

**WE ARE
DELIVERING
FOR OUR
FUTURE.**

Diageo's journey to
environmental sustainability.

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“For us, sustainability is about being ready for the future – planning for how the world will be in 100 years. Climate change, water scarcity, limited resources and energy prices are all going to have an impact on our business. This is why we are taking decisive action now.”

Paul Walsh
 CEO and Chairman of Diageo’s Corporate Citizenship Committee.

You may be one of the people in over 180 countries who enjoy our premium drinks which include Smirnoff, Johnnie Walker, Guinness, Captain Morgan and Baileys. Unlike many other drinks companies we produce a wide range of products, including beers, wines, spirits and ready-to-drink brands.

Diageo is known as the world’s leading drinks company. While making drinks is our business, managing sustainability is key to our future success.

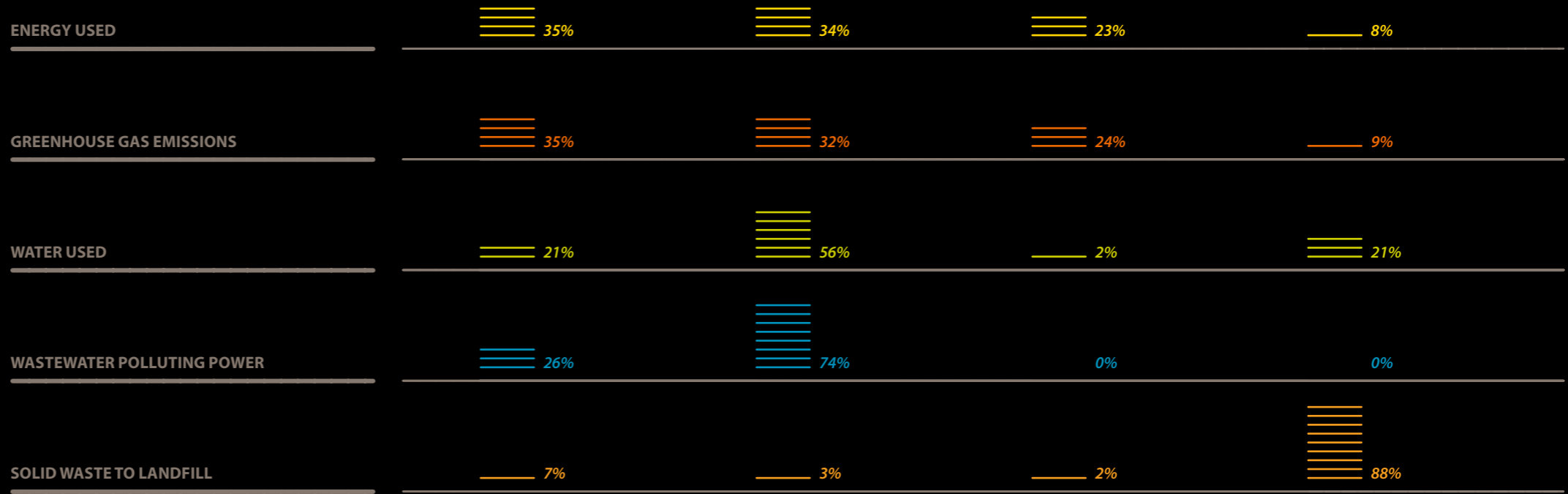
To make the drinks that people enjoy we need a wide range of resources – cereals and water to make the drink; glass to bottle it; over 23,000 employees to produce, sell and market our brands; and fuel to transport it. The use of each of these resources has an environmental impact. Some, like fuel and water, are finite. While others, like cereals, are vulnerable to the effects of climate change.

We want to produce each of the 3.5 billion litres of drinks we make every year sustainably. To do this we need to look at all stages of our value chain – sourcing raw materials carefully; using less energy and water; working with our packaging suppliers to use packaging with the smallest environmental footprint; managing and recycling the waste we produce; and delivering our products in the most efficient way possible. Once our product reaches our customers and consumers we are encouraging them to use it and dispose of the packaging responsibly.



THE JOHNNIE WALKER JOURNEY.

Our sustainability issues can be explained by looking at the environmental impacts of one of our most famous products: the Johnnie Walker family of Scotch Whisky. By looking at the impact of this product along the supply chain, we gained a greater understanding of our environmental footprint, which then informed our approach to sustainability across our business.



Relative impact at each stage of the Johnnie Walker whisky lifecycle.

SUPPLIERS

The Diageo wide impact: Each year we spend £3.6bn with our suppliers. About 15% of this is spent with 150 suppliers of raw materials such as cereals, grapes, sugar and cream, and 20% is spent with 30 packaging suppliers.

