

Pentland Group

United Nations Global Compact Communication on Progress 2010

INTRODUCTION

The United Nations Global Compact brings together thousands of companies around the world to align their strategies and operations with ten universal principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of broader UN goals.

All signatory companies are required to issue an annual 'Communication on Progress' (COP) report. We are delighted to provide our fifth COP which covers the year January - December 2010.

As part of reducing our impacts, we are making our 2010 COP available online in PDF format only. It should be read with reference to the embedded web links.

MESSAGE OF SUPPORT

Pentland Group has a vision to be a business that creates sustainable value for all of our Stakeholders. We seek to do this responsibly, with integrity and transparency, and by integrating concern for the environment, people and the communities in which we operate.

Our continued commitment to the ten Universal Principles of the United Nations Global Compact (UNGC) is illustrated here in our Communication on Progress (COP) for 2010 and we are delighted to share with you many of the activities, policies and strategies across our Group which not only support these principles but also contribute to the UN's broader development goals.

In the UK, Pentland continues to be an active participant in the Global Compact's UK Network and we still support strategic partnerships, notably the Ethical Trading Initiative (ETI), the International Business Leaders Forum (IBLF) and the World Federation of the Sporting Goods Industry (WFSGI). It is our strong belief that by working collaboratively through such organisations we will be able to find and deliver more sustainable solutions to address the challenges that we face on a daily basis throughout our global supply chain.

Human rights abuses and abject poverty are still endemic throughout the world today and we recognise the role that business has in supporting changes that will make a real difference. We believe our continued membership of the UNGC will help focus our activities to deliver these changes and we look forward to reporting further progress in our COP for 2011.

R Stephen Rubin, Chairman, Pentland Group plc

HUMAN RIGHTS

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

Our sphere of influence

Pentland Group is a diverse business with international operations and outsourced supply chains, so there are a number of categories of individuals and communities potentially affected by our actions and to whom we have responsibilities.

At the heart of everything we do at Pentland is the belief that business should be conducted honestly, fairly and with respect for people, their dignity and their rights. These principles are underpinned by the Pentland Group Business Standards Policies <http://tinyurl.com/6br8hel> and comprise codes of business conduct, employment and health and safety standards for employees and suppliers, and an environmental policy. They are consistent with internationally recognised standards and reflect the core ILO Conventions and Recommendations. These policies and supporting processes set our approach to ethical and sustainable business practices.

The Group Business Standards Policies are addressed to all Pentland's stakeholders: employees, customers, suppliers, business partners, the wider community and our shareholders. They are designed to ensure that employees, those who seek to work for us, or to manufacture our products or represent our brands, are treated fairly and with respect.

Our products, most of which bear our brand names, are manufactured by hundreds of different suppliers, employing probably hundreds of thousands of people in many countries, mostly in Asia. These outsourced supply chains are of high materiality for Pentland, so we try to ensure that we are not inadvertently complicit in human rights abuses by careful risk management, robust partner and factory selection.

We expect, require and support our suppliers to respect human rights and to meet the requirements of the Ethical Trading Initiative (ETI) Base Code. Regular monitoring programmes help us to identify, prevent, mitigate, and (where relevant) remediate any adverse human rights impacts we may inadvertently cause through our business activities.

Internal and external implementation

Pentland is committed to human rights and is working towards ensuring that our workforces embrace the diversity of the world in which we operate. During 2010 we strengthened diversity monitoring of new-joiners (after appointment) to help us better monitor that this goal is being delivered.

Internally, human rights are underpinned by comprehensive policies for employees in staff handbooks. We provide regular staff briefings and open and accessible channels of communication to encourage our employees to feel part of the Pentland family, no matter where they are based in the world. We communicate in many different ways: via our global company blog which is updated with news daily, regular Q&A sessions with senior executives from around the business and departmental monthly meetings. All these channels enable people to be well-informed, to get involved and to ask questions. This enables any concerns to be raised and addressed early on. We encourage people to speak up and challenge or report anything that doesn't live up to our standards.

Externally, specific mechanisms vary, as we operate through a number of supply chain business models, but all are underpinned by our Group Code of Employment Standards for Suppliers (ETI Base Code) and involve processes of continual improvement.

