Deforestation *guidelines* 2024

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We are committed to *preserving* the natural resources on which we all depend

DIAGEO

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Through our Society 2030: Spirit of Progress plan, Diageo is committed to preserving the natural resources on which we all depend; working in partnership to tackle climate change, water stress and biodiversity loss, and helping to create a more sustainable world. These commitments underpin our ambitions on deforestation and land conversion.

We are committed to *embedding our sustainability principles* throughout our supply chains

Deforestation and land conversion, primarily driven by commodity production, is a key contributor to the current ecological and climate crises the world is facing. Businesses, through their dependence on raw materials and the influence they can have over their supply chains, have a key role to play in helping to drive better outcomes for nature. Diageo is committed to embedding our sustainability principles throughout our supply chains and helping our supply partners improve their practices.

As a global leader in beverage alcohol, we use significant amounts of raw materials throughout our operations. We are on a vital journey to better measure and manage our global impact on the natural environment. Due to our dependency on agricultural and, to a lesser extent, forest commodities, we recognise that our activities have the potential to contribute to deforestation and land conversion.

We are on a vital journey to continually *enhance the measurement and management* of our global impact on the natural environment

Definitions

Conversion:
Change of a natural ecosystem to different land use or significant change in its species composition, structure, or function. Deforestation is a type of conversion involving natural forests.

Conversion can include severe degradation or introducing management practices that cause substantial and sustained changes in the ecosystem's original species composition, structure, or function. Change to natural ecosystems that meets this definition is considered to be conversion regardless of whether or not it is legal.[1]

Deforestation:
Loss of natural forest due to one of the following: i) conversion to agriculture or other non-forest land use; ii) conversion to a tree plantation; or iii) severe and sustained degradation.[2]

[1]Conversion: "Loss of a natural ecosystem as a result of its replacement with agriculture or another land use, or due to a profound and sustained change in a natural ecosystem's species composition, structure, or function. Deforestation is one form of conversion (conversion of natural forests). Conversion includes severe and sustained degradation or the introduction of management practices that result in a profound and sustained change in the ecosystem's species composition, structure, or function. Change to natural ecosystems that meets this definition is considered to be conversion regardless of whether or not it is legal." Accountability Framework Initiative's *(https://accountability-framework.org/)*

[2]Deforestation: "The conversion of forest to other land use independently whether human-induced or not. Explanatory notes 1. Includes permanent reduction of the tree canopy cover below the minimum 10 percent threshold. 2. It includes areas of forest converted to agriculture, pasture, water reservoirs, mining and urban areas. 3. The term specifically excludes areas where the trees have been removed as a result of harvesting or logging, and where the forest is expected to regenerate naturally or with the aid of silvicultural measures. 4. The term also includes areas where, for example, the impact of disturbance, over-utilization or changing environmental conditions affects the forest to an extent that it cannot sustain a canopy cover above the 10 percent threshold. "Food and Agriculture Organization (FAO). In Global Forest Resources Assessment, 2020. *(https://openknowledge.fao.org/server/api/core/bitstreams/531a9e1b-596d-4b07-b9fd-3103fb4d0e72/content).*

APPROACH

To better inform our position, we conducted a nature impact and materiality assessment aligned with the methodology of Science Based Targets for Nature (SBTN) and the recommendations of the Accountability Framework Initiative, to evaluate the likelihood of deforestation and land conversion occurring in our direct operations and supply chains related to the forest, land use and agriculture sectors.

1. We used SBTN's materiality screening tool which identified deforestation and land conversion as a material issue for our upstream supply chains, but not for our direct operations;
2. We used lifecycle assessments to estimate the deforestation and land conversion typically associated with the different raw materials in our upstream supply chain;
3. We defined material commodities as those comprising 1% or more by weight of our raw material purchases and contributing to 1% or more of our estimated land transformation footprint as determined by the lifecycle assessments;
4. We then used third-party datasets to estimate the levels of deforestation and land conversion that had occurred in the crop growing regions of the countries from which we source;
5. We defined our final list of high-risk categories as those material commodities from countries with above average deforestation and/or land conversion risk;
6. We further cross-checked the outcomes from this assessment with relevant stakeholders, third-party studies and datasets. For full details of our approach see the Appendix.

In the absence of full supply chain traceability we are unable to measure deforestation or land conversion directly. However, our risk-based assessment indicated that the majority of the raw materials we source and the areas we source from, are not associated with a substantial risk of deforestation or land conversion. Nonetheless, the analysis did identify potential risks associated with some of our raw materials.

