



COMMUNICATION ON PROGRESS 2010





THE UNITED NATIONS GLOBAL COMPACT TEN PRINCIPLES

The United Nations Global Compact (UNGC) is the world's largest voluntary corporate citizenship initiative. The UNGC issues Ten Principles on Human Rights, Labour Standards, the Environment and Corruption. Membership of the UNGC requires companies to issue a 'Communication on Progress' report annually.

This report is our fourth COP and it outlines Shop Direct Group's activities in support of these Ten Principles.

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.





LABOUR

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;

PRINCIPLE 6

the elimination of discrimination in respect of employment and occupation.

ENVIRONMENT

PRINCIPLE 7

businesses should support a precautionary approach to environmental challenges;

PRINCIPLE 8

undertake initiatives to promote greater environmental responsibility; and

PRINCIPLE 9

encourage the development and diffusion of environmentally-friendly technologies.

ANTI-CORRUPTION

PRINCIPLE 10

businesses should work against all forms of corruption, including extortion and bribery.

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IN SUPPORT OF THE TEN PRINCIPLES OF THE UNITED NATIONS GLOBAL COMPACT

INDICATORS & GRADING SYSTEM

Throughout this report you will find a marking scheme in each section. The purpose of this scheme is for us to rate how well we think we are performing in each reporting area by highlighting a tab, ranging from legal compliance to best practice.

Where we have not marked ourselves as best practice or good, we intend to raise standards accordingly.

In deciding on indicators for this COP once again we have chosen our own system. Nevertheless, this was done after using as reference the Ethos Indicators and GRI methodology.

Moreover, we continue to monitor best practice in the CR and sustainability reporting industry and adapt our own indicators and reporting accordingly.

ASSURANCE

In terms of third party assurance, after this report is published it will be volunteered for peer-review by a randomly-selected group of corporate members and observers of the UK Network of the UN Global Compact. Any suggested changes will be made and the report will be re-submitted (if needed) to the UNGC following the Peer-Review Process.

Prior to publishing, there was also assessment by a wide variety of stakeholders including Shop Direct Group employees, customers, suppliers and NGOs and in this regard, a variety of stakeholder comments appears at the end of the report.



Indicators example

Mark Newton-Jones
Group Chief Executive



THE FUTURE FOCUS 10



energy consumption



recycling



publication paper & direct mail



transport



ethical sourcing, labour, human rights & animal welfare



community



responsible lending



corruption, governance & transparency



health & safety



HR, diversity & equal opportunities

PRINCIPLE 1 – **SUPPORTING AND RESPECTING THE PROTECTION OF INTERNATIONALLY PROCLAIMED HUMAN RIGHTS**

FOREWORD & SUPPORT FOR GLOBAL COMPACT

We support the United Nations Global Compact and are committed to ongoing engagement with the largest and fastest growing CR initiative in the world. We strive to abide by the 10 Principles in all our business operations.

Welcome to all readers of our fourth annual communication on progress covering the year 2009. The past year has been rather difficult with regard to trading and the global economic downturn has impacted our business. Nevertheless, we are fully committed to achieving the very best possible standards in our CR program, our investment has increased and we have clearly demonstrated progress in many areas since our last report. This report is divided into sections outlining our actions in support of the ten principles. Each section has a sponsor from our leadership team who is responsible for maintaining progress over the year.

We continue to press on with addressing our Future Focus Ten priorities which are governed by the Group CR Board. I am pleased to chair the CR Board myself and grateful to each of the board members for guiding the CR strategy over the past year. We also supported the Compact as Chair of the UN GC UK Network through 2009 and helped create a thriving network of corporate members eager to abide by the ten principles.

Please enjoy reading this report and I would be delighted to receive your feedback.

questionmark@shopdirect.com

IN COMMITTING TO BE A MEMBER OF THE GLOBAL COMPACT AND IN THE WRITING AND PRODUCTION OF THIS REPORT WE AIM TO SHOW OUR CLEAR AND UNWAVERING SUPPORT FOR HUMAN RIGHTS. ALTHOUGH OUR ACTIONS IN SUPPORT OF PRINCIPLE 1 EXTEND ACROSS MANY AREAS OF OUR BUSINESS THEY ARE MOST KEENLY FOCUSED IN OUR SUPPLY CHAIN AND SOURCING OPERATION. OUR WORK IN THIS AREA IS COVERED IN DETAIL IN A SUBSEQUENT SECTION.

THE INFLUENCE OF THE GLOBAL COMPACT ON OUR BUSINESS

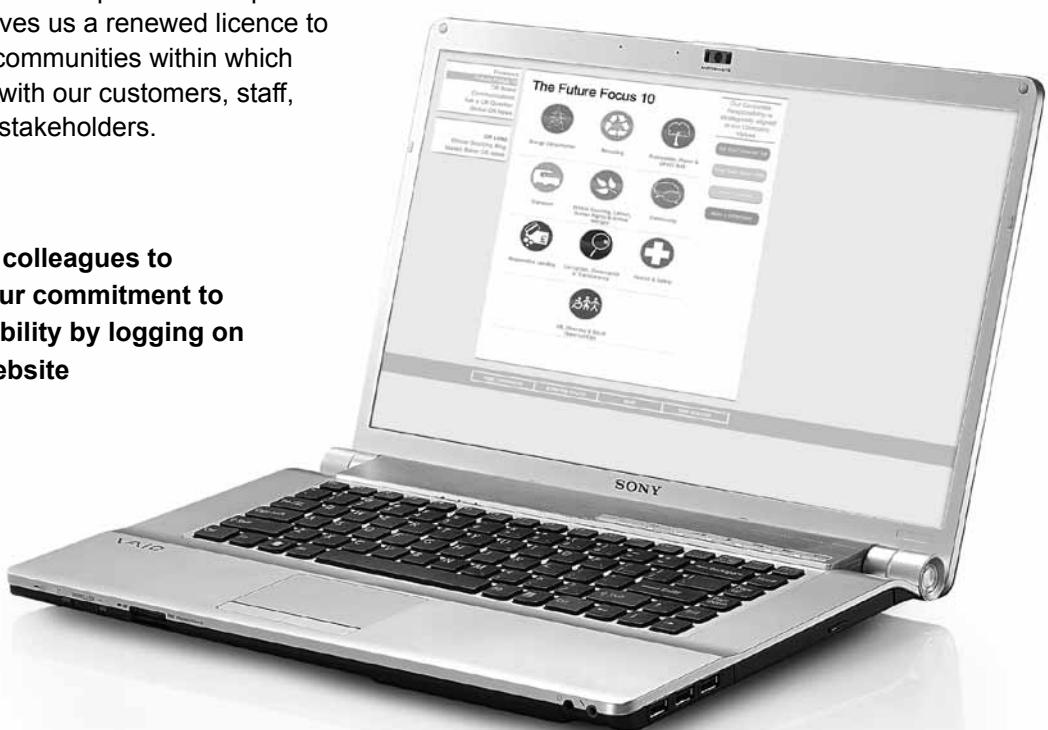
Respect for the Global Compact principles binds together our activities in CR and sustainability and gives us a simple to use and simple to understand framework for action and measurement.

Reporting on the Ten Principles ensures we report comprehensively across all our business impacts. The writing of a COP increases our competitiveness as it serves as a public and very visible record of progress and therefore focuses our actions and planning in multiple business critical areas.

The production of a COP has also aided employee understanding of our business and by mapping our impacts has helped identify cost savings and opportunities to increase efficiencies particularly in the area of carbon reduction.

We also believe that the adoption and respect of the Ten Principles gives us a renewed licence to operate among the communities within which we work, as well as with our customers, staff, suppliers and wider stakeholders.

We invite all group colleagues to learn more about our commitment to corporate responsibility by logging on to our corporate website





“We continue to press on with addressing our Future Focus Ten priorities which are governed by the Group CR Board. I am pleased to chair the CR Board myself and grateful to each of the board members for guiding the CR strategy over the past year.”

MARK NEWTON-JONES

**GROUP CHIEF
EXECUTIVE**

THE CR BOARD

Created in 2008 and chaired by Mark Newton-Jones, Group CEO, the CR Board sets and oversees the arena of corporate responsibility and sustainability.

The CR Board is made up of nine executive members and meets quarterly.



"We take our responsibilities seriously and as such have recently undertaken a full in-depth review of all our community and charitable activities to ensure that they are having the maximum sustainable impact possible."

Ann Bryon
Group Communication Director

"We have expanded our independent whistleblowing helpline, to all of our key suppliers this has been supported by a clear communication to suppliers that if they suspect any wrongdoing by our staff that they should report via the confidential service."

David Mortlock
Director of Internal Audit

"Working on Social Responsibility for SDG has been a great pleasure and is something I treasure. Im very proud to say we have made excellent progress together as a Board."

Matthew Jacques
Brand Director

"We consider all the available information when making lending decisions to ensure that it is in the best interests of the customer to extend credit."

David Poole
Chief Operating Officer
Financial Services



"In 2009 we have brought additional focus and resource to our Ethical Sourcing team and have thereby made great progress in extending our activities in support of Principles 2, 4 & 5."

Micheal Spenley
Head of Corporate
Responsibility

"Shop Direct Group only purchases paper from paper suppliers that know the origin of all wood, have certified chain of custody, have been legally harvested and have not been sourced from conservation areas."

