DIAGEO

"Making a Strong Business Stronger –

Being a Sustainable and Responsible Company"

Presentation Script

22 March 2012

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- Title Slide - No script.

Ian Wright, Global Corporate Relations Director

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- Hello and welcome to today's webcast. I am Ian Wright, Corporate Relations Director of Diageo. I oversee our sustainability and responsibility activities and in particular our work on alcohol in society. I am joined today by two of my executive colleagues, David Gosnell, President Global Supply and Procurement, and Nick Blazquez, President of Diageo Africa.
- Diageo is a strong business and we are making it stronger. We are doing so by leveraging growth opportunities in our well established and profitable developed market businesses. And we're meeting the demand of the emerging middle class consumer, through industry leading marketing and innovation, strengthening our strategic customer partnerships and by being a sustainable and responsible company.
- Diageo is all about "celebrating life, everyday and everywhere". The strong business we are today has been built on the foundation of our core values. One of these is "Proud of what we do". Today we will illustrate how Diageo's focus on sustainability and responsibility is about being proud of what we do and about delivering long term financial success.

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- Being responsible is part of our heritage. This ad from the 1930's shows that one of our predecessor companies, Seagram, was paying close attention to the social impacts of alcohol more than 70 years ago. They had a social conscience about their consumers. That had much in common with the Guinness family which became a by-word for philanthropy over several generations. And likewise Grand Met was heavily involved in the creation of highly practical organisations designed to bolster and enhance social cohesion in the 1980's. In the UK these include Tomorrow's People which has helped over 400,000 unemployed and young people in deprived neighbourhoods and The Foyer Federation set up to meet the challenge of rising youth unemployment and homelessness.

- And we continue this legacy to help meet the challenges of the 21st century.

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- Being sustainable and responsible is fundamental to Diageo. It protects long term value through building our reputation, managing risk and engaging with our stakeholders.
- Our reputation is a core determinant of our license to operate. Everyone is aware of the danger of alcohol misuse. Governments are focused on mitigating these impacts, but they can choose to do so through collaboration with industry or by imposing regulation. While most will utilise a combination of approaches, there will be much greater emphasis on collaboration where there is a degree of trust in the motives of the major industry players.
- At its simplest level, managing risk in our supply organisation is about efficiency. We must ensure we have the natural resources we need to grow our business. We must reduce our dependency on those raw materials which will be supply constrained such as, conventional fuel. And we plan to minimise our impact, reducing our emissions and waste.
- To achieve our aims we have to engage our stakeholders across the supply chain. We do so by creating strong socio-economic development programmes. For example building a new highway to connect our production and distribution site in Nigeria to the main Lagos road networks. We Provided employees and their communities with access to clean water. And we trained local farmers in agronomy. In other markets we have helped to create networks of small entrepreneurs and trained people who can showcase or sell our products.
- Embedding our sustainability and responsibility programme is of increasing importance for retaining and recruiting the best talent. This is demonstrated by our annual values survey which shows a strong correlation between our sustainability programmes and high employee engagement with 85% of employees thinking that Diageo is effective in its sustainability and responsibility efforts.
- Making a contribution to the economic, social and environmental development of the communities of which we are part, builds trust in Diageo. This is especially true in those emerging markets without well developed regulatory environments which look to the private sector, particularly global companies like Diageo, to collaborate through good business practices. When we were pursuing our ultimately successful acquisition of the Meta Abo brewery from the Ethiopian Government, the British Ambassador to Ethiopia supported our investment and said: "… Diageo will bring its track record of ethical business, good governance, diversity, transparency and sustainability to the deal – including clean water projects that benefit a million Africans annually."

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- Diageo is committed to long term growth and our work on sustainability and responsibility focuses on those areas of activity most attuned to the needs of our business and our stakeholders. Alcohol in society, the environment, water and socio-economic development.