PRODUCTION

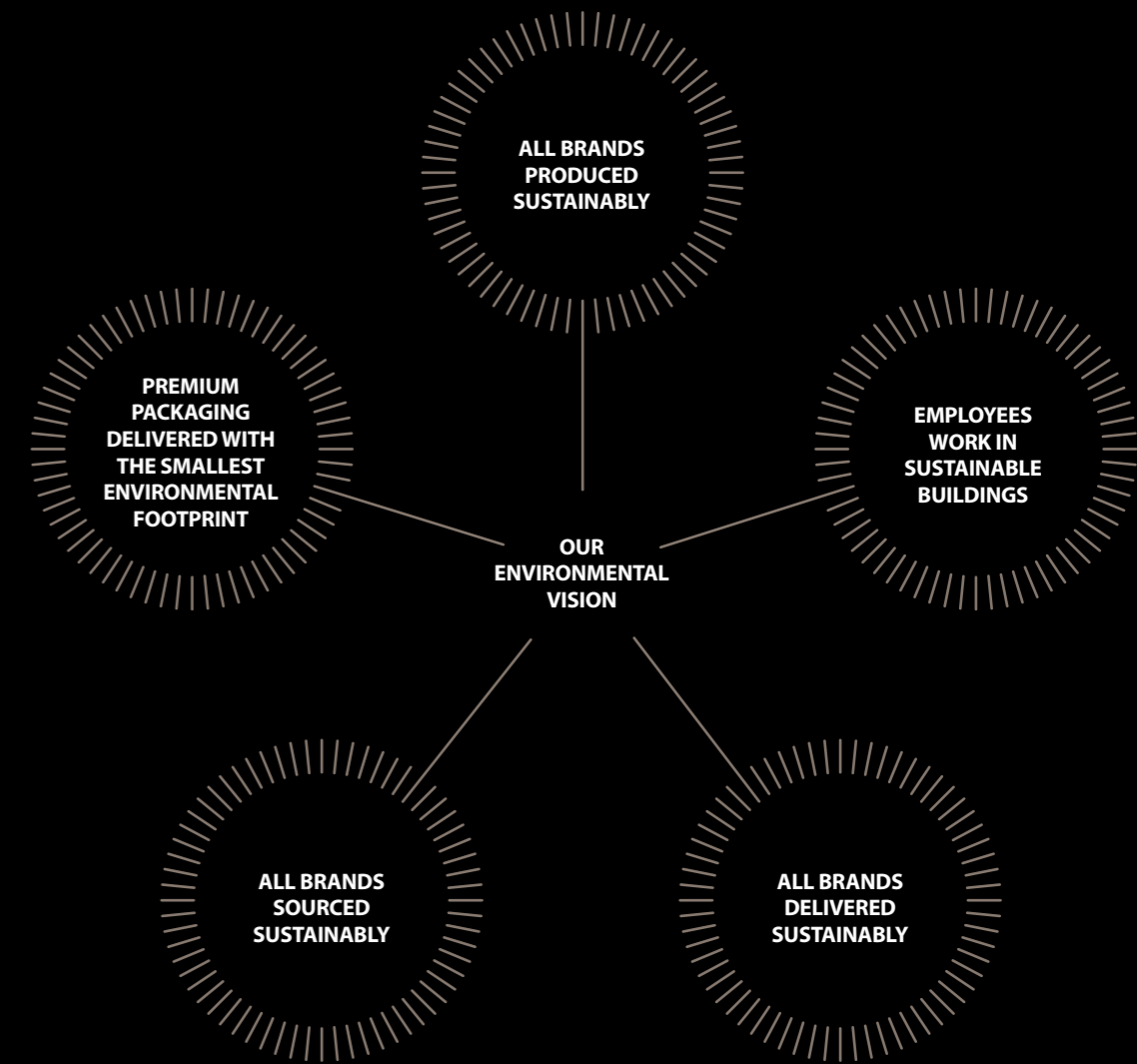
The Diageo wide impact: We make 3.5 billion litres of our products each year at around 120 sites worldwide. On average, it takes about 6 litres of water to make each litre of our drinks. Production and packaging account for 54% of our products' carbon emissions.

DISTRIBUTION

The Diageo wide impact: 68% of our products are sold in developed markets. North America accounts for about 50% of the distribution greenhouse gases generated from delivering our product to the marketplace.

USE & DISPOSAL

The Diageo wide impact: Each day people drink 81 million measures of our spirits, 19 million glasses of our beer and stout, 4 million bottles of our ready-to-drink brands and 3 million glasses of our wine. How consumers dispose of packaging significantly affects the environmental impact of our products.



We want every aspect of our products’ lifecycle to be sustainable starting with the areas where we have the greatest impact. We realise this is challenging and will involve a lot of work, commitment and innovation but it is necessary for the future success of our business.

Our vision sets out our sustainability ambition in each of our key impact areas. This is central to our business but isn’t going to happen overnight, and the long term nature of our vision reflects that.

To help us achieve our vision, in 2008 we set ourselves challenging targets for 2015. These targets allow us to measure the progress we have made towards our vision. To achieve these targets and our vision we need to embed environmental priorities in our decision making and management structures.

Our Executive Environmental Working Group manages environmental issues at the top level of our business – it is chaired by the President of Global Supply and Procurement and reports into the Corporate Citizenship Committee, which is chaired by the CEO. The group sets our environmental policy, reviews environmental priorities regularly and ensures compliance is measured and monitored.

Our environmental priorities for 2015¹

Water efficiency
→ Improve by 30%

Water wasted at water stressed sites
→ Reduce by 50%

Carbon dioxide emissions
→ Reduce by 50%

Waste to landfill
→ Eliminate

Polluting power of wastewater
→ Reduce by 60%

Packaging
→ 100% recyclable and significantly more sustainable

Strategically, environmental sustainability is relevant to the whole business and is one of our five corporate social responsibility (CSR) priorities. Where possible we deliver environmental improvements alongside our other CSR priorities, for example working with our suppliers to make social and environmental improvements. This brings great value to the business as a whole – from contributing to local economic development to addressing the global water challenge within our operations and local communities.

Climate change poses a significant risk to our business. As a result we aim to manage climate change mitigation and adaptation as part of our overall risk management process, which includes a company-wide mitigation plan that we report against on a quarterly basis.

Many of the changes we need to make to achieve our vision require investment. When we set out our vision we developed clear roadmaps to help

us achieve it. The roadmaps detail a range of capital investment and behaviour change projects and help us track and forecast our progress against our targets as well as plan our budget.

Our production sites across the globe have the greatest environmental impacts. It is at these sites that we have to drive improvements to reach our vision. We have a number of tools and programmes to help us do this. All our production sites have an Environmental Management System and 22, representing 59% of production, are ISO14001 certified. Our Licence-to-Operate programme assesses compliance with legislation and with our global risk management standards.

Our employees are quite clearly key to delivering our vision. With around 23,000 employees at nearly 200 sites, including offices, we have a huge base of passion and knowledge. We embrace this through our GREENiQ programme. GREENiQ supports environmental champions helping them to improve environmental performance.

Part of GREENiQ is a global competition to find the most sustainable Diageo facilities. Winning regions, sites or individuals receive a prize to be spent on the environmental improvement programme of their choice.

Our impacts do not start or end at our gates. In addition to working through our value chain to reduce our environmental impact, we seek to work cooperatively with other companies and organisations to share best practice. For example we work with BIER (Beverage Industry Environmental Roundtable) to improve standards of environmental performance within the sector and are listed on the FTSE4Good and Dow Jones Sustainability Index to benchmark our CSR performance.

¹Against a 2007 baseline.

WE WANT TO PRODUCE OUR BRANDS WITH HALF THE CARBON.

By 2015 we intend to reduce emissions of greenhouse gases from our production sites by 50%.

→ Energy is integral to our brands. We need energy at all stages of production – to brew our beer, distil our spirits and make our wine, for our suppliers to make the bottles, to transport the raw materials to our sites and to deliver the finished product to our customers.

Most of our energy comes from fossil fuels. As a non-renewable energy source, fossil fuels contribute to climate change and are expected to continue increasing in price and scarcity. With this global challenge, increasing regulation on carbon emissions and concerns about energy security, there is a clear case for managing and reducing our energy needs.

We'll make our products using less energy and carbon.

