquisition of additional production capacity.

Achieving our ambitions will require novel approaches to many production processes and new applications of technology. We have made a special investment in piloting these during 2007 and, over the next few years, we shall apply what we've learnt. Technologies for possible future development include the digestion of effluent to produce burnable methane, using heat from burning solid waste, wind and solar energy, and water and waste recycling.



We have revised our environmental improvement targets to reflect ambitious new steps on our sustainability journey

ENVIRONMENTAL SUSTAINABILITY



Solar panels are among the developments at our plant in Korea that will reduce its greenhouse gas emissions by a third



Industry-leading technologies are being used at Cameronbridge in Scotland to generate energy from waste

'We are very supportive of new and developing technologies that can help protect Scotland's environment and make a meaningful contribution to tackling climate change. Diageo is to be commended for its investment in bioenergy.'

CAMPBELL GEMMELL, CHIEF EXECUTIVE OF THE SCOTTISH ENVIRONMENT PROTECTION AGENCY, ON OUR PLANS FOR CAMERONBRIDGE

ENERGY AND CLIMATE CHANGE

Greenhouse gases – notably carbon dioxide generated by burning fossil fuels – are a cause of climate change, the likely consequences of which present considerable risks to our business and to the world. Unchecked, these may work through physical phenomena such as changing temperatures, increased frequency or severity of extreme weather events, water scarcity or rising sea levels, or indirectly through ecosystem changes or shifts in human populations. The risks include impacts on the agriculture on which we depend for our raw materials, disruption of our own activities or those of our commercial partners, and changes to the nature or distribution of consumer demand. The prospect of climate change also presents us with opportunities, most particularly a competitive advantage if we respond to these issues more effectively than others in our industry. These issues are considered in more detail in our response to the Carbon Disclosure Project questionnaire, available at diageo.com.

Our assumption is that the risks from climate change could be mitigated if emissions were sufficiently diminished. We have worked on reducing our direct emissions (from fuels) and our indirect emissions (from electricity). Our target is to cut total emissions by 50% between 2007 and 2015. To put this goal into context, the Stern Review on the Economics of Climate Change, published in 2006, suggested that global carbon emissions would need to be reduced by 25% by 2050 to stabilise carbon dioxide levels in the atmosphere.

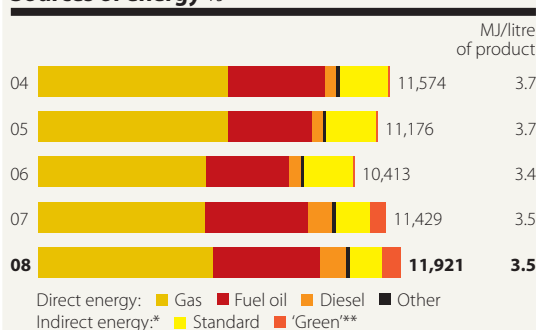
and nearly 20% of its electricity and reducing carbon emissions by a third. In Huntingwood, Australia, we have fitted photovoltaic solar panels to provide all the energy used by the site office.

The regulation of greenhouse gas emissions through structures such as the Emissions Trading Scheme in Europe, provides a financial incentive for companies to reduce their climate impacts. In 2007, the five Diageo sites in Ireland and the UK that were included in phase 1 of the scheme reported total greenhouse gas emissions within our allocation, resulting in a small number of surplus, tradable allowances.

In the UK some Diageo sites are additionally included in Climate Change Agreements, which give rebates to intensive-energy-using industries when they meet targets agreed with Defra, the government department responsible for climate change legislation.

Working with travel agents and airlines, we have continued to improve reporting on business flights and car journeys. We recorded 25.5kt of greenhouse gas emissions from business travel during the year (2007: 25.1kt). One of the ways we hope to reduce this in the future is through encouraging videoconferencing as an alternative to travel. This year, we installed new, advanced video studios in London, Norwalk and Singapore. Although they were opened only part-way through the year, we calculate that use of the studios saved 248 tonnes of CO₂ emissions from flights not taken. We plan to introduce videoconferencing facilities to more Diageo offices in the coming year.

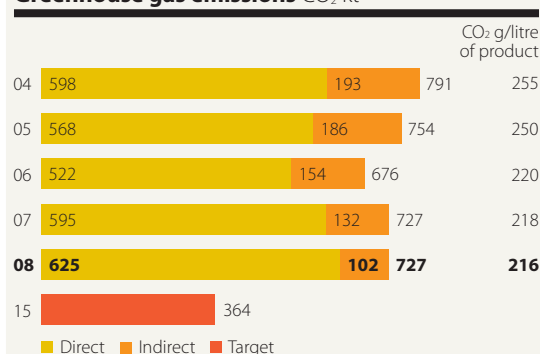
Sources of energy TJ



* Electricity and a small amount of steam.

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

Greenhouse gas emissions CO₂ kt



Greenhouse gas emissions by region CO₂ kt

	2008	2007
Europe	364	368
International	247	235
North America	103	105
Asia Pacific	13	19
Total	727	727

In pursuit of our target, we are installing or trialling a number of renewable technologies to provide energy for our plants. Our Asia Pacific region is leading on solar technologies. In South Korea we have installed solar thermal panels and an absorption chiller. This will be used to heat the factory in winter and cool it in summer, saving 75% of the site's diesel consumption



Diageo Australia was the sustainable practices finalist in this year's Water Conservation Awards for Huntingwood's water conservation work



In Budapest, introducing coffee mugs bearing environmental reminders has removed 168,000 disposable cups a year from the waste stream

'It's great to see our most iconic export industry take the lead on environmental issues. This will do wonders for Scotland's image as a renewables powerhouse.'

DUNCAN MCLAREN, CHIEF EXECUTIVE OF FRIENDS OF THE EARTH SCOTLAND, ON OUR PLANS FOR CAMERONBRIDGE

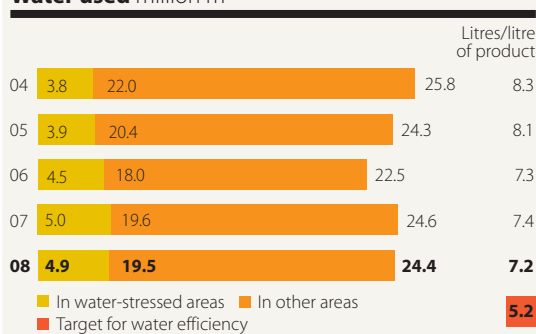
WATER MANAGEMENT

A good water supply is essential to our business – as an ingredient and for cooling and cleaning. Water resources are under pressure from development in many parts of the world and the threat of climate change may restrict availability still further in the future. Each production site has completed a water survey to identify where technology and ways of working can be improved to achieve best practice in water management.

Eleven Diageo production sites are located in areas where the UN forecasts water supplies will be stressed in the next 20 years, with a further three in areas predicted to suffer water scarcity. We plan to reduce the amount of non-ingredient water we use in water-stressed areas by 50% between 2007 and 2015. By maximising the use of reclamation and recycling where possible, in all our plants we aim to increase our overall water efficiency – by reducing the amount of water we use to make each litre of product – by 30% between 2007 and 2015.

Achieving this will require contributions from every plant, especially those where water is scarce. Much progress has been made in Huntingwood, Australia, where the local water utility encourages water efficiency. Under its Every Drop Counts programme, the assessment of our plant has moved from one star in 2001 to four stars by the end of 2007. In our latest assessment, for 2008, Huntingwood scored 98% and was awarded five stars, the highest level of performance.