Rob Hardman
Head of Print & Paper
Procurement

"The retail industry is fast moving and making sure each of our employees has a flexible and diverse range of skills is as important to the future of our business as it is to the people who work for us."

Sue Rice
Head of HR

"Our strong focus on energy consumption has resulted in delivery of some excellent initiatives. We have reduced energy consumption in each of the last 4 years."

Dan Rogers
Head of Group Property
and Facilities

Michael Spenley
Head of Corporate Responsibility



PRINCIPLE 2 – *ENSURING WE ARE NOT COMPLICIT IN HUMAN RIGHTS ABUSES*

PRINCIPLE 4 – *SUPPORTING THE ELIMINATION OF ALL FORMS OF FORCED AND COMPULSORY LABOUR*

PRINCIPLE 5 – *SUPPORTING THE EFFECTIVE ABOLITION OF CHILD LABOUR*

LABOUR PRINCIPLES

In 2009 we have brought additional focus and resource to our Ethical Sourcing team and have thereby made great progress in extending our activities in support of Principles 2, 4 & 5.

The SDG supply chain remains geographically similar to the previous year and the emergence of new manufacturing countries e.g. Egypt has been slower than anticipated and not significantly impacted our business. However, we are planning an increasing proportion of manufacturing across our ranges within Europe due to strategic advantages including quality, efficiency and lead times. This should impact favourably on our ability to support principles 2,4 and 5 going forward into 2010.

Please allow me to present our main activities in support of Principles 2, 4 & 5 in 2009.

HUMAN RIGHTS

I have responsibility for ensuring that when sourcing product we are not complicit in **human rights abuses**. We do this by careful risk management of our supply chain and by a process of factory monitoring. During 2009 we maintained our policy of not sourcing in Burma due to widespread human rights abuses. We are listed on the UK Burma Campaign's Clean List. Moreover, we do not source from any country where there are UN trade sanctions or embargoes.

FORCED LABOUR

We support the elimination of all forms of forced

and compulsory labour. Our Code of Conduct which is signed by all suppliers states the following:

"We will not tolerate forced labour, bonded labour or labour which involves physical or mental abuse. This means that suppliers must not use or threaten workers with any physical punishment, verbal or sexual harassment or dominate or restrain workers by force, authority or threats. Workers must not be required to lodge "deposits" or their identity papers with their employer and they must be free to leave their employer after reasonable notice."

No serious cases of forced labour were found by the SDG monitoring programme in 2009.

CHILD LABOUR

The effective abolition of child labour is taken very seriously by SDG. Our Code of Conduct which (as previously stated) is signed by all suppliers, clearly explains our position on child labour as follows:

"Exploitation of child labour is totally unacceptable under any circumstances. Suppliers must not employ any person under the minimum legal working age applicable to their country and under no circumstances must they employ anybody under the age of 14 years."

On the rare occasions we have found child labour in factories in the past we have worked with independent expert advisors to find tailor-made solutions. In 2009 no cases of child labour were found by the SDG monitoring program

MONITORING

In 2009 the Group CR Board ratified the following KPI:

"All suppliers factories responsible for the production of Shop Direct Group own-brand direct product will be ethically and environmentally audited according to a process of risk assessment every two years"

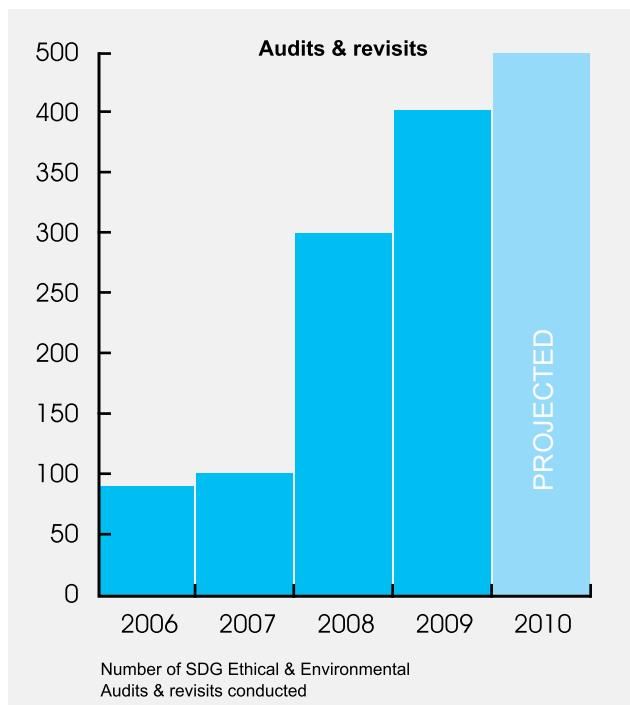
Having started the program at the beginning of 2008 I'm pleased to report that we achieved our KPI and audited all direct factories (product sourced through Source Direct International Ltd) by Dec 2009

This included factories in UK, Poland, Romania, Lithuania, Turkey, Egypt, Israel, Morocco, Syria, India, Bangladesh, China, Thailand, Indonesia, Malaysia and Vietnam.

Please note: Although we audit all UK factories we do not normally audit factories producing for SDG in

the EU and certain other developed countries where legislation, the process of law and the mandate of local inspectors are in line with our code of conduct. Rather we continue to audit in selected global locations according to a risk assessment.

Our Regional Managers are as follows: Mr. Ratan Jana, CR Manager India and SE Asia, Mrs. Macy Liao, CR Manager China and Mr. Mike Ratcliffe CR Manager EMEA (Non-SDIL)



We over-achieved on our goal for compliance at 80% and achieved a year end score of just under 100%. Using a Hot-List which was managed centrally we managed to ensure that all factories that were breaking our code either lost their contracts (after due process) or were improved. This successful outcome is an excellent reflection on our CR audit team who continue to make sacrifices by spending up to 20 weeks a year travelling away from their families on company business. Our three CR managers see CR as a vocation and not merely a job.

In 2010 the monitoring program will enter a new "revisit" stage to ensure that compliant factories continue to improve and do not fall back into non-compliance.

Also of note is the fact that we will continue to share audits with other retailers and brands whenever possible to decrease the burden of time and resources on all involved. Although we retain the right to conduct worker interviews we will only normally do this with freely-elected trade union representatives where available.

ANIMAL WELFARE

We maintain a strict policy on the use of fur and skins based on industry best practice.

The policy is available on our supplier website and was re-issued amongst a new suite of Sourcing policies in 2009.

PARTNERSHIPS

The United Nations Global Compact (UNGC).

We are active members of the Global Compact and Chaired the UK Network through 2009. We commit approximately five weeks per year to UNCG activities in order to learn, contribute to policy and also share with other companies our experiences in relation to corporate responsibility.

PROJECTS

SDG remains committed to involvement in CR projects. In 2009 we further developed our 'Moses Basket' project in Morocco which assessed whether Child Labour was involved in the production of our own brand baby baskets in rural mountain villages. Happily this was not the case but we did make clear recommendations regarding wage legislation for home-workers to the local United Nations representative, as well as relevant agencies of the Moroccan Government.

MISCELLANEOUS

We continue to work on ethical product sourcing initiatives building on the successes achieved with our organic cotton and FSC furniture ranges. In 2009 we convened a working group on Diamond Sourcing to ensure that we are not complicit in the sale of conflict diamonds. The result was a ratified Group policy on diamond sourcing and a written guarantee (referencing the Kimberley process) which was signed by all our diamond suppliers. Following our working group and further investigations we are confident that no conflict diamonds are used in the production of SDG jewellery.

CONCLUSION

In 2009 the audit team galvanised and extended all resources to achieve an exceptional result of just short of 100% compliance in our direct supply chain. The challenge is on for 2010 to ensure that we continue to achieve optimum results for our direct suppliers. There should be continuous improvement and if there are issues and suppliers fall back from previously achieved ethical standards then they should be managed back to compliance by the CR team and commercial teams jointly. This will no doubt be difficult to achieve in some cases given the turbulent global economy and a number of external pressures on suppliers including increasing commodity prices. Furthermore, we aim to extend our program to cover those suppliers that we deal with indirectly i.e. not via SDIL (our wholly owned sourcing operation). This will prove a major challenge for the team but is necessary if we wish to move towards a 'level playing field'.

I hope the inclusion of an extract from the blogs of Macy, Ratan and Mike will give an insight into the world of the ethical auditor. For now these blogs are only available to colleagues but we have plans in 2010 to build a public CR website and will give Macy, Mike and Ratan centre stage on the ethical sourcing pages. Alongside our monitoring programme our product sourcing working groups (Cotton & Timber) continue to bear fruit and will be joined by additional initiatives annually. Moreover, we will build on our Child Labour project in Morocco with similar initiatives further into our supply chain in India.

MIKE'S BLOG In his own words...

I'm happy to report that in 2009 the EMEA (Europe Middle East & Africa) audit function went well with very few Red graded factories and lots of progress made.

Monitoring of U.K. operations also remains important. To illustrate the process please read through this overview of my recent work schedule.