→ There is no single answer to reducing energy use and carbon emissions, so we have decided to focus on three main areas – improving energy efficiency, generating renewable energy at our sites and purchasing electricity from renewable or low-carbon sources.

We are focussing on improving energy efficiency, generating renewable energy at our sites and purchasing electricity from renewable or low-carbon sources.

We're happy to say this approach is paying off and between 2007 and 2010 we reduced absolute levels of greenhouse gas emissions by 10.5%. We are investing in a combination of measures to increase efficiency and reduce our carbon footprint, including large capital investments, new sustainable production facilities and employee engagement programmes.

We have invested over £200m at Roseisle distillery in Scotland, St Croix distillery in the US Virgin Islands, and in a new bio-energy plant at Cameronbridge distillery in Scotland. The cutting edge technology at these sites will help us produce our brands more efficiently and generate renewable energy, often from the by-products of production. Through these investments we aim to avoid producing up to 84,000 tonnes of CO₂e a year – equivalent to 11% of our production carbon footprint.

But if we are to halve our carbon emissions by 2015 we need to embrace change more quickly. We have substantial knowledge and best practice from our capital investments which we now need to apply to other parts of the business. However there isn't a one-size-fits-all solution and we also need to identify local solutions.

We'll produce less carbon moving our products around.

Our carbon emissions do not end at the site gates. We need to be able to move raw materials and packaging to our sites and our finished products to markets, by air, land or sea. Our business relies on this, so for that reason, it is our vision to deliver all our brands sustainably.



GREENHOUSE GAS EMISSIONS (kt CO₂e)

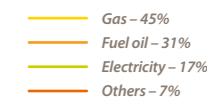
We are investigating opportunities to generate our own energy from renewable sources. Our renewable energy projects span the globe and vary depending on location and product – from a bio-energy plant in Roseisle, Scotland to a solar array at Huntingwood, Australia.

We are using by-products to generate renewable energy – such as draff in biomass boilers to raise steam for distillation and biogas captured from wastewater treatment to fuel our steam boilers.

At our packaging plant in Ichon in South Korea we have installed 240 solar panels. The panels are used to heat water, to run a cooling system in the hot season and to run a heating system in the cold season. The Korean government is using this innovative project as a pilot study. The solar panels, combined with a more efficient boiler, have allowed us to significantly increase production volumes without increasing our CO₂e emissions.



Percentage greenhouse gas emissions per fuel source (2010)¹



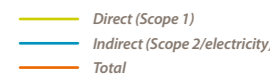
GREENHOUSE GAS EMISSIONS BY REGION 2010 (kt CO₂e)

Our early carbon footprint exercises confirmed that our main sources of greenhouse gases are from our production sites and from the manufacturing of packaging by our suppliers.

In production, our European and Global Beer operations are our greatest source of greenhouse gas emissions. It is in these areas we have been focussing our attention.

CO₂e Emissions by Scope, by Region (kt tonnes) 2010

| Region | Direct (Scope 1) | Indirect (Scope 2/electricity) | Total |
|----------------|------------------|--------------------------------|-------|
| Europe | 252 | 20 | 272 |
| Asia Pacific | 1 | 11 | 12 |
| Global Beer | 283 | 64 | 347 |
| America's | 75 | 21 | 96 |
| Offices | 4 | 10 | 14 |
| Diageo (Total) | 616 | 127 | 743 |



Awards
Carbon Trust – In the UK we've received the Carbon Trust's Energy Efficiency in Manufacturing Award two years running.

Shieldhall packaging plant in Scotland received the award in 2010 for energy saving measures, replacing oil with gas and decentralising the boilers, which have reduced CO₂ emissions by approximately 3,300 tonnes a year and energy bills by 27%.

Leven packaging plant, also in Scotland, was awarded the same award in 2009 for their energy saving measures which have resulted in annual savings of approximately 750 tonnes of CO₂.

Roseisle – Our new Roseisle Distillery has been the recipient of a number of awards including: Sustainability Project of the Year by the Royal Institute of Chartered Surveyors (RICS) Scotland in 2010, and the E.ON Award for Excellence in Low Carbon Energy at the Scottish Council for Development and Industry Awards.

→ We are looking at a range of solutions to reduce the carbon emissions in our distribution. These include increasing the efficiency of the vehicle fleet, powering our warehouses with renewable energy and including environmental considerations in our logistic strategies and investment decisions.

Our focus has been on North America, which accounts for around 50% of our distribution carbon footprint. We've introduced a number of measures to achieve this reduction, for example we are using rail rather than road where possible and have stopped vehicles from 'idling' at our sites. We are encouraging innovation in North America through our Johnnie Walker Green Award which recognises environmental best practice by our transportation partners. We also now

"We are pleased to see that Diageo is starting to monitor, disclose and act upon some of its Scope 3 greenhouse gas emissions such as logistics. We look forward to seeing even more robust disclosure of the company's priority Scope 3 emissions in the future along with Diageo's plans to tackle them."

Kevin Lambert,
 Carbon Trust Advisory Services

require all transportation partners to be SmartWay-certified. SmartWay is a scheme with the sole focus of identifying cleaner, more efficient transportation options. In the three years in which we've been members of SmartWay, we have established ourselves as leaders in energy-efficient shipping within the United States.

Reducing the carbon footprint of our distribution does pose challenges. The diversity, reliability and availability of local infrastructure – for example good rail systems – makes it difficult to apply consistent best practice between regions. This regional management of distribution also makes measuring and monitoring our global distribution carbon footprint a challenging task.

Overall we know what we need to do and have a lot of the answers for our brands by 2015. We now need to focus our attention on continuing to roll these out to our operations around the world – finding technology solutions for our toughest issues – and producing the same premium products more sustainably.

RAISING THE BAR IN SUSTAINABLE DISTILLING.

Roseisle, Scotland

Our new malt whisky distillery at Roseisle in Scotland was officially opened in November 2010 and was the first malt distillery of its size to be opened in 30 years. It uses cutting edge technology to produce 10 million litres of single malt whisky each year and has an excellent BREEAM rating².

The distillery uses draff – a by-product from distilling – as a biomass fuel to produce steam for distillation. Wastewater is treated using anaerobic digestion and membrane filtration, producing biogas as well as improving the wastewater quality.

Waste heat, created in the distillation process in the form of hot water, is used in local maltings to preheat the kiln air, reducing the need for fossil fuels. In total the distillery will use 70% less fossil fuel, equivalent to 13,000 fewer tonnes of CO₂ than a comparable site. Despite these efficiencies we are committed to continuous improvement at Roseisle – both in terms of water and CO₂.