Water used million m³



Waste water from our processes can have a high organic content and can potentially pollute the waterways into which it is discharged. At our sites we have various arrangements in place to minimise any environmental damage. Of the total effluent volume of 17.5 million m³ this year, we treated about 38% on site to minimise the organic content, an increase on 27% last year due to new effluent treatment plants coming on-stream. We sent about 35% to municipal treatment plants and spread a further 4% on agricultural land. The remainder flowed untreated to water, mostly to the sea. Such outflows from our plants are subject to

Sources of water million m³

	2008	2007
Ground: boreholes	11.8	11.7
Mains: town supply	11.2	11.0
Surface: rivers and lakes	1.4	1.9
Total	24.4	24.6

Water used by region million m³

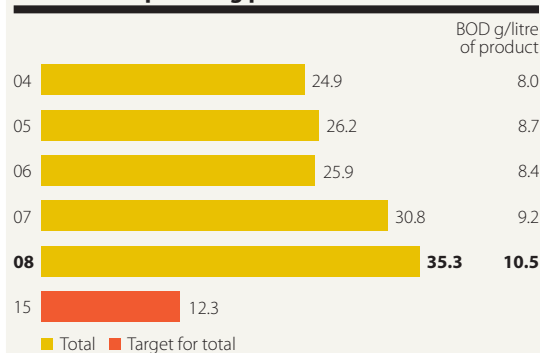
	2008	2007
Europe	11.8	11.5
International	9.1	9.6
North America	3.2	3.1
Asia Pacific	0.3	0.4
Total	24.4	24.6

consent by environmental authorities and their impact on ecosystems is monitored.

As part of the largest single investment in renewable technology by a non-utility in the UK, work is underway at our large grain distillery at Cameronbridge, Scotland to install new equipment which will exploit the energy potential of waste materials, including wastewater. The new process will separate spent wash into two components: the liquid will be anaerobically digested to produce methane which will be burnt, while the spent grain will be dried and also burnt. Together, these two energy sources will provide 98% of the steam and 80% of the electricity needed by the distillery. Around 60% of all water polluting power – expressed as biological oxygen demand (BOD), a measure of its organic content – is currently accounted for by Cameronbridge. Diverting this to the new digester is expected to have a significant impact on Diageo's overall wastewater figures and help us achieve our ambitious target for improvement.

Effluent treatment plants at our sites in Kumasi, Ghana and Jamaica are now operational. These, as well as

Wastewater polluting power BOD kt

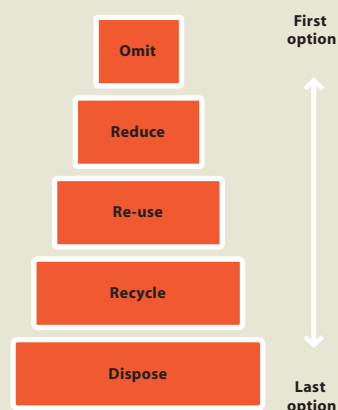


BOD is biological oxygen demand, a measure of the organic content of wastewater.

ENVIRONMENTAL SUSTAINABILITY



THE WASTE HIERARCHY



Our Belfast beer packaging plant, together with Runcorn, won a Big Tick in the BITC Eco-Efficiency Awards for its success in minimising waste

improvements to plants at Kaase, Ghana and Benin, Nigeria, have had a significant impact in reducing BOD in wastewater this year. New treatment plants in Cameroon and Achimota, Ghana and a shared plant in Waterford, Ireland are under construction.

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

MATERIALS AND RECYCLING

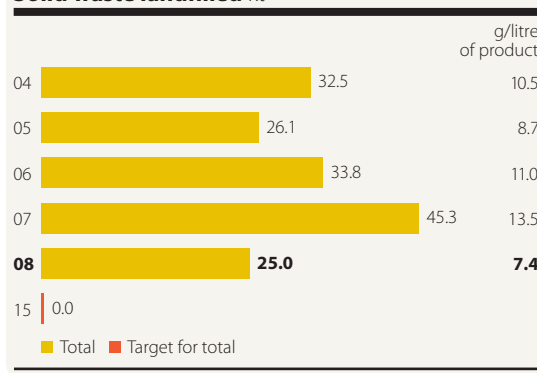
Most of the materials we buy are either ingredients or packaging materials for our brands. Ingredients – such as grain, grapes, hops and milk – are generally agricultural in origin. Some of the packaging materials – such as glass, cardboard, plastics, paper and metals – come from recycled sources. For example, around 90% of green bottles in the UK are made from recycled glass, while the proportion of colourless bottles is usually less than 10%, due to limited availability of recycled material. The green Gordon's gin bottle now contains over 90% recycled glass, which represents a saving of more than 2,000 tonnes of carbon dioxide emissions a year at the bottle factory compared with using basic raw materials.

The largest category of waste is what's left of beverage ingredients after processing. The bulk of this is currently converted into animal feed or composted for use as mulch on farmland. Most other waste – such as rejected packaging from bottling sites and office wastepaper – is also recyclable and is sent for reprocessing where local facilities exist. Overall, 95% of solid waste from our sites was reused or recycled this year. The remainder was sent to landfill. Our aim is to reduce this landfilled waste by 100% – to zero – by 2015.

Our two UK beer packaging plants in Belfast and Runcorn this year won a Big Tick in BITC's Lafarge Cement UK Eco-Efficiency Awards for their success in minimising waste. Together, the factories bottle, can and keg 460 million litres a year of nearly 400 different beers including Guinness, Smithwicks, Kilkenney, Harp and Kaliber. The plants took an innovative approach to waste by developing a closed loop system in which residual materials became a resource for other processes. Using new thinking of this type, we reduced waste going to landfill from the sites by 75% between 2006 and 2008, over which time production increased by 5%.

Seeking a sustainable way of disposing of each waste material at each location is an important step towards achieving our reduction target and eventually eliminating landfill altogether. At our packaging plant at Leven, Scotland, we have increased the waste recycling rate from 95% to nearly 99% by using composting as an alternative technique for disposing

Solid waste landfilled kt



of scrap food from the restaurant, used paper towels and some process materials – filter sheets, used bungs, and char scraped from barrels.

A secondary environmental impact from waste occurs when consumers dispose of our bottles, cans and other containers. To help reduce this impact our approach is to prioritise our actions according to the 'waste hierarchy' shown top left. Our marketers and designers are guided by Diageo's sustainable packaging guidelines which favour actions higher in the hierarchy to ones lower down.

Reducing the weight of containers, even by just a few grammes, can save tonnes from going to landfill. For example, at 415g the Blossom Hill wine bottle is one of the lightest in Europe. Around 85g lighter than its rivals, its use saved 6,000 tonnes of glass entering the waste stream this year. Most of the packaging materials we use are recyclable and our guidelines show how materials can be used to enhance this – for example, by not combining materials which waste contractors find difficult to separate. We have made strides in making our gift packaging more sustainable and, by next year, presentation packs in the USA will have eliminated metalised laminates (which are difficult to recycle) altogether, and will be 100% recyclable.

To co-ordinate these efforts, this year we established a new working group which will support our marketing teams in defining the next steps of our journey towards achieving fully sustainable packaging.

