

SHOP DIRECT



Littlewoods

VERY EXCLUSIVE

COMMUNICATION ON PROGRESS
CSR REPORT **2015**

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 seventh COP and it outlines Shop Direct'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; and

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.

CEO COMMITMENT



I am proud to report that 2015 was another year of strong progress at Shop Direct. We produced our last catalogues in January and are now the UK's second largest pureplay digital retailer.

Our 2015 financial year was our third consecutive year of record sales and profits. It was particularly pleasing that we managed to report such a strong trading performance while taking important steps forward on our journey to world class.

As is befitting of a world class digital retailer, we continue to support the United Nations Global Compact and to abide by the Ten Principles in all of our business operations. We place a strong focus on maintaining strong ethical and environmental standards and being the best possible citizen we can in the communities in which we operate.

With that in mind, we developed our existing relationships with the ETI and the Bangladesh Accord during the year, and forged an important new partnership with SEDEX. We also took the decision to reinvigorate our CSR board of senior internal stakeholders, inviting several new members of our leadership team to join and appointing our group product director as chair.

This group is tasked with driving and embedding our CSR agenda across Shop Direct and is playing an important role in keeping us honest – particularly in emerging areas, such as data security and privacy.

We have numerous initiatives underway that will drive us ever closer to world class and I look forward to updating on those in 2017. In the meantime, this report provides an overview of key activities undertaken across the business during 2015. We hope you enjoy it and find it useful.



Alex Baldock
Group chief executive



MAKE **GOOD** THINGS **EASILY** ACCESSIBLE TO **MORE** PEOPLE.



Littlewoods

VERY EXCLUSIVE

THE CSR BOARD



Matt Dixon
Group product director



Dan Rubel
Group strategy & communications director



Jonathan Wall
eCommerce director



Andy Wolfe
Chief information officer



John Pears
Credit risk & operations director



Paul Wright
Global sourcing director



Kenyatte Nelson
Marketing director



Peter Johnson
Head of internal audit



Sarah Willett
People director



Jeremy Darke
Head of IT security



Rob Hardman
Commercial director



Tony Druce
Head of global supply management

LABOUR, HUMAN RIGHTS AND SOURCING

POLICIES

Shop Direct continues to have strict policies in place on labour, human rights and sourcing:

- We have a code of conduct based on the Ethical Trading Initiative (ETI) base code
- All suppliers sign our terms of purchase agreement and by doing so agree to abide by the terms of the Shop Direct code of conduct
- We check every factory manufacturing our own brand product prior to contract and assign a grade (green, amber and red)
- The following issues are deemed zero tolerance: child labour, forced labour, dangerous working conditions, access denied to property and/or documents, bribery and corruption
- If issues are found at an existing Shop Direct factory then we work with that factory to put things right
- We have strict product sourcing policies on diamond sourcing, timber sourcing and design ethics
- We continue to maintain a strict no fur policy and rigid guidelines on the use of skins, based on industry best practice

PARTNERSHIPS

In 2015, we became a member of SEDEX, the global factory audit sharing platform, adding to our existing membership of the Ethical Trading Initiative and our role as a signatory to the

Bangladesh Accord on Fire & Building Safety.

SUMMARY

During 2015, we maintained our commitment to UNGC Principles via our team of in-house experts and membership of the SEDEX factory audit sharing platform.

HUMAN RIGHTS

We maintained our policy that all factories producing our own brand product must have an appropriate ethical audit, thereby ensuring that no abuses of human rights took place. We did not source from countries with UK, EU or UN-mandated trade sanctions or embargoes during the year. Nor did we source from Myanmar due to continuing human rights abuses in Rakhine province.

FORCED LABOUR & THE MODERN SLAVERY ACT 2015

The UK Government's Modern Slavery Act 2015 aims to specifically address 21st century forms of modern slavery. Shop Direct takes this legislation extremely seriously and we have continued to monitor our own brand supply chain for modern slavery.

The Shop Direct ethical and environmental 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."



The Shop Direct factory monitoring programme found no cases of modern slavery, people trafficking or forced labour in 2015/16.

CHILD LABOUR

Our ethical and environmental code of conduct clearly outlines a strong position on child labour:

"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."

The Shop Direct factory monitoring programme found no cases of child labour in 2015/16.

| Year | Factory audits |
|------|----------------|
| 2013 | 400 |
| 2014 | 400 |
| 2015 | 300 |

Table: Factory ethical & environmental audits and revisits

SUPPLY CHAIN MONITORING

During 2015, factory audits were completed in Bangladesh, Belgium, China, Estonia, India, Indonesia, Malaysia, the Netherlands, Pakistan, Poland, Romania, Sri Lanka, Turkey, Vietnam and the UK. Topics covered by the audit included health and safety, forced labour (modern slavery and trafficking), child labour, discrimination, working conditions and employment terms, wages and hours and the environment.