I have recently visited two factories with differing outcomes. Factory A is a textile factory in Turkey. Approximately 20% of their turnover is with Shop Direct. The factory documentation was absolutely first class but the reality in the factory was somewhat different. The factory could not be described as dangerous but housekeeping was poor and they had emergency lighting only in limited areas. Also additional warning signage was needed for safety equipment including ear defenders. I held a discussion with management to discuss my concerns. The Audit Report has been sent to them and currently they have been graded Amber.

Factory B is a re-processing, warehouse & distribution centre based in Manchester in the north-west of England. They are a new supplier manufacturing children's clothing in China and then dispatching from their UK hub. Once again although

documentation was good there were other areas identified for improvement. On entering the shop floor it was quite congested with no aisle marking. I was concerned that the distance at the far end of the building to the fire exits appeared to be quite far. It was then that I became aware that a fire exit door had become completely obscured by boxes awaiting despatch. As a result, the unit has been scored Red. A re-visit is planned within 3 months to assess progress. Moreover, I have asked Macy Liao in our China team to consider conducting an audit of their Chinese production unit.

My job is a series of challenges and problems to solve but all in all its what I enjoy doing. No one day is the same and I have to keep on my toes. Still as a former Factory Manager with 30+ years experience in the trade, its refreshing to get the chance to help improve the conditions at production units with which we work on a day to day basis.

In 2010, my role will extend to cover audit management of the factories in the Far East that work with us but not through our own sourcing house. It's a big undertaking and there will no doubt be twists and turns on the way but I am looking forward to it.



Mike Ratcliffe (3rd from left) and supplier representatives at a factory in Lithuania



Mrs. Macy Liao,
with Mr King Li

MACY'S BLOG In her own words...

All in all, 258 audits involving management and worker interviews, document review, facilities inspection and training were conducted at different levels in our supplying chain throughout the year 2009. This comprised 185 full audits and 73 follow up audits. 90% of our follow up audits are concerned with Red graded factories. We attend up to a maximum three times to help and assist factory management to comply with our code of conduct. There may be issues with transparency e.g. to disclose real documents, to pay workers more, to provide improved working conditions for workers or even to improve environmental performance.

This is detailed work needs and needs patience and tenacity and assertiveness. Luckily these are qualities which my team possesses! We are also supported by the top management of company as well as merchandisers and the Quality (QA/QC) team. During the last year, we successfully concentrated more orders in good factories, stayed away from the factories that did not demonstrated willingness to improve and focussed solely on factories that are always moving forward.

At the close of the 2009, we were proud to say

that all of our suppliers have been ethically and environmentally audited and we have a minimum compliance grading of Amber giving us 100% compliance in China.

In 2010 I feel my work will become even more important. There is a lack of improvement in factory conditions when there are tough economic times.

No Company becomes fully ethical or sustainable overnight. Individual people can be inspired in a moment to take action or to be engaged in the debate. But for a company as a whole, it is a long journey. Good to know that we as a team and as a company are already on the road.



Tuebirh R. Marak (left)

with Ratan Jana (right)

RATAN'S BLOG In his own words...

Namaste (Hello)!

It is time again to jot down our deeds and achievements for the past year....well...2009 was a mixed bag of good and bad....but then achievement always comes with some positive and negatives in it. For 2009, we had completed 173 audits including the Potential, live factories across the Indian subcontinent, Bangladesh and Southeast Asia. The past year has been more like running through the time and challenges as we were given a target date to complete visiting and final revisiting of all RED rated factories. Sad to say, not all the RED rated factories were able to achieve at least the AMBER rating and thus resulting in the suspension of some in the supply chain.

At the end of 2009, we were able to filter a larger portion of the Non-Compliant factories or those who failed to achieve at least the minimum AMBER rating which is a must requirement for SDIL to go forward and do the business. Disengagement was the last option for us...we had worked and tried to work within the company to achieve at least the minimum requirement....but.....not all were able to prove their commitment to change and improvement.

Nevertheless, we are happy to report that in 2009 with the support of the top management, and with valuable guidance from our SDG colleagues, we were able to achieve our target.

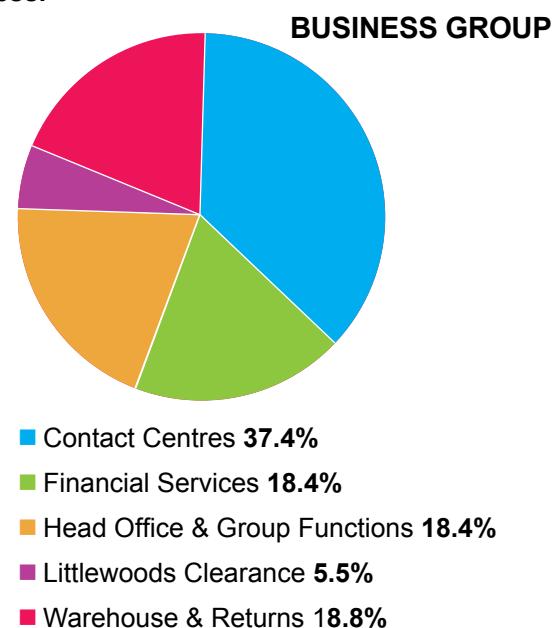


PRINCIPLE 3 – *UPHOLDING THE FREEDOM OF ASSOCIATION AND THE EFFECTIVE RECOGNITION OF THE RIGHT TO COLLECTIVE BARGAINING*

PRINCIPLE 6 – *SUPPORTING THE ELIMINATION OF DISCRIMINATION IN RESPECT OF EMPLOYMENT AND OCCUPATION*

COMMUNICATION ON PROGRESS – HR

Business transformation has continued this year as the organisation responds to the changing needs of our customers. This has resulted in activity at a number of our sites that has had an impact on our employee headcount. We have achieved this with a strong relationship between our people and trade union partners. A key driver of this change has been the desire to have multi-skilled employees, whose roles are enriched by having more variety in their jobs, giving them better progression prospects. We have also reviewed our reward structure and working patterns, offering new employees the opportunity to work more flexibly via an annualised hours contract in some operational areas of the business.





The headcount across our Warehouses, Contact Centres, Clearance Stores, Financial Services and Head Office is 7600 people.

The retail industry is fast moving and making sure each of our employees has a flexible and diverse range of skills is as important to the future of our business as it is to the people who work for us.

This year we have undertaken a complete review of the training we offer all employees. This will ensure employees and new recruits are equipped to do their jobs effectively and efficiently as well as offering opportunities to develop their talent and capabilities, expand their experience and fulfil their career ambitions. An important addition to the training portfolio will include improved training on diversity and equal opportunities.

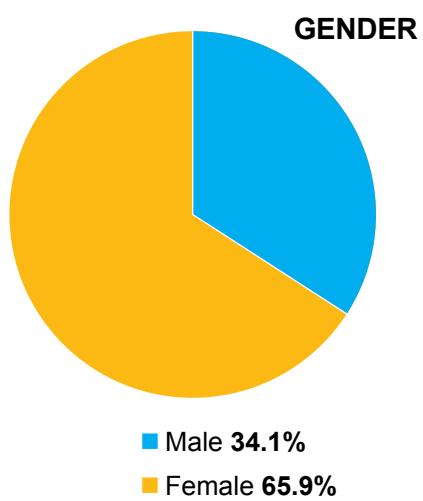
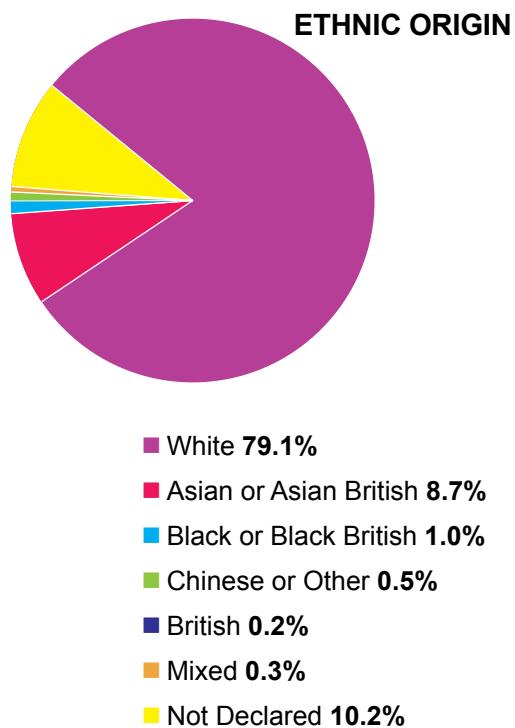
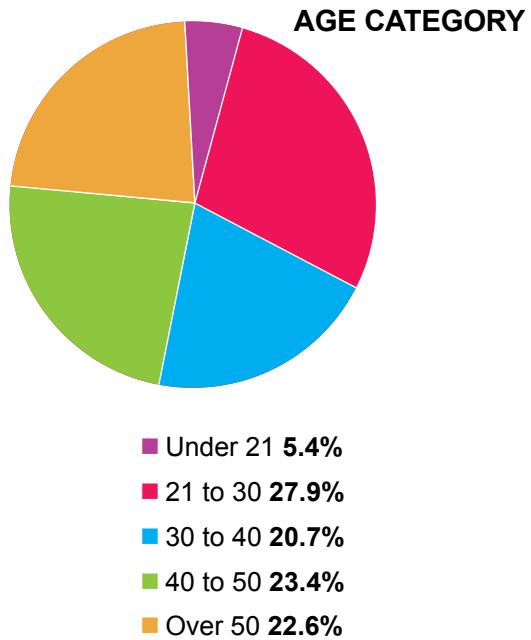
During 2009 'Your Shout' temperature checks showed we had made improvements to employee engagement during the year, with overall scores across the Group rising from 62% to 70%. We are committed to keeping our employees informed of where the business is going and the results of the latest survey indicate that this is working well.