In the three years in which we've been members of SmartWay, we have established ourselves as leaders in energy-efficient distribution within the United States.

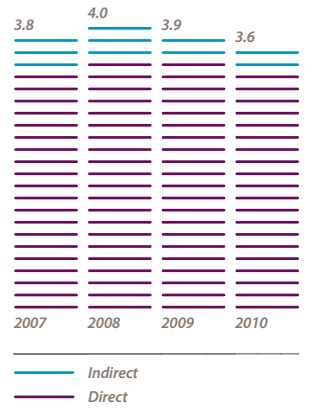
ENERGY EFFICIENCY (MJ/litre packaged)

We are looking for opportunities – big and small – to produce our drinks more efficiently and reduce our greenhouse gas emissions.

We have reduced absolute carbon emissions at our packaging plant at Plainfield, Illinois by 21% between 2007 and 2010, despite a 25% increase in production. And for each litre of packaged product, carbon emissions have dropped from 50g CO₂e/litre to 32g CO₂e/litre.

This has been achieved by installing more efficient boilers, making improvements to the compressed air system and making better use of natural light.

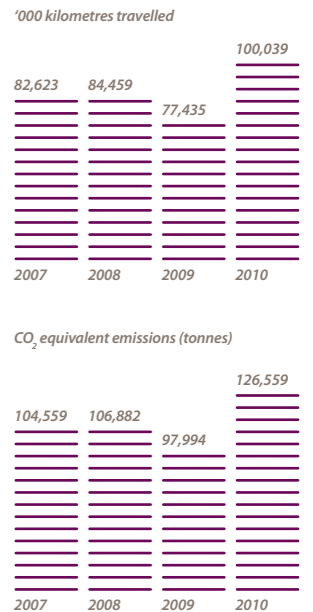
Even making relatively simple changes can make a difference. In Achimota in Ghana, we installed a new bank of capacitors which will correct the power factor and allow us to use electricity much more efficiently.



NORTH AMERICA ANNUAL DISTRIBUTION DISTANCE (km and CO₂e)

We estimate that the carbon footprint of our third party distribution in North America, Europe and Australia is approximately 192,000 tonnes CO₂e.

We are using a range of tools to reduce our carbon footprint in North America including alternative fuels. A quarter of our distribution by Exel in Illinois will soon be made by new compressed natural gas trucks. This renewable gas is generated from cattle waste, sewage and landfill waste, and is less polluting than diesel. The cost of this was supported by bridge funding from the City of Chicago and although the current cost benefits are marginal this is expected to increase as diesel prices rise world-wide. Despite a significant increase in mileage, in the three years in which we've been members of SmartWay, we have established ourselves as leaders in energy-efficient transport within the United States.



WE ARE USING LESS TO MAKE MORE.

By 2015 we aim to improve water efficiency by 30%; reduce water wasted at water stressed sites by 50%; and reduce the polluting power of wastewater by 60%.

Water stress is expected to get worse as the population grows and the climate changes. The UN predicts that by 2030 half the world's population will live in a water stressed area.

We also work with our suppliers to look at the water used to produce our raw materials and packaging (see the 'Sustainable Sourcing' section) and with local communities to increase access to water (see www.diageo.com).

→ Water is an essential ingredient of all our brands – over 90% of beer and 60% of spirits is water. We also use water to clean, cool, lubricate, convey, heat, pasteurise, germinate and steep. It is essential for growing our raw materials; in the manufacture of our packaging; and its efficient management is of the utmost importance for our local communities.

→ Water is clearly a vital issue, and one where we need to make sure we are acting responsibly. It's a huge challenge to manage and it is a serious and growing issue for our business. We are committed to making sure that we find better ways of managing water sustainably. Throughout our operations we're focussing on water efficiency, water wasted in water stressed areas, and the quality of our wastewater.

→ To make sure we are progressing towards our environmental sustainability targets, we are addressing water issues through our holistic Blueprint framework. As well as internal improvement plans this involves engaging with external groups, including the UN CEO Water Mandate, the CDP Water Disclosure Project and Beverage Industry Environmental Roundtable (BIER).

We were the top-scoring beverage company in the CERES¹ Murky Waters report which looked at disclosure of risk and corporate water performance. Our score of 43 out of 100 demonstrates the work we and our sector still have to do on water issues, but it reflects our commitment to water sustainability.

We're using less water.

While it takes different amounts of water to make our beers, wines and spirits, overall we have improved our water efficiency by 8.3% since 2007. We are definitely on the right track but to meet our targets we recognise that we need continuous progress.

We are always looking for opportunities to save water. For example, at our Cameronbridge distillery in Scotland we saw an opportunity to install a water efficient pre-cooler and automate the boiler-feed valve. This will save 500,000m³ of water each year and reduce electricity costs by £50,000. As a result the amount of water required to make a litre of spirit has dropped from 32.5 litres to 25 litres, a 23% reduction.

Our investment in systems, employee engagement and engineering solutions is also accelerating the rate of improvement. Our Global Beer Water Programme is improving efficiencies at our breweries, and we are learning and sharing best practice from cutting edge sites. So while we still have a long way to go to meet our 30% reduction target, we have the tools and skills to achieve it.

Especially where there's less to begin with.

Reducing water wasted in water stressed areas is an imperative, not only for our business but for local communities too. Our target is to reduce water wasted at water stressed sites by 50% by 2015.

We identified water stressed areas by looking at both our own local experience with water interruptions and UN data. We followed this with an in-depth study at all potentially water stressed sites.

We define 'water wasted' as process water discharged from a site, which is not used as an ingredient, returned to the source, lost to evaporation or used for employees' domestic needs.

To illustrate how important this issue is for us, nine of our 119 production sites are classified as water stressed. Water scarcity has affected our operations in Ghana, US, the Philippines, and Kenya.

While our sites generate jobs and contribute to local economic development, we realise they also put stress upon local water supplies. Not having enough water seriously affects local communities, our employees and customers as well as having financial implications for our company by increasing agricultural and processing costs and affecting crop yields.

Nine of Diageo's wholly-owned sites are currently classified as water stressed, seven of which are in Africa.



Awards

Our Huntingwood packaging site received two awards at the Sydney Water 2010 Business Customer Awards. The site scored 99/100 in the water management diagnostic tool, the highest score of any business in the programme. The site also reached the final of the first Prime Minister's Water Wise programme.