In Seychelles, we partnered with the government to tackle the increasing environmental problem caused by discarded plastic drinks bottles. Under the scheme, imported empty bottles are now subject to a 70c tax while consumers receive a 50c refund for each bottle they return to special 'redeem centres' for re-export to recycling facilities abroad. The balance goes to fund the centres.



In a large enterprise like Gleneagles, all employees contribute to our ambitious environmental aims



Replacing fuel oil with renewable woodchips as a source of energy is Gleneagles' first major step to carbon neutrality



Behind the scenes at Gleneagles, waste is segregated into separate streams to aid recycling

OTHER EMISSIONS

Over the last three years, we have reduced the amount of ozone-depleting halons present at our manufacturing sites in fire-extinguishing equipment by 53% and CFCs, used as refrigerants, by 94%.

Through the use of fuels this year, our activities resulted in the emission of 1.3kt (2007: 1.2kt) of nitrogen oxides, which are a precursor to ozone formation, acid rainfall and oxygen depletion in water habitats, and 1.4kt (2007: 1.3kt) of sulphur dioxide, a precursor to acid rainfall.

When spirits are maturing, the evaporation of some of the alcohol from the barrels is essential to create the desired flavour. Alcohol is water-soluble and biodegradable and much of the vapour is removed from the air by rain. However, in some circumstances it is known to impact air quality. We estimate that, this year, 31.8kt (2007: 31.8kt) of alcohol evaporated from the millions of barrels of whisky and rum in maturation warehouses in Scotland, the USA and Australia.

HAZARDOUS SUBSTANCES AND SPILLS

Some of our processes employ hazardous materials – such as caustic soda used for cleaning – which are disposed of after use by specialist contractors. In the year, we disposed of 2.7kt.

A number of temporary non-compliances with wastewater consent levels and minor spills were recorded and notified to the environmental authorities. While the majority of these were not regarded as serious by the authorities, six were the subject of official notices and one resulted in a fine of £19,500. The notices concerned incidents of non-compliance with wastewater regulations, an alcohol spill and the late registration of some x-ray equipment at sites in Canada, the UK and the US, while the fine was imposed on one of our US packaging plants for large releases of alcohol into a drain and failure to report them promptly. Following the spill, we flushed the drain with water in an approved way.

BIODIVERSITY

Some of our sites include or are close to rare habitats or conservation areas and particular care is taken not to disrupt species or ecosystems in such cases. Wastewater from our brewery in Kilkenny, Ireland goes to the local authority for treatment before being discharged into the river Nore, a designated special area of conservation due to its notable habitats and aquatic species. This year, we began sending effluent monitoring data to the local authority by telemetry on an hourly basis to help maximise the efficiency of treatment and minimise impact and risk to the river. In Uganda, our brewing and distilling sites are sited on Lake Victoria, close to an area used for recreation and fishing and as a source of water, so our wastewater outfall to the lake is closely monitored.

Gleneagles Hotel

Set in 850 acres in Perthshire, Scotland, Gleneagles is Diageo's five-star hotel – home to three of the top Scottish championship golf courses, 19 sites of scientific interest and one of special scientific interest.

This year, we introduced environmental measures designed to make Gleneagles a leader in responsible tourism. With the biggest environmental footprint of our 'non-manufacturing' sites, the hotel's ambitious programme will make a significant contribution to Diageo's overall targets. By applying new technology, introducing new ways of working among the hotel's 700 employees and raising awareness among guests, Gleneagles aims to become carbon neutral and eliminate all landfilled waste over the next two years.

As part of this journey, we installed a 1,250kW woodchip-fired boiler which now provides around 70% of the hotel's heat requirements. In a full year, using this renewable source of energy is expected to save around 2,000t of carbon emissions.

Gleneagles is a large purchaser of local goods and services, and we aim to use our influence to improve environmental management in our supply chain. We have surveyed our major suppliers and identified some that fall short of our standards of environmental preparedness. We will work with these suppliers to help them improve.

To involve the whole Gleneagles community in our environmental improvements, we ask guests to make a voluntary donation of £1 per room per night to our chosen local charity, Perthshire Big Tree Country. This organisation works to protect trees in the county and promote the leisure potential of its wooded areas. Together with contributions from Gleneagles employees and the Diageo Foundation, this year we raised £22,000 for this cause.



SCOTLAND Judges of the Scotch Whisky Masters competition recognised the quality of Diageo single malts by awarding them 13 top prizes including eight of the 20 Masters. Isle of Skye malt Talisker was the star, taking six awards. Announcing the results, The Spirits Business magazine commented: '[Diageo], the number one Scotch whisky force in the world is a quality act.'

Photo: Courtesy of The Drinks Business © 2008



GLOBAL To mark World Environment Day, Diageo employees made 5,766 commitments to five voluntary actions to reduce their personal environmental footprint: to turn off computer equipment after use, to sort waste to make it more recyclable, to use public transport, to fit an energy-efficient light bulb at home and not to leave the tap running when they brush their teeth.



GREECE In August 2007, devastating fires swept through the forests of the Peloponnese and Evia. The inaccessibility of these areas made it very difficult to control the flames using traditional firefighting equipment. Diageo donated 170 fire jackets with water back-packs to help the firefighters. We also gave £100,000 to support the families of firefighters who lost their lives or were severely wounded.



USA Over 300 employees from our US wines business spent a day on community projects in North Bay, near San Francisco. Activities included planting at a wildlife refuge, decorating social housing, office support for an HIV/Aids charity and serving lunch at a homeless shelter. According to one beneficiary, the Diageo team 'did more work in one day than the staff could have done in a month.'



IRELAND Sharing our environmental approach with others gives us opportunities to lead and to learn. At an Irish Business Employers Confederation conference on carbon footprinting, Paul Armstrong, spoke on our approach to energy management and to assessing our impact on climate change. Here he quantifies Diageo's share of the world's carbon emissions.



POLAND Colleagues partnered with housing charity Habitat for Humanity to help build homes for less privileged families in Warsaw and Gliwice. As well as learning construction skills and team building, our volunteers were lucky enough to meet the people who were to live in the houses they'd helped to build.



PHILIPPINES Spirits Supply scooped first place in the Diageo Philippines Great Junk Art Rumble, in which teams were challenged to create an environmentally-themed artwork out of production waste. The winning entry, which showed the transformational possibilities of good environmental management, was made from used filter pads. Runners-up were the Finance team.



CANADA More than 200 Diageo employees in Toronto and Vancouver took part in the Evergreen Common Grounds programme, an initiative to protect natural landscapes in urban settings. Together they helped enhance green spaces in their cities by planting thousands of young trees and restoring degraded environments.

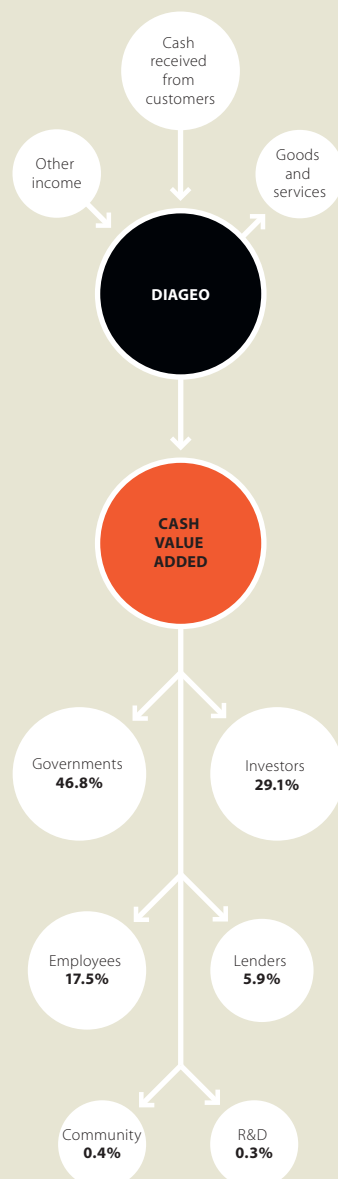


KOREA Slow Quick Quick, our latest responsible drinking campaign in Korea, aimed to tackle the habit of some consumers of drinking fast and staying out late. With a prestigious press launch, a distribution of 5,000 Jang Kwang Hyo-designed T-shirts and posters on 25 Seoul commuter buses, our encouragement to drink slowly and go home early was covered by 59 news media.