These figures include site reviews conducted by Shop Direct's own factory auditors, audits completed on behalf of Shop Direct by accredited third parties, and desk reviews of existing audits. SEDEX membership, which was new for Shop Direct in 2015, has delivered improved transparency for existing audits and also allowed us to share audits with other retailers and SEDEX members.

PLANS FOR 2016

During the SEDEX on-boarding process, we identified a number of key gaps, both in the availability of data and audits as well as improvements that could be made to our processes. These need to be addressed as a priority. In next year's report, we will update on steps taken in this area and the outputs.

PEOPLE

POLICIES

Shop Direct is compliant with all UK employment law and we proactively look to integrate updates and improvements. Our people activity can be grouped under five policies:

- Shop Direct is a purpose and values-led business
- We aim to attract and retain world class talent
- We release our talent's full potential
- We inspire internal stakeholders through communications
- We focus on structured ways of working to ensure we are fit for world class

PARTNERSHIPS

All people services are provided in line with government policy and adhere to legal requirements and governance. We work closely to ensure we uphold our positive working relationship with our trade union, USDAW. We also seek to maintain a close relationship with affiliated groups such as the Chartered Institute of Personnel and Development and we are an active member of the British Retail Consortium.

SUMMARY

We have a clear purpose – to make good things easily accessible to more people – and set of values – trusted, ambitious, proud, innovative and together – that underpin our strategy and guide our business and our people in everything we do. As part of this, our people strategy states that “we’ll have the most capable and committed people, free to make the most of their talent, ideas and energy, focused on delivering our purpose. They’ll be bound together by a set of high standards and behaviours and we’ll invest in them to release their full potential.”

CELEBRATING SUCCESS THROUGH OUR PURPOSE AND VALUES

Our world class digital recognition scheme, Shine, celebrates the great work done by our colleagues. Each month, colleagues are allocated points to award to anyone within the business, via a Facebook-style feed. Colleagues can recognise one another in three different ways:

- Delivering on our purpose awards 500 points – which hold a monetary value of £5 – to recognise someone for doing a piece of work that connects to our purpose; colleagues have one opportunity per month to award these points, while managers have two
- Living our values recognises a colleague for displaying values-led behaviours, with no limit on these recognitions
- Just say thanks is for those little things that really count, with no limit on the number colleagues can award

We regularly reward our top recognising and recognised colleagues across the business, acknowledging over 200 colleagues per quarter as ‘Shine superheroes’.

Since launching Shine in June 2014, recognition has become part of the Shop Direct DNA with more than 500,000 recognitions made by colleagues. In that time, our recognition approach and platform has become widely recognised as industry leading and has won and been shortlisted for several awards.

WORLD CLASS TALENT

Shop Direct supports colleagues to be the best they can be through Talent Online – our digital home for talent – which includes acquisition, development and maximising performance. Colleagues across the business can now digitally manage their performance goals and reviews, access personalised development and view relevant job opportunities.

During 2015, we focused on improving our digital capabilities and skills, introduced an IT apprenticeship programme and internships in our eCommerce and fashion teams, and began to build closer links with universities and local schools.

LEGISLATION AND GOVERNANCE

Being mindful of the new National Living Wage legislation, we reviewed our current pay ranges and implemented our obligations early. This benefitted 64 colleagues aged up to 25.

In addition, we introduced a pension governance forum to educate colleagues and issued our first pensions newsletter.

We also set up a Remuneration Committee (RemCo) for our regulated financial services business. RemCo is independently chaired and aims to ensure we adopt FCA best practice.

This year, we also further expanded our flexible benefits offer, providing more choice, and widened the scheme to include more colleagues.



WORLD CLASS ENGAGEMENT

At Shop Direct, we believe that happy people = happy customers = happy shareholders. We prioritise this to such an extent that colleague engagement is one of our key strategic KPIs, measured twice a year through an annual engagement survey and temperature check. Our engagement score for 2015 was 84% – truly world class and within the upper quartile of companies globally.