Similarly, we have a range of grievance mechanisms to ensure that employees, business partners and other stakeholders have formal access to remedy. For employees, these are part of the staff handbook. At suppliers, there is no single way to manage worker communications and grievances as factories vary hugely in terms of size, sophistication and style of management across different countries and sectors. They include confidential means of raising concerns, worker interviews, and assessments by our in-house corporate responsibility team or by a third party audit. Our preferred approach is to offer suggestions to help factory management improve in a systematic way, through robust human resources, grievance and internal communications processes. Even a small step, such as encouraging a factory to label the system as 'Suggestions for improvements' (rather than Complaints), can help to change mindsets.

Pentland's public commitment to supporting human rights globally is evidenced through our involvement with international organisations such as the Clinton Global Initiative and the Business Call to Action.

Pentland supports the Institute for Human Rights at University College London and sponsors UCL's twice-yearly human rights symposia. Two events took place in 2010:

- 15 June 2010: The Idea of Human Rights & Foreign Policy (in collaboration with King's College and the Centre for the Study of Human Rights, London School of Economics). This event brought together leading theorists of politics and law to discuss the nature and importance of human rights.
- 8 & 9 October 2010: Law, Religion and Education Conference (in collaboration with the UCL Centre for Global Laws and La Maison Française d'Oxford). This conference examined the relationships between 'Law, Religion and Education', addressing the accommodation of religious diversity as well as the content and meaning of education, notably religious education, in a human rights context.

In addition to the comprehensive opportunities offered via the Global Compact and the UK Network, we also benefit from further learning on business and human rights through our memberships of BSR, ETI, IBLF and the WFSGI, all of which enable us to share concerns and to tackle issues collectively.

LABOUR STANDARDS

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

Pentland respects and supports the Global Compact's four Labour Standards principles. They apply human rights in the workplace, so Pentland's overarching aim of conducting all

business, including with (or through) our partners, honestly, fairly and with respect for people, their dignity and their rights also applies to these four principles.

As the manufacture of our brands' products is outsourced to supplier factories, the Labour Standards principles have high materiality for Pentland - and we apply them to the people who make our products, as well as to those who work for us directly.

We are responsible for the conditions in which products produced under our brand names are made, and we take care to ensure that workers in our supply chains are treated properly. As an active member of the ETI, our Group Code of Employment Standards for Suppliers reflects ILO core labour standards and the ETI Base Code, and these requirements are included in the trading contract with all suppliers who make our products.

In addition to the open and accessible channels of communication we provide for our direct employees, we try to ensure that workers in our supplier factories are free to join trade unions or, where these do not exist, have alternative means of representing their rights.

Pentland supports the elimination of all forms of forced and compulsory labour and requires all employment to be freely chosen with no use of forced, bonded or involuntary prison labour. Workers must not be required to lodge deposits, identity papers or any other security with their employer and must be free to leave their employment after reasonable notice. We are aware of the possible risks of contemporary forms of forced labour, such as involuntary overtime, the retention of identity documents and forms of debt bondage. We work actively with suppliers to identify and eradicate these practices. This includes getting a proper understanding of the nature of any subcontracting that is undertaken.

Our Group Code of Employment Standards for Suppliers also explains our position on child labour and discrimination:

- To prevent abuse, we address the risk of child labour in our supply chain by incorporating core ILO Child Labour Conventions (via the ETI Base Code) into manufacturing contracts, supporting robust monitoring programmes and participating in collective action through multiple network groups. To improve lives, we will initiate appropriate remediation action, should we discover any children working in our supply chain.
- Contract terms for all suppliers who make our products require there to be no discrimination in recruitment, wages, access to training, promotion, termination or retirement, based on caste, national origin, religion, age, disability, gender, sexual orientation, marital status, union membership, political affiliation or on any other basis unrelated to the ability to do the job.

In our supply chains we try to build a partnership approach with suppliers, helping them to better understand the risks, and why improving working conditions and taking care of their workers creates business benefits for both of us. Our approach is consultative and constructive because we believe change is more likely if a factory's owners or managers are involved and engaged. Pentland's Code of Employment Standards for Suppliers (ETI Base Code) acts as a framework to inform, assess, educate and track improvements.