Material high risk commodities and geographies:

- Sugarcane (Dominican Republic, Guatemala)
- Agave (Mexico)
- Paper packaging & board (Global)
- Wooden barrels (North America)
- Wood-based biomass (Global)

COMMITMENT

Diageo is committed to achieving no deforestation and no conversion in our supply chains by the end of 2025. This means the commodities we purchase were produced on land that was not subject to deforestation or conversion from 2020.

- Our commitment includes all products and services that we purchase, with a particular focus on those that originate from the forest, land, and agricultural sectors, and with specific implementation approaches for our material high-risk commodities and geographies.
- We also expect our suppliers to comply with all relevant legislation, including that of the production and destination countries. Including, for example, compliance with the EU Deforestation Regulation where relevant.

We expect our suppliers to *comply with all relevant legislation*

Managing our impact on nature across our business

Along with our Society 2030: Spirit of Progress targets, Diageo actively manages the risk of impact on our natural resources across the business. Our approach aligns with the mitigation hierarchy and the SBTN Action Framework (AR3T):

Avoid: Governance, Policies, Standards & Guidelines, Resource efficiency, Supplier screening, Supplier contract

Reduce: Policies, Standards & Guidelines, Supplier contracts, commodity specific guidelines

Restore: Regenerative agriculture, water replenishment, collective action & brand initiatives

Transform: Transformative partnerships

Governance

Diageo follows a comprehensive governance approach to addressing our impacts and dependencies on nature. This includes the Board's oversight of our Society 2030: Spirit of Progress ambition, and its associated Executive Working Group. Climate change and sustainability are recognised as one of Diageo's principal risks, which is managed by a cross-functional Climate & Nature Risk Steering Group. This group sets our strategy for ongoing climate and nature risk assessment, manages associated opportunities and risks, and reports to an Executive Sponsors Group. Our governance of nature-related impacts is further integrated into our various policies, standards, and guidelines.

Policies, standards, and guidelines

Along with these deforestation guidelines, Diageo's Global Environmental Policy sets out our obligations and expectations for managing impacts on, and from, the environment. Our Environmental Policy requires compliance with these deforestation guidelines. Our Partnering with Suppliers standard establishes the minimum social, ethical, and environmental compliance standards we require suppliers to follow as part of their contract with us. Supplier contracts include a requirement to adhere to our deforestation guidelines. Alongside our Partnering with Suppliers standard, we also have specific guidance on Sustainable Agriculture and Sustainable Packaging.

Resource efficiency

We are actively working on reducing our carbon emissions and water footprint. Our roadmap includes focusing on efficient use of resources, increasing recycled content in our packaging, eliminating unnecessary packaging and lightweighting our glass bottles. In agriculture we are exploring waste materials valorisation and agronomic programmes to boost crop yields.

Supplier screening, onboarding & contracting

Almost 30,000 suppliers from more than 100 countries provide us with the materials, expertise and other resources that help us make great brands. Many of those direct suppliers themselves have an extensive supply chain, connecting us with thousands more farmers and businesses. We are integrating compliance with our deforestation and conversion free target into our risk screening process that occurs at supplier onboarding.

Evidence of compliance with these guidelines is required as part of a supplier's response to Diageo's request for proposals and subsequently in our contract approval process. All our supplier contracts from 2022 onwards include a requirement to adhere to our deforestation guidelines. From 2024 we will also specify minimum levels of traceability for all new contracts for the agricultural and forest-based products we procure. Those suppliers that aren't subject to contract are required to adhere to our deforestation guidelines as part of our standard terms and conditions.

Commodity-specific approaches

In addition to the steps outlined above, we tailor our approach for material high-risk commodities and geographies.

Agave

In 2021 the Don Julio brand received the Environmentally Responsible Agave (ARA) Certification from the Tequila Regulatory Council and the Government of the State of Jalisco, Mexico. The certification has been designed specifically to address deforestation. Its purpose is to assure consumers that the tequila has been produced in an environmentally responsible and sustainable manner with no deforestation in the production process.

Diageo has also mapped the polygons of all agave fields that we own or lease and has land management processes for the development of new agave fields. We use government databases (INEGI & CONAFOR) to ensure we use land exclusively classified as agricultural and do not use any land classified as forest, protected or an aquifer recharge zone. We verify that all land use is compliant with the legal rights of land use and we check our plantations against ARA databases to ensure those plantations in Jalisco and Guanajuato have the proper registration under this recognition.

For our agave suppliers from 2021, we have requested that they share their ARA verification status with us; for those suppliers in Jalisco and Guanajuato, this requirement is linked to contractual agreements. Most of our suppliers have their plantations georeferenced. For the future, Diageo will continue working to strengthen our policies and contractual mechanisms to ensure no deforestation and conversion on third party suppliers' operations through stronger databases, land use change analysis and contractual agreements.