We will be implementing a Leadership Development programme this year that will establish and support the style of leadership we expect and develop the skills of all those who hold a management role in SDG. Around 800 managers will participate in the programme over the next 18 months and its success will be evaluated by obtaining feedback via next year's 'Your Shout' employee engagement survey.

This year the survey was extended to include our 250 colleagues working for SDIL in the Far East.

The results show an encouraging 85% response rate and 62% engagement rate.

We continue to be focused on improving the experience at work for all our employees and are encouraged by the feedback our efforts are making across all parts of our business.



Dan Rogers
Head of Group Property
and Facilities



PRINCIPLE 7 – *SUPPORTING A PRECAUTIONARY APPROACH TO ENVIRONMENTAL CHALLENGES*

PRINCIPLE 8 – *UNDERTAKING INITIATIVES TO PROMOTE GREATER ENVIRONMENTAL RESPONSIBILITY*

PRINCIPLE 9 – *ENCOURAGING THE DEVELOPMENT AND DIFFUSION OF ENVIRONMENTALLY FRIENDLY TECHNOLOGIES*

INTRODUCTION

Throughout 2009 we have continued to strive forward in the 4 elements within ‘Future Focus 10’ that my team manage; Energy Consumption, Recycling, Transport and Health & Safety.

Our strong focus on energy consumption has resulted in delivery of some excellent initiatives. As a result we have reduced energy consumption in each of the last 4 years.

The challenge remains for us to continue to reduce our consumption year on year over the next 5 years and beyond as the UK Carbon Reduction Commitment scheme comes into force. With this in mind we have established a Carbon Reduction Team from all areas of the Business to share best practice and work together on a coherent strategy.

By introducing further Recycling measures and utilising new waste separation and recycling facilities, sought out by our team, we have increased our percentage of recycling significantly in 2009.

Looking at transport, we have also managed to reduce our CO₂ emissions by utilising phone and video conferencing more frequently as well as encouraging the use of public transport and car sharing as a way of reducing our environmental impact from travelling into and between our places of work.

In Health & Safety, highlights have included British Standard 18001 accreditation for our Head Office and Contact Centres, coupled with a reduction on the previous year’s reportable and non reportable incidents.



ENERGY CONSUMPTION

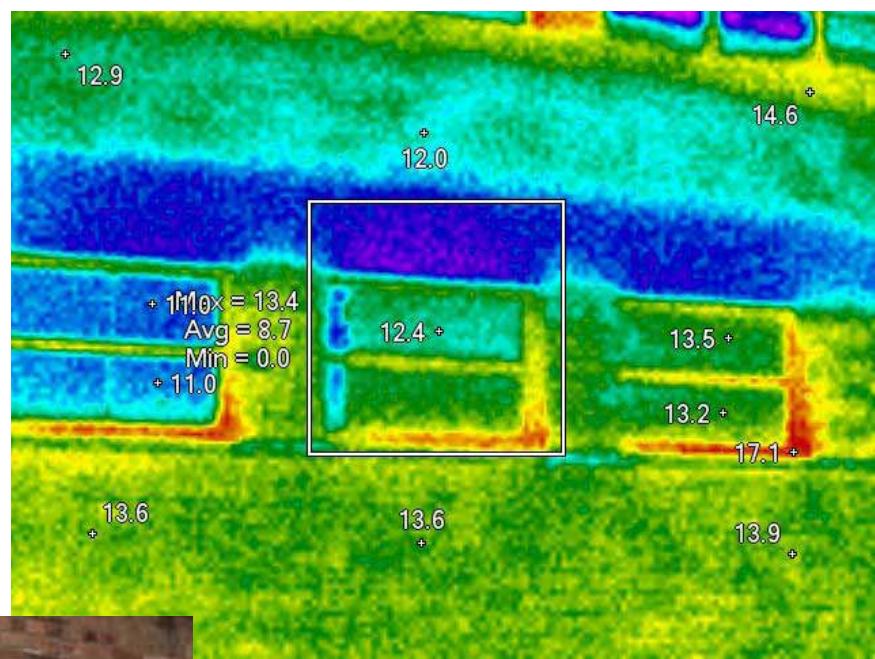
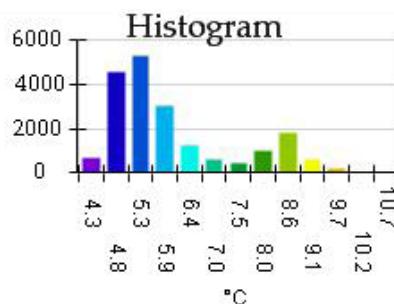
Whilst 100% of our electricity purchased is generated from renewable sources, wasting it is economically and environmentally unacceptable to us.

The strategies to reduce energy usage throughout 2009 have also been linked to the property space we occupy as a business. We have improved the efficiency of our lighting, introduced further light / movement sensors, replaced additional light fittings with more efficient bulbs, focused on the efficiency and settings of our heating and cooling control systems as well as proactively managing the power requirements within our Data Centres.

Our data centre power performance and reliability is increasing in importance year on year as our customers choose to order products online – in peak trading in 2009 online trading accounted up to 80% of our demand. Despite the year on year increase in the demands on these facilities we have successfully reduced our electricity consumption by 378'211 kWh – a reduction of 4.8% on the previous year. This equates to a CO₂ reduction of 206 tonnes across just 2 data centres.

DATA CENTRE – RECENT ACHIEVEMENTS

- Upgraded to a modular more energy efficient UPS (Un-interuptable Power Supply) platform
- Reduced annual electricity consumption in our 2 Data Centres by a total of 4.8% since 2008
- Changed from Analogue to Digital monitoring of critical systems allowing access from anywhere in the world using Green IT systems to avoid third party site visits, reducing the requirement for business travel.
- Greatly improved energy efficiency working in-line with European Code of Conduct.
- In recognition of our carbon reduction programme the ‘Mission Critical’ Data Centre team finished in the top four of The European Data Centre Leaders Awards, alongside industry heavyweights Logica, Hewlett Packard and The Computer Centre.



Pictures of Skyways House thermal imaging – heat loss from Windows above.

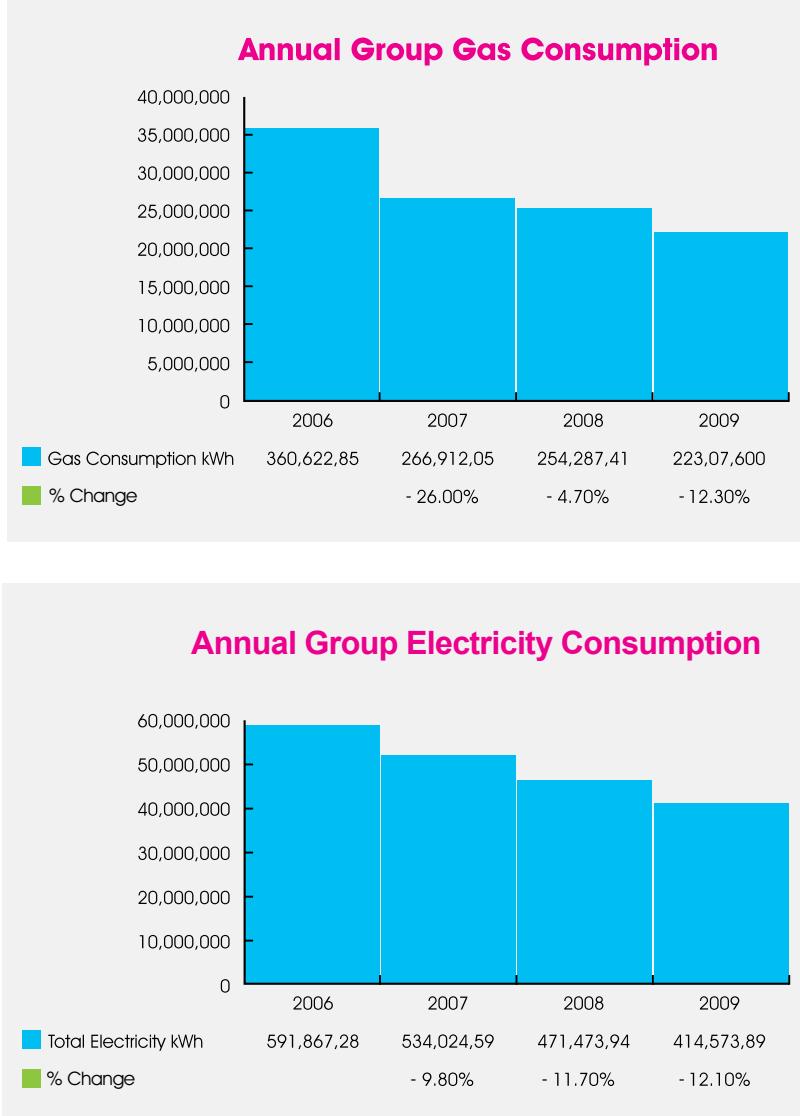
THERMAL IMAGING

- In 2008 we employed thermal imaging cameras to reduce heat build up in our IT servers. In 2009 we have continued to make these checks and have now utilised the same methodology to help improve our Building thermal efficiency by locating areas of heat loss. To this end our team have recently been formally trained in Thermography.