During 2010 we completed the review of ethical trading processes we started in 2009. These cover all existing and new supplier factories for both direct and licensed manufacture. The review was driven not only by our desire as a buyer to ensure a fuller picture of conditions and capabilities in our supply base, but also by the wish to make our work with individual factories more effective earlier on in the relationship. It is part of continual improvement, as we evolve strategies and practices from simply managing risk to adding value.

Further actions taken during 2010 to reduce labour risks and respond to incidents:

- We added additional human resource to our Asia-based Ethical Trading teams, which enabled us to extend our work with supplier factories.
- We introduced revised Ethical Trading processes to cover all factories used by our licensees, and supported them with access to accredited external auditors.
- Licensee partners of 6 brands attended presentations on Pentland's approach to Corporate Responsibility and our expectations regarding Ethical Trade in particular.
- We continued to conduct training at a number of supplier factories in several countries, covering areas such as Safe Handling of Workplace Chemicals and Supervisory Skills Training.

Migrant Labour

Our factory assessments identified migrant labour as a critical area where our indirect workers are vulnerable to discrimination and abuse.

Because labour migration is far wider than individual factories, Pentland has contributed funding to the International Business Leaders Forum (IBLF) for a three-year programme with the Institute for Human Rights and Business (IHRB), who are working in partnership to host a series of Business and Migration: Roundtables for Collective Action for companies, governments and civil society.

- The Ethical Trading Initiative (ETI) joined IHRB and IBLF in convening the first roundtable in London in March 2010 entitled 'Protecting Migrant Workers in the Supply Chain'. Pentland provided a speaker and our funding also enabled IBLF to launch the *Business and Migration - from Risk to Opportunity* guide. A full report and executive summary can be found at <http://tinyurl.com/66mcm5v>
- A key output from the London Roundtable was the formation of a wider multi-stakeholder initiative, led by IHRB, Business for Social Responsibility, Fair Labor Association and ETI, to better co-ordinate the efforts of business, NGOs and policymakers to address the challenges posed by migration.
- Two further Roundtables will be held in 2011.

As Pentland is committed to addressing vulnerable workers of all types, we hope that this wide collaborative work can lead to some lasting changes in this area.

Child Labour

We initiated some in-depth training from external experts for our front line ethical trading staff to provide them with practical guidance on policy implementation: what to do should they suspect child labour.

Through our networks and memberships, we participated in collective action to combat child labour. Specifically, Pentland joined a new working group in China with other brands and retailers, led by the Centre for Child Rights and Corporate Social Responsibility (CCR CSR) in Beijing. The China Working Group on Children and Young People's Development (CWGC&YPD) group is looking at:

- Developing and sharing good practice to protect young workers legally present in production factories

- Out-reach to children left behind in their home community when parents migrate for work
- Remediation measures for underage workers, should they be discovered.

Partnerships and stakeholder engagement

Alongside Pentland's longstanding memberships of ETI, IBLF, Global Compact and the WFSGI, we became a member of Business for Social Responsibility (BSR) in 2010.

Pentland also supports the Better Work programme, a partnership between the International Labour Organisation (ILO) and the International Finance Corporation (IFC). This supranational level of collaboration helps promote the convergence of standards, practices and implementation tools.

All these external alliances enable Pentland to look at situations on a larger scale, ensuring that we make the best use of others' work in this area and greater opportunity to achieve lasting change.

ENVIRONMENT

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility;

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Pentland has long recognised the importance of protecting our environment for future generations and of addressing the challenges from increasing demands for natural resources and raw materials from a growing global population. We have had an Environmental Policy since 1995 and it forms part of our overarching Group Business Standards Policies <http://tinyurl.com/6js5ffg>

Our Environmental Policy addresses the impacts that our business and products have on all our stakeholders, including suppliers, customers, consumers, employees, wider society and the natural environment. We strive towards good practice and wish to:

- Comply with or exceed relevant legislative requirements
- Encourage our manufacturing suppliers to recognise their responsibilities
- Design and manufacture our products with regard to environmental impacts.

