

Diageo Environmental Reporting Guidelines

August 2012

This document details the basis of calculation for the following metrics:

- Baseline data and target setting
- Greenhouse gas (GHG) emissions
- Water consumption
- Wastewater polluting power as measured by biochemical oxygen demand (BOD)
- Waste to landfill
- Production of packaged product
- Sustainable packaging

Baseline data and target setting

Environmental data is reported on the basis of our financial reporting year, running from 1 July to 30 June. Diageo's Environmental Reporting Guidelines are reviewed and updated on an annual basis by Diageo's Environmental Leadership Team and ratified by Diageo's Environmental Executive Working Group chaired by the President of Diageo Global Supply and Procurement.

Reporting boundaries

Environmental data is collected and reported for all sites where Diageo has full operational control, and as defined by the World Resources Institute / World Business Council for Sustainable Development (WRI / WBCSD) Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, Revised Edition. Diageo believes that by including environmental data from all offices and production sites under its operational control, its environmental reporting will be consistent with reporting on other operational activities. Environmental data from joint ventures and associates (where Diageo does not have full operational control) has not been included within the reported figures.

Baseline

Diageo's baseline year was set as financial year ended 30 June 2007, applies to all environmental data and has been prepared in accordance with internal reporting guidelines and calculation methodologies set out here. The baseline data is used as the basis for calculating progress against Diageo's targets for greenhouse gas emissions, water consumption, BOD and waste to landfill, first announced in September 2008.

The continued relevance of 2007 as the baseline year is reviewed on an annual basis.

Restatement of baseline environmental data

Diageo will restate environmental data for the baseline year and intervening years to reflect changes in the company that would otherwise compromise the consistency and relevance of the reported information. Restatements are made in line with the recommendations made by the World Resources Institute / World Business Council for Sustainable Development (WRI / WBCSD) Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, Revised Edition and the Beverage Industry Sector Guidance for Greenhouse Gas Emissions Reporting version 2.0.

The base year environmental impact data, and data for intervening years, are adjusted to reflect acquisitions, divestments, updates to data bases for CO₂ emission factors, any errors in methodology and calculations, and for any significant changes in reporting policy that result in a

material change to the baseline of more than 1% as advised by independent sources. Environmental data with respect to acquisitions is included in our calculations from the date of purchase, and with respect to disposals included until the date of sale, unless otherwise specified. We will report acquisitions data as soon as practical, and no later than after we collate one full year's financial data. We will also restate where we can show that structural changes regarding outsourcing and insourcing have an impact of more than 1%.

Diageo's fiscal year 2007 baseline was adjusted in accordance with guidance from the WRI / WBCSD Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, and the methodology independently approved.

As companies undergo significant structural changes, the protocol describes the need to restate environmental impacts for consistent tracking over time. This is necessary to make meaningful historical comparisons; or in other words, previous emission data is recalculated to compare 'like with like'.

In fiscal year 2012, the environmental impacts for the base year 2007 and intervening years were re-stated due to in-sourcing Captain Morgan Rum manufacture to the new Diageo distillery in US Virgin islands and the acquisition of two Serengeti breweries in Tanzania. Additionally, where more up to date information on electricity emission factors is available, including revisions to IEA databases, the latest available data is applied.

The base year environmental impacts associated with acquisitions and in-sourcing are principally determined, directly from the historical data records, for production volumes, energy, water consumption and waste generated for the base year and intervening years. In certain cases where historical data is unavailable, the base year environmental impacts are determined from current environmental impact data, extrapolated, based on production patterns, for base year and intervening years. In the current financial year, the environmental impacts associated with acquisitions and in-sourcing increased Diageo's base year environmental impacts by between 2% and 9% for water and GHG emissions respectively. The impacts of these increases on 2015 targets will be absorbed and Diageo reaffirmed its commitment to 2015 targets in 2012 –see reviewing our targets section.

Uncertainty and estimates

While we make every effort to capture all information as accurately as possible, it is neither feasible nor practical to measure all data with absolute certainty. Where we have made estimates or exercised judgment this is highlighted within these reporting guidelines.

Target setting

Diageo has set environmental targets based on a baseline year of financial year end 30 June 2007. The year by which time Diageo aims to achieve these targets is defined as 2015.

Reviewing our targets

In 2008 Diageo set environmental targets based on baseline data from financial year ending 30 June 2007 with the aim of achieving these targets by 2015. Since setting these targets and reporting our performance against them we have included acquisitions and reset our 2007 baseline data using the principles of the WRI/WBCSD protocol. Until 2011 these acquisitions were relatively minor in terms of our overall impact on the environment, typically less than 5%. However, in 2011 the company announced its intention to buy several larger businesses. Therefore in the Sustainability & Responsibility Report 2011 we confirmed a review of the implications of these proposed acquisitions for our Environmental Reporting Guidelines in terms

of the total volume of production and overall impact on the environment. This review was completed in January 2012 and concluded that there would be no change to the Environmental Reporting Guidelines and that we would continue to incorporate new acquisitions in our 2007 baseline with no change to our 2015 environmental targets.

Greenhouse gas (GHG) emissions

GHG emissions data has been prepared in accordance with the WRI/WBCSD Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, Revised Edition (WRI/WBCSD GHG Protocol). A summary of the key elements of this standard and their application to Diageo's business is outlined below.

Scope

Scope 1 emissions (i.e., direct GHG emissions) from on-site energy consumption of fuel sources, such as gas, fuel oil and diesel, are reported for all sites where we have operational control. Scope 2 emissions (i.e., indirect GHG emissions) from purchased electricity and heat is also reported for these sites. Diageo at present does not fully report on its Scope 3 emissions. Carbon dioxide emissions from the fermentation process are not included within our reported environmental data as these emissions are from a biological short cycle carbon source.