Our Navarro Correas winery in Argentina received a gold medal for 'Sustainable Wine Tourism Practices' in Great Wine Capitals' 2010 International Best Of Wine Tourism awards. One of the winery's most notable achievements is its water conservation programme, which has delivered a 60% improvement in water efficiency in just two years and saves 32,700m³ each year.

For information on how we are working with our suppliers in water stressed areas see the 'Sustainable Sourcing' section.

→ Increases in production caused the amount of water wasted at water stressed sites to rise since 2007, taking us further from our 2015 goal. Clearly we are only at the start of our journey in this area and need to make progress. We have gathered detailed water source, flow and use information at all nine of our water stressed sites to identify where we can make the best improvements.

We are now investing in water treatment and recovery systems along with more targeted water conservation efforts and employee engagement. We have already made some progress, achieving zero water wasted at a site in the US and making significant reductions in Kenya. All these sites offer different solutions and possibilities to reach our target and reduce our affect on already water stressed areas.

→ At our George Dickel whisky distillery in the US, the focus has been on using by-product water in agriculture and for irrigation leading to no water wasted. By-product water is processed and used by local cattle farmers, eliminating the need to draw water from wells. Sanitary wastewater is treated and used to irrigate surrounding lawns and vegetation while creek water, which is used for cooling, is applied to the land and allowed to re-enter the creek downstream.

In Kenya, home to three of our water stressed sites, the focus has been on technological solutions and reuse. Early water footprinting of our Tusker beer brand revealed the complexities of the issues, especially given our broad range of products and activities. Opportunities here include recycling the water used for humidification in the germination stage of the maltings process, which saves 36,000m³ water, 12% of the site's water use, each year. While an effluent treatment and water recovery plant at our Kenyan glass manufacturing site has reduced water use by 80%.

With this variety of ways of managing water in water stressed locations, and with contributions from our employees, suppliers and local communities, we can meet our targets and ensure a sustainable future in water stressed areas.

"Diageo highlights the challenge of achieving absolute reductions while increasing production. Their commitment to doing so is commendable and we would hope that in future years Diageo will extend the scope of its targets to include the water used by its suppliers in their production of raw ingredients."

Marcus Norton,
Head of CDP Water Disclosure

And we are cleaning up what we put back.

A big proportion of our wastewater is treated – 39% is processed at our own treatment plants and 36% is treated at municipal facilities. A further 2% of our wastewater is used as fertiliser on agricultural land. The remaining untreated 23% is discharged in a controlled way which is agreed and monitored by environmental authorities.

We are gradually improving our wastewater quality. We measure the polluting power of our wastewater in mg/litre of Biological Oxygen Demand (BOD) load². This has fluctuated but overall has decreased by 2.3% since 2007. Improving wastewater quality at our Cameronbridge distillery is key to achieving our target. Cameronbridge is responsible for 68% of our total BOD load, so our investment in technology which aims to reduce BOD by over 90%³ will make a big difference.

Elsewhere we have made major investments that are improving wastewater quality, for example at our new Roseisle distillery BOD concentration of the final effluent is less than 5mg/l.

All of these initiatives demonstrate our commitment to manage water sustainably. Careful stewardship of the natural resources we rely on will give us a sustainable future. We have set ourselves challenging goals, and are rising to the challenge. We are determined to continue making improvements.

REUSING 90% OF WATER.

St Croix, US Virgin Islands

We opened our new St Croix rum distillery in the US Virgin Islands in December 2010. By 2012 we intend to supply all Captain Morgan rum to the United States from this distillery.

Water is a significant issue for the area. Before building the site we made assurances that wastewater from distillation would be purer than the water from the surrounding area.

Our aim is that 90% of all fresh water used in the distillation process is recycled. The water is cleaned through a series of processes, including anaerobic digestion, evaporation and reverse osmosis, before being reused as process water. The closed-loop system eliminates the need for any water disposal into the Caribbean.

The distillery was constructed to Leadership in Energy and Environmental Design (LEED) certification principles and includes many other best practice environmental features including rainwater harvesting.

St Croix aims to achieve water efficiency of 10.14 litres water per litre finished product which is less than half the industry average⁴.

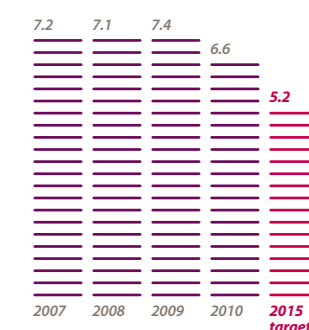
WATER USED BY YEAR (m³)

Improving water efficiency requires technology, knowledge and collaboration. We invest in technology and monitor where and how we use water. These investments can make big improvements, for example our water reclamation plant at Roseisle distillery aims to save around 300,000m³ water per year. On top of these investments we work with and engage our employees whose skills, knowledge and commitment have resulted in some impressive water savings.



WATER EFFICIENCY (litres/litres)

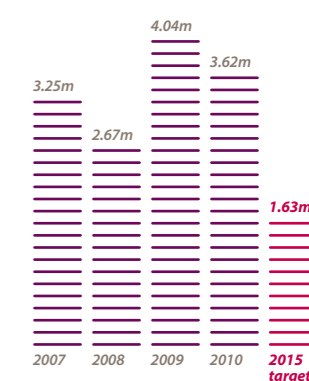
We also need internal collaboration to share best practice between our sites around the globe. Our Global Beer Water Programme aims to do just that, to improve water efficiency and reduce the volume of water wasted at our breweries. The programme ensures we use the tools and knowledge available to move from 'good' to 'best' practice efficiency levels at our breweries. And by developing and implementing water recovery technologies we intend to achieve world class efficiency levels.



WATER WASTED AT WATER STRESSED SITES (m³)

As you can imagine, water stress affects all the people and companies living and working in the area. This includes many of our suppliers, who we will be working with to reduce our impact along the value chain.

Others in our industry are also affected by water stress. So we are sharing our learning on water footprinting with the Beverage Industry Environmental Roundtable (BIER), and are actively engaged in developing a guide to water accounting in the beverage industry with others. See the 'Sustainable Sourcing' section for more information.



Recycling water in the maltings process at Tusker Beer in Kenya saves 36,000m³ water or 12% of the site's water use each year.

PACKAGING WILL BE PREMIUM AND SUSTAINABLE.

By 2015 we aim to reduce packaging weight by an average of 10%; make all packaging 100% recyclable or reusable where possible; remove materials which are potentially a risk to the environment; and increase the average recycled content of our packaging to 42%.

We sell around 1.55 billion bottles¹ a year and our total packaging weight is about 900,000 tonnes². Over 90% of this is glass bottles but it also includes cardboard cartons, cans and plastic.