PLANS FOR 2016

To keep up the pace as we move closer to world class, we’ll be focusing our energy in five key areas during 2016:

Digital workplace: interventions across technology, workplace and ways of working will bring together a world class mindset with our values and retail expertise

Increased productivity: we will continue to create and sustain a productive and efficient organisation, through process improvement, technological change and sourcing

Talent and leadership: we will focus our abilities to nurture, hire and develop talent in a way that challenges and inspires; our Talent Online services will be extended to our overseas colleagues and we will be introducing succession and career paths online

Celebration: we will remain led by our values, empower colleagues and celebrate success, including rolling out Shine to our offices in Ireland and Asia

Customer closeness: we will enable our people to get closer to our customer, empowering them to make decisions to serve her better

BODY IMAGE

POLICIES

Shop Direct has a number of policies surrounding body image and model booking to ensure we produce positive content relevant to our customer:

- All adult models must be a minimum of 18 years old (target age pitch 30 years)
- We only use models that are a minimum of a female UK size 8 through to a size 16
- We actively exclude models that appear underweight
- All ethnicities and nationalities are desirable to represent the diversity of our customer base
- All child models must appear within healthy body weight parameters, in line with age-related expectations
- All models are booked through established agencies to ensure any required visas and licences are in place
- We ensure that model agencies are informed of any body shape concerns we may have; in such cases, the model will not be booked again until an assessment is complete

PARTNERSHIPS

We work with a variety of external model agencies, all of which must adhere to our policies. Shop Direct retains control of all images used on our sites.

SUMMARY

In 2015, we increased the ethnic diversity within our signed off model board from 5% to over 30%.

In addition, we actively increased female adult model minimum age range requirements to reflect the age of our target customer (no younger than 18 but should look at least 25 and ideally 30).

We also commissioned a research project to understand consumer preferences towards model age, racial mix and body shape, in order to help us create more inclusive brand imagery.

THROUGH OUR BRANDED LIFESTYLE CONTENT WE:

- Actively looked to encourage a healthy lifestyle based around proven medical recommendations of exercise and consumption of healthy foods; for example, we do not encourage purchase of meal replacement programmes or extreme diets
- Do not comment on celebrity weight gain or weight loss and only comment positively on lifestyle/celebrity-related articles

- Never comment or endorse cosmetic surgery in any content we produce
- Always produce positive editorial content around physical or mental disability where relevant

PLANS FOR 2016

During 2016, we will maintain our existing level of ethnic diversity across our model board. Following this year's customer research recommendations, we also plan to review our brand imagery and model pitch to reflect the results. Specifically, we will be looking to promote inclusivity by including models who are more mature and who have more achievable and healthy body shapes.



POLICIES

Shop Direct supports an annual charity based on a business-wide colleague vote. Our colleagues choose from three options to support a digitally-focused project that will deliver maximum impact in the communities we live and work via a variety of colleague fundraising activities. The following policies underpin our approach:

- Shop Direct match funds colleague fundraising of up to £200 per activity via our online portal, Helping Hand
- We also raise funds for charity through a biennial themed ball
- We donate all of our sample clothing to our chosen charity partner, which they sell to raise funds to support their cause
- We do not support any charities with political or religious links

PARTNERSHIPS

In 2015, our people chose as our charitable project of the year the creation of a ground-breaking new app for Alder Hey Children's Hospital, which will enable the hospital to communicate with patients and their families in a way they understand. We also joined Alder Hey's innovation board and are providing significant pro bono technical support to develop the app.

SUMMARY

In 2015, we rebooted our charity strategy to focus all of our fundraising efforts behind one key charitable project – a project that is in line with our purpose and enables us to bring our digital expertise to bear for the benefit our local communities.

FUNDS RAISED

Following the change in strategy launched in October 2015, our colleagues set the target to raise £200,000 within 12 months to build a digital app for Liverpool-based children's hospital, Alder Hey.

CORPORATE SUPPORT

Colleagues can fundraise towards our chosen charity and project or a charity of their choice. Shop Direct will boost any funds raised via our digital matched funding portal, Helping Hand.

Our colleagues can also choose to donate to good causes via payroll giving. We received a Gold Standard award as recognition of our commitment in the area.

GOING DIGITAL

In addition, we built a digital charity hub to support all colleagues to maximise their fundraising efforts:

- Matched funding portal, Helping Hand, and payroll giving are now available online with an approval time of two weeks
- Branded Just Giving fundraising portals are available that link directly to matched funding
- The digital portal links to our internal recognition scheme and enables more structured reporting on progress

PLANS FOR 2016

By October 2016, we hope to reach our £200k fundraising target for the Alder Hey app. We will then ask our colleagues to select our 2016/17 charitable project via an all-company vote,

from three projects approved by our senior stakeholders.

We will boost the amount we are able to donate to our chosen charity by hosting our biennial ball in December 2016.