By controlling the opening and closing blinds within our buildings, we have effectively decreased the energy required to maintain a comfortable working environment. Opening the blinds increases solar gain during the early morning period - in cold periods this helps heat the building more quickly and efficiently. By closing all blinds at 6pm each evening throughout the Winter we have reduced heat loss overnight, minimising the amount of energy required to re-heat the building again in the morning prior to the working day beginning.

A common sense measure on a large scale that has made a real impact on energy usage. Alternative activity will take place in the warmer summer months to retain cool air and minimise solar gain and also take advantage of the cooler air throughout the night.

As you may be able to see on the visible light image (above), on the left hand side window the blind is closed, this corresponds to the colder 'blue' glass viewed in the thermal image (above right), showing clearly that heat is being retained by the closed blind, whereas the glass is warmer and heat is being lost from the other windows.



We have recently constructed an in house photo studio in our second head office building at the Skyways Campus. This part of the building has been fitted out with energy conservation in mind. We have created insulating pockets between many of the outer walls and the boundary walls. This has improved the aesthetic of this former storage facility for its new use as a studio but has also provided the additional benefit of insulating the walls, reducing heat loss. Entrances have had clear plastic curtain walls fitted to ensure heat loss is minimised, all main openings have a secondary door/s within the building to ensure the temperature remains static and heat loss is minimised.

The latest LED technology has been used to light the photo studio and new Reception. Each of the fittings uses just 11 watts of energy. The new 7500 sq ft studio is lit by just 19, 11 watt fittings, using 209 watts (the same as 3 and a half domestic 60w light bulbs!) – the space is enough to fit 10 average sized houses within it!

The studio has also reduced the number of journeys between our head office and our other 3rd party external photo studios. Approximately 37 road miles per day have now been saved – reducing annual business miles within this function by 9620. Or 3.8 tCO₂ / year

BEST PRACTICE

GOOD

ACHIEVING RESULTS

LEGAL COMPLIANCE



Our Carbon reduction programme continues to reduce our CO2 emissions year on year and lowers our operating costs significantly. Our electricity consumption reduced 11.7% in 2008 and 12.1% in 2009. Since 2006 a total reduction of 33.6%

Even more pleasing is the reduction in our Gas consumption. Despite 2 harsh winters in the UK with several weeks of Snow and Ice at the end of 2009, not forgetting even worse conditions in January 2010, our consumption was reduced by 4.7% in 2008 and 12.3% in 2009.

C02 from Gas and Electricity usage

3040 tonnes C02 reduction in 2009
(vs. reduction of 2930 tonnes C02 in 2008)

RECYCLING

2007 – 3857 tonnes recycled 54%

2008 – 3668 tonnes recycled 60%

2009 – 4187 tonnes recycled 78%

Reduction in tons sent to landfill over the last 12 months of.....519 tonnes! Our recycling metric is now 18.6% higher.

This has been achieved by working closely with our Recycling partner throughout the later part of 2009 when we started to use a 3rd party operator who specialise in producing renewable energies by utilising non-recyclable 'general waste'.

Instead of this waste going to landfill it is now processed into green energy using a Mechanical Heat Treatment process (MHT). This process converts non recyclable general waste into 'green fuel' for use in specially adapted heat exchanging plants. The waste processed includes recyclables contaminated with food, oils and fats. We work closely with our Recycling partner to ensure all waste sent to the MHT plant is of the appropriate type.

MECHANICAL HEAT TREATMENT

Mechanical Heat Treatment (MHT) is a term that is used to describe a number of different processes that involve the mechanical (separation) and thermal (heat) treatment of waste.

Following the introduction of this process at Shaw (our main distribution centre) our already excellent recycling figures have improved significantly – only 0.66% now goes to landfill.

Prior to our adoption of the MHT process we had already been recognised for the existing levels of success in recycling. This action coupled with reductions in our office printing volumes and new eco customer parcel sacks resulted in us being awarded Silver in the UK Recycling Stars awards.

OFFICE PAPER USAGE

Our print volumes within our head office have actually increased in 2009. We believe this is due to increases in the number of colleagues based at this site. In addition, changes within our brands as our product ranges are differentiated brand by brand have lead to further increases.

However, we are now in the final stages of a plan that will ensure we get back on the right track in 2010. This involves removal of desktop printing devices, replacing these with more efficient Multifunctional Devices (a combined printer, photocopier, scanner). We also plan to reduce paper and toner usage by installing print management software.

The introduction of 'print on hold' to other sites within the group will ensure all items sent to print are actually collected. By eliminating uncollected print outs we estimate print reductions between 15% and 40%.

Print management software can be used to restrict the printing of particular types of documents such as emails, can disallow single side printing, prevent colour printing of power point presentations for example and reduce toner density by individual user or user groups or by document type.

(In addition, the software will provide more detailed management information allowing us to identify areas of high usage).



CRC

We have engaged Energy Bureau STC to work with us as we embrace the Carbon Reduction Commitment scheme. This is a government led scheme to ensure businesses involved reduce carbon emissions by at least 4 million tonnes of carbon dioxide per year, by 2020. This involves production of a league table, purchase of 'Carbon Credits' and a revenue recycling scheme based on performance. We aim to be, at least, in the top quartile of UK companies.

Our achievements and investments, such as in automatic meter reading technology and our Carbon Trust status see Shop Direct Group well placed to perform well in the league tables.

We are delighted to have the Carbon Trust standard and in 2009 our accreditation was extended up until April 2011.

BRITISH RETAIL CONSORTIUM

Following the great achievements in 2009 Neil Woollam, Shop Direct Group Energy Manager has been elected Chair of the British Retail Consortium's Energy Working Group. This role will involve Shop Direct Group working towards best practice along side household names such as; Boots, McDonalds and the Co-Operative.

This trade association of 37,000 retail companies of varying sizes, who together employ 27% of the UK workforce, aim to reduce energy consumption within the retail sector by 23% by 2013.

TRANSPORT

Business Travel Reduction

Business Mileage by Car

2007 - 2,189,282 miles / assuming petrol = 740t CO2

2008 - 2,081,000 miles / assuming petrol = 703t CO2

2009 - 2,068,242 miles / assuming petrol = 699t CO2

Video & Tele-Conferencing

We have continued the reductions in business miles for each of the past 3 years and have recently started to introduce High Definition (HD) quality Video Conferencing into our business. Once this is fully rolled out we intend to make full utilisation of this technology aiming to reduce business travel year on year.

In 2009 we increased the amount of video conferencing from 450 hours to 498 hours and teleconferencing rose from 31'361 in 2008 to 41'293 hours in 2009 – an increase of 24%

Air travel has also reduced in 2009 vs 2008 – a reduction of 2.8% and over 47 tons less CO2 than the previous year. However UK Rail travel has increased significantly.

A 33% increase in rail travel CO2 emissions have been recorded. We advocate using rail travel to staff as a lower carbon alternative.

Overall regarding our Business travel, taking into account, Road, Rail and Air we have reduced our CO2 emissions by 30 tonnes from 2008.

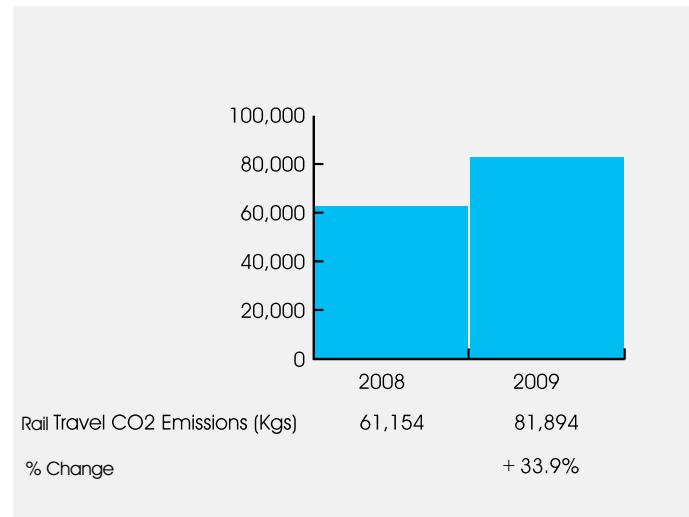
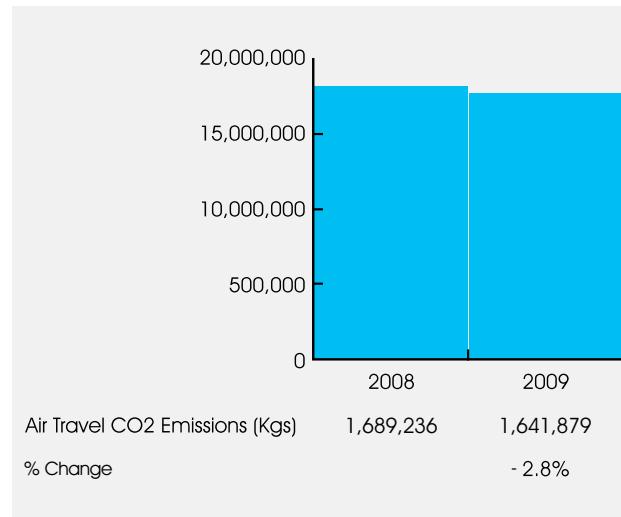
Business decisions that reduce environmental impact

During 2009 a decision was taken to relocate the storage of clothing garments held on hangers from a 3rd party site into our main Distribution site.