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- Let me now turn to the first of these focus areas for today's discussion. Alcohol in society.
- Millions of people enjoy having a drink with family and friends as part of a healthy lifestyle. Drinking alcohol has been a central part of the social life of many civilizations for thousands of years. Unfortunately there have always been people who have abused and misused alcohol.
- We believe that misuse must be tackled at every opportunity. We also fundamentally believe that the vast majority of responsible drinkers should not be disproportionately penalised for the misdeeds of the few.
- We support regulation in this area, but it must be sensible and proportionate. It should support companies that tackle alcohol misuse, a complex issue that has different origins and implications in different parts of the world.
- From a business perspective, this regulatory context is why our leadership in responsible drinking is so central to our sustainability and responsibility strategy, and it is why it is critical to the long-term growth of the company. We need to keep our company and our industry at the forefront of the responsible drinking debate, so that governments don't feel the need to take the lead themselves.
- Changing attitudes and behaviour takes time. It requires the involvement of all stakeholders: individual drinkers and their families and friends; teachers, doctors, employers and colleagues; NGOs; governments and law enforcers; and of course everyone who makes, markets and sells alcohol.
- But it can be done and it is being done. For example, two big problems, underage drinking and drink driving, are at all-time lows, with alcohol related fatalities down 49% between 1982 and 2009 in the US, and road deaths attributable to alcohol down 34% since 2000 in Europe. Furthermore programmes which we have created and funded have played a role in achieving these positive results. For example the "Best Bar none" initiative to promote responsible management and operation of licensed premises in the UK has been credited with reducing alcohol related crime and disorder in participating town centres.

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- Our leadership in responsible drinking is about three things:
- Promoting strong industry-wide standards in responsible marketing and selling; Raising awareness and seeking to change consumer attitudes and behaviour through effective programmes to prevent alcohol misuse; and arguing for fair and effective alcohol policies around the world based on evidence, properly enforced.
- As producers and marketers, our first duty is to market our brands responsibly. Our marketing code leads the industry and is mandatory for every marketer at Diageo.

- But we know that it's not just about us – one bad player can open the door to criticism and, potentially, greater regulation. So we work with industry partners to establish national alcohol codes. Since 2008, we have helped establish new industry marketing codes in 20 countries. This pro-active approach reduces the risk of potentially stifling and damaging regulation.
- Addressing alcohol misuse for us is about reinforcing responsible drinking. Around the world we have over 200 programmes addressing issues such as drink driving, underage drinking, excessive drinking and drinking during pregnancy.
- For example our global DRINKiQ website and employee engagement training course, launched in 2008, aim to raise the collective IQ on responsible drinking by explaining in an engaging and inspiring way. The website is live in 19 countries in nine languages. Over 19,000 employees have taken the course, and it's part of our employee inductions. The course is well known outside Diageo, and we offer it to suppliers and customers all over the world. Just last month, our DRINKiQ course was chosen in Ghana to be used as the alcohol education module of a mandatory annual refresher course for all commercial drivers seeking to gain or renew their licence.
- In Latin America and the Caribbean, our Guardian Angels campaign continues to grow across the region. Launched in 2005, this campaign promotes responsible drinking during the holidays by 'wing-ed' brand ambassadors taking to the streets, going into bars and clubs to remind people to look out for friends and family celebrating with alcohol. The campaign is supported by advertising featuring celebrity angels.
- In the US, we run branded responsible drinking commercials to reinforce our message and in Europe we introduced an innovative video campaign for young adults to reinforce why irresponsible choices don't pay off.
- And as many of you may have seen, responsible drinking is at the heart of Johnnie Walker's support for Formula 1. The sport is a hugely powerful global platform to spread the 'never drink and drive' message. Sporting heroes like Jenson Button and Mika Häkkinen have signed up to the 'Join the Pact' campaign which asks consumers to give their signature as a personal commitment never to drink and drive. Since 2008, we have collected over 750,000 signatures, and the campaign's latest film – which you can pick up on YouTube – was the most shared content on the Johnnie Walker facebook page this year, with more than three quarters of the others sending it on to a friend. Another example, last December Lewis Hamilton kicked off our 3 year sponsorship of free travel for everyone on London's public transport network on New Year's eve.
- And these are only Diageo's programmes. Together with other industry players we have established 17 national organisations around the world to pool efforts to make a bigger impact on alcohol misuse. These include the International Centre for Alcohol Policies, a think tank funded by the major multinational drinks companies focused on using credible and balanced evidence, to manage a number of initiatives to help reduce alcohol misuse with an emphasis on low and middle income countries.
- We have no doubt that our responsible marketing approach and our awareness campaigns are essential in persuading governments and other key stakeholders to listen as we argue for fair, effective and proportionate regulation.

