



Communications on Progress

UN Global Compact

CEO Water Mandate

2010

“Our continued support for the Global Compact and the CEO Water Mandate is an important part of our commitment to enriching lives, communities and the environment through good business.”

Paul S Walsh, Chief executive

Human Rights

Examples of practical actions and outcomes

Businesses should:

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

Revised this year, Diageo's Human Rights Policy recognizes "our broad responsibility embodied in the expectations of civilized society and in the Universal declaration of Human Rights to use our influence to promote and protect human rights and freedoms by establishing clear ethical standards for ourselves and foster similar standards in all third parties who act with us or on our behalf." Applying to all Diageo and subsidiary employees, it provides information about the management and monitoring process for the policy as well as guidance for issues such as Dignity at Work, Life Balance, Releasing Potential, Reward, Valuing People, Employee Engagement, Respect for National Sovereignty, Working Environment and Community involvement.

Below are additional ways in which the business supported and respected the protection of internationally proclaimed human rights this year.

Right to Life

In support of the right to life, our 1 Million Challenge aims to deliver a source of clean water to a million people a year in Africa until 2015. Thus far our projects have reached 4 million people. A few specific projects include:

- In Kechene, a region of Addis Adaba in Ethiopia which has lacked access to safe drinking water and sanitation for many years, Diageo is working in partnership with African Medical Research Foundation, AMREF, to provide clean, safe drinking water.
- The Water Filter Enterprise programme in West Africa aims to build a sustainable market for affordable household CrystalPur™ water filters to reduce waterborne disease amongst 250,000 people in Ghana and Nigeria.

Right to Education

In support of the right to education, our Learning for Life program aims to train 50,000 people throughout Latin America and the Caribbean. The program seeks to provide life skills and training in the areas of tourism, retailing, the arts, hospitality, entrepreneurship, and teaching to give people a real chance of finding employment and becoming active contributors to their communities. Since the launch of the programme in 2008 over 21,000 students have graduated. This year alone, we ran 35 projects in over 15 countries.

In our own business, some examples of what we have done towards the right to education include:

- The Pan-African Graduate Trainee Programme aims to transform the way that Diageo develops and retains talented individuals at the start of their careers. The programme has recruited 140 graduates since its launch in 2008 and is structured around three rotations that give between 12 and 18 months experience in supply, commercial and specialist functions.
- The Diageo Academy, our global online e-learning and development resource was completely redesigned and re-launched to place more emphasis on functional learning. It had 16,614 users during 2010.
- We have revised our approach to coaching with the launch of the

Breakthrough Performance Coaching programme. Ten markets piloted this leading-edge initiative during 2010 and it will be launched globally in 2011. We have placed particular focus on early career development to ensure that people get the best possible start to their time with Diageo. There are early career programmes running in all regions.

Fair treatment, nondiscrimination, freedom of thought, freedom of association

Revised in 2010, our Code of Business Conduct (CoBC) shows our commitment to conducting our business responsibly and in accordance with the law and regulations to which our business activities are subject. The CoBC sets out guidelines for the way we work and our commitments to each other and to the business and set the standard for what is expected of all Diageo employees. It is supported by comprehensive mandatory training programme throughout the year that was rolled out to all Diageo employees worldwide.

The right of all employees to freedom of association is specified in our human rights policy. Employees can raise concerns in a variety of ways, including our Speak-Up phone line and our annual values survey, both of which guarantee confidentiality. All breaches of Diageo's human rights policy is a breach of the Diageo Code of Business Conduct. All Diageo employees are free to join trade unions; we do not monitor membership.

Right to well-being and life balance

In 2007 we launched the Zero Harm programme with the ambition that 'everyone goes home safe, everyday.' Under this programme, we set targets to reduce accidents by 15% each year between 2007 and 2011 and to halve the total accidents in that timeframe. In 2010, we achieved a 30% reduction in accidents. We also reduced our Lost Time Accident Frequency Rate by 70% compared to 2007, exceeding our target of 50% by 2011.

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

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

Diageo is committed to providing a place of work that is free from bullying or harassment and that the work environment provides an atmosphere of respect, collaboration, openness, safety and equality. In support of this we has introduced a Dignity at work policy for UK and Ireland, including mediation as an effective and progressive way of resolving workplace conflict.

Our Speak-Up line gives employees a confidential way of raising any concerns including potential human rights issues.

Labour Standards

Businesses should uphold:

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

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

We do not use forced or compulsory labor. We wish to see the same standards in our supply chain as in our own operations. Suppliers are required to comply with our Partnering with Suppliers standard, which is based on the UNGC and ILO principles. We use SEDEX as an independent database to evaluate the performance of those suppliers we deem to present a higher risk, based on such factors as the country of operation and the potential impact on our brands.

We are a leading player in the AIM-Progress task force, an FMCG sector collaborative initiative whose aim is to improve responsible sourcing through the supply chain.