ENVIRONMENT AND RECYCLING

POLICIES

- Shop Direct is a zero waste to landfill retailer
- We constantly review the wellbeing of our colleagues and look for ways to encourage a healthier workforce through a wellbeing approach
- We complete internal health and safety audits on a regular basis and comply with all relevant legislation
- We promote public transport and car share schemes to all of our colleagues

PARTNERSHIPS

We are proud to hold the Carbon Trust accreditation and to continue our successful 'cycle scheme' partnership with Bike2Work.

SUMMARY

We are a zero waste to landfill retailer with Carbon Trust accreditation and, in 2015, we made substantial further progress on our journey to environmental best practice. We also increased our focus on wellbeing for the benefit of all of our colleagues.

WELLBEING

During 2015, our focus on employee wellbeing continued to grow. To boost our colleagues' access to health services, we offered flu jabs to all employees, with an 11% uptake. We also continued to provide Fairtrade chocolate and juices, Rainforest Alliance tea and coffee, Marine

Stewardship Council fish, and Red Tractor produce in our catering facilities.

We also continued to provide pool bikes to colleagues at head office, enabling them to exercise during lunchtimes and breaks whilst continuing to encourage their use for travel to and from work.

WASTE

In addition to being a zero waste to landfill retailer, we ceased production of all full-sized catalogues in 2015, and are now a 100% pureplay digital retailer. This helped us to substantially reduce paper waste and production, which in turn enabled us to reinvest in improving the online journey and enhancing self-service options for customers on our websites.

We also continued to increase recycling at all sites by using awareness campaigns and working closely with our waste provider.

TRAVEL

We continue to act as a responsible corporate citizen, providing information to colleagues on various 'travel to work' options.

In 2015, we further promoted the use of public transport and car sharing through our bespoke online tool, Travel & Share, and launched this initiative to colleagues in our main fulfilment site in North Manchester. We now have 230 car pools set up across the business.

Our successful Bike2Work scheme continued to be offered to colleagues with a total of 185

colleagues taking advantage of the scheme since it was introduced. Our total Bike2Work spend to date is £127,371.

In addition, our total business mileage dropped significantly, supported by the ongoing use of video conferencing systems across all locations:

- Air mileage reduced by 191,000 miles
- Rail mileage reduced by 50,000 miles
- Road mileage reduced by 163,000 miles

PLANS FOR 2016

We will develop our wellbeing strategy under the banner 'wellbeing@shopdirect', with five key focus areas:

- Workplace
- Work/life balance
- General health
- Healthy eating
- Fitness

We will introduce wellbeing classes, personal training sessions and advice sessions within a dedicated wellbeing zone in our head office.



We will develop a group-wide approach to focus on those wellbeing issues that are most important to our colleagues, drawing on feedback from a recent survey.

We aim to further develop nutritional information for our catering outlets, with full Guideline Daily Amounts on our cold food range, signposting healthier options, holding health awareness events and introducing a 'healthy me' app.

ANTI-CORRUPTION

POLICIES

Shop Direct has a zero tolerance approach to corruption, underpinned by a number of key policies and processes:

- Any gifts, hospitality and entertaining must be formally approved in advance and must be appropriate, proportionate and not have the ability to unduly influence
- Any potential conflicts of interest must be declared and registered and potential mitigating action considered by the appropriate director
- A confidential whistleblowing line is in operation by a third party, with any reported incidents being investigated independently
- All new suppliers receive Shop Direct's code of conduct and a statement of our zero tolerance approach to bribery and corruption; existing suppliers also receive reinforcement communications periodically
- We review bribery and corruption risks on an annual basis and factor these into our audit planning process
- All employees are trained annually on the above key policies, including a knowledge check

SUMMARY

We work against corruption in all its forms, including extortion and bribery.

During 2015, we conducted our annual refresher training on key policies. This was run, for the first time, on our online learning system and had very high levels of participation and engagement.

All our internal policies continued to be regularly reviewed as part of our ongoing assurance activity, whilst our 'gifts and hospitality' and 'conflicts of interest' policies were re-communicated to all relevant colleagues across the business.

The bribery and corruption risk assessment was updated and used as a key input into the internal audit planning process, where specific fraud risks are considered in every audit.

PLANS FOR 2016

All Shop Direct's updated policies are in the process of being translated, communicated and rolled out to our colleagues in our Asia sourcing operation. We also plan to update and refresh all of our online training modules for all colleagues to access via our online portal.

We will evaluate the use of enhanced technology to monitor potential bribery and corruption risks.

A working group will continue to meet on a quarterly basis to consider bribery and corruption (and wider fraud) risks and controls. All of this information will be shared with the internal CSR board for additional knowledge share and cross-business understanding.