For Diageo a sustainable pack:
 a) has the right commercial brand cues;
 b) meets our quality standards;
 c) achieves the required functionality;
 d) is made from materials and energy sources that will not be limited over time; and
 e) is technically recyclable or reusable.

→ Just like the manufacture of the product inside it, our packaging has an environmental impact throughout its life – from supplier to customer to consumer. Our vision involves managing and reducing this impact at all stages.

Packaging is vital to delivering and protecting our product. It is also an important part of our consumers' experience of our brands.

→ Our packaging guidelines help us to create more sustainable packaging and this is supported by the work of our suppliers who are also making environmental improvements.

→ We are focussing our attention where we can make the biggest difference – with our most popular brands. We sell more than 100 million bottles of some of our high volume brands each year, so even a small change to this packaging can make a big difference. With this focus we have developed a portfolio of projects to help us deliver our 2015 targets, based around the pillars of reduce, reuse, and recycle.

We're reducing the weight of our packaging.

Lightweighting, or reducing the weight of our packaging, saves valuable resources. But this is not just limited to the resources the packaging is made from. By lightening packaging we can improve energy efficiency, reduce carbon emissions during transport and reduce waste.

"Diageo are addressing the packaging issues important to us and our customers: the amount used, its recyclability and recycled content. This is done in the context of ensuring adequate product protection and on-shelf appeal."

Julian Walker-Palin,
 Head of Corporate Sustainability, ASDA

We use a number of approaches to lightweight our products: bottling Cacique rum in PET rather than glass, reduced packaging by 90%; lightening the Smirnoff Ice bottle in Venezuela by 10% saved 1,600 tonnes of glass; and using lighter glass to bottle Harp lager in Nigeria saved 2,400 tonnes of packaging³.

By applying these approaches across our brands we aim to achieve our target and take one step closer to our vision of packaging all our products sustainably.

We'll improve recyclability.

Once our customers and consumers have bought our product one of the most significant environmental impacts is the packaging going to landfill. To make it easier for our consumers to dispose of the packaging responsibly we are making our packaging 100% recyclable. We aim to remove materials that can't be, or are difficult to recycle, from our packaging, including PVC, foil, mixed plastics, ceramics and some laminates.

But we want to go beyond standard recycling and explore the possibilities of giving our packaging another use at the end of its life. We have worked with a design agency and Northumbria University on a project to investigate how we can design packaging that has a secondary use built in which would positively benefit communities in Africa. Early ideas range from water filters to construction materials. To complement this we have conducted research into consumers' perceptions in Nigeria and Uganda about recycling and reusing packaging.

We're reviewing the impact of our packaging materials.

We are examining our packaging to identify materials that are potentially a risk to the environment, such as inks and heavy metals, and remove these where viable alternatives exist. In each case we consider the amount of that material used, the environmental impact it has and the other options that are available before prioritising and redesigning the packaging. To do this we examine our packaging information database, draw upon new thinking from our Supplier Innovation Programme and ensure our brand teams are all working to consistent guidelines.

Premium and sustainable, it isn't always easy.

While vital, packaging is also a challenge, especially as regulations and best practice are constantly evolving. It is important for us to keep up-to-date with these changes both externally and within different parts of our own business. To manage this we review regulatory change every quarter, we benchmark ourselves against other similar companies, and we monitor progress and initiatives across our business.

Our brands are valuable – some have taken over a decade to produce. So while lightweighting may be the smart choice for some brands, we prefer to consider 'rightweighting'. This way we don't, for example, increase the number of breakages in transport because the packaging is too fragile. In fact if our packaging can have a second life and be re-used we may even consider 'heavyweighting'.

Our vision is to have packaging that is both premium and sustainable but this is a challenge not just for us but for our sector in general – especially with the perception among consumers that lighter means less valuable. The journey to create packaging that is sustainable and premium will require tenacity, innovation and education not just for us but also for our customers. But as our brands and our packaging are so closely linked it is a journey we need to take to reach our vision.

Sustainable Packaging Targets

Targets

→ By 2015.

Reduce

→ 10% reduction in average weight across all packaging.

Reuse

→ Increase average recycled content across all packaging.

Recycle

→ All packaging 100% recyclable or reusable. Remove materials that are potentially a risk to the environment.



By lightweighting packaging we can improve energy efficiency, reduce carbon emissions during transport and reduce waste.

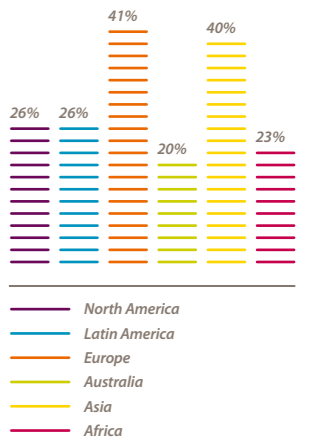
WE'RE USING MORE RECYCLED MATERIALS

35% of our packaging, 320,000 tonnes each year, is made from recycled material. We want to increase the percentage of our packaging made from recycled material to 42% by 2015.

Some regions are close to reaching this target. Our focus is on North America, where only 26% of our glass bottles are made from recycled material. The challenge here is limited by the availability of recycled materials such as cullet glass⁴. This is something our procurement teams are progressing, alongside opportunities to work with major glass manufacturers and customers to encourage recycling.

In Africa we use returnable bottles for 12 of our brands. Each bottle is cleaned and reused on average 12-15 times.

% of Recycled Content of Primary Packaging by Region (F09 Data)



WE ARE REDUCING WASTE TO LANDFILL.

Our target is to reduce waste sent to landfill to zero by 2015.

Awards
 Diageo Ireland won three environmental awards in 2010 including Overall Green Business of the year. An important contributor to this recognition was an 80% reduction of waste to landfill since 2007. We have continued to improve and in 2011 this rose to a 90% reduction.
 Shieldhall packaging site in Scotland was awarded the Management for Resource Efficiency Premier Award 2010 – one of the top prizes at the Business Commitment to the Environment awards – for its energy and waste efficient operations. The site's recycling rate is 99% and we are liaising with our waste contractors to deliver 100% recycling. This is in addition to significant reductions in water and energy use.