INVESTMENT AND CREATING VALUE



DISTRIBUTION OF CASH VALUE ADDED 2008



The success of our businesses is an engine for economic growth and provides the opportunity to invest in our communities.

In some markets, notably in Africa, Diageo companies are large enterprises by local standards and have a significant impact on local and sometimes on national economies. Around the world, even where our businesses are comparatively smaller, we provide jobs and develop the skills of our people, create opportunity for other businesses in the value chain, generate revenue for governments and invest in capital projects. It is by doing all this in a responsible way that we make our most significant contribution to the sustainable development of the communities in which we operate.

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

In addition, value flows to banks and other lenders as well as to the community through sustainable projects, many of which aim to tackle economic disadvantage and promote entrepreneurship. We invest the remaining cash value added for the benefit of our stakeholders in the future – either in research

and development or by retaining it in our business for growth, acquiring new businesses or brands and capital spending on plant and buildings.

In its own 2008 Value Added Scoreboard, the UK Department for Business, Enterprise & Regulatory Reform ranked the top 750 European companies according to the wealth they created, as measured by value added (using a measure slightly different from ours). This year, Diageo was the second biggest creator of value in the alcohol beverage sector, behind InBev, and came first for wealth creation efficiency (value added divided by the cost of labour and equipment).

OUR RELATIONS WITH GOVERNMENTS

We work with government departments in many countries on citizenship issues – for example, community programmes and responsible drinking campaigns. Recognising that both business and society benefit from effective government, in January, we endorsed a World Economic Forum initiative to show our commitment – and encourage other companies – to contribute constructively to efforts to improve public governance, develop public policy frameworks and enhance the capacity of public institutions. The document, Partnering to Strengthen Public Governance, is available on our website. Two examples serve to illustrate our efforts in this area and the barriers we have overcome.

In Kenya in 2005 an economic decline contributed to growth in the consumption of unregulated drinks with potential health risks for consumers. In response, we launched Senator Keg – a budget beer made under hygienic conditions – with the support of the Kenyan government which waived the usual tax on the brand to maximise its affordability. The initiative presented dilemmas for us and for the Kenyan government. Senator Keg fell outside the premium categories that our brands usually occupy; and it was exempt from the tax that provides a valuable source of public income. However, by factoring in the significant social and health benefits of attracting consumers to a regulated and hygienic market, the decision to go ahead made sense for both parties.

In the USA, research found that 65% of the underage drinkers studied obtained alcohol from their family or adult friend rather than through a commercial transaction. To help tackle this, we supported the passage of legislation to suspend the driving licences of adults who knowingly provide alcohol to minors,

Cash value added statement

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

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

INVESTMENT AND CREATING VALUE



£3bn

TAX PAID



Our sponsorship of the Alcohol & Society Forum in Beijing aimed to show government and the industry how brands can be marketed responsibly in China

as well as of underage drinkers themselves. Following the recent passing of a bill in Ohio, we have now helped introduce bills in more than 20 states and laws have been passed in eight.

ORGANISING OUR TAX AFFAIRS

Payments to governments, in the form of taxation, accounted for the largest slice of the added value we generated during the year, amounting to £3.0 billion or 46.8% of the total.

With responsibilities to many stakeholders including investors and governments, we seek to conduct our tax affairs based on clear principles – including the payment of tax according to the law – while maximising value for shareholders. Where we have options, we aim to balance our responsibilities fairly, acknowledge our role in society as a corporate citizen and enhance Diageo's reputation.

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

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

In some countries, the tax Diageo pays represents a significant proportion of the government's income. In addition to this direct contribution to the public purses of countries around the world, our businesses pay other taxes such as local and property taxes; our consumers pay sales taxes such as VAT; our employees and investors pay income taxes; and our suppliers and customers pay corporate taxes which arise as a result of the business we generate in these companies. In aggregate, these direct and indirect contributions, which we have not quantified, represent the total tax footprint of our business.

PUBLIC POLICY

Our aim is to engage actively with governments on issues that impact our business such as barriers to free market access, fair systems and levels of taxation and the regulation of markets for alcohol beverages. The contact with government departments may be direct or through one of many trade associations which provide us with a platform to share our views on industry-wide issues – for example, the Scotch Whisky Association, Gin & Vodka Association, British Beer & Pub

Association, Alcohol Beverage Federation of Ireland, Distilled Spirits Council of the United States, European Spirits Organisation, Distilled Spirits Industry Council of Australia, Association of Canadian Distillers and many others. Our commitment to create or maintain the conditions in which our businesses can thrive has led to a number of public policy successes during the year, generating opportunities for the company and our industry.

In December, Diageo sponsored the Alcohol & Society Forum, one of the most important events at the 2007 China International Alcoholic Drinks Expo in Beijing. With representatives from the Ministry of Commerce, industry associations, domestic and international alcohol companies and the media, the forum focused on how China's alcohol beverage industry can enjoy sustained development by addressing issues such as brand building and corporate citizenship. Our sponsorship aimed to demonstrate to government and the industry that alcohol beverage brands can be developed and marketed in a responsible way in China, with the aim of achieving self regulation in the fast-growing market.

RETURNS FOR INVESTORS

Over 90% of Diageo stock is owned by institutional investors, the remainder being held by private shareholders including thousands of current and former employees. As a return on the capital they provide to the business, shareholders received the second biggest slice of the value added distribution in 2008, in the form of dividends (£857 million) and share buy-backs (£1 billion). We set the balance between the level of dividends and number of share buy-backs at a point that makes the total return to investors as efficient as possible. A total of £20 billion has been returned to shareholders in dividends and buy-backs since Diageo was formed 11 years ago.

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

THE VALUE CHAIN



We helped a plastics recycling company develop its business into aluminium to provide a route for reprocessing beer cans in Kenya



Farmers in central Nigeria have been growing sorghum for our breweries for nearly 20 years. Production now sustains around 27,000 jobs

'[Diageo's investment in Uganda] is a great example of how business can transform society through linking industry and agriculture'

PRESIDENT MUSEVENI OF UGANDA, SPEAKING AT THE COMMONWEALTH BUSINESS FORUM IN NOVEMBER 2007

We seek to raise standards not only in our own operations but throughout the chain of partners who contribute to delivering our brands to consumers.

Demand for our brands creates opportunity for other businesses in the value chain – in agriculture, manufacturing, services, distribution and retailing. Our aim is that these companies can derive adequate benefit from their relationship with us, that the terms and conditions of our business together are fair and that participants in the value chain maintain standards of citizenship similar to our own.

