

Social, ethical & environmental matters

Introduction

Signet recognises that many different stakeholders have an interest in its activities, and that the Group's success is dependent on the strength and effectiveness of its relationship with those stakeholders. Signet's approach to the governance of social, ethical and environmental ("SEE") matters, its framework of principles and policies, its relationship with key stakeholder groups and major initiatives that have occurred in 2006/07 are set out below.

Governance of SEE matters

The Group has a formal SEE governance framework with SEE matters being included in the schedule of matters reserved for the Board. The Group Chief Executive has been designated as the director responsible for SEE matters and reports to the Board on a regular basis.

The Group SEE Committee ("SEE Committee"), chaired by the Group Company Secretary, and consisting of senior managers from the UK and US, has responsibility for the implementation of the various aspects of the SEE principles and policies through a programme approved by the Board. Both the US and UK have a divisional SEE committee, members of which make up the SEE Committee and are drawn from the merchandising and buying, human resource, corporate communication, finance and internal control functions. The SEE Committee meets at least four times a year. The Group Company Secretary reports to the Group Chief Executive regarding the Committee's work.

Matters for which the SEE Committee has responsibility include:

- identification of significant risks to the Company's short and long term value arising from SEE matters;
- ensuring that the Board has adequate information to take account of material SEE matters;
- development of relevant SEE principles and policies for consideration and approval by the Board;
- implementation of the SEE programme agreed by the Board;
- reviewing systems for managing significant SEE risks;
- benchmarking the SEE performance and reporting of the Group against other general retail sector companies; and
- preparation, for review and approval by the Board, of public SEE disclosures and reporting.

The procedures for SEE risk management are embedded within the management structure of the Group. SEE risks are discussed in 'Risk and other factors' on pages 39 to 45.

Signet has important relationships with a wide range of different stakeholders, including shareholders, customers, employees, suppliers and communities. The Group engages with these stakeholders in a number of ways, including consumer research, customer service facilities, employee attitude surveys, supplier relationship management systems, investor relations programmes and participation in civic and community activities. In addition, Jewelers of America (the US speciality jewellery retail trade association) engages with stakeholders in the industry, including non-governmental organisations, trade unions, producers and manufacturers, governments and consumer groups, on major issues. The Group Chief Executive is on the Board of Jewelers of America and chairs its Ethical Initiatives Committee. He is also a director of the Council for Responsible Jewellery Practices, (as is the Group

Company Secretary), and chairs the World Diamond Council Consumer Awareness Advisory Committee.

Principles and policies framework

The Board has adopted a Statement of SEE Principles ("Principles") outlining the Group's policy to operate as a profitable and reputable speciality jewellery retailer, the Group's responsibilities to various stakeholders and the SEE principles by which it operates.

The Principles cover the following areas:

- accountability to stakeholders;
- business integrity;
- human rights;
- labour standards;
- health and safety;
- the environment; and
- community.

The Group has a Supplier Code of Conduct ("Supplier Code") and policies on business integrity, health and safety, the environment and labour standards. The Principles, Supplier Code and other policies are now incorporated, as appropriate, into the Group's staff induction process and operational procedures within the business. More detailed information is available on the Group's website (www.signetgroupplc.com).

Signet's principles and policies are intended to provide a framework with which the divisional policies and procedures conform. They do not replace detailed divisional policies and procedures.

Developments in 2006/07

During the year the Group:

- enhanced its internal controls to ensure credible monitoring of the Kimberley Process Certification System and the World Diamond Council Voluntary Systems of Warranties which were designed to eliminate conflict diamonds from the legitimate diamond trade, details of which are set out on page 56;
- continued the development of the formalised community affairs programme;
- continued its active involvement with the Council for Responsible Jewellery Practices ("CRJP") to ensure consumer confidence in the diamond and gold supply chain;
- continued to enhance the collection of environmental data and the validation processes; and
- continued to increase its communications with stakeholders on SEE matters, including employees, industry participants, investors and non-governmental organisations.

Our stakeholders

Signet's commitments to various stakeholders are articulated in the Principles. These are summarised below:

Shareholders

Signet's aim is to deliver an acceptable growth in value to shareholders which is sustainable, thereby protecting shareholders' short and longer term interests. The Group's responsibilities to shareholders are set out in more detail in the Corporate governance statement on page 52. The Group is committed to maintaining open dialogue with its shareholders on SEE and other matters. Signet has

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been a member of the FTSE4Good UK Index ("Index") since its launch and endeavours to meet the changing criteria of the Index. The Group has met the enhanced requirements of inclusion by strengthening its environmental management systems and data collection processes and the Index has recently added bribery and corruption and climate change requirements to its inclusion criteria.