→ Waste is produced throughout the lifecycle of our products. Although it gives us challenges, it offers opportunities to save us money and reduce our environmental impact.
 Our initial focus has been reducing waste sent to landfill from our operations and designing packaging that our customers can recycle easily. See the 'Packaging' section for further details.
 → Since 2007, we have worked aggressively to reduce the amount of our waste we send to landfill by over 70%. In 2010, 20 of our production sites were already sending zero waste to landfill. But we need to be flexible and use the most suitable and practical environmental option. This may vary according to circumstances but the guidance from the universally accepted waste hierarchy is our decision making tool. While we are focussing on diverting waste from landfill we are also looking at reducing and reusing our waste.

We're reducing the waste we send to landfill to zero.
 Our sites produce a variety of products; as well as beers, wines and spirits we have sites that produce packaging and malted grains. This means there can be major differences between the types of waste produced at each site, which means we need different approaches to waste management at each site. Our overall principles, however, are universal – prevent, reduce, reuse, recycle, recover, dispose safely.
 A particular success story is our packaging site at Plainfield, Illinois, in the US, which now sends zero waste to landfill. Building on an extensive reduction and recycling program already in place, Plainfield expanded their recycling programme to include sending spent seeds and berries from gin production to a local composting site, eliminating the final 200 tonnes per year from landfill.

We also use by-products, such as draff, as a renewable energy source – see the 'Energy and Carbon' section for more details.

These same challenges are faced by others right along our value chain. In the UK, we have started to work with WRAP¹ and others in our sector to measure and map waste production and water efficiency in the supply chain. By contributing knowledge and identifying the causes of waste and water use, we will be able to implement the recommendations to improve resource efficiency and begin to reduce our total waste generation.
 To help consumers reduce waste, we are collaborating with one of our major customers, Carrefour in Brazil, to pilot recycling points at their stores. This is a very visible way in which we can raise awareness with consumers, reduce post-consumer waste to landfill and generate a stream of recycled glass cullet for our glass suppliers in the area.

Sending nothing to landfill requires innovation.
 Some of our wastes are harder to manage than others. Kieseluhr, for example, is a by-product of beer processing and is used for filtration. Kieseluhr is not a renewable resource. In its powder form there are health and safety issues with handling it and it is difficult to recycle or reuse.

A waste club of 20 companies initiated by Guinness Nigeria looked at the opportunity to use kieseluhr with other waste materials to make bricks and roof tiles and glaze pottery. But to make this a success more progress is needed, including working with others in the industry.
 Another option is to use cross-flow filtration technology, which completely eliminates the need to use kieseluhr. Our first cross-filtration system in Africa is now being installed in Nigeria.
 Recycling waste labels from returnable bottles also poses a challenge. In Cameroon we investigated using the material to make egg-cartons. So far, these efforts have not been successful, but we continue to look for other opportunities.
 Waste is a valuable resource. It offers us opportunities to generate renewable energy and create revenue. But there are real challenges too. While we are trying to recycle what we can this is not the ultimate solution. We need to use materials carefully and not only send nothing to landfill but conserve resources before they become waste.

We are developing further recycling initiatives – such as working with our customers to help consumers reduce waste.



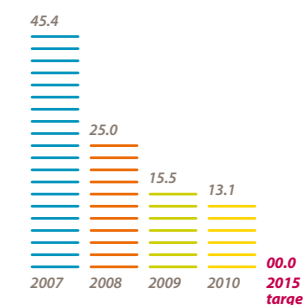
TOTAL SOLID WASTE GENERATION BY REGION (kt)²



Diageo 2010 total (433)



SOLID WASTE TO LANDFILL (kt)



Efficiency (grammes/litre of product)



Isipingo in South Africa is well on its way to achieving zero waste to landfill. The site was the first African winner of our GREENIQ medal, our internal environmental engagement programme. The site worked closely with a new waste contractor to begin their 'war on waste'. Between 2008 and 2010 the amount of waste sent to landfill went from around 7 tonnes a month to an average of 2.5 tonnes. Reducing the waste sent to landfill per litre of product by 86% from 2.47 g/l to 0.35 g/l.
 Our Amherstburg packaging plant in Canada reduced waste to landfill by over half. All the remaining solid waste is now sent to a waste-to-energy plant to generate electricity. In total this prevents 250 tonnes of waste from going to landfill each year.

WE AIM TO SOURCE ALL OUR BRANDS SUSTAINABLY.

We define sustainable procurement as: 'Ensuring that the goods and services we procure are produced and supplied with positive impact on society, the economy and minimise damage to the environment, while satisfying the commercial needs of a business for quality, reliability, innovation and value for money.'

→ Our supply chain is key to producing sustainable products. We want all the resources needed for our brands to be produced to high ethical and environmental standards – from raw ingredients to our energy and our packaging. We are starting to work with our suppliers to progress towards these standards.

We have begun by engaging our suppliers with the largest environmental impacts – namely our raw ingredients, energy and packaging suppliers. This focus was influenced by the Johnnie Walker environmental footprint which helped us identify where we have the greatest impact. As well as engagement, we are reviewing our suppliers' performance and setting long-term targets together.

We'll source sustainable raw materials.

Agricultural raw materials represent around 15% of our procurement spend and are sourced from about 150 suppliers. From this spend we have identified four priority raw materials – malting barley, sorghum, sugarcane and cream – where our sourcing decisions can make a real difference to both the environment and communities.

Sorghum is a drought-tolerant crop, which offers an alternative to more water-hungry barley for our African beer brands. It is also used locally for food and as a bio-fuel, and yields can vary in quantity and quality – so we need to develop this indigenous crop carefully with local partners.

As we source sorghum from small scale farmers, the crop offers us the opportunity to engage with them. In 2010 we collaborated with international agricultural groups to encourage the cultivation of sorghum and help 2,000 farmers in Cameroon share sustainable farming methods.

Sugarcane is used in a wide range of Diageo brands, including Smirnoff Ice, Baileys and Captain Morgan. We are working with Bonsucro¹ to develop certification standards for sugarcane production while improving the environmental and social impacts of sugarcane production.

We are also committed to engaging our cream supplier for Baileys to encourage sustainable cream production in Ireland (see case study).

We're buying greener energy.

Meeting our target of reducing greenhouse gases by 50% by 2015 involves sourcing greener energy as well as investment in our sites and buildings. In 2010 we sourced over 50% of our electricity from renewable or low carbon sources.

Where we generate our own energy we are also moving away from fossil fuels. For instance, we use fuel oil in locations where there is no gas infrastructure. This results in 243,000 tonnes carbon² – 33% of our total production carbon emissions.

"It is encouraging to see Diageo's ambitions to produce drinks more sustainably. We'd like to see Diageo's aims go further to making restorative commitments – i.e. having a net positive impact on the natural world – and to couple water efficiencies with real collaborative water stewardship within the regions they and their suppliers operate."