OUR ECONOMIC IMPACT IN THE VALUE CHAIN

One of the most significant effects of our business on local economies is to provide employment. Around 17.5% of value added by our business passed to our employees this year, underlining their importance. An indirect economic benefit comes from the employment created by the suppliers and customers in our value chain. Diageo's overall impact on employment is measured by applying an appropriate 'employment multiplier' to our own workforce total. Employment multipliers vary with industry and market and tend to be higher in developing countries (where there have been estimates as high as 25 or 30 for the beverage sector) than in industrialised regions where they can be in single figures. Using figures like these, the people whose livelihoods depend on the economic value created by Diageo's business are likely to number in the hundreds of thousands.

SUPPLIER RELATIONSHIPS

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

We aim to develop strong relationships with our suppliers to help ensure that supplies of goods and services are sustainable and that we can continue to obtain the best value in terms of cost, quality, service and innovation. Our terms of business include the timing of payments, the detail of which is agreed by each Diageo business with its suppliers.

Supplier relationships go beyond commercial considerations and involve encouraging suppliers to maintain standards similar to our own in labour relations, health and safety, environmental management and business integrity. In some cases we help develop suppliers' capabilities in business so they can provide goods or services which were not previously available or improve the quality of their offering or the reliability of supply.

In Nigeria, we and two other large employers partnered with the Nigerian Business Coalition Against Aids and others to improve access to disease prevention and treatment among the employees of companies in our supply chain. The diseases prioritised were HIV/Aids, malaria and tuberculosis. Companies supplying us with facilities services were supported in establishing HIV/Aids committees, employee education, counselling and testing, treatment and the provision of mosquito nets.

Part of the introduction of canned beers in Kenya was to reduce its environmental impact by developing suitable infrastructure to collect and process used containers. We worked with a recycling company that had experience of plastics and funded the extension of their business into processing aluminium. Discarded cans are now collected by people who are often homeless and who can make a living from their part in the supply chain by selling the cans to our business partner for recycling. After crushing and baling, the cans go for smelting and the recycled aluminium is used to make *sufuria* cooking pots.

NEW BUSINESS FOR AFRICAN FARMERS

Two decades ago, all the grain for our breweries in Africa was purchased from abroad. The imports required precious foreign currency and represented a lost business opportunity for local farmers. In central Nigeria, we joined a project to develop the cultivation of a beer-friendly variety of sorghum, the staple food in the region, and invested in seed research and development. The project identified a usable sorghum cultivar, trained farmers to grow the crop and worked with millers on processing the grain to our brewers' specification.

Sorghum farmers reported a 35-50% increase in yield and a 50% uplift in the price they could get for their crop – an increase in profitability that encouraged others to join the industry. Today, our breweries in Nigeria source 95% of their grain from local farms, sustaining around 27,000 jobs. The new business has improved the quality of life for farming families, with more able to improve their homes and run motorbikes. An increased ability to participate in the *hajj*, the pilgrimage to Mecca, has enhanced the social status of many.

In Uganda there was similar scope for development, but this time we worked to introduce barley to the cooler Kapchorwa district. Starting in 2003,

THE VALUE CHAIN



'It is very welcome that companies have decided not simply to talk about health but to integrate it in marketing and product development activities making health part of the strategic vision of some of the leading players in Europe.'

ANDROULA VASSILIOU,
EUROPEAN HEALTH
COMMISSIONER

we provided seed, fertiliser and pesticides interest-free to 50 farmers, training them to cultivate the new crop. Farmers' incomes more than doubled as a result of higher yields and firmer farm-gate prices. Today, around 12,000 people – farmers and their families – are supported by barley, which is now known as the 'school fees crop' for its record of improving the educational chances of farmers' children.

In northern Ghana, our participation in a project to promote local sorghum cultivation is only two years old but is already reaping rewards. Over 3,500 farmers are involved in the project. Production has increased from 100 to 900 tonnes a year, with farmers' income rising more than tenfold. In Kenya, where we already source more than 60,000 tonnes of barley from the Mount Kenya region, we are investing in sorghum cultivation in the Eastern, Western and Rift Valley provinces. The completed project will involve 4,000 farmers.

This year, we signed the UK government's 'Business Call to Action' as confirmation of our commitment to the eighth Millennium Development Goal (see page 15) – to support a global partnership for development. At an event hosted by UK prime minister Gordon Brown, we presented our plan to develop sorghum farming in Cameroon as an example of how, by investing in developing countries, companies can contribute to the economic development of communities. The project, which will provide a sustainable local source of grain for our brewery in Cameroon, will also provide work for local farmers, train them in new skills, resulting in higher incomes for rural families. Diageo will also benefit from more prosperous and sustainable communities and stronger stakeholder relationships.

When fully in place, we estimate that the new agriculture in these five countries will support 500,000 people.

SUPPLIER STANDARDS

The standards we expect are set out in a document 'Partnering with Suppliers'. Satisfying our supplier standards is now a formal part of our qualification process for raw material suppliers. To confirm that our suppliers maintain these standards we use the independent Suppliers Ethical Data Exchange, or Sedex, through which participating suppliers post self-assessments on-line. These can be accessed by any of their customers signed up to the scheme, eliminating the duplication of reporting separately to each.

Of the approximately 20,000 businesses that supply Diageo, the 2% that we consider represent the highest risk are in the process of posting self-assessments. A sample will be independently audited against Ethical Trading Initiative standards of human rights, labour conditions and health and safety and gaps identified

for improvement. We are playing a leading part in a consumer goods industry initiative to make the process consistent across all the companies involved. This year, the Sedex tool was extended to include sections on anti-corruption, bribery and environmental management (sedex.org.uk).

Responding appropriately to any shortcomings revealed by such assessments presents a number of dilemmas. Simply withdrawing our custom from a non-compliant supplier could displace the problem rather than solving it. 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 supplier's loss of business could have wide economic implications. Our aim is to balance these risks and work with suppliers assessed as non-compliant to help them improve. In cases where the supplier fails to move towards compliance, we retain the sanction of seeking alternative sources of supply. This year we stopped doing business with a supplier in Asia which refused to report its performance; and we have not progressed relationships with others because of concerns about their ethical record.

This year we worked with suppliers and industry partners in Scotland to develop a programme that employers can use to raise awareness of alcohol issues among their staff. 'Thinking about drinking' uses still and moving images to show how alcohol can affect ourselves, our families and communities, and helps people make more informed decisions about drinking or not drinking. We will make the presentation CD, along with presenter notes and other materials, available to our key suppliers and the wider community. It will also be available to employers through the Scottish Government & Alcohol Industry Partnership.

CUSTOMER RELATIONSHIPS

Our customers are the businesses which distribute and retail our brands. Although each market has its own structure, our customers typically comprise major retailers which sell direct to consumers through the on-trade (bars, restaurants and clubs) or off-trade (supermarkets and stores), and wholesalers and cash-and-carries which supply off-trade retailers of different sizes and the on trade. We create business for our customers by providing them with our brands and by offering commercial skills and resources to encourage demand and maximise customers' returns.

We continually review our products and seek to meet consumers' changing needs through innovation, investing £17 million in research and development during the year. We want to see high standards of corporate citizenship throughout the demand side of our value chain and look particularly to our strategic relationships with major customers to advance this.