Pentland's principal environmental impact areas include **finished products** (raw materials, product and packaging manufacture, transport, use and end of life disposal), **carbon emissions** (energy use, travel, freight and distribution) and **waste** (products and own operations). We are committed to the efficient use of energy and raw materials and to minimising waste by re-using and recycling wherever possible.

We are as committed to reducing the environmental impacts of our **own direct business operations** as we are to producing **responsible products**. By taking a more integrated approach to sustainability, and making it a core business strategy, we aim to effect changes earlier in the decision-taking processes.

OWN DIRECT OPERATIONS

Energy

Pentland accepts that all the businesses within it must be responsible in their energy usage and associated carbon emissions.

We are working across the Group to ensure an efficient transfer into the new emissions trading scheme which was introduced in April 2010 as part of the statutory Carbon Reduction Commitment Energy Efficiency scheme (CRC). The Group has a Carbon Management Programme (CMP) which aims to:

- ensure an accurate baseline for consumption by working with electricity suppliers to ensure that bills reflect actual usage;
- improve understanding of usage by investing in 'smart' electricity meters to measure consumption automatically every 30 minutes;
- pursue an integrated approach so all business areas are aware of the impact of their activities on energy consumption; and
- to reduce consumption, CO2 emissions and lower operating costs.

We have improved the efficiency of our lighting by introducing light and movement sensors and installing more efficient bulbs. When one of our UK distribution centres installed new low-energy lights in 2008, it resulted in 37% less electricity usage (KwH), saving 291 tonnes of CO2 - a significant reduction in environmental impact, as well as cost savings (the payback time was less than 2 years). It will be rolled out at other sites in 2011.

Business travel

During 2010 we revised our Company Car Policy and undertook a review of all areas where reductions in CO2 and cost could be achieved. This resulted in:

- 28% reduction in overall CO2 emissions from the fleet (2009-10)
- Average business miles down 10%
- MPG improved by 14%
- Cost savings – to the business and the driver.

We have increased our facilities for telephone and video conferencing, as well as encouraging the use of public transport and car sharing to reduce CO2 emissions and environmental impacts.

Waste

We continued to increase our recycling by introducing further recycling and waste separation measures. In 2010 66% of Pentland Brands UK site waste was recycled and 34% went to landfill.

Pentland Brands HQ offices in Finchley, North London were featured as a good practice case study by the North London Waste Authority to encourage other local businesses to reduce their operational waste: <http://tinyurl.com/6julhzp>

Pentland segregates and recycles office consumables wherever possible to reduce our waste to landfill:

- General paper waste is collected by a recycling business
- Cardboard (a major packaging constituent) is baled and passed to recycling businesses for reprocessing
- Wood and metal waste is separated
- Photocopier and printer toners are collected and recycled for charity
- Product, furniture and IT equipment is donated to good causes and diverts waste from landfill.

For our new Speedo International HQ in Nottingham we have provided a world class workplace which not only reflects the brand's DNA and heritage, but the building itself has a high sustainability standard. It is a BREEAM Excellent building and has a Level 'B' EPC, exceeding current building regulation requirements in a number of areas. Technologies incorporated into the design include solar control glazing, intelligent lighting (motion and daylight sensitive), air to water source heat pumps, photovoltaics and a grey water system. Speedo sourced office furniture which contains high post and pre consumer recycled content. Over 150 metal cabinets were recycled by respraying and incorporated into the new build design. Indoor living gardens are on all floors. A site-specific travel plan has also been agreed.

Climate Change

Pentland supports the Prince of Wales' Rainforest Project, to add our corporate voice to spread the message about the dangers of tropical deforestation and its impact on climate change.

Pentland sites across the world went dark for Earth Hour on Friday 26 March 2010 to support the global call to action on climate change.