Not only will this improve the service we offer our customers, it will reduce overall transportation requirements we require via our 3rd party logistics firm Yodel. Next year we will report on the CO2 reductions this change put in place by Shop Direct Group has provided.

Once these products are relocated we will effectively reduce:

- the number journeys driven by delivery vehicles from the former storage site and the Distribution centre
- Bringing the products into one site will allow us to bring more types of items together into a single parcel. This 'collating' will result in less orders being split into multiple deliveries to the customer – not only more convenient for the customer to receive everything at once, but we will only have to drive to their home address once rather than twice for this type of order.
- As a business this has a direct influence on our delivery and logistics provider by reducing their vehicle CO2 emissions.



10:10

We've picked up on the 10:10 campaign* objectives and are promoting a host of smarter travel options, efficient motoring practice and all round good environmental practice to our colleagues throughout the group.

A 10-month poster campaign is being rolled out to sites, highlighting what we are doing in the business to reduce energy consumption, travel smarter and relating these and other actions to clearly show how cost effective measures can be implemented by employees to save energy and money on bills.

We're also campaigning for other improvements to travel in the region such as a car sharing scheme, real time bus information and adoption of high definition video conferencing to reduce travel within our operation and to / from our Suppliers in the UK and in the Far East.

* "10:10" is a national campaign, supported by numerous governmental, public and private organisations as well as individuals via their utility company. Supporters include the Energy Saving Trust and the Carbon Trust. Its aim is to encourage businesses and individuals to reduce their Carbon emissions by 10% in 2010.

GREEN APPLE AWARD WINNERS 2009

As a result of our work in reducing Shop Direct Group's environmental impact we have, in 2009, been recognised by the 'Green Apple Awards'. In a prestigious ceremony at the Houses of Parliament Shop Direct Group were presented with the Green Apple Award for the Retail sector, a second Award for the overall Winner within Business & Industry and also won the Champion of Champions Award despite tough competition from over 600 companies who entered the competition.



Phil Spick, Dan Rogers and Neil Woollam receiving Green Apple Awards,
Houses of Parliament, London

HEALTH AND SAFETY

In 2009 we have successfully attained the BSI OHSAS 18001 Occupational Health and Safety Management accreditation in all our Contact Centres and Head Office sites, having achieved this certification for our Financial Services business in 2008. We now look to achieve this accreditation in Warehouse and Returns during the 2010/11 financial year, providing us with this standard across the entire Group.

We have also introduced an online accident / incident reporting system. This has improved the reporting and collation of information throughout

the group. This allows our Health & Safety and management teams to receive reports, by email and creates an audit trail for corrective measures through one single line of communication.

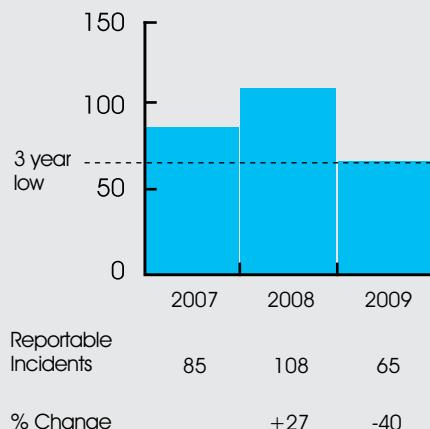
Following on from our work in improving our audit trails, systems and procedures our accident figures below detail **a 3 year low on both Non-reportable and Reportable categories.**

BSI Accreditation and the online reporting system have allowed us to increase our ability to defend claims successfully.

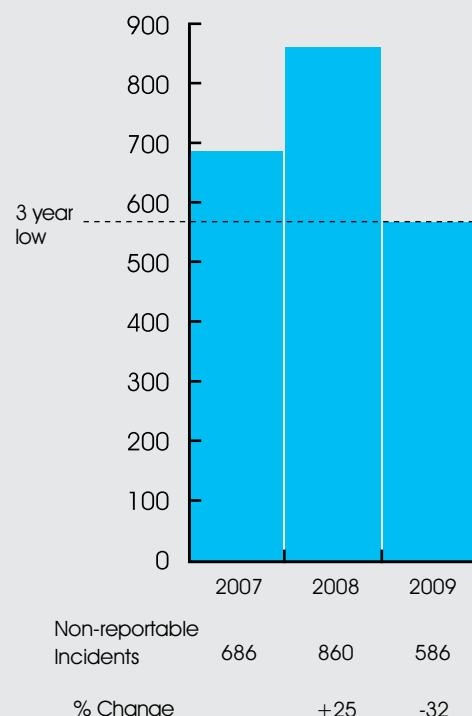
TOTAL INCIDENTS – 3 YEAR LOW

	2007	2008	2009
Reportable	85	108	65
Non Reportable	686	860	586

REPORTABLE INCIDENTS



NON-REPORTABLE INCIDENTS



WELLNESS

Healthy eating & “fit for the Future”

In 2009 we continued to promote the ‘Health’ side of Health & Safety and amongst other activities have focused on encouraging healthy eating by ensuring our catering provider uses low fat, low sugar and low salt ingredients when preparing meals for our colleagues. Even for the traditional English breakfasts we oven cook sausages, grill the bacon and now offer freshly cooked to order omelettes to offer an alternative to the fried egg!

We always have skimmed milk available for cereal, tea or coffee, low sodium salt and sweeteners as an alternative to sugar. Fresh fruit and freshly prepared fruit salad is available daily as well as wholemeal bread to accompany meals or soup – also made from fresh ingredients where possible. Drinking Water is provided at all times. We always have a Healthy Option Meal Available.

In 2009 we have also started to install fresh fruit Smoothie bars. Always prepared to order from fresh fruit and ‘not from concentrate’ juices, this has encouraged further healthy eating amongst our colleagues, giving a fresh alternative to tea and coffee, boosting their 5 a day intake. We plan to roll this out to our Smoothies to our other sites where there is sufficient demand.

CONCLUSION

OUR TOP LINE IMPACT ON C02 EMISSIONS

The initiatives above have had a positive impact on our C02 emissions. In summary:

Total C02 = 22,065 Tonnes emitted in 2009

Annual Reduction of C02 = 3040 Tonnes

Annual Reduction of C02 = 12.1%

C02 is calculated above at 0.43 Kgs CO2 / kWh (Electricity) and 0.19 Kgs CO2 / kWh (Gas)

If we were to include the reductions from Business Travel our C02 emissions have dropped by 3074 tonnes. This is the equivalent of 678 return flights for 1 person from London to Hong Kong or 16177 return flights from Liverpool to London.

As part of the UK “10:10” campaign – Our aim for 2010 is to reduce Carbon emissions by 10% across Shop Direct Group

ENVIRONMENT HOPES AND GOALS 2010

2010 will bring a variety of challenges. We plan full group adoption of the British Standard 18001 for Health & Safety. We will be constructing a 5 year Carbon Reduction programme to align our activities with the Carbon Reduction Commitment scheme.

Other 2010 Projects include; Voltage Optimisation / Group wide Transformer Tapping, new PC energy saving systems, installation of E-Cube devices making our refrigerators more efficient, a review of lighting control systems and building management systems (BMS) used in our Offices and Warehouses. We also intend to install ECO Max controllers to decrease energy usage. A bulb replacement programme will be costed out in an attempt to ensure all our lights are the most efficient type available. We also plan to make improvements to working environments at our sites.

Within Heating and Cooling plant we will perform a full review of air conditioning efficiencies and align all our IT Server rooms to a defined operating criteria.

Finally, in 2010 we plan to further influence our colleagues by taking our message out on awareness days at our sites, sharing with our colleagues some of the great activity that is carried out. The further challenge to this is to effectively influence our colleagues to actively promote energy efficiency in the products we sell to our customers. Influencing the mass market could be our greatest achievement to date.

Practically this will involve ensuring energy ratings are more clearly displayed on our catalogue book pages and web pages and that we offer calculations of cost of energy per year when comparing items via our new web platform. “This A-rated item will cost approximately £100 per year to run (power and water cost) vs the B-rated Item at £150 per year” – this will encourage customers to ‘trade up’ to the higher energy A-rated product as they can bear in mind the price and running costs as they may do for a new car for example. We will also work to promote stand-by savers for electrical products such as tv’s, recycling waste bins and energy efficient bulbs alongside our current lighting products range.



Phil Spick
Travel Plan Manager

TRAVEL PLANNING

We continue to support sustainable travel practice across our UK sites following and leading on best practice examples.

We are working towards achieving the PAS 100 (Publicly Available Standard) National Standard for Travel Plans, and see the rising price of fuel bringing effective travel planning to the fore as a key recruitment and retention mechanism. Initiatives require prolonged effort to maintain participation levels in line with changes to residential locations and staff turnover.