To avoid confusion that may arise from a voluntary scheme, we called on the UK government to make pregnancy guidance on alcohol beverage labels mandatory

Our aim is to provide our customers with the best overall service in every market. In our top 29 markets – covering the majority of the business – we survey major customers, distributors and our own employees annually to monitor the strength of our relationships and allow customer views to be taken into account in our business decision-making. The survey covers customer perceptions of our leadership, expertise, performance and partnership. The results have enabled us to focus on what really matters to our distributors and retail customers and so build our capability to a higher level.

This year, we have specifically focused on partnering more closely with our customers by developing joint business plans that deliver mutual gain, developing strategies that drive performance across beverage categories as well as for individual brands, and seeking out opportunities to partner on community projects and responsible drinking (see page 11 for some examples). With our distributors we have worked in partnership to help them build their capabilities to improve both their business performance and their relationships with their own customers.

HIGH QUALITY BRANDS

Consumer confidence in the quality of our brands is essential to the sustainability of our business. Each Diageo supply business has a quality management system which aims to ensure, among other things, that responsibilities for quality are clear, personnel are properly trained, quality is monitored and suitable targets are set for improvement. We review and continuously improve the way we work. Our manufacturing sites are regularly reviewed under our Licence to Operate programme (see page 34) to monitor compliance with legislation and with Diageo's quality management standards.

Issues raised about our brands are investigated and resolved wherever possible to the satisfaction of the consumer or customer and corrective action is taken to prevent recurrence. While we monitor all complaints, we prioritise high severity product quality complaints – those with the potential to cause a significant negative impact on Diageo's reputation, brand image or continuing customer relationships or with significant cost implications.

The quality of our manufacturing processes, management structures and capabilities are the focus of the Perfect Plant programme, launched this year. The scheme aims to increase best practice sharing between sites as well as learning from industry leaders. This year, Perfect Plant went live at eight supply sites in the UK, USA, Philippines and Cameroon. Our aim is to reinforce a culture of continuous improvement by implementing the programme at all sites over the next 12-18 months.

INFORMATION FOR CONSUMERS

Three years ago we began an initiative to provide consumers with more information about our brands, including nutritional values, allergen advice, macro-nutrients and responsible drinking reminders. The information is available on a website (knowyourdiageodrink.com). Implementation has also involved changing labels and some packaging on thousands of stock items, a task which is now 40% complete for labels.

BRAND INTEGRITY

Counterfeiting is a problem for many businesses with highly sought-after brands. Illicit practices affecting our industry range from refilling genuine bottles with inferior brands to the commercial-scale manufacture of counterfeit beverages and packaging. Such practices cause loss of tax revenue for governments and, in the worst cases, can present a health hazard to consumers. Our business suffers a loss from counterfeiting estimated at £100 million a year.

We use a range of measures to deter counterfeiters, such as covert pack markings and anti-refill fittings in bottles. We work to raise awareness among legislators and support law enforcement agencies by training their officers and helping them take action against criminals. We provide trading standards investigators with equipment for testing the authenticity of beverages. Such tools can help spot a forged brand quickly, making convictions of counterfeiters more likely. And because fakes are an issue for much of the spirits industry, we share intelligence with other companies on enforcement issues.

CONSUMER HEALTH AND WELL-BEING

Under the chairmanship of Diageo's European president, the European Brands Association, known as AIM, this year completed a dialogue with the European Commission – and, in particular, with the commissioner for health and the director-general for health and consumer protection – to agree a charter on health and well-being. This has now been endorsed by Diageo and 53 other leading branded goods manufacturers which have thereby declared an interest in improving the health and well-being of their consumers, their employees and their communities. More specifically, they undertake to integrate this ambition into their commercial activities, including the development and marketing of their products.

CONSUMER PRIVACY

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

'It's good to know that the number one Scotch whisky force in the world is a quality act.'

PATIENCE GOULD, CHAIRMAN OF THE JUDGES FOR THE SCOTCH WHISKY MASTERS, COMMENTING ON DIAGEO'S HAUL OF EIGHT MASTERS, FOUR GOLDS AND ONE SILVER MEDAL

GOVERNANCE, ENGAGEMENT AND COMMITMENTS



Keeping closely engaged with our stakeholders gives us insight into their concerns and helps inform our business decisions.

GOVERNANCE

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

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

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

The alcohol and responsibility executive working group complements the work of the corporate citizenship committee by bringing together key executives and functional representatives to co-ordinate and realise Diageo's commitment to responsible drinking.

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

There is an HIV/Aids taskforce in each of our African markets. Other ad hoc groups are brought together as required to formulate responses to particular issues. Compliance with policy and achievement of citizenship performance targets are included in the personal objectives of individuals directly responsible for the underlying issues.

ENGAGING OUR STAKEHOLDERS

We face a wide range of expectations from our various stakeholders, namely investors, employees, commercial partners (including suppliers, customers, distributors and joint venture partners), government, community, the media and consumers, all of whom – to a greater or lesser extent – demand to be heard and involved in company activities and decisions. Stakeholders expect our business not only to generate revenue but to have a positive effect on society and minimise whatever adverse impacts may stem from our operations.

In response to this, through risk and opportunity analysis, our corporate relations team co-ordinates appropriate engagement with each stakeholder group. The top 40 Diageo markets, representing the vast majority of our business, have plans for communicating with stakeholders who we are and what we stand for, how we listen to views, exchange ideas and gather early warning of stakeholder concerns to help us make better-informed business decisions.

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

Employees are kept informed by a variety of means about changes that affect them; their opinions are polled through the annual values survey and other means; they are consulted through team meetings and employee forums; and they have opportunities to learn the context of decisions in management briefings as well as to challenge them.

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



POLICIES

Code of business conduct – sets out our standards on business integrity issues

Marketing code – guidance on responsible advertising, promotion and innovation

Code of ethics – standards of honest and ethical conduct of specified senior officers of Diageo

Human rights policy – working environment, dignity at work, life balance, employee engagement, releasing potential and rewarding and valuing people

Environmental policy – systems of management and standards

Supplier standards – ethics and human rights; a key element of sourcing decisions

Employee alcohol policy – guidance for employees on alcohol issues

Consumer information policy – information standards concerning our brands

Occupational health and safety policy – health, hazardous materials, first aid, noise, ergonomics and equipment

Quality policy – quality management systems and commitment to continuous improvement.



By signing the Global Compact in 2002, Diageo became part of the world's largest corporate responsibility movement

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

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

Media relations are fostered through briefings, meetings and press releases; our chief executive and business managing directors maintain contacts with senior journalists; key employees are trained in media skills and we have a global network of media professionals. The media are regularly surveyed to assess how we meet their needs for fair reporting and analysis of our business.

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

DIAGEO POLICIES

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

The code of business conduct acts as an overarching compliance instrument by including a requirement to comply with the company's other global policies. All Diageo managers throughout the world – around 3,000 people – are required to complete an annual compliance certificate, which signifies adherence to the code and thus to other Diageo policies, not only by themselves but also by people reporting to them. This year, the process brought 288 potential issues to light, including possible employee conflicts of interest and potential issues concerning our entertaining and expenses policies.

In addition, Diageo Korea and several of its current and former employees were subject to investigations by Korean authorities regarding various regulatory and control matters. Some of these investigations are continuing and Diageo is also investigating these matters.

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

Employees – predominantly managers – receive training in the code through workshops or internet-based programmes. For example, Project Integrity is a programme of half-day workshops on governance, business conduct and other policies and includes case studies on corruption, money laundering and other compliance issues. More than 100 workshops were held across all regions during the year.