Customers

Signet's mission is to meet, and where possible exceed, customer expectations through a high standard of customer service, high store standards, and by offering real choice and value. In doing so the Group endeavours to maintain product integrity by ensuring the quality of Signet's products and by offering merchandise that is responsibly sourced, and is in compliance with its obligations under the Kimberly Process Certification System.

The Group's policy is that all customers should be treated with respect and warmth. Sales training programmes include modules on treating all customers with respect generally. The Group has customer service departments, complaint resolution processes, mystery shopper programmes and conducts market research to gain a better understanding of customer requirements and in the US division there is a monthly customer satisfaction index for each store.

Employees

Employees are key to Signet's ability to achieve its objectives and mission. Therefore teamwork, integrity, communication, and fair treatment of employees all play an important part in the way the Group operates. Furthermore, Signet's ability to operate in accordance with its Principles is dependent on its employees' understanding of them and the way in which the Principles impact on their respective roles and responsibilities.

Signet considers its relationship with its employees to be excellent and values honest, open and constructive two-way communication throughout the organisation. This is achieved through store, area and regional management meetings in addition to staff opinion surveys, feedback reports and staff meetings. These procedures facilitate consultation during which the views of employees can be expressed and taken into account in decisions likely to affect their interests. Staff are kept informed of the Group's performance and objectives through management contact supplemented by staff publications in both the UK and US. The involvement of employees in the Group's performance is encouraged through participation in performance-related incentive payment schemes and savings-related share option schemes which cover all Group employees subject to minimum employment requirements. The Group does not restrict or discriminate against employees who wish to be covered by collective bargaining agreements.

The Group's policy is not to tolerate any form of unlawful discrimination on any grounds or at any level. In respect of people with disabilities, full and fair consideration is given to employment, opportunities for training, career development and promotion according to their skills and capacity. The services of any existing employees who become disabled are, where possible, retained and appropriate training is arranged for them wherever possible. The Group assigns responsibility for human resource matters, including health and safety, to divisional executive management committees. Both the UK and US operations have established systems which include the provision of training and development opportunities at all levels of the organisation. See pages 11 and 12 for further details.

Performance indicators relating to employee relations have been agreed and baseline data will be collected in 2007/08.

Suppliers

The Group recognises that stakeholders expect companies to exert influence, where possible, over suppliers to ensure that SEE standards are upheld throughout the supply chain. The Supplier Code outlines Signet's commitment to its suppliers and the expectations it has of them. It includes requirements relating to legal compliance, health and safety and labour conditions, freedom of association, the environment, ethics and conflict diamonds. This Code is available at www.signetgroupplc.com. The Supplier Code applies to suppliers and agents with whom Signet deals directly and Signet regularly discusses its implementation with them. Those suppliers and agents are encouraged to ensure that the Supplier Code is communicated throughout the supply chain. Signet has recently written to most of its suppliers of diamond and gold jewellery highlighting the importance it places on a responsibly managed supply chain and reminding them of the expectations it places on them as suppliers to Signet. The letter concluded that in the Group's opinion the most efficient way of addressing supply chain issues is on an industry wide basis and that the best and most effective way of doing that is through the CRJP.

Most of the raw and processed materials for the merchandise sold by Signet are traded on commodity exchanges or through multiple brokers and traders thereby making the original source difficult to trace. Signet believes that SEE risks at the mining, trading and secondary processing phases of the supply chain are more effectively managed through co-operation within the industry. Signet therefore actively participates in the CRJP and Jewelers of America in considering what action can be taken to set SEE standards and influence matters throughout the supply chain. In 2002 Jewelers of America adopted a Statement of Principles relating to SEE matters and a programme to communicate those principles to its members. Jewelers of America has developed a supplier code for the industry that was launched in the first quarter of 2004.

Signet is also working, where appropriate, with other trade bodies such as the World Diamond Council ("WDC") and the Jewelers Vigilance Committee to be better able to respond to SEE issues at an industry level.

Payment policy

In respect of supplier payment, Group policy is that the operating businesses are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted, rather than following any particular code or standard on payment practice (see note 32(f) on page 115 regarding the number of days purchases outstanding). Accordingly suppliers are aware of the terms of payment and it is Group policy to ensure that payments to suppliers are made in accordance with these agreed terms.

