

SHOP
DIRECT



COP REPORT
2016



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–CEO COMMITMENT–

2016 was another year of strong progress for us at Shop Direct.

Our 2015/16 financial year, which ended in June, was our fourth consecutive year of record sales and profits. We were particularly pleased with our strong trading performance, as well as the important steps forward we took on our journey to world class.

Since joining in January 2004, we have continued 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 further developed our relationships with the ETI, Bangladesh Accord on Fire and Building Safety and SEDEX during the year, as well as becoming a member of a new, UK-focused collaborative initiative called Fast Forward. We also published our first statement on modern slavery at the end of 2016, and raised £250,000 to

support our local children's hospital – something we're very proud of as a team.

We also maintained momentum within our CSR board of senior internal stakeholders, including adding several new members of our leadership team, and invested further in responsible sourcing by increasing headcount and expertise in our specialist team.

We have numerous initiatives underway that will drive us closer to world class and we look forward to updating on those in 2018. In the meantime, this report provides an overview of key activities undertaken across the business during 2016.

We hope you enjoy it and find it useful.

Alex Baldock
Group chief executive

–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.



Network UK
WE SUPPORT

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

After a year in which we have made progress and reviewed our internal processes, we're looking at setting more targeted KPIs going forward.



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.

–THE CSR BOARD–



Matt Dixon
Group product director,
CSR board chair



Andy Connelly
Head of consumer affairs



Andy Wolfe
Chief information officer



John Pears
Credit risk & operations
director



Geoff Scully
Head of Littlewoods Ireland



Peter Johnson
Head of internal audit



Zoe Matthews
Fashion director



Kenyatte Nelson
Marketing director



Liam Fu
Head of information
security



Richard Thomas
Global sourcing director



Colin Watt
Director of employee
relations, engagement &
people services



Rob Hardman
Commercial director



Steve Yates
Head of group property,
facilities and security



Lauren Young
Head of external
communications

–LABOUR, HUMAN RIGHTS AND SOURCING–

POLICIES

Shop Direct maintains rigorous policies on labour, human rights and sourcing:

- We abide by a responsible sourcing code of conduct based on the UK Ethical Trading Initiative (ETI) Base Code, which is regularly updated to ensure we stay in line with regulatory updates and industry best practice
- All suppliers must sign our terms of purchase agreement prior to doing business and, by doing so, they agree to the terms set out in the Shop Direct code of conduct
- We check every first tier factory manufacturing our own brand product for compliance with the Shop Direct code of conduct prior to contract and we assign them a grade (white, green, orange, red and double red)
- We mandate that the following issues are critical: forced or bonded labour, dangerous working conditions, access denied to property and/or documents, bribery and corruption
- New suppliers with a factory or factories that are found to have any of these issues prior to set up receive a window of opportunity to improve in line with ETI best practice and supported by our in-country teams
- Should we find any of these issues at an existing Shop Direct factory, then we work with them to develop a suitable corrective action plan that ensures a sustainable solution is implemented
- We maintain industry standard product sourcing policies on cotton sourcing, diamond sourcing, timber sourcing and design ethics
- We maintain industry standard no fur and no angora policies and rigid guidelines on the use of skins, based on best practice

PARTNERSHIPS

In late 2016, Shop Direct became a member of Fast Forward, a UK-focused manufacturing compliance initiative that we believe greatly complements our other, more global responsible sourcing memberships (ETI, SEDEX and the Bangladesh Accord).

SUMMARY OF PROGRESS AND MEASUREMENT OF OUTCOMES

Throughout 2016, we actively demonstrated increased commitment to the ten Global Compact principles via the recruitment of additional responsible sourcing

resource, strengthening our team of experts. We also increased our levels of transparency, improved factory compliance, collaborative partnerships, peer group co-operation and project activity on all fronts and across multiple product sectors. Notably, we completed a strategic shift from the use of traditional in-house systems to the SEDEX platform and the acceptance of independent third party factory audits. This will enable us to put much more emphasis on remediation and corrective action plan improvement in future.

1. HUMAN RIGHTS

We developed our responsible sourcing due diligence approach, further embedding this in our gatekeeper process and product sourcing critical path. We now insist that all factories producing Shop Direct's own brand product must be SEDEX-registered and have an appropriate ethical audit in place. Our team then reviews and grades the audit, thereby ensuring that any abuses of human rights are known to us and are worked on in partnership with the supplier and factory to ensure effective remediation. We do not source from countries with international trade sanctions or embargoes, and actively monitor the countries that we do source from to ensure we are aware of any changes which may negatively impact people's human rights.