- Let me now hand over to David to discuss our next priorities, environment and water.

David Gosnell, President, Global Supply and Procurement

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- Thank you Ian.
- Hello I'm David Gosnell, President of Global Supply and Procurement, and I chair Diageo's Environment Executive Working Group, responsible for our environmental strategy.

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- You've heard from Ian that one of our key priorities is managing our impact on the environment and mitigating the risks.
- Our vision is for every stage of a products' lifecycle to be sustainable. We started with the areas where we have the greatest impact. To help us achieve our vision, in 2008 we set ourselves challenging targets to be reached by 2015, and to achieve them we have embedded environmental priorities in our decision making and management structures.
- This slide shows our targets and our progress to date
- Reduce carbon emissions by 50%.
- Improve water efficiency by 30%.
- Reduce water wasted at water stressed sites by 50%
- Reduce the polluting power of waste water by 60%
- And eliminate waste to landfill.
- Our targets, amongst the toughest in the sector, are mainly absolute and based on 2007 data. Ironically therefore increased production associated with the success of our overall business raises the bar. For example, our carbon emissions have reduced by nearly 14% while our production has increased by nearly 8% over the same period. Organic growth, combined with recent acquisitions will make fulfilment of our targets an even greater achievement.
- So we are absolutely focused on achieving these targets, which have been key to embedding and driving a culture of continuous improvement in our environmental performance. We are making progress on all our targets with the exception of wastewater, where increased production has impacted our progress, but the commissioning of our bioenergy plant at Cameronbridge will bring us significantly closer to meeting this target. And so far our F12 performance indicates we are heading in the right direction against all our targets, but a continuous pieline of projects is required to sustain this progress.

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- Our key environmental issues can be best illustrated by looking at the environmental impact of our biggest brand, Johnnie Walker, along the full value chain. From seed in the ground to bottle in the bin, we have a close understanding of our environmental footprint, which has informed our approach across our business. This chart shows the relative environmental impacts at each stage of the lifecycle, so for example 32% of the total green house gases emitted are generated in the production of whisky.
- Our key direct environmental impacts are in the areas of energy, greenhouse gas emissions, water management and waste to landfill.
- Today I will focus on the areas of energy and water where we have made some of our most significant investment, and where the value to the business is equally as significant. Let me start with energy.
- Energy is integral to our brands. We need energy at all stages of our production – to brew our beer, distil our spirits, for our suppliers to make the bottles, to transport the raw materials to our sites and to deliver finished product to our customers.
- With the global implications of climate change, increasing regulation on carbon emissions and concerns about energy costs and security, there is a clear business case for managing and reducing our energy needs.
- To do this we focus on three main areas – improving energy efficiency, generating renewable energy at our sites, and purchasing electricity from low-carbon sources. This focus drives energy cost savings, security of energy supply, improved management of input costs in the long term and, with increasing regulation of emissions, permits sites to increase production to meet growing demand.
- The brewing and distilling industry has an exciting opportunity, as during these processes we produce co-products, such as draff and spent grains, the moist residues of barley and wheat husks. These are high in organic matter and are an excellent biomass fuel for generating renewable energy. So the industry has the potential to develop self sustaining renewable energy facilities which not only significantly reduce carbon emissions, but also increase security of supply and cost control. This is, however, complex and technically very challenging, unprecedented in our sector, but I'm pleased to say Diageo is leading the way and making great progress.