Conflict diamonds

One of the specific issues facing the Group and the diamond sector is conflict diamonds. These are diamonds sold by rebel movements to fund military campaigns. The Group is a member of the WDC which, together with Jewelers of America and other industry members has worked with the United Nations, government bodies, commercial interests and civil society to introduce a workable system for the certification of the source of uncut diamonds. This system, known as the Kimberley Process Certification System

("KPCS") was formally adopted in November 2002 and came into operation during 2003. Details regarding the KPCS are available at www.diamondfacts.org.

Following the adoption of the KPCS, Signet wrote to all of its trade diamond and diamond jewellery suppliers. The text requires them to supply the Group with merchandise that complies with the KPCS. Signet's systems, procedures and documentation take account of the KPCS so that only diamonds that are warranted to comply with the KPCS on invoices, annual agreements, or both are accepted from trade suppliers. As the Group moves to develop further its rough diamond sourcing and manufacturing capabilities, it has enhanced its KPCS processes in accordance with the requirements relating to rough diamond sourcing.

The Group has also trained its buying staff with regard to the KPCS requirements and briefed its sales associates on its operation. An internal audit of these procedures is carried out every year, and again this year the audit results confirmed the Group's compliance.

An internal audit of the Group KPCS is undertaken annually. A programme is developed each year before the audit commences and includes the verification of the WDC system of warranty statements. After the field work is completed a formal audit report is produced in a similar way to any other internal audit and any actions are logged in a management actions register for follow up and consideration by the Group's Risk Management Committee at its quarterly meetings. At the same time any points from the previous audit will automatically be followed up when the next annual audit is performed. Ultimately a summary report is submitted and reviewed by the Audit Committee.

As part of the programme internal audit teams visit every store at least once a year and through Signet's compliance programme ask questions related to conflict diamonds which are formulated in a very specific manner aimed at seeking verification, or otherwise, of designated aspects of compliance including training of store staff. These questions are updated periodically to reflect new processes adopted by stores in response to current events. A monthly report is also submitted to the divisional executive committees on compliance levels of stores and responses to customer questions on conflict diamonds, so that any corrective action that may be required can be taken in a timely manner.

As a result of the rough diamond sourcing initiatives implemented during 2006/07 the Group engaged a third party, to review its systems for compliance with the requirements of the KPCS. Although Signet was not required to do so, the same third party was also engaged to review compliance with the WDC system of warranties for polished stones and Signet's internal training procedures and practices at both the US divisional office and stores.

To date a third party review has only been undertaken in the US division where rough diamond sourcing is carried out. In the UK in addition to the implementation of management's own processes, including internal audit assessments, an exercise to assist the UK division to evaluate its controls with regard to the WDC system of warranties applicable to polished diamonds in the UK, is currently being undertaken with a third party.

Global Witness and Amnesty International noted that three industry leaders, including Signet, had taken stronger measures than

industry practice to prevent conflict diamonds from entering the supply chain.

The US division also keeps its systems for compliance with the recently enacted US Patriot Act under regular review, updating its procedures where necessary.

In 2006, 71 countries (including the 25 members of the European Union) were participants in the KPCS and accounted for over 99% of world diamond production. Seven countries are seeking participant status and a further seven have been invited to do so. While the overwhelming proportion of trade in rough diamonds was between participants in the KPCS, it is difficult to assess the precise level of participation. However anecdotal evidence suggests that unscrupulous diamond dealers have found it more difficult to sell non-certified stones since KPCS came into force.

Since the formal adoption of the KPCS in November 2002, further steps to assist in its implementation have been taken. During 2006 the formal three year review of KPCS, envisaged when it was set up, was carried out prior to the plenary meeting. This provided the opportunity for the KPCS to be considered in a comprehensive manner.

The Plenary Meeting accepted all 46 recommendations of the three year review. These included issues relating to the financing of the KPCS, the collection and publication of statistics, the treatment of illegal shipments, the development of proposals relating to non-compliance, the creation of a working group on artisanal and alluvial production and effective and credible government oversight of the industry. Clearer guidance on implementing effective controls from mine to export were agreed for participants. It was also agreed that selected data should be made publicly available.

The Diamond Development Initiative

The Diamond Development Initiative aims to find sustainable methods to ensure that diamonds are mined and distributed for the benefit of local communities and governments. Signet has contributed to one such initiative.