Sugarcane (Dominican Republic & Guatemala)

For all our sugar and sugar derived products from high-risk countries, we aim to source 100% certified sustainable (Bonsucro, ISCC or equivalent) by 2030.

Paper and board packaging (Global)

For all our pulp and paper, we aim to use 100% Forest Stewardship Council (FSC) or Programme for the Endorsement of Forest Certification (PEFC) certified, or recycled fibre. Currently almost all of our paper and board packaging meets these standards. We will continue to review this commitment to 100% FSC and PEFC paper and board packaging to ensure compliance with our commitment.

Wood-based biomass (Global)

Diageo has an internal bioenergy standard, based on best practice, that provides guidance on the sustainable procurement or generation of bioenergy derived from biomass feedstock. This standard specifies that feedstock should not contribute to deforestation or loss of biodiversity. We will continue to implement our standard in relation to our biomass feedstock, including wood chip and wood pellets.

Wooden barrels (North America)

Most of our new barrels are sourced for our American whiskey operations, and our two main suppliers adhere to sustainable forestry practices certified by the Sustainable Forestry Initiative or the Appalachian Hardwood Manufacturers. A small number of these new barrels are also exported to Scotland; however, for most of our Scotch whisky operations we use second-life casks from sherry and bourbon production, and we re-manufacture 150,000 casks each year for this purpose.

Monitoring & reporting

We will update our assessment of where risks of deforestation and land conversion exist within our supply chains on a regular basis, including when we start sourcing from a new country and when suppliers provide updated information on the production location of our commodities. We are also making progress on our supply chain traceability, including the deployment of farm-level traceability tools for our smallholder supply chain in Africa.

In the absence of full supply chain traceability, we will continue to use an approach that combines our internal procurement intelligence with probability-based sourcing models to estimate our national and sub-national sourcing regions and combine these with datasets on deforestation and habitat loss.

We will provide updates on the progress we have made with our deforestation and conversion free commitment within our external sustainability disclosures including our ESG Reporting Index, which is published annually.

Grievances & remediation

Our SpeakUp service allows suppliers, customers, and any other interested parties to raise concerns on non-compliance with our guidelines, standards, and supplier code.

If our supplier screening processes identify a potential breach, we will engage with our suppliers to clarify impacts and put in place a remediation plan as required.

Progress on our *deforestation and conversion free commitment* is included in our ESG Reporting Index

Our assessment shows that our overall contribution to global deforestation and land use change is likely to be very small. However, recognising the limitations of modelled data we are committed to furthering our understanding and management of these environmental risks. In the meantime, we continue with our strategies that help restore landscapes through brand activities, regenerative agriculture, water replenishment, and collective action.

We are committed to *preserving the natural resources* on which we all depend

We recognise that there may be some unavoidable impacts resulting from our operations. Diageo is working diligently to understand and mitigate these impacts while adopting nature positive approaches. We are committed to supporting farmers across our supply chain in adopting regenerative agriculture practices to improve soil health, water, and biodiversity, whilst also recognising the needs of farmers and farming communities. Our landscape restoration plans are underpinned by our 10-year sustainability action plan, Society 2030: Spirit of Progress, and our 'Grain to Glass' pillar.

Examples of Diageo's restoration activities:

Brand-led restoration

In 2021 Johnnie Walker supported the establishment of 389,000 native trees close to two of our distilleries in Scotland to help restore local ecosystems.

Bulleit Frontier Whiskey met its goal of establishing one million trees in partnership with forestry innovation leader American Forests three years ahead of schedule. Together, Bulleit and American Forests have successfully restored more than two thousand acres of forest landscapes in several US states preserving the forests' ability to mitigate climate change, clean water and provide home for wildlife. As reforestation efforts continue to push forward, Bulleit is embarking on a new mission to improve 'Tree Equity' within economically disadvantaged communities and help ensure that all people have access to the benefits of trees.

For over a decade Kenya Breweries Limited, producers of Tusker, have been strong advocates for tree planting. Through their environmental, staff-driven initiative, they have planted and nurtured close to one and a half million trees, with the aim of contributing to the protection and restoration of Mount Kenya and Aberdare Forests.

Regenerative agriculture

We have committed to developing regenerative agriculture pilots across our key sourcing regions to improve resilience across our supply chain and enhance ecosystem services. Taking a landscape level approach, our aim is to protect and restore natural habitats within our supply chain, including integrating agroforestry models across existing production systems where appropriate.

Our first pilot, based in Ireland and focused on farmers supplying our Guinness brewery, will work with our barley suppliers over three years to test and implement regenerative agriculture approaches. The pilot aims to deliver improvements in soil health and its carbon sequestration potential, enhanced biodiversity, reduction in synthetic fertiliser use, enhanced water quality, and improved farmer livelihoods.