EXTERNAL CODES AND CHARTERS

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

UN Global Compact – signed by Diageo in 2002, the ten principles of the UNGC provided valuable input to the formulation of our policies. Through membership of the Global Compact UK Network of signatory companies, we contributed during the year to the development and promotion of the UNGC, including managing a procedure for maintaining the integrity of the Compact through peer-reviewing members' communications on progress' (see page 35).

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

Business Charter for Sustainable Development – drawn up by the International Chamber of Commerce and supported by Diageo since 1997, the charter sets out 16 principles of environmental management which influenced the drafting of the Diageo environmental policy.

CEO Water Mandate – in recognition of the significance of water to our business, this year we endorsed this UN Global Compact initiative. The mandate is a series of pledges to act to address the growing water crisis faced by the world as pressures intensify from climate change, population growth and development (see page 4).

GOVERNANCE, ENGAGEMENT AND COMMITMENTS



14

COUNTRY-LEVEL
CORPORATE
CITIZENSHIP
REPORTS
PUBLISHED

MANAGING RISK

Our structured approach to managing social, environmental and economic impacts helps us manage risk more efficiently, strengthen our reputation and brands, avoid or reduce occurrences that could cause loss, and build trust with stakeholders. Our ability to manage such impacts well today is crucial to our ability to thrive in the future.

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

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

Licence to Operate is a Diageo tool designed to reduce risk at our supply sites by assessing compliance with legislation and with our own global risk management standards. It covers quality, environment, occupational health and safety, and, since this year, security, business continuity, contractors and suppliers. In the last two years, 2,500 reviews have been carried out under the scheme, and 20,000 improvement actions taken.

'Just as Diageo has a global brand director for Guinness, it now has a global brand director for attitudes to alcohol. That's an emphasis and focus that I want to see more of across the industry.'

**JACQUI SMITH MP,
HOME SECRETARY, SPEAKING
ON THE BRITISH GOVERNMENT'S
ALCOHOL STRATEGY**

FORWARD-LOOKING STATEMENTS

This document contains certain forward-looking statements within the meaning of Section 27A of the US Securities Act of 1933 and Section 21E of the US Securities Exchange Act of 1934. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. In particular, all statements that express forecasts, expectations and projections with respect to future matters, including trends in results of operations, margins, growth rates, overall market trends, the impact of interest or exchange rates, the availability of financing to Diageo, anticipated cost savings or synergies and the completion of Diageo's strategic transactions, are forward-looking statements.

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

All oral and written forward-looking statements made on or after the date of this document and attributable to Diageo are expressly qualified in their entirety by the 'risk factors' contained in Diageo's annual report on Form 20-F for the year ended 30 June 2008 filed with the US Securities and Exchange Commission (SEC). Any forward-looking statements made by or on behalf of Diageo speak only as of the date they are made.

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

UNGC COMMUNICATION ON PROGRESS



GLOBAL COMPACT PRINCIPLES

EXAMPLES OF PRACTICAL ACTIONS AND OUTCOMES

Human rights

Businesses should:

1. Support and respect the protection of internationally proclaimed human rights

This year's launch of our annual Zero Harm strategy demonstrates the importance of safety to everyone working at Diageo. We have recorded a 25% reduction in accidents this year (and a 39% reduction in the last two years) and aim to halve the total by 2011. This year we launched a global pandemic flu programme, designed to protect our business and our people in the event of a serious outbreak. It includes arrangements to offer access to antiviral medication to our employees and their families.

2. Make sure they are not complicit in human rights abuses

Our 'Partnering with Suppliers' standard, based on the ILO conventions, sets out our commitment to uphold human rights in our supply chain. We have identified the 2% of suppliers that represent the greatest risk and have worked with them on self-assessment against Sedex standards.

Labour standards

Businesses should uphold:

3. The freedom of association and the effective recognition of the right to collective bargaining

The right of all employees to freedom of association is specified in our human rights policy. There are various ways in which people can report concerns, including a Speak-Up helpline and our annual values survey, both of which guarantee strict confidentiality.

4. The elimination of all forms of forced and compulsory labour

We do not use forced or compulsory labour. Labour standards are included within our 'Partnering with Suppliers' standard, which encompasses the nine principles of the Ethical Trading Initiative base code. Participation in Sedex further supports this principle.

5. The effective abolition of child labour

We make no use of child labour. Labour standards are included within our 'Partnering with Suppliers' standard, which encompasses the nine principles of the Ethical Trading Initiative base code. Participation in Sedex further supports this principle.

6. The elimination of discrimination in respect of employment and occupation

We have introduced new standards and assessment guidelines for internal and external recruitment. These include a global competency framework which allows all candidates to be assessed against the same criteria. Documentation, assessment and testing materials are translated into the candidate's mother tongue to ensure that no candidate is disadvantaged.

Environment

Businesses should:

7. Support a precautionary approach to environmental challenges

Developments begun this year at Cameronbridge will divert wastewater to an anaerobic digester which will remove virtually all BOD discharges. Burning the resulting methane will provide the plant with 97% of its energy needs and save 41,000t of greenhouse gas emissions.

8. Undertake initiatives to promote greater environmental responsibility

A Wastewatchers team has been established at the Gleneagles hotel to help raise awareness and change working practices among the 800 staff. Waste is now segregated into six streams to facilitate recycling.

9. Encourage the development and diffusion of environmentally friendly technologies

We established a new key technology group to provide support in the disciplines we are likely to use repeatedly in our sustainability journey – eg, biomass combustion, bio-energy, solar energy, and water treatment and recovery. We are building a new malt whisky distillery at Roseisle in north-east Scotland, close to two existing Diageo maltings. The use of membrane filtration, biomass combustion and anaerobic digestion will provide most of the energy to generate steam for the distillery and mean that, compared with the two existing sites, the three sites together will use 83,000m³ less water and discharge 280t less organic pollution as BOD. A new biomass boiler at Gleneagles provides around 75% of the hotel's heat requirement and will save around 2,000t of carbon emissions a year. At our Philippines production plant, changes to our cleaning and wastewater treatment processes saved a total of 5,000m³ water a year.

Anti-corruption

Businesses should:

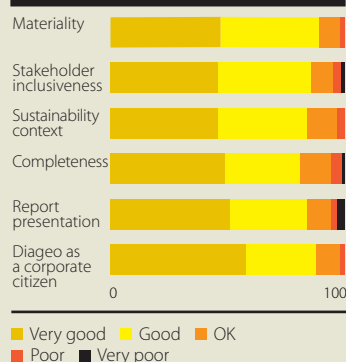
10. Work against all forms of corruption, including extortion and bribery

This year we held employee workshops on our code of business conduct, covering topics such as bribery and corruption, in countries including Australia, Brazil, Cameroon, Chile, China, Colombia, Dominican Republic, Ghana, Kenya, Korea, Mexico, Nigeria, Paraguay, Peru, Singapore, South Africa, Thailand, Uruguay, Venezuela, Vietnam and the USA.

ABOUT THIS REPORT



Stakeholders' ratings of the 2007 Diageo Corporate Citizenship Report %



89%
RESPONDENTS
RATED DIAGEO
A GOOD OR
VERY GOOD
CORPORATE
CITIZEN



With reference to Global Reporting Initiative definitions, we have assessed this report as level A+

SCOPE

This report covers the global operations of Diageo plc in the financial year ended 30 June 2008 and was published in September 2008. Dates refer to financial years unless otherwise stated. Financial and employee information applies to the whole of Diageo on the same basis as in Diageo's annual report. Community data cover wholly-owned Diageo businesses as well as locally-quoted companies and joint ventures in which Diageo has a controlling share; environmental data cover production and distribution sites and large office locations (those at which at least 50 employees are based) within the same businesses and include the Gleneagles Hotel in Scotland.