RESPONSIBLE PRODUCTS

Our Global Compact COP from 2008 continues to be widely used as a learning and reference guide both internally and externally: *Responsible Products - Concepts and Consequences*
<http://tinyurl.com/6gyyxlr>

Restricted Substances

We continued to roll out the Pentland Restricted Substances Requirements Guidelines with suppliers, making it a condition of business with new suppliers: <http://tinyurl.com/67gdpfm>
In summary, the Restricted Substances Requirements Guidelines require suppliers to:

- ensure that the materials and processes used in the manufacture of our products and associated packaging will comply with relevant laws and regulations regarding working conditions, the environment and product safety;
- ensure that the materials used in the manufacture of our products and associated packaging will comply with all relevant legal requirements regarding substances of concern and strive to meet best practice, as set out in the Pentland Group Restricted Substances Requirements Guidelines;
- test raw materials regularly using the recommended test methods by accredited testing bodies.

Working with Partners and Multi-Stakeholder Initiatives

As for other Global Compact Principles, Pentland also works within external partnerships and alliances to further our sustainability objectives. We are members of:

- AFIRM (the Apparel and Footwear International RSL Management working group), to help us reduce the use and impact of harmful substances in our apparel and footwear supply chains.
- the BLC Leather Working Group, to manage and reduce the environmental impacts at tanneries.
- the UK Shoe Recycling Project at Loughborough University (with other UK footwear brands and retailers, waste and recycling experts), to research dis-assembly technologies for end of life footwear.

Via the World Federation of the Sporting Goods Industry (WFSGI), we are exploring the pilot Outdoor Industry Eco-Index. This is being developed collaboratively as a framework for assessing the environmental impacts of apparel, footwear and equipment and will be tested by companies worldwide as a tool for benchmarking and measuring product sustainability.

ANTI-CORRUPTION

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

This Principle commits us not only to avoid bribery, extortion and other forms of corruption, but also to develop policies and concrete programmes to address it. We are working to strengthen our existing Group Code of Business Conduct <http://tinyurl.com/6js5ffg> to reflect the expectations of Principle 10. We are doing this alongside work on related policies and procedures to meet the requirements of the UK Bribery Act 2010.

An internal, senior management level, cross-business working group has been established to review all Ethics and Integrity matters. Membership includes representation from a wide range of operational and support functions. Members of this working group have participated in specialist training and multi-stakeholder dialogue related to anti-corruption. They have carried out extensive research and drawn on the resources made available through the Global Compact and leading specialists in this field. Planned implementation procedures include comprehensive leadership and training and awareness programmes to accompany the roll out of the new policies and processes. Additional training will be provided to help employees working in more vulnerable roles.

Anti-fraud and corruption training is delivered to operational teams by our Security teams where appropriate. Pentland actively participates in a number of anti-fraud networking groups designed to share best practice and intelligence on fraud and corruption related activity.

To enhance the governance of our recruitment procedures, we have introduced candidate pre-employment checks by a specialist background screening agency for all permanent roles.

During 2010 Pentland have been active members of the ETI China Corporate Caucus side

group on corruption. The group shares learning and best practice on how to prevent or deal with cases of bribery when teams visit factories to undertake corporate responsibility assessments.

SUPPORTING WIDER UN DEVELOPMENT

Working with communities near and far

At Pentland we have a long tradition of volunteer involvement and of supporting the communities in which we operate and live. We also support the wider world and contribute to progressing the Millennium Development Goals (MDGs) through our core business, through volunteering and philanthropic activities aligned with Pentland's business and community interests, and through engaging in advocacy, dialogue and institution-strengthening to improve the enabling environment for development.

Pentland supports the UK charity 'In Kind Direct' with leadership and with donations of footwear, clothing and sports equipment. In Kind Direct distributes new goods to voluntary organisations working in the UK and overseas. 577 charities benefited from Pentland products in 2010. 30% of these were child and youth care organisations, 17% local community initiatives, 11% sickness and disability charities and 5% organisations for the homeless. The vast majority of beneficiaries were small, local groups working at the grass roots, who rely on the donations made by companies to deliver their service.

Pentland's Speedo brand supports World Swim Against Malaria, an event organised by the Against Malaria Foundation that runs every two years. So far, Speedo's fundraising has bought over 44,000 bed nets, protecting over 88,000 children, and contributes to achieving MDG 6, helping to combat HIV/AIDS, malaria and other diseases.

We welcome comments and feedback: corporateresponsibility@pentland.com
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