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- Take our new distillery– Roseisle is the first major distillery to be built in Scotland in the last 30 odd years and we believe, is Scotland's most sustainable. Roseisle cost £45m overall – and specifically the bioenergy plant which generates renewable energy cost £17m. This investment funded cutting edge green technology combined with traditional distilling to produce 10 million litres of single malt whisky each year.

- The distillery uses draff 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 quality of the wastewater. Waste heat, created in the distillation process in the form of hot water, is used in local maltings to preheat the kiln air.
- Currently the distillery is using 50% less fossil fuel than a comparable site – and we're continually looking for improvements. This represents a £900,000 annual saving in energy costs – approximately 12% of total energy costs based on current fossil fuel prices. In addition to the direct financial returns, the security of energy supply in terms of both avoiding possible intermittent disruptions and longer term supply issues, together with the better management of our input costs in the future are equally, if not, more important.
- Furthermore our investment in best practice technology has contributed to recognition in key global sustainability rankings – for example in the Dow Jones Sustainability Indexes our environmental performance is the best in our sector – and in the Carbon Disclosure Project, Diageo is the top performing alcohol beverage company.

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- And we are building strong capabilities in this area. The experience we have gained can be replicated as we implement other ground breaking solutions elsewhere in our operations. And we've certainly being doing that – we have applied our learning from Roseisle to our new rum distillery in the US Virgin Islands, and we are currently commissioning a £65m bioenergy plant at our largest distillery at Cameronbridge in Fife. At this grain distillery we aim to generate over 90% of our total energy needs from our co-products – unprecedented in terms of scale and ambition. We also recently announced a new £6m biomass plant at our Glenlossie complex in Speyside – reflecting our commitment to maximize the opportunities for renewable energy at a time of ever increasing production at our scotch whisky facilities.
- But it's not just about the large scale, capex projects – I mentioned earlier our focus on improving energy efficiency, here is a good example that illustrates the benefits we are seeing. Take Cameronbridge again, we have implemented a systematic programme of energy efficiency projects using a range of technologies. Taken together over the last two years these projects cost £700,000 and will reduce our carbon emissions by 3,000 tonnes of CO_2 - but the annual savings will be £1.4m – representing a payback of around 6 months – an attractive return on investment which we can replicate in our other production facilities.
- So in terms of energy and carbon – we understand the scale of the opportunity and have invested behind this – to not only support our environmental sustainability agenda but also as sound commercial decisions – both of which will support the long term growth of our business.

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- Now to water, appropriate given today is the UN' s "World Water Day'". 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.
- Given its importance our Blueprint Water Strategy takes a holistic approach to water in our supply chain, through our own operations, in our communities and through collective action.
- I am going to focus on water in our own operations. East Africa Breweries Ltd (EABL) owns and operates three sites in Nairobi– a maltings, a glass container manufacturing plant and a brewery. By their very nature, breweries are located near the communities they serve and all three sites are located in a water stressed area and security of water supply has been a recurring issue – most recently with mains interruption in 2010 and droughts in 2009.
- In addition to numerous process improvements, the brewery has been systematically reviewing opportunities for water recovery and re-use. Water from the bottle washers and CO2 compressors is now collected and reused at the site. This project cost £200,000 and resulted in an improved water efficiency of 5% with a total reduction of 90,000 cubic metres of water per annum. The investment led to annual savings of over half a million pounds, which gives the project a return on investment of 6 months.
- We have similar water challenges at our two breweries in Ghana which have experienced disruption to production associated with supply of water. At our Kumasi brewery we replaced a bottling line pasteuriser which alone has led to a reduction of 60,000 cubic metres of water per annum - and combined with other improvements at both sites is contributing to an overall water efficiency improvement of 18% across both sites. This project cost just under £3 million and it is forecast that through reduced water use and discharges it will generate savings of £400,000 per annum representing a payback of 7 years. In addition to this financial return there will be business benefits in terms of line and capacity efficiency improvements, continuity of production, avoiding revenue loss, as well as wider community and reputation benefits.
- We are absolutely focused on improving our water performance - using our experience and applying it to other sites – experience that shows we can make our operations more water efficient while also saving costs – good business practice that benefits the environment, the local community and Diageo.
- Hopefully I've provided you with an insight into how we are managing the core environmental risks facing our business to improve business efficiency and security of supply. I could have talked about our great progress on reducing the amount of waste we send to landfill, that over 50% of all electricity used globally is from low carbon sources, or the fact that 98% of our packaging is recyclable – but I wanted to provide an analysis into the two areas where we have the most direct impact on the environment.