We have subsequently launched regenerative projects in Mexico and Scotland to drive holistic benefits including enhanced biodiversity, improved water stewardship, carbon reduction and better soil health management.

Collective action & replenishment

As part of our Preserving Water for Life strategy, we set out our work on collective action and replenishment, which includes the delivery of nature-based solutions in our sourcing and production watersheds. Collective action with communities and other stakeholders in our priority water basins improves water accessibility, availability and quality and contributes to a net positive water impact. For example, in the Upper Tana Basin in Kenya, we are supporting the roll out of agroforestry approaches and the restoration of degraded natural habitats.

Our replenishment programme includes projects such as reforestation, wetland restoration, desilting ponds, rainwater harvesting, aquifer recharge, and water sanitation and hygiene (WASH) programmes. For example, in Indonesia a replenishment programme is focused on restoration of 339 ha of bamboo ecosystems. In Mexico, Diageo built two wetlands and a 10,000 tree municipal nursery in the San Diego de Alejandría township. The wetlands are expected to clean 268 million litres of wastewater and to improve the quality of irrigation in the area for local farmers to grow more crops for the local residents.

Transformative partnerships

Diageo will continue to align with forward-thinking initiatives that look to raise the bar in the management and reduction of environmental impacts. For example, we have signed up to Business for Nature's Call to Action which calls on governments to adopt policies to reverse nature loss this decade and are also a corporate engagement partner of the Science Based Targets for Nature programme where we have already piloted the approach for our business in Ireland.

We have joined 'One Planet Business for Biodiversity' (OP2B) coalition to advance our commitments towards regenerative agriculture and landscape restoration, working in collaboration with other companies and contributing to the development of industry frameworks.

Notably we are also working with the Sustainable Agriculture Initiative Platform and The Nature Conservancy, and continue to proactively seek further collaborations where possible to transform the way we do business for the better.

APPENDIX

Supply chain materiality assessment

Our stance on deforestation is shaped by a nature impact and materiality assessment, following the Science Based Targets for Nature methodology (Steps 1 & 2). We used this evaluation to gauge the likelihood of deforestation and land conversion occurring within our agricultural raw material supply chains. To achieve this, we analysed procurement data for all agricultural raw materials and their derived products. For products acquired in a converted form (e.g., neutral spirit, flavours), we applied conversion factors to estimate the original crop and weight.

Country of origin for each item was determined, with unknowns estimated using a probability-based model using external datasets on crop production and trade. Within each country we further refined the area of crop production using maps from MAPSPAM (International Food Policy Research Institute, 2019). In cases where specific crop-growing maps were unavailable, we relied on the 'all crops' layer from MAPSPAM. Crop-growing maps indicated intensity, which factored into our calculations by assigning more weight to higher intensity.

For each crop/country combination, we estimated potential contributions to land transformation using LCA databases (Agrifootprint and EcoInvent). We then assessed deforestation and land conversion risks associated with specific crop-growing areas in each country using data from GFW and HILDA+.

We restricted our analysis to transformation occurring between 2000 and 2019. HILDA+ covers both deforestation and non-forest habitat loss and is more representative for regions with conversion of natural habitats other than forests (e.g. agave-producing regions in Mexico). Both maps have an upwards bias in areas where forestry or wildfires cause non-permanent tree cover loss, leading to an overestimation of the risk. To solve this, we reduced the Hansen tree cover loss score to 1 (low risk) in all countries where forestry and wildfires are the major cause of tree cover loss (>90%), subtracted the Hansen tree cover loss map from the HILDA+ map, and re-calculated the scoring.

After calculating deforestation and land conversion values, we compared them to national indicator averages for the same crop, classifying them into a 1-5 score. This resulted in a list of all potential crop and sourcing country combinations with an associated deforestation and land conversion score of 1-5.

To establish materiality, we focused on high-risk combinations that scored 4 or 5. We then filtered the results based on a 1% materiality threshold – so those crops contributing 1% or greater to Diageo's upstream agricultural footprint by weight and contributing 1% or more to our estimated land transformation pressure.

Our findings identified sugarcane from the Dominican Republic as a deforestation risk, and sugarcane from Guatemala as a land conversion risk. Although agave was not flagged by this approach, interviews with relevant third parties highlighted its historical association with deforestation and land conversion. Dairy from Ireland was initially identified as a land conversion risk, but subsequent searches revealed no external evidence linking Irish dairy to land use conversion post-2020 within Ireland. Whilst a portion of the soy fed to dairy cows may be linked to deforestation these volumes fall below our materiality threshold, therefore Irish dairy was not included in our material high-risk commodity list.

DIAGEO


JOHNNIE WALKER


GUINNESS


Tanqueray


BAILEYS


SMIRNOFF


Captain Morgan