CAR SHARING

A great effort and focus on car sharing is required to further grow successful car share schemes we operate at sites across the UK.

We are once again seeing growth in our HQ car share scheme, which takes 100,000 journeys off the local road network per year. We estimate the scheme prevents over 800,000 miles of driving and saves 210 tonnes of CO₂. Individual commuting costs are calculated annually for respective participant vehicles to highlight the financial benefit of car sharing, relating this to the cost of a holiday to highlight its additional worth.

DRIVING RESPONSIBLY

We continue to advise staff in a responsible manner, reducing our collective impact on congestion / pollution by providing up to the minute information on major local road

incidents, together with advance notification of major roadwork / construction projects. The physical limitations of the Mersey Estuary require immediate notification of any disruption to the Mersey tunnels (subsequent grid-lock of Liverpool City Centre) and the Runcorn Bridge.

We continue to work in partnership with the Energy Saving Trust (Act on CO₂), again participating in the Smarter Driving Programme designed to reduce fuel usage by 15-19% in urban driving conditions. The Smarter Driving Simulator has featured across our Greater Manchester sites, helping to raise awareness of the need to reduce carbon footprints / air pollution in the respective communities travelled through, and save money as well.

CYCLING

Our pool bicycle scheme mirror's the weather in terms of usage, with last year being down on previous years, taking 1500 bookings, though signs are encouraging for 2010.

Pool bikes are also available for weekend pursuits and we promote local charity cycle rides via the scheme to provide bicycles for group / team participation. Bikes were used in our Children in Need efforts for 2009, with a cycle challenge to ride the mileage between all our UK sites. We liaise with local campaign groups, highways and transportation departments and join forces with Sustrans Bike-It officers to assist local schools with their cycling objectives, highlighting where key cycle lane infrastructure is required to shield cyclists from dangerous roads / junctions.



Rob Hardman
Head of Print & Paper Procurement

ENVIRONMENTAL PAPER PURCHASING

We have continued in 2009 to achieve our target with 50% of all catalogue paper PEFC accredited. To take a leap forward in 2010 all of Shop Direct Group catalogues will carry the PEFC logo and messaging, communicating our sustainable credentials. This accounts for 90% of paper purchased by the Shop Direct Group.

To further demonstrate the Group's commitment to sustainable forest management, by the end of 2010 all direct mail requirements will be produced using PEFC accredited paper.

PEFC is the world's largest forest certification organisation, a non-profit, non-governmental organisation, which promotes the independent third party certification of environmentally-appropriate, socially-beneficial and economically-viable management of forests. As a responsible company, Shop Direct Group only purchases paper from paper suppliers that know the origin of all wood, have certified chain of custody, have been legally harvested and have not been sourced from conservation areas.

Improved customer targeting has reduced the number of direct mail and catalogues sent to prospective customers. A total of 12 million books

[26,000 tonnes of paper] were sent to customers in 2009, a reduction of 3 million books against the 2008 forecast. Current forecasts for 2010 show that the number of books sent to customers increase by 10% on 2009. However, the number of pages in 2010 will increase by 25% from the 2009 to provide a greater breadth depth of products for our customers.

A strategic imperative for the business in 2010 will be to transform customer insight into a competitive advantage. This will deliver a greater use of personalised online and paper customer communications to significantly improve response rates. Eliminating customer direct mail with poor response rates will have an environmental and cost benefit to the Shop Direct Group.

All Shop Direct Group paper and print suppliers are ISO14001 accredited, an assurance that the production sites are committed to achieving continuous improvement through environmental management systems. Also our print suppliers have continued to reduce their toluene solvent emission by investing in closed loop air recycling systems.





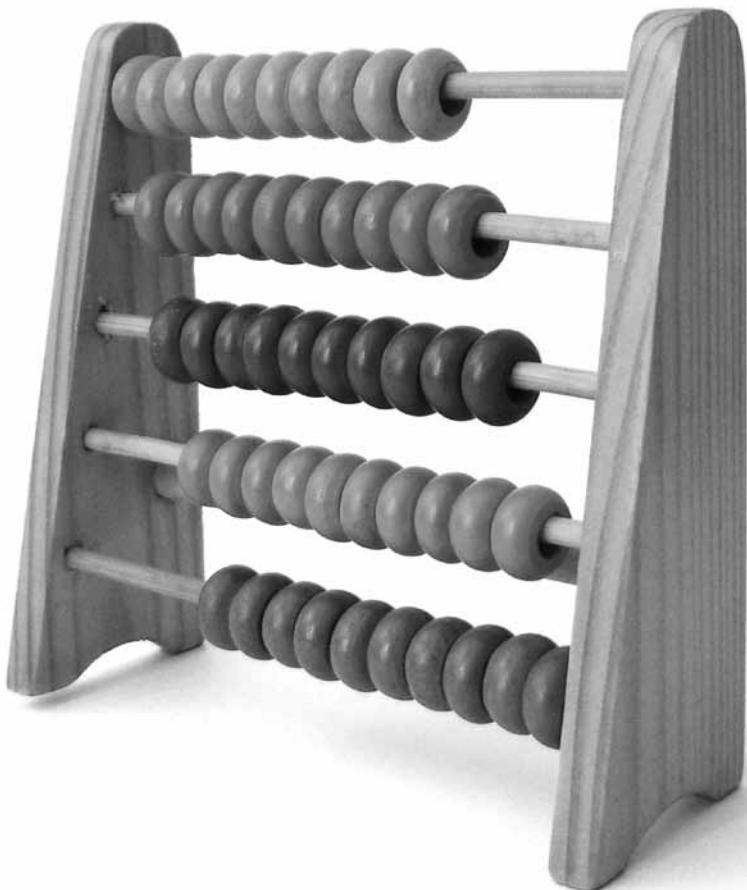
David Mortlock
Director of Internal Audit

PRINCIPLE 10 – *WORKING AGAINST CORRUPTION IN ALL ITS FORMS, INCLUDING EXTORTION AND BRIBERY*

CORRUPTION, GOVERNANCE & TRANSPARENCY

The adoption of the tenth principle commits UN Global Compact participants not only to avoid bribery, extortion and other forms of corruption but also to develop policies and concrete programmes to address corruption and associated risks.

Our existing policies with respect to gifts and entertaining and Code of Conduct on competition law that we reported on last year remain in force and have been updated where appropriate. These are further supplemented by codes of practice with respect to working with Trading partners and other specific policies as part of our ethical sourcing approach. As part of this we have also expanded our independent whistleblowing helpline, previously available only to staff, to all of our key suppliers. This has been supported by a clear communication



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to suppliers that if they suspect any wrongdoing by our staff that they should report via the confidential service.

To further support these and other internal policies an internal fraud working group has now been established to assess the key risk areas, review the group's progress in implementing its policies and to discuss and resolved fraud related matters. Membership is multi functional including our Security & Internal Audit teams and meets monthly. Areas discussed includes fraud awareness programmes for staff, structure of system user IDs & fraudster profiling.

We also actively participate in local anti fraud networking groups designed to share best practice and intelligence on fraud and corruption related activity. Anti fraud and corruption training remains part of our induction training and where appropriate specific training is delivered to operational teams by our Security teams.

The protection of our customer's details from misuse and theft have remained a priority for us. We have a number of key initiatives running including our PCI programme & we undertake regular independent third party penetration scans of our networks. We also continue to review and update our operating practices and policies in line with changing technologies and threats. An Information Security steering Committee has been established to oversee our IT security activity and similar to our Internal Fraud working Group this multi disciplinary and focuses on the key risk areas and the implementation of our policies.



Ann Bryon
Group Communications Director

COMMUNICATION ON PROGRESS

Shop Direct Group is committed to making a positive impact on the communities in which we operate.

The majority of our business activity takes place in the north of England. Our head office and state of the art photographic studio are located in Liverpool and we have warehouse and contact centre operations in ten northern locations, as well as in Newtown and Worcester. Around 9,000 people are employed across these sites and they all look to us to play our part in making the communities in which they live, better places to be.

We take our responsibilities seriously and as such have recently undertaken a full in-depth review of all our community and charitable activities to ensure that they are having the maximum sustainable impact possible.

Following this comprehensive review, we are about to launch The Helping Hand Fund, a matched giving programme that will help colleagues to set the direction for Shop Direct Group's community investment. We have worked with the Charities Trust, a national Payroll Giving and corporate donation management agency, to develop a fund that will give a 'helping hand' to colleagues who have raised money for eligible, not-for-profit, community organisations - up to an individual ceiling limit.

We also work with the Charities Trust to promote payroll giving as a method for our colleagues to support charitable giving, currently around 12% of them choose to contribute to their favourite good causes in this way.

Our primary charity partner continues to be the Alder Hey Hospital Imagine Appeal which we support through employee fundraising and corporate donation. We also provide the appeal team with a range of our products which they can sell at the various fundraising events they hold throughout the year. Christmas is an important time to us at Shop Direct Group and we were delighted to be able to, once again, donate a large selection of toys to children who were unfortunately staying in the hospital during the holiday period. We also provided toys for children staying in Great Ormond Street Hospital, London, Kids Co, an organisation working with disadvantaged youngsters and local refuge Centre 56, to help bring some festive cheer at a difficult time.