- We have set ourselves very ambitious goals and demonstrated how both our large scale capex projects and the much smaller efficiency programmes deliver against these. Identifying and implementing projects that support both the long term growth of the business and reduce the impact we have on the environment requires foresight and ambition and holistic management which Diageo can apply given our scale and our capabilities.
- Now over to Nick

<u>Nick Blazquez, President Diageo Africa</u>

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- Thank you David. Hello. I am Nick Blazquez, President of Diageo Africa and now I will explain how socio-economic development is good for Diageo and is core to our day to day business approach, especially in emerging markets.

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- As Ian said earlier gaining the trust of our stakeholders is an important element of the way we build a sustainable business model. Furthermore the growth of our business is fuelled by the economic environments in which we produce and sell our products. I am going to bring this to life using, my region, Africa as an example. The generation and distribution of wealth through our core business operations directly provides income and security for our workforce of over 5000 people and their families, and of course we also make significant contributions in tax and are the largest tax payers in some of our markets in the region, all of which creates wealth for the wider value chain.
- But we go further than this. Our value creation starts with our suppliers, this benefits us by creating a more efficient and productive supply chain and it benefits our affiliated businesses. By the end of the year we aim to source 65% of our raw materials locally in Africa, approximately 400,000 tonnes of grain a year. This provides a sustainable source of income for small scale farmers, further fuelling local supply chains, and provides Diageo with local raw materials, reducing our exposure to potentially volatile global commodity markets. A win-win situation.
- We already source a lot of our grain in Uganda, Kenya and Nigeria. In addition, we are working with farmers in Ghana, Cameroon and Kenya to develop a local sorghum supply chain. Sorghum generally requires less water to grow and needs less water in the brewing process. But there are also other important benefits. Sorghum is known to improve soil quality which combined with training and technical assistance improves the capacity of small-scale farmers.
- On the demand side of the value chain our platform for growth programme supports distributors, many of which are small, family owned businesses, by increasing their capabilities in key business areas including P&L management, sales techniques, supply and demand planning and health and safety. Additionally our distributor finance scheme, provides financial support and management solutions from our partner banks to improve their liquidity and cash

flow. These schemes improve business performance for our distributors and ultimately for Diageo.

- Our approach can also create additional value for our customers through new products to meet consumer needs. The best example is Senator Keg in East Africa which was designed to encourage consumers to trade up, out of the informal sector, providing an affordable alternative to dangerous, illicit brews, this was assisted by the Kenyan Government's decision to waive excise duty. The brand's continued success has done more than positively impact health and mortality rates. It has stimulated the formalisation of the retail environment at the value end, encouraged private enterprise and created jobs. Moreover, its growth means we will source more locally, helping Kenya's agricultural sector and communities.
- Moving away from Africa for a moment our "Glass is Good" recycling programme in Brazil is a prime example of collaboration across the whole supply chain. Our partner, Cooperative Vira Lata, collects glass from participating customers, saving customers and consumers recycling costs. Our manufacturer, Owens-Illinois, then buys the ground glass from the cooperative, generating income for over 60 cooperative members, while the glass being recycled becomes a new bottle, saving energy, reducing carbon emissions and using less raw materials.