The Council for Responsible Jewellery Practices

While Signet is the world's largest speciality jeweller, its share of the worldwide jewellery and watch market amounts only to about 2% of the total. Therefore it is the Group's belief that it can be most effective in influencing improvements to the supply chain by working with other industry representatives who together can, by concentration into a single industry voice, be representative of many aspects of the supply chain and use their combined influence in working to improve it as a whole.

During the year the Group continued to work actively with other companies and organisations representative of the industry, one of which is the CRJP. The CRJP is an industry group representing the entire length of the diamond and gold jewellery industry supply chain from the mine to retail. More information is available on the CRJP website (www.responsiblejewellery.com).

In 2004 Signet was one of the signatories to a Statement of Intent that formed the basis of an agreement for further co-operation to promote increased consumer confidence and integrity in the product by promoting responsible business practices throughout the industry. As a result, during 2005, the CRJP was formed as a

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not-for-profit organisation whose members are participants in all aspects of the diamond and gold jewellery industry.

The CRJP for the first time seeks to bring together all participants of all aspects of the diamond and gold supply chain from mining to retail to promote responsible business practices. The CRJP aims to maintain consumer confidence in diamond and gold jewellery products and the trust of all interested stakeholders in their industry. The CRJP believes that a co-ordinated worldwide industry approach to improving business practices will provide increased clarity to the diamond and gold jewellery industry and be most effective in implementing the industry standards necessary to maintain consumer confidence and the integrity of the product.

The CRJP mission statement is to promote responsible, ethical, social and environmental practices throughout the diamond and gold jewellery supply chain, from mine to retail. It will endeavour to implement its mission statement and, in turn, will seek to reinforce confidence in the diamond and gold jewellery supply chain by:

- developing a “Responsible Practices Framework”, in consultation with key stakeholder groups, that will define the ethical, social and environmental standards according to which all members commit to conduct their business;
- making it a condition of membership that members apply the “Responsible Practices Framework” through an implementation model that will include self assessments and is evidenced through a system of independent third party monitoring;
- working with industry participants to advise on business responsibility issues as they arise and by offering guidance on the use of the “Responsible Practices Framework” to implement responsible business practices;
- promoting awareness and understanding of key ethical, social and environmental business responsibility issues by working with all stakeholders including, but not limited to, industry participants, trade organisations, governments, and civil society representatives;
- acting as an advocate for business responsibility within the industry and developing initiatives to address ethical, social and environmental challenges through publicly and privately financed projects;
- working with stakeholders and industry participants to continuously improve conformance with the standards and processes set out above and ensuring that they are relevant and achievable, while addressing key ethical, social and environmental challenges with due regard to the business objectives of the industry;
- encouraging members to promote the adoption of the “Responsible Practices Framework” amongst their business partners; and
- seeking to be inclusive and extending the opportunity for membership throughout the industry.

The CRJP remains dedicated to the objective of reinforcing consumer confidence in the diamond and gold supply chain. The Group believes it is in this forum that it can be most effective in considering environmental and supply chain issues and where, together with other industry constituents, it can more successfully promote responsible business practices in order to reinforce customer confidence and the integrity of the product. From an initial membership of fourteen companies there are now approximately seventy companies

encompassing all aspects of the supply chain from the mining companies to retailers. A key membership requirement of the CRJP will be an independent assessment of compliance with the Code of Practices which was adopted after extensive consultation, in September 2006. The CRJP is currently developing an implementation system which will include the requirement for third party independent monitoring. In anticipation of and in preparation for this assessment the Group is progressing its corporate responsibility agenda by developing a self-assessment process against the Code of Practices during 2007.

Environment

The direct environmental impact of Signet’s operations is judged to be relatively low compared to many business sectors and to other retailers. An environmental impact review confirmed that:

- jewellery has a very long life and is highly recyclable. Recycling takes place in respect of trade-ins, obsolete inventory, used watch batteries and certain packaging;
- jewellery and watches have an extremely high value to weight ratio and value to volume ratio making transportation through the supply chain relatively low impact. The Group makes use of third party distributors and reusable containers for merchandise distribution;
- the Group occupies relatively little space compared to other retailers of a similar market capitalisation and its sales density is above the jewellery sector average and, therefore, the Group has a smaller physical impact on the environment; and
- Signet’s supply chain originates with the producers of the raw materials with whom the Group presently has little direct relationship but it is recognised that the extraction of minerals has an environmental impact that requires careful management by mining companies.