AUDIENCE AND CONTENT

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

When compiling the report, our aim was to cover all significant topics of common concern to our stakeholders. In determining these, we have been guided by the GRI principles of materiality (including what's important), stakeholder inclusiveness (responding to the reasonable interests of all groups), sustainability context (presenting performance against a background of sustainability) and completeness (including sufficient information). Topics included and the emphasis they have been given in the report were determined by senior specialists within Diageo, whose task was to interpret our values, policies and strategy, stakeholder views and broader societal expectations.

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

STAKEHOLDER VIEWS

We welcome stakeholders' views on our report and on our approach to sustainability. Reports include a card on which readers can rate how well the report meets the GRI principles mentioned above. There is also a response page on the website. We received 181 responses concerning last year's report, mostly from shareholders (59%) and consumers (25%). Respondants may have belonged to more than one group.

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

REPORTING PROGRAMME

We have published corporate citizenship reports annually since 2003, the last being dated September 2007. While we strive always to improve our coverage and methods of measurement, no fundamental changes have been made to the business or our reporting this year that would invalidate comparison with the 2007 report.

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

For a full picture of Diageo's approach to citizenship it is useful to consider the business not only from a global perspective but also at country level. In the last three years we have published – or are now preparing – reports on Diageo in Canada, East Africa, Ghana, Greece, Ireland, Italy, Jamaica, Korea, Nigeria, Seychelles and Thailand. We have also prepared a report supplement on our business in Africa. All reports are available on the website and in print, often in a choice of languages.

REPORTING STANDARDS

We aspire to best practice in reporting and aim to provide an account of Diageo which allows readers to track our performance over time and make comparisons with other companies. We have prepared this report with reference to the third version of the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines, known as G3 and have been guided by the GRI quality principles of balance, comparability, accuracy, timeliness, clarity and reliability.

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

EXTERNAL ASSURANCE

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

SUMMARY EXTERNAL ASSURANCE STATEMENT



Diageo has commissioned Corporate Citizenship to provide it with external assurance and commentary on its Corporate Citizenship Report 2008. Diageo's management has prepared the report and is responsible for its contents. Our objectives were to review and advise on aspects of its contents and presentation, to conduct selected checks on underlying corporate records, and so provide this statement for which we have sole responsibility. A full version of our assurance statement is available at diageo.com, including information about Corporate Citizenship, our relationship with Diageo and the assurance process we have adopted. This statement summarises our principal findings.

OUR OPINION

In our opinion, this year's report provides a fair and balanced representation of the material aspects of Diageo's performance in 2008. We have examined the strategies, frameworks and processes Diageo has in place for identifying, understanding and managing issues related to corporate responsibility. Where we believe gaps in performance data and stakeholder views on material issues exist, they are identified below.

In forming our opinion and making our comments, we have had regard to the principles underlying the assurance standard AA1000 (accountability21.net) notably those concerning materiality, completeness and responsiveness. We have also had regard to the reporting guidance for content and the principles for defining quality contained in GRI's G3 sustainability reporting guidelines (globalreporting.org).

COMMENTARY

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

This report demonstrates an improvement in Diageo's corporate responsibility performance and in its reporting of it. It has kept a similar reporting format to the last two years and improved on it, continuing to highlight those economic, social and environmental issues that our assessments show to be most material to Diageo and its stakeholders. It is well-balanced, containing a mix of data, commentary and examples that show how Diageo policies and principles are lived out, for example in relation to responsible marketing.

Diageo demonstrates its commitment to being a values-led organisation by once again reporting further improved levels of staff engagement,

a notably large increase in the number of 'super-engaged' employees and comparing favourably to a benchmark of high performers. Strongly related to this is the importance placed by Diageo on employee health and safety which was confirmed by our site visits, performance over the reporting period, and the wider assurance process.

Diageo continues to display close alignment of its citizenship activity with its core impacts along the value chain, for example by signing the CEO Water Mandate and further extending its Water of Life projects. The company has also shown leadership in engaging on responsible drinking with bodies such as the World Health Organisation and others.

LOOKING AHEAD

Completeness Over the past years we have recommended that Diageo more fully explain the functioning of the alcohol industry around the world. Whilst this report clearly explains what measures are taken to promote responsible drinking by the company we continue to believe that more attention be given in future reports to how its products reach consumers, pricing structures and the extent of influence Diageo has with various forms of wholesaling and retailing.

The report identifies membership and involvement in the formation of social aspects organisations as a major contribution to address alcohol misuse. The report would be more complete if it explained in greater detail how these organisations operate. Diageo should also explain more fully its relationships with trade associations and what happens if and when a conflict arises between Diageo's citizenship and the public policy positions of these associations on regulatory matters.

Materiality Diageo is faced with the challenge of reporting activities across 180 markets globally and doing so in a concise and structured fashion. This poses a challenge when considering materiality at the group level as some issues such as water scarcity and alcohol misuse are more relevant in some markets than others.

This latter aspect of materiality in particular is largely driven by the differing values and customs of societies in relation to alcohol. Stakeholders would benefit from an understanding of who typical consumers of key Diageo brands are and what their respective behaviours and attitudes to alcohol are around the world. Ethical standards also differ market to market: a more detailed explanation could be given as to how adherence to the Diageo code of business conduct is ensured as well as the outcomes of corrective action around the world.

Responsiveness In response to the diversity of its local markets Diageo has made a rare commitment to regular country level reports. More explicit links

could be made between the group citizenship report and that of country reports to the advantage of both international and local stakeholders.

The reconstitution of the environment working group to an executive level signals responsiveness to increased concern regarding performance in this area. Shifting to absolute targets means care must be taken to ensure that changes to the business through acquisition or other changes can be incorporated into target setting and that progress over time is comparable. We recommend future reports extend reporting of key impacts, particularly in greenhouse gases and water throughout the value chain.

Previously we have welcomed the inclusion of an up-front assessment of the rationale for, progress towards, and future commitments in regard to, business priorities. We recommend its reinstatement into future reports. Similarly, we feel consolidation of future targets would provide readers with a clear and succinct overview of where and how Diageo is focussing its attention.

Global Reporting Initiative We concur with Diageo's own assessment that the report has achieved GRI application level A+. This endorsement is the result of an assessment we conducted as part of the assurance and in keeping with the guidelines of the Global Reporting Initiative.

LBG ASSURANCE STATEMENT



Diageo is an active member of the LBG (London Benchmarking Group). The LBG model helps businesses improve the management, measurement and reporting of their corporate community involvement programmes. It moves beyond charitable donations to include the full range of contributions (in time, in kind and in cash) made to community causes, and assesses the actual results for the community and for the business (lbg-online.net). As managers of the LBG, we have worked with Diageo to ensure that it understands the model and has applied its principles to the measurement of community investment during the year. Having conducted an assessment, we are satisfied that this has been achieved. Our work has not extended to an independent audit of the data.

Corporate Citizenship
www.corporate-citizenship.com
19 August 2008



Mixed Sources
Product group from well-managed
forests and other controlled sources
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DIAGEO

Diageo plc

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

Registered in England
No. 23307

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