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- An important element in generating prosperity, engaging stakeholders and enhancing our reputation is our investment directly into the community. In Latin America we invest in skills development through our flagship "Learning for Life" programme. This was set up to transform people's lives offering them skills to give them greater employment opportunities. We work in partnership with training agencies with the support of government, the media and local celebrities, to train adults in five areas: hospitality, retail, enterprise, bartending and teaching. Since its launch in 2008, we have managed more than 58 projects in 24 countries, helping more than 50,000 people.
- In Asia, we take a slightly different approach to helping communities. Here our programme focuses on social entrepreneurs – people who recognise social problems and use entrepreneurial thinking to create solutions designed to engender lasting, positive change. Our 'Champions for Change' programme , recently launched across the region, gives people the skills and funds necessary to bring to life innovative ideas for tackling local social and environmental issues. In Indonesia, for example, our partnership with the British Council has delivered some outstanding results. Over 8,000 people have participated, with 12 communities receiving seed funding.
- And in Africa our Water of Life programme has given nearly 5 million people in Africa access to clean water via over 170 projects in 16 countries. In May 2011 we took our water programme to the next stage of development we partnered with the Coca-Cola Africa Foundation and Water Health International, to set up Safe Water in Africa, a ten year programme to provide safe, clean drinking water in urban and rural communities. By the end of 2012 we aim to have completed 12 sites in Ghana and 25 sites in Nigeria.

- Of course Diageo is there for our communities when disaster hits. We work with professional relief organizations which allow us to act quickly and co-ordinate relief effectively when natural catastrophes and other events strike. This approach was hugely valued last year by our employees, our customers and our consumers, a particularly difficult year, with major disasters affecting many of the regions in which we operate.
- Underpinning all of our work in local socio-economic development is good governance in our day to day business and a year ago Guinness Cameroon took this to the next level, with the establishment of the Business Coalition against Corruption. An unprecedented anti-corruption initiative representing over 60 organisations across the private and public sector. Being an advocate for effective business environments via initiatives such like this and the Diageo Africa Business Reporting Awards, encouraging accurate unbiased reporting, creates the right kind of environment in which business in Africa can succeed. It helps positive engagement with a broad range of stakeholders, and as Ian said earlier, there is increasing recognition and expectation among governments and NGOs that the private sector can be a true catalyst for sustainable holistic growth.

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- In short, socio economic development benefits our business.
- You have seen how our focus on generating prosperity creates a virtuous circle in the communities in which we operate and how it builds our corporate reputation through building good relationships with key stakeholders and business partners.
- I know first hand how in competitive employment markets, it is vitally important in attracting and retaining the right talent to run our business in the future. Socio economic development connects with how people want to conduct their lives, it therefore motivates and inspires employees and leads to greater engagement and greater performance.
- Finally, socio-economic development helps us manage risk. Local supply chains speed up the supply process, ensure we have a secure supply of raw materials and reduce our exposure to foreign exchange volatility and global commodity price fluctuations.
- Now back to Ian.

Ian Wright, Global Corporate Relations Director

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- Thank you Nick.
- In summary being sustainable and responsible is fundamental to Diageo.
- Our structured approach to addressing our social, environmental and economic impacts helps us manage risk more efficiently, strengthen our corporate reputation and builds engagement across all of our stakeholders.

- Our people understand the importance our reputation plays in engaging with stakeholders and protecting and enhancing our license to operate. Through leading the responsible drinking debate and working across industry, governments and NGOs, we are helping to reduce alcohol misuse.
- Our supply teams have created award winning technologies to manage our environmental footprint, deliver business efficiencies and security of supply.
- And our businesses are focused on generating prosperity in the communities in which they operate. They do so by creating shared value throughout our value chain and via direct community initiatives such as Learning for Life, Water of Life and Champions of Change. They also play a major role in creating a better business environment.
- Thank you for your time and we look forward to answering your questions later today.

END.