With the economic empowerment that comes with employment, young people are less vulnerable to exploitation. In Latin America and the Caribbean, our Learning for Life programme aims to provide 50,000 young people with the skills and confidence they need to compete and succeed in employment in the legitimate economy. Under the programme, we have begun projects in the four focus areas of tourism, retailing, hospitality and the arts. Since the launch of the program in 2008, over 21,000 students have graduated. This year alone we ran 35 projects in over 15 countries.

5. The effective abolition of child labour

We do not use child labour. Our approach to responsibility in our supply chain is described in (4) above.

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

Our policies to encourage diversity 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 without bias. Opportunities 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 compatible with a variety of lifestyles.

The proportion of women holding senior management positions continues to be a key inclusion and diversity indicator and has increased to 26% from 24% in 2007. We recognize we still have significant improvement to achieve to reach our target of 30%. Additionally, Diageo North America was named one of the Top Companies by the national Association for Female Executives in 2010.

In overseas assignments, we aim to increase the proportion of roles filled by people from outside the UK. This has grown from 59% in 2009 to 66.9% this year.

We continue to support the growth of employee networks that provide support for women and minority groups within Diageo. Two Rainbow Networks, groups of employees whose aim is to promote awareness of workplace equality and gay, lesbian, bisexual and transgender (GLBT) issues, operate in the US and the UK and two Spirited Women networks operate in the US as well as the UK and Ireland. For the second year in a row, the Human Rights Campaign Foundation gave Diageo North America a 100% score in its Corporate Equality Index rating the equality of GLBT employees in the workplace. Also, the Human Rights Campaign Foundation has named Diageo as one of the Top 100 places to work for the past 3 years and the Association of Diversity Councils placed Diageo on their Top 25 list in 2009 and 2010.

Environment

Businesses should:

7. Support a precautionary approach to environmental challenges

In our environmental policy we commit to take a precautionary approach, which is consistent with prevailing understanding and does not depend on having full scientific proof of specific damage.

Licence to Operate (LTO) is a Diageo tool designed to reduce environmental and other risk at our supply sites. In 2010, we conducted a comprehensive review of our LTO approach and following a successful pilot, we re-launched LTO Independent Assurance and implemented an enhanced, risk-based approach across our operations. During the second half of 2010, we audited 14 sites across our operations. We plan to continue implementation across all our operations in 2011.

Our active involvement with the Beverage Industry Environmental Roundtable allows us to share our experience with others in our industry and agree to consistent approaches to measurement and reporting.

8. Undertake initiatives to promote greater environmental responsibility

Our aim is to achieve and maintain environmental sustainability, causing neither long-term depletion of natural resources nor lasting damage to species, habitats, biodiversity or the climate.

Working towards targets set for 2015, we have completed initiatives at many sites this year, resulting in improvement such as: a 10.5% reduction in greenhouse gas emissions, 8.3% less water used to make each litre of product, 71.7% less waste sent to landfill and a 2.3% reduction in effluent polluting power, all since 2007. Unlike the progress made against our other environmental targets, water wasted in water stressed sites went up 11.1%, primarily driven by an increase in production at these sites. We recognise that substantial work needs to be done to reach our goal of 50% reduction by 2015 and are aiming to implement a number of improvements as a result of a focused project targeted at breweries in Africa.

This year, we developed sustainable packaging guidelines in order to drive packaging design and implementation that will help year-on-year environmental improvements.

In March 2010, we partnered with the International Business Leaders Forum (IBLF) to launch a series of business roundtables to identify the role business can play in supporting effective and fair water policies.

We also developed Sustainable Agricultural Sourcing Guidelines to enable us to focus our supply chain activity more effectively and improve our social, economic and environmental performance.

9. Encourage the development and diffusion of environmentally friendly technologies

Within our Environmental policy, we note our commitment to research the impacts of our operations and supply chains and the means of minimising them. Technological solutions have been employed at many sites this year and are described on pages 30 to 41 of the corporate citizenship report 2010.

We opened a new state-of-the-art rum distillery in St. Croix, U.S. Virgin Islands, setting a new standard for environmentally robust production. The barrel warehouse buildings use natural warehouse lighting and roof ventilation systems to lower energy use and feature rainwater harvesting to support best practice on-site environmental management. By-products from production at the distillery will be biologically degraded to generate gas for use as fuel in the plant, creating a renewable energy source for the site that reduces its annual CO₂ emissions by approximately 15,000 tonnes per year. The distillery also captures and recycles over 90% of washwater through a closed loop water system, thereby minimizing water consumption and preventing any washwater disposal into the Caribbean Sea. The new 20-million-proof gallon distillery also follows the Leadership in Energy and Environmental Design (LEED) certification principles, an internally recognized set of environmental building benchmarks.

We opened Roseisle, a new award-winning whiskey distillery in Scotland. Roseisle uses cutting-edge technology to recycle distillery by-products and generate on-site bio-energy. Roseisle aims to reduce CO₂ emissions by approximately 13,000 tonnes per year through direct savings on fuel use for steam raising. For its building design, the Roseisle distillery at Morayshire in Scotland was awarded the 'Scottish Building Project of the Year' as well as the Sustainability Award by the Royal Institute of Chartered Surveyors in Scotland (a group of some of Scotland's top Chartered Surveyors and property professionals).