Calculation methodology for GHG emissions

The GHG emissions data is externally reported in tonnes of carbon dioxide (CO₂) rather than CO₂ equivalent (CO₂e). CO₂e is the measure used to compare the emissions from various greenhouse gases based on their global warming potential (GWP). This is mainly because we have estimated that approximately 99% of our GHG emissions are CO₂. Each year we also look at the GWP in CO₂e of our ozone-depleting substances, e.g. HFCs. However, the quantities are minimal, approximately 500 tonnes CO₂e, and therefore fall behind the materiality threshold.

The GHG emissions data has been calculated on the basis of measured, or in a small minority of instances, estimated energy and fuel use, multiplied by the relevant CO₂e conversion factors. Where possible fuel or energy use is based on direct measurement verified through purchase invoices. For the small minority of cases where invoices or meter readings have not been available, it has been necessary to make estimations. All CO₂ is reported in metric tonnes.

The most reliable and up-to-date emissions factors have been used to convert energy use to CO₂e using:

- The kWh/CO₂e factor provided by energy suppliers where a contract is in place with respect to the energy supplied to the relevant site
- The relevant conversion factors to the country of operation (for example, national conversion factors supplied by the relevant government) or
- The International Energy Agency (2010) conversion factors.

Low-carbon electricity

A number of sites have entered into contracts for 'green tariffs' or low carbon tariffs for their electricity supply. The CO₂e emissions from these tariffs have been zero-rated where the contract specifies that the supply onto site is from a 100% renewable source. Otherwise we use the supplier's CO₂ emission factor.

Water consumption

Diageo collects water consumption data from across the production sites over which it has operational control, using internally developed reporting guidelines with expert external advice. In addition to tracking total water usage, Diageo also collects information to calculate 'water

efficiency', meaning the ratio of the amount of water required to produce one litre of product packaged. As part of its continuing journey, using the WBCSD Global Water Tool and data from the United Nations' definition of 'water stressed', Diageo has designated 12 of its production sites as being located in areas which are 'stressed', identifying them as higher risk in terms of sustainable water supply.

Calculation methodology for water consumption

Diageo uses internally developed reporting guidelines, which defines the total quantity of water used in production obtained from groundwater, surface water and mains supply less any clean water provided back to local communities directly from a site. Uncontaminated water abstracted and returned to the same source under local consent is excluded from water consumption data reported so long as there is no chemical change to the water. All water consumption data is reported in cubic meters.

The data has been reported on the basis of measured water use.

Wastewater pollution power as measured by biochemical oxygen demand (BOD)

Diageo collects BOD data from across all production sites over which we have operational control, using internally developed reporting guidelines with expert external advice. Diageo measures the total BOD load discharged from its production sites into open water or which is subsequently treated by third party treatment works. The BOD load of wastewater discharged to land, for the purposes of irrigation or benefit to agriculture made under license or permit, is not included.

Calculation methodology for BOD Load

Diageo uses internally developed reporting guidelines, based on published data and methods for BOD calculation, using estimates of discharged effluent flows and the laboratory determination of effluent BOD concentrations. All BOD loads are reported in metric tonnes.

Waste to Landfill

Diageo records the type and quantity of all waste to landfill data from across the production sites over which it has operational control using internally developed reporting guidelines with expert external advice. Waste to landfill includes hazardous and non-hazardous materials.

Calculation methodology for waste to landfill

The definition of waste to landfill includes all hazardous waste, all unwanted or discarded material in solid, sludges or liquid form produced. This includes all refuse, garbage, construction debris, treatment and process sludges and materials that a site has been unable to reclaim reuse or recover. All waste to landfill is reported in metric tonnes.

Production of packaged product

To calculate efficiency ratios, Diageo uses litres of product packaged as the standard measure for comparison as this highlights the environmental impact associated with production of our products. This information is collected, as other environmental data, through a common database from all sites over which Diageo has operational control.

Calculation methodology for production figures

Litres of product packaged includes the number of total litres of product packaged as the product enters a finished goods warehouse at operationally controlled sites together with any product sent to a third party for packaging (i.e., a non-controlled site). Damaged product is not included in these production figures.

Sustainable packaging

We do not define and calculate our sustainable packaging targets with the same methodology as our other environmental performance metrics. Therefore the introductory notes above do not apply to this statement about sustainable packaging.

The methodology applying to sustainable packaging encompasses:

- Pack weight
- Recycle content
- Recyclability

All sustainable packaging impacts are quantified and expressed in terms of weight – grams; kgs; tonnes or percentages.

Pack weight changes are determined by quantifying the weight reduction/increase- in grams and multiplying by the number of SKUs impacted on an annualised basis. Recycle content is determined by establishing the volume in grams/kgs of non-virgin materials used to generate the pack components, and adjusting for in-year changes to recycle content.

Recyclability is expressed as a percentage determined by quantifying the weight of final pack deemed to be non-recyclable and multiplying by the total annualised volume of the SKU. Having set targets against a 2009 baseline, we input regional packaging data on each of our three metrics (weight, recycled content and recyclability) on a monthly basis. They are then consolidated and internally verified.

We have established a sustainable packaging framework, implementation plan and targets to ensure, where practical, that our packaging has the smallest possible environmental footprint. Our sustainable packaging team is working to implement this across Diageo.

Our approach is based on systematically assessing the impact our products have on the environment and applying our design principles consistently. Using sophisticated computer design software, we have commissioned and created a sustainable packaging life cycle assessment tool – SPOT (Sustainable Packaging Optimisation Tool) – to enable us to assess rapidly the environmental impact of new and existing pack designs. This tool will provide us with data early in the product development cycle and enable us to make effective interventions in designing packaging with the least environmental impact.