*Dax Lovegrove,
Head of Business and Industry WWF-UK*

In these locations we are investigating lower carbon alternatives such as woodchip and biofuels. This has already been done in Scotland, where we have converted two of our malt distilleries to run on biodiesel made from waste vegetable oil from food processing and the restaurant trade. However biofuels come with their own issues and we need to balance the benefits with the unpredictability of supply and price.

We're working with our packaging suppliers.

We are working with our key packaging suppliers to develop packaging that is both premium and sustainable. Since 2005, we have been steadily redesigning our packaging using the principles of reduce; reuse and recycle. For more information about developing sustainable packaging see the 'Packaging' section.

Water stress affects our suppliers too.

Just like our own operations, our suppliers too are affected by issues like water stress. To understand how this is going to impact the availability of raw materials and affect local communities, we have started looking at water stress and usage in our supply chain with a focus on our agricultural suppliers in Africa.

We intend to improve the approach to water use by encouraging suppliers to adopt the most efficient irrigation systems for their crop and land type, limit water pollution from agriculture and find alternative uses for effluent waste.

SUSTAINABLE CREAM.

Ireland

We are working with our supplier of Irish cream to create a sustainable cream programme. Cream is the single biggest ingredient in Baileys.

Our core principles and sustainability indicators will enable an individual farm's sustainability to be rated. Improvement is supported by standards and certifications.

We are now setting up a steering group of key stakeholders to drive improved sustainability practices. Some of the ideas being considered include: providing an award for the most improved farm; developing a sustainability module to be included in the Irish dairy farming training programme from September 2012; conducting sustainability assessments; and developing best practice guides.

The programme is a pilot following which we will apply similar principles to our other priority raw material supply chains.

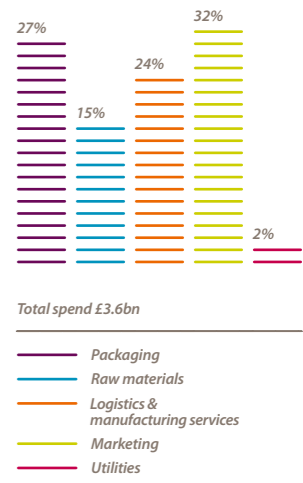


TOTAL PROCUREMENT MANAGED SPEND

We spend around £3.6bn with suppliers each year. This gives us important influence through our supply chain.

Our Partnering with Suppliers guidelines define our expectations of our suppliers with regard to environmental, ethical and social risks. As a minimum we expect suppliers to have a clear environment policy and a commitment to developing appropriate environment management systems.

Our supplier environmental scorecard tracks our suppliers' environmental improvements. We look for suppliers who show improvements, and share best practice to continue this, rather than penalising poor performance – and use SEDEX to understand our highest risk suppliers' ethical performance.



SUSTAINABLE AGRICULTURAL SOURCING GUIDELINES

To create premium products we rely on high-quality ingredients from all parts of the world. We buy our raw materials from a variety of people – from large agri-businesses to smallholder farmers both directly and through third parties. We source locally where possible to support local farmers, communities and economies and aim to source 65% of our raw materials in Africa locally by 2012 – a 30% increase³.

We want, and have a responsibility, to work with all parts of our supply chains to develop better and more sustainable sourcing practices. Our Sustainable Agriculture Sourcing Guidelines help us to do this and detail our approach to managing our raw material suppliers and supply chains.

The focus areas of our Sustainable Agriculture Sourcing Guidelines are:

- Environment**
- Environmental management
 - Reducing water use and pollution
 - Preventing soil erosion
 - Protecting biodiversity
 - Reducing energy and carbon
 - Ensuring animal welfare

- Socio-Economic**
- Ensuring fair working conditions
 - Health and safety
 - Child labour

“Our progress on environmental sustainability reflects the dedication and achievements of Diageo people in multiple functions around the globe. We know we don’t have all the answers and there’s lots of work ahead to further embed sustainability, but all of this is driven by our goal to become a truly sustainable business.”

David Gosnell
President Global Supply & Procurement
and Chairman of the Environment
Executive Working Group.

We are dedicated to improving the environmental sustainability of our business and our brands – right from the barley in the field to the bottle in the bin. This is driven by the recognition that it is fundamental to the future of our business and is reflected in our challenging 2015 targets, which are detailed throughout this brochure. We will only meet these targets with the input and engagement of our employees, suppliers, partners, communities and others in our industry across the globe.

During the development of this brochure, we took the opportunity to ask some key stakeholders to review it. The resulting feedback included their thoughts on our approach, ambition and areas for improvement. This helped us improve the clarity of the brochure, and also highlighted issues that are important to our stakeholders, which in turn will help us to continue to focus

on the right areas in future. Some of their comments have been included throughout this brochure.

In addition to engaging with stakeholders we take part in a number of key indices which help us measure and benchmark our progress and improve our environmental sustainability. These include FTSE4Good, Dow Jones Sustainability Index and the Carbon Disclosure Project.

While we focus on targets for 2015 to drive progress, environmental sustainability is a process of continuous improvement. Our strategy and targets need to evolve with our business and our performance. Once again the input and engagement of our stakeholders will inform our thinking on the challenges beyond 2015, for our business and sustainability in general.

REFERENCES

ENERGY & CARBON – p8-11

¹ Greenhouse gas emissions data has been prepared in accordance with the WRI/WBCSD Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, Revised Edition¹. For more information on the scope and methodology of our greenhouse gas reporting please refer to our Corporate Citizenship Report.

² BREAM: Building Research Establishment Environmental Assessment Method.

WATER – p12-15

¹ MURKY WATERS? Corporate Reporting on Water Risk A Benchmarking Study of 100 Companies. CERES February 2010.

² BOD is a measure of organic pollution in a water sample and is indicative of its potential to cause harm to aquatic life.

³ Per litre of effluent.

⁴ The industry average is 21.3 litres of water needed to make one litre of product according to the BIER Water Stewardship Benchmarking Study November 2010.

PACKAGING – p16-17

¹ 1,546,000,000 units.

² 2009 Baseline Data.

³ Savings are per annum.

⁴ Cullet Glass – Glass that is broken and ready to be remelted.

WASTE – p18-19

¹ Waste Resources Action Programme.

² Due to business restructuring comparable regional data is not available before 2010.

SUSTAINABLE SOURCING – p20-21

¹ Formerly the Better Sugarcane Initiative.

² As CO₂ equivalent.

³ From a 2007 baseline.

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