At the Cameronbridge distillery in Fife, Scotland, a process of continuous analysis and improvement delivered a 25% improvement in water efficiency from 2009. Additionally, we are investing £65 million in a bioenergy facility at Cameronbridge, which will treat wastewater on site and convert 'spent wash' into renewable energy, and is expected to reduce the site's wastewater polluting power by 99% and supply more than 30% of its water needs through recycling when fully operational. We expect the bioenergy facility to commence operations by the end of 2011.

In Huntingwood, Australia, an innovative design allows us to recover, cool and reuse water in vacuum pumps, saving 18 million litres per year. This has led to a 43% reduction in water usage since 2001. This idea has been implemented at several other Diageo sites.

Our bottling site in Plainfield, Illinois in North America was one of 8 Diageo sites to achieve our group-wide zero waste to landfill target during this year. Through an expanded recycling programme and a new by-product re-use initiative, Plainfield eliminated landfill waste, preventing 200 tons of waste per year from reaching landfill.

Anti-Corruption

Businesses should:

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

We are committed to conducting our business responsibly and in accordance with the law and regulations to which our business activities are subject. Diageo's Code of Business Conduct (CoBC), which provides guidelines on how to ensure proper and ethical business relationships, is supported by comprehensive mandatory training programme throughout the year that has been rolled out to all Diageo employees worldwide this year. Among the relevant topics addressed by the CoBC are:

- Bribery and improper payments
- Competition and anti-trust
- Money laundering
- Conflicts of interest
- International trade and free zone sales
- Insider trading

CEO Water Mandate

1. Direct Operations

Water conservation and wastewater treatment at our own plants

We have introduced a holistic water strategy, our BluePrint Strategy, which is based on 3 platforms to affect substantial, sustainable and measurable change: direct operations, community involvement and collective action. We have set targets for improved water efficiency, more water treatment, and absolute reductions in water usage at water-stressed sites.

This year, water efficiency improved 8.3%, waste pollution power decreased 2.3% and water wasted at water-stressed sites went up 11.1% from 2007. Below we identify some positive examples from around the world in water conservation and wastewater treatment, however it should be noted that in the future we are aiming to implement a number of improvements in water stressed areas to improve our performance against our water wasted target.

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

Our Navarro Coreas Winery in Argentina received a gold medal for Sustainable Practices in Wine Tourism in the Great Wine Capitals Best of Wine Tourism 2010 international competition. One of the main factors in helping to garner the award was the site's aggressive water conservation programmes which have delivered an overall water use efficiency of 60% in 2 years.

2. Supply chain and watershed management

Encourage water conservation in our supply chain

We have developed Sustainable Agricultural Sourcing Guidelines to enable us to focus our supply chain activity more effectively and improve our social, economic and environmental performance. In Africa, we have focused on improving local sorghum markets as an alternative to importing barley, which requires abundant rainfall and puts a strain on local climate. Sorghum is less water intensive and can be grown in conditions throughout Africa. This provides local farmers with a sustainable crop and established

commercial market, and helps us to reduce our water footprint in water-stressed areas.

3. Collective action

Work with other to address the water challenge

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

Giving for Good is a programme through which Diageo employees can contribute either directly or by fundraising to a single community cause, which changes each year. In 2010, Giving for Good focused on providing water filter kits to schools and clinics in Ghana.

4. Public Policy

Partner with government and other bodies to advance the water agenda

We presented the results of our IBLF roundtables at the United Nations Global Compact Leaders Summit in New York. The roundtables provided an African perspective on corporate engagement with public policy and allowed us as a business sector to discuss ways to contribute to the UN Millennium Development Goal 7.

5. Community engagement

Support the development of water supplies and sanitation in our communities

In Africa, under our One Million Challenge, we have benefited approximately 4 million people with clean drinking water and sanitation since we launched the project four years ago.

In Kechene, Ethiopia, we are working in partnership with the African Medical Research Foundation to provide clean, safe drinking water. In 2010, we committed a further £44,000 in the project, building an infrastructure established over the last two years to deliver 24-hour access to water.

We established the Water Filter Enterprise programme which aims to build a sustainable market for affordable household water filters to reduce waterborne disease among 250,000 people in Ghana and Nigeria. We partnered with Enterpriseworks/VITA, an international not-for-profit organization who supports local entrepreneurs in the distribution and sale of the water filters, as well as develop local campaigns to educate on the benefits of clean water and hygiene. This programme was highlighted at the Clinton Global Initiative in New York.

6. Transparency

Report on, and be open about, our approach to water issues

We have shared our approach to water with audiences of peers and investors. This is the second year we have provided a full communication on progress against the six mandate pledges.

Our corporate citizenship report, which is widely circulated in print and on the Diageo website, conforms to GRI standards and includes an account of our water management and our ambitious targets for improvement.

Our GreenIQ newsletter provides reports to our employees on our progress

in our water management programme and engages them in further improvements.

Our active involvement with the Beverage Industry Environmental Roundtable and IBLF roundtables allow us to share our experience with others in our industry and agree to consistent approaches to measurement and reporting.