Notwithstanding the above, Signet takes its environmental performance seriously and seeks opportunities to improve it.

Understanding and quantifying our key environmental impacts

Since 2003/04 Signet has continued to develop and test its environmental performance indicators and environmental data collection systems in both the US and the UK.

In 2006/07 the Company continued to collect baseline data for energy usage and greenhouse gas emissions and to validate existing data for water usage. Through this process Signet aims to enhance its environmental management systems and validate the previous year’s results as a basis for setting credible future performance targets and identifying measures that can be taken to continue to improve environmental performance. For example, a review of the energy efficiency opportunities of the new model store designs in the UK was recently undertaken. The Group also undertook an energy audit in representative stores in the US.

Environmental data has been collated and trend data across environmental performance indicators is now available from 2002 to 2005 as Group and divisional data, both as absolute and ratio values. A decrease in energy use and greenhouse gas emissions per unit of turnover was achieved by the Group year on year from 2004 to 2005. A peer group benchmark exercise has demonstrated that the Group’s environmental performance is broadly in line with that of its peers both in the UK and international retail sector.

Other environmental initiatives

The Group is committed to the process of collating and analysing its 2006 environmental performance data.

During 2007/08 the Group will continue to collect and assess baseline data for energy use, greenhouse gas emissions and water usage. It will also collect baseline data in relation to agreed social and ethical performance indicators related to employee health awareness standards, community affairs initiatives and workplace health and safety. In addition, it will set performance targets in areas of importance to the Group.

The US division has engaged a consulting firm to identify energy saving opportunities. A detailed lighting analysis has been conducted and as part of a store and real estate project, obsolete ballasts have been replaced with new electronic energy efficient ballasts. A light standard, based on industry standards, has been set for the US divisional office and a lighting retro fit began at the end of December 2006 for all three buildings at the US divisional office. Moisture sensors have been installed in the irrigation system to conserve water use. The US divisional office recycling programme has been expanded.

Although the Climate Change Criteria introduced by FTSE4Good in February 2007 are not currently applicable to Signet because the business is not categorised as high or medium impact, given the seriousness of climate change as a global issue, Signet is currently assessing its position in relation to these criteria.

Further, the Group continues to work within the CRJP, the Jewelers of America, the Jewelers Vigilance Committee, the World Diamond Council and with other jewellery retailers in exploring ways in which the jewellery industry can use its influence to improve environmental performance related to mining.

Community

Signet's prime benefit to society is through the contribution it makes to the success and efficiency of the economies in which it operates, through the employment it generates both within the business and throughout its supply chain, the taxes it pays and the value it creates for shareholders.

During 2006/07 community partnership initiatives were further increased, aimed at strengthening employment opportunities for disadvantaged citizens, and community affairs activities are continuing with the Group being committed to the support of charitable organisations. Signet believes it is best to give support to a small number of specific charities rather than fragment its charitable giving. In the US, support is primarily given to The United Way, St. Jude Children's Research Hospital and The Jeweler's Charity Fund. In the UK, the Group primarily supports the Princess Royal Trust for Carers. During the period the Group made provision for total charitable giving of £1,797,000 (2005/06: £1,584,000). This included direct charitable contributions of £408,000 (2005/06: £369,000), of which £129,000 (2005/06: £103,000) was in the UK and £279,000 (2005/06: £266,000) was in the US, and marketing initiatives on both sides of the Atlantic resulted in additional charitable

contributions of £1,390,000 (2005/06: £1,215,000). Support is also given to the management of Carer Centres operated by the Princess Royal Trust for Carers. Assistance is also given to organisations that help the disadvantaged into employment in the vicinity of the Group's US administrative and distribution centre in Northeast Ohio, such as United Disabilities Services, Mature Services and the Urban League.

No political donations were made in the US or the UK by the Group in the period (2005/06: £nil).

Human rights

Signet supports the Fundamental Conventions of the International Labour Organisation and the UN Declaration of Human Rights. The Group encourages the support and respect for the protection of human rights within its sphere of influence. The Supplier Code sets out the Group's expectation that suppliers should respect the Fundamental Conventions of the International Labour Organisation and the UN Declaration of Human Rights. Signet is working at a senior executive level to address human rights in the jewellery supply chain on an industry wide basis, through the CRJP described above.