In addition, we were delighted to be given the opportunity to bring some holiday spirit to soldiers serving in Afghanistan by working alongside the Daily Mirror and SSAFA (Soldiers, Sailors, Airmen and Families Association) to donate a host of products, including portable DVD players, wind-up radios and games consoles to boost morale amongst the soldiers.



We are proud to be a retail company and we are equally proud to be playing a part in creating the retailers of the future. We hold corporate enterprise days where we invite groups of school pupils into our business to give them an overview and understanding of how the commercial business world works. Children spend a day at our head office and gain an insight into the product lifecycle, as well as meeting our colleagues from our various business areas to enable them to see a variety of jobs at first-hand and to discuss career aspirations. We also work with John Moores University to offer degree level students the opportunity for targeted, intense work experience placements varying from a few weeks to a year.

We are enthusiastic members of our local business community and Group Chief Executive Mark Newton-Jones is a member of the North West Business Leadership Team, an independent group of the most influential business leaders, who work together to promote the long-term well-being of North West England. Their mission is to make the North West the UK's most attractive region in which to live and work for generations to come. Our Group Chief Executive is also a keen public speaker and takes part in a number of engagements at universities, conferences and key industry events.

We are also active members of the Mersey Partnership and the Liverpool Chamber of Commerce, organisations tasked with promoting the region and attracting commercial and social opportunities, making the North West a better place to live and work.

As well as supporting the communities in which we operate and live, we also support the wider retail community through our work with the Retail Trust, the only charity offering a range of services to all people working in and retired from retail. We are long standing members of the Northern Events Committee and recently raised over £40,000 at the annual Great Northern Ball. The newly-opened Retail Trust sheltered housing estate in Salford was fully equipped with white goods donated from our product range.

As a reflection of our operations across the globe, we have committed to supporting Touraid, a children's charity that uses rugby to establish sustainable relationships between schools and clubs in the UK with similar organisations around the world in order to support disadvantaged children. We are now working with them to bring a group of children from the Mahamek Boys Home project in Thailand to the UK to take part in a Festival of Rugby to be held in September 2010.

The next twelve months will see the further implementation of the findings from our community and charity review. We will be developing ways of targeting key areas of need that will give a greater focus to our philanthropic activities, as well as introducing a system of measuring the positive impact that we make to the communities in which we live and operate



Christmas toy appeal at Shop Direct Group HQ



Mark Evans
Creative Director



PRESENTING A POSITIVE BODY IMAGE

We have made great progress in 2009, having focused on the three key areas of customer insight, guidelines and supplier relationships.

As an organisation, we understand our corporate responsibility and strive to ensure that, in particular, with regard to models and photography, we present our offers in a way which recognises the multi-cultural society in which we live and depicts women, men and children in a positive and healthy way.

With a portfolio of brands that appeal across the mass market of the UK population and product ranges that span the breadth of fashion attitudes and lifestages, it is critical that we have put our customers' views, needs and wants at the heart of our decision-making.

Through constant feedback, we are able to refine



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the way in which we present our offers to maximise the appeal of our brands, building both customer appeal and loyalty. Working with qualitative research groups, we are able to gain reaction to both what we have produced and what we are planning – insight that has been invaluable in the re-positioning of the images that we create.

Given the ethnic diversity of the UK population, we pro-actively seek to ensure that we have a range of models within our offers that reflect our customer base and have worked closely with our strategic model agencies to help deliver this across our women's, men's and childrenswear offers.

Shop Direct has set clear standards and guidelines which define the characteristics of a healthy body image and have taken a strong ethical stance refusing to use 'size zero' models.

The physical well-being of the models that

we use and their professional behaviour is critical and, therefore, we have created guidelines for acceptable social behaviour – guidelines which have been incorporated into our supplier contractual agreements.

Only by delivering each of the elements highlighted above consistently across all of our customer touch points will we deliver brands which resonate with consumers and demonstrate that we take the presentation of a positive body image very seriously.



David Poole
Chief Operating Officer,
Financial Services

RESPONSIBLE LENDING AND CREDIT SERVICES

Shop Direct Group provides through its financial services arm, Shop Direct Group Financial Services, a range of simple and affordable credit and insurance products that enable customers to manage their finances and to make those essential and aspirational purchases that may otherwise be beyond their grasp.

FAIR AND TRANSPARENT FINANCIAL SERVICES

It is our aim to deal with all our customers responsibly and fairly. We aim to provide our customers with all the information they need to make balanced and responsible decisions when using credit to purchase our products and services. We consider all the available information when making lending decisions to ensure that it is in the best interests of the customer to extend credit.

Overindebtedness is an increasing problem in our society and the increasing availability of credit has made it much easier for consumers to borrow beyond their means to repay. For both new and existing customers we will take lending from outside SDG into consideration when we make any decision to extend a new credit facility, increase a credit limit or authorise a sales transaction.



The current economic downturn represents a risk to financially vulnerable individuals with recent cost of living increases, falling property prices and rising unemployment all putting pressure on already indebted consumers. Shop Direct Group recognises that it is increasingly important during these difficult times to ensure that our customers borrow responsibly. We proactively tightened our credit policies many months ago in anticipation of an increasingly challenging economic environment and stopped extending credit to those we considered to be most vulnerable to the current situation. We have continued to review this position throughout the downturn to ensure that our policies remain appropriate as the economic effects change to affect different groups of our customers. We continue to monitor the credit position of all our customers through monthly review of all our customers' credit scores and act accordingly where we see evidence of financial stress. In this way we seek to avoid exacerbating an already difficult situation for our customers as well as protecting our business from the bad debt losses that have affected many other lenders over the past year.

COMBATING FRAUD AND IDENTITY THEFT

SDGFS uses a state of the art fraud management system to protect customers against account takeover and identity theft. Our systems analyse every sales transaction and immediately identify any activity that does not conform to normal spending patterns. We continue to be active members of CIFAS (the Credit Industry Fraud Avoidance Scheme) and, as a leading online retailer, we ensure that our customers can shop safely from our websites protected by Verified by Visa and Mastercard SecureCode.

SDG's Legal and Compliance Teams work closely together to ensure compliance with Financial Services Authority, Consumer Credit Act and Data Protection Regulations. Clear policies and procedures exist to ensure that both the principles and detailed rules are satisfied.



Michael Spenley
Head of Corporate Responsibility

Michael

EDITORIAL

Firstly thank you for picking up a hard copy of this COP or for opening up a PDF online. Secondly, its been a busy year... but also a good one.

When you start the process of planning and writing your first COP it can be easy to gloss over the progress element as something for the dim and distant future. We are now on to our fourth annual COP and progress comes in to sharp focus!

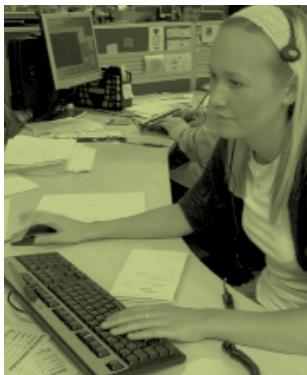
If we have not made progress it will be immediately apparent to our readers and this under performance will be the clear and direct responsibility of those involved in CR and sustainability at Shop Direct Group.

Happily, it is my view that for the most part we have progressed well and in some areas very significantly. Our work on carbon reduction and sustainability

in particular has forged ahead and in our sector of home shopping we feel we are now well placed alongside our competitors. I have had the pleasure of moving our performance indicator to stage one of Best Practice in regard to our respect of the environmental principles and this is an exceptional achievement for the Facilities Management team who work operationally on our day to day carbon reduction and sustainability strategy. Ethical Sourcing also continues to advance and is testament to the endeavour and motivation of our small global team of experts.

In other areas progress has been more gradual and the CR Board has acknowledged a need to make progress on Human Resources and Communities a priority in the coming year.

On balance though its been an excellent year for CR and Sustainability at Shop Direct Group and one of which we are justifiably proud.



STAKEHOLDER FEEDBACK ON OUR 2010 COP

This years report has been read by a variety of our stakeholders including customers, employees, suppliers and charities. The following are selected comments received:

"While Shop Direct is obviously taking its corporate and environmental responsibilities very seriously, it needs to remember that there is still room for improvement and I hope to see more focus on this."

"I am pleased that I have the chance to take on board your comments and improve accordingly."

"I was particularly pleased with the positive outcome of the liaison with other environmental monitoring visits."

"This helps to improve everybody's carbon footprint, while remaining cost effective."

"The more the company opts for ethical and locally sourced products, the happier the customers will be."

IN PROCESS

DUE 22/07/2010

"I would like to see a higher profile amongst local charities and good causes."

"I would like to see Shop Direct increase its commitment to the environment, both by increasing its recycling and using more recycled products."

"The policies and attitude toward the environment are above the required standards."

"I think the report is fantastic; it has an outstanding layout and presentation. It clearly shows the way the company views CSR and its place as an integral part of CSR as well as its place among internal stakeholders. I am particularly pleased to see that the company is continuing to improve its CSR performance. The level of the investment in CSR is excellent and I hope more people take the time to read it. It is great to see that it gets the recognition it deserves. Let's hope we can continue to improve and make it even better!"

"I am not sure whether I am in the target audience for your report, but it became a little confusing and pointless at times, if I would have known what all the abbreviations meant a lot more of the description about them would have made sense."



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