POLICIES

- Customer notice: we inform our customers about which of their data is being collected and the purpose of collecting it
- Customer access: we are establishing transparency by enabling customers to view the information held about them, ensuring accuracy and relevancy
- Customer data security: we ensure that our customers' data is appropriately protected from unauthorised access, distribution, loss or corruption
- Enforcement: we hold our colleagues accountable for complying with our internal policies that define acceptable behaviour

PARTNERSHIPS

We believe that solid data privacy and information security programmes are essential components of a world class digital retailer. We are committed to protecting customer information, personal data and information assets.

Our data privacy and information security programmes and practices are focused on processing information appropriately and lawfully (in accordance with regulatory requirements), while providing confidentiality, integrity and availability.

We have several external partnerships that we draw on to bolster our security. These include regional crime units, the City of London Police and CERT UK (the Computer Emergency Response Team for UK Government).

SUMMARY

We implement and use technology in an appropriate manner to protect customer and confidential data. To help our colleagues understand the importance of privacy and data security, each individual must complete our online training module on protecting customer data, information security and the Data Protection Act.

Our data security programme delivered several enhancements in 2015, continuing to improve our ability to prevent, detect and respond to security incidents in the ever-changing threat landscape that is contextualised to our business.

PLANS FOR 2016

We are continuing to increase our investment in strengthening our information security programme to detect, protect against and respond to information security incidents, regardless of their origin. Our programme balances investments in technology, processes, training and awareness to reduce the likelihood and impact of security incidents.



FINANCIAL SERVICES

POLICIES

- Shop Direct monitors customers' financial wellbeing every month, both in terms of account performance and using external bureaux data in every credit decision
- Credit decisions are assessed through highly predictive automated scoring, which provides consistency and robustness of decision making
- As a responsible lender, Shop Direct refuses credit where we feel it is unaffordable for customers to sustain
- We use a wide range of controls/tools to protect our customers and ourselves from fraud

PARTNERSHIPS

Shop Direct Financial Services is the sole provider of credit facilities to support our retail offering. This enables customers to finance their purchases using easy to understand credit products. In addition, we partner with other responsible lenders to offer personal loan and credit card facilities to customers.

All credit facilities are provided in line with the Consumer Credit Directive 2010 and we comply with regulatory guidance and industry codes and practices, such as the Finance and Leasing Association Lending Code. We are authorised and regulated by the Financial Conduct Authority.

We work closely with free debt advice charities, such as StepChange, as well as calling on expertise from leading charity Samaritans, to ensure customers have the most appropriate available options for support.

SUMMARY

We are proud of the range of financial services products we offer and the role we play in our customers' lives. We have a variety of policies in place to ensure we bring good products within reach of our customers in a responsible way.

TRANSPARENT FINANCIAL SERVICES

We take a proactive approach to assessing the financial wellbeing of our customers:

- We accept only around 30% of new credit applications
- We decline nearly 12% of existing customer order requests for extending credit due to concerns over affordability or fraud

There are times when our customers experience financial difficulty for a variety of reasons.

While the vast majority of customers are able to resolve any difficulties, we sometimes have to increase the level of support we give. At such times, our colleagues work with customers to find appropriate solutions, including referring them for independent debt advice when required.

COMBATTING FRAUD

We continued to invest heavily in measures to prevent and detect criminal activity and lessen the effects this can have upon our customers and

wider society. In addition to the fraud protection measures we have undertaken internally, we also continue to educate our customers on fraud threats, such as phishing scams on the internet and the need to protect their personal data.

For customers who have experienced fraud, we ensure, through our dedicated identity theft team, that they are given the right advice and support.

PLANS FOR 2016

Throughout 2016, we will continue to test and develop additional tools to help us further understand and monitor our customers' affordability. We are enhancing our system capability to use a wider range of information to better understand our customers' behaviour and be able to personalise our account decisions.

We will continue to monitor customers' financial wellbeing every month, both in terms of account performance and using external bureaux data in every credit decision.

In addition, all our credit decisions will continue to be assessed through highly predictive automated scoring, which provides consistency and robustness of decision making.



IN SUMMARY



In this annual Communication on Progress, we describe our actions to continually improve the integration of the Global Compact and its principles into our business strategy, culture and daily operations.

Our newly reinvigorated CSR board will continue to drive CSR activities across Shop Direct and ensure we hold ourselves accountable for meeting our commitments.

I look forward to reporting on our progress next year.



A handwritten signature in black ink that reads "Alex".

Alex Baldock
Group chief executive