

California Transparency in Supply Chains Act

In 2010, the State of California passed a law that requires companies to disclose what they do to address human trafficking in their supply chains, known as the California Transparency in Supply Chains Act (the “Act”).

Diageo seeks to establish clear standards for ourselves and seeks to foster similar standards in all third parties with which we have business dealings. In this regard, Diageo has developed its own Human Rights Policy, standards on Partnering with Suppliers, and is a signatory to the UN Global Compact, which is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten principles in the areas of human rights, labor, environment, and anti-corruption.

We expect our suppliers to comply with all applicable laws in the countries they operate in as well as comply with Diageo’s standards on [Partnering with Suppliers](#). As outlined in our standards on Partnering with Suppliers, our key areas of engagement with our suppliers include:

Ethical business practices;

- The protection of human rights;
- Health and safety standards;
- The reduction of environmental impact through the supply chains of which we are a part; and
- Working with suppliers to create a more positive role for alcohol in society.

We expect our suppliers to put these minimum standards in place, and we seek to enforce them through auditing and other means. Diageo also expects that any violation or falling short of these standards to be reported by the supplier in order that a plan to correct the situation can be devised. While the way in which we work globally to achieve these standards continues to evolve, we endorse the need for ethical and sustainable supply chains.

At a minimum, we expect our suppliers to:

- Meet all applicable laws and regulations and the ILO core conventions, which are a series of rules and principles regarding the minimum standards recognized by the international community for treating workers humanely;
- Pay wages in line with the norms for the industry and market and not require anyone to work excessive hours, particularly where this might impact personal health or safety;
- Not discriminate on grounds of gender, sexual orientation, race, religion, age, disability, caste, union membership, political affiliation, marital status or national origin;
- Allow employees to join a union (or collective bargaining group acting for them) or allow them to decline to join if they choose to;
- Never use forced or bonded labor;
- Never harass, abuse or threaten any employee with physical abuse, discipline, threat of physical abuse, sexual or any other form of intimidation;
- Not employ anyone *full-time* under the age of 15 (or higher if stipulated by local labor law); and
- Allow employees under the age of 18 access to education, limit employment during typical resting hours and ensure no exposure to working conditions that are likely to jeopardize their health and safety or morals.

The points outlined below in bold highlight each of the California Transparency in Supply Chains Act’s five prongs, followed by an explanation of Diageo’s efforts:

Company engages in verification of product supply chains to evaluate and address risks of human trafficking and slavery. The disclosure shall specify if the verification was not conducted by a third party.

As stated in the Diageo standards on Partnering with Suppliers, we have developed a comprehensive but flexible four-stage process for identifying, assessing and managing the social and ethical risk in our supply chain. This four-stage process enables us to work co-operatively with our suppliers to mitigate potential risks and maximize the benefits. In the first stage, we conduct an initial screening of our suppliers by considering the following associated risks:

- The country of origin – to consider possible risks to human rights or labor practices;
- Whether significant “temporary or casual” manual labor is used (and whether conditions of this labor give cause for concern);
- How closely the material is associated with our priority brands.

The second stage is the “pre-qualification” process. The pre-qualification stage includes a questionnaire which covers a series of key questions on social and ethical risks, with particular focus on areas of concern raised in stage one. We use this questionnaire for new and existing suppliers on a regular basis.

In stage three, all of our suppliers identified from the above steps as “potentially high-risk” must register and complete a self-assessment questionnaire on the Suppliers Ethical Data Exchange (SEDEX) to provide us with more information.

Finally, in the fourth and final stage, suppliers who represent the highest potential risk may be audited against the SMETA (SEDEX Members Ethical Trade Audit), a 4 Pillar ethical audit (Human Rights, Labor Standards, Health and Safety and Business Integrity). By working with these suppliers to improve standards, we are ultimately able to broaden the scope of our potential supply base. We may also undertake unannounced audits where we feel it is necessary.

Additionally, Diageo is a member of C-TPAT. C-TPAT is a voluntary government-business initiative to build cooperative relationships that strengthen and improve overall international supply chain and U.S. border security. Diageo has the highest status level (Tier 3) under C-TPAT. Through this C-TPAT initiative, Diageo works with the U.S. Customs and Border Protection Agency to ensure the integrity of its security practices, and to communicate and verify the security guidelines of our business partners within the supply chain. The C-TPAT program expects its members to identify “High Risk” supply chains based on the following threats at the point of origin:

- Terrorism
- Contraband Smuggling;
- Human Smuggling;
- Organized Crime and;
- Conditions fostering the above threats

Members must determine if security vulnerabilities exist with key Business Partners in those “High Risk” supply chains through means such as verifying C-TPAT membership (if eligible), verifying certification in an equivalent security program administered by a foreign Customs authority, or through methods including security surveys/questionnaires and site visit verifications.

Company conducts audits of suppliers to evaluate supplier compliance with company standards for trafficking and slavery in supply chains. The disclosure shall specify if the verification was not an independent, unannounced audit.

Diageo may conduct both announced and unannounced physical audits where we feel necessary. We also conduct a variety of audits of our supply sites and suppliers to ensure compliance with our Human Rights Policy. Diageo conducts audits with suppliers against our Risk Management standards, in a process known as License to Operate (LTO), where we assess suppliers’ compliance to Health and Safety, Quality, Environment and Risk Management controls. Thereafter, LTO audits are conducted annually on those suppliers that are deemed to be high risk under our risk assessment standards.

Diageo also conducts announced Independent Assurance (IA) audits of each of its supply sites. During IA audits, supply sites are evaluated on their compliance with Diageo standards for Health & Safety, Quality, Environment, Risk and Security. A key part of the Security review portion of the IA audits is a verification of the site and its suppliers' adherence to C-TPAT standards.

As stated above, suppliers who represent the highest potential risk are audited against the SMETA ethical audit protocol. These audits are conducted by independent third parties such as Societe Generale de Surveillance (SGS), Intertek, Bureau Veritas.

Finally, Diageo's Group Audit and Risk team conducts periodic, announced audits of each and every Diageo site and department and contractual provisions with suppliers to ensure compliance with our [Code of Business Conduct](#) of which the Human Rights Policy is an integral part.

Company requires direct suppliers to certify that materials incorporated into the product comply with the laws regarding slavery and human trafficking of the country or countries in which they are doing business.

We strongly encourage our suppliers to adopt fuller and clearer commitments of business ethics like those within our own Code of Business Conduct. Similarly, suppliers have a right to expect our employees to act in line with these standards. While Diageo does not require a direct certification from its suppliers, we strongly encourage our suppliers to adopt policies in line with Diageo's standards on Partnering with Suppliers, and we closely monitor violations or actions falling short of these standards.

Company maintains internal accountability standards and procedures for employees or contractors failing to meet company standards regarding slavery and trafficking.

Failure of employees or contractors to abide by Diageo's Code of Business Conduct can result in corrective action up to and including termination of employment. Failure of suppliers to abide by key provisions of Diageo's standards on Partnering with Suppliers can result in corrective action up to and including the termination of all existing and future business.

Company provides company employees and management who have direct responsibility for supply chain management training on human trafficking and slavery, particularly with respect to mitigating risks within the supply chains of products.

Diageo provides both live and web-based training on its Code of Business Conduct, Human Rights Policy and other core company policies. All new employees are required to attend new hire induction where each of our key policies are reviewed. Additionally, all continuing employees in leadership positions are required to certify their compliance and understanding of Diageo's policies annually through an Annual Certification of Compliance (ACC). For supply sites specifically, we provide Security Awareness Training for Supply Chain Integrity that ensures our employees are instructed on what to look for in the supply chain on human smuggling.

Diageo also provides both live and web-based training for its Procurement staff on its Corporate Citizenship and Suppliers program and its Partnering with Suppliers standard, part of which includes managing the human rights and labor standard risks within the supply chain.