2. FORCED LABOUR & THE MODERN SLAVERY ACT (2015)

The Shop Direct code of conduct, which is signed by all suppliers, states the following:

- There must be no form of forced labour, whether it be involuntary prison labour, indentured labour, bonded labour or otherwise
- No employee should be obliged to work through force, financial pressure, intimidation or any other means
- Workers are not required to lodge deposits or their identity papers with their employer and are free to leave their employment after reasonable notice
- There must not be any form of social pressure, unpaid loans or other restrictions imposed by the employer that would restrict workers' freedom



UK-focused manufacturing compliance initiative

–LABOUR, HUMAN RIGHTS AND SOURCING–

Shop Direct's factory monitoring programme found eight cases of bonded labour in 2016. These were at factories in Malaysia producing furniture. Routine factory compliance audits conducted by independent third parties revealed that some workers' identity documents had been withheld without their full consent. Shop Direct's in-house team worked closely with the factories involved to implement improved HR practices that better respected the human rights of the workers, whilst also providing security for those sponsoring their visa arrangements. These solutions were learned from peer group retailers and other manufacturing companies in the local industry.

In line with the legislative requirement, Shop Direct produced our first modern slavery statement in December 2016 and will issue an updated statement in 2017.

3. CHILD LABOUR

We have recently updated our code of conduct in this area to be better aligned with best practice. The new code focuses on the acceptable employment of young workers, and will ensure that their rights and welfare are protected. The Shop Direct factory monitoring programme found no cases of child labour in 2016.

4. SUPPLY CHAIN MONITORING

Throughout 2016, independent third party audits measuring compliance to local law and the ETI Base Code (on which the Shop Direct code is based), took place at factories manufacturing Shop Direct product in all 30 countries we source from. Issues that were assessed included health and safety, forced labour (including modern slavery and people trafficking), child labour, discrimination, working conditions and employment terms, wages and hours, and the environment. Corrective action plans were developed for the non-compliances found and the Shop Direct team worked with the factories to drive rectification within agreed timelines.



Increased supply chain transparency will remain key during 2017 and we will continue to work with our suppliers to move towards and maintain best practice in this area. This will be possible due to the investments made and subsequent improvements in our systems and processes. Our strategy to increase expertise on the ground in key sourcing locations

will be implemented via specialised recruitment, which will allow better coverage – in particular regarding local projects and partnerships. Shop Direct will issue an updated modern slavery statement in 2017. To support this, we also have plans to roll out further training to Shop Direct colleagues on responsible sourcing and the Modern Slavery Act (2015).

–PEOPLE AND COLLEAGUE CULTURE–

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 these 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 ways of working to ensure we are fit for world class

PARTNERSHIPS

We continue to seek full and open dialogue with our colleagues and their representatives through channels such as people forums, joint working parties, briefing groups and our collective bargaining approach with the USDAW and SATA trade unions.

We keep colleagues updated on corporate and individual business unit objectives, trading performance, economic conditions and other relevant matters. They are also represented on our pension trustee boards.

To further our wellbeing agenda for colleagues, we work with partners, including Baxter Storey, Nuffield Health, AXA and the Retail Trust.

SUMMARY OF PROGRESS AND MEASUREMENT OF OUTCOMES

The success of our recent initiatives was reflected in our world class colleague engagement score of 84% for 2016 – our fifth successive score above 80%, which once again placed us in the top quartile of companies globally. Our progress during the year included:

1. WELLBEING

We dialled up our wellbeing agenda in 2016, helping colleagues to balance a fulfilling career with a lifestyle that is right for them. This included wellbeing roadshows and a calendar of partner events across all of our sites.

In summer 2016, we opened a state-of-the-art, 12,400 sq ft training, conferencing and wellbeing facility.

The Cube, which includes a 250-capacity conference

space, juice bar and exercise area, is the result of the refurbishment of a former studio space at our Liverpool headquarters. It was designed using feedback from Shop Direct colleagues, who said they wanted a new space for thinking, learning and collaboration, as well as recharging their batteries and keeping fit.

We have made a good start in this area with our 2016 engagement score on 'Shop Direct cares about our health and wellbeing' increasing by five points versus 2015.

From a financial perspective, we introduced the National Living Wage six months ahead of schedule in October, including for those under 25.

2. LEARNING

We continued with targeted regulatory learning in 2016, all delivered via our digital learning hub and achieving a 97% completion rate. Our programme of activity has covered anti-bribery, business continuity and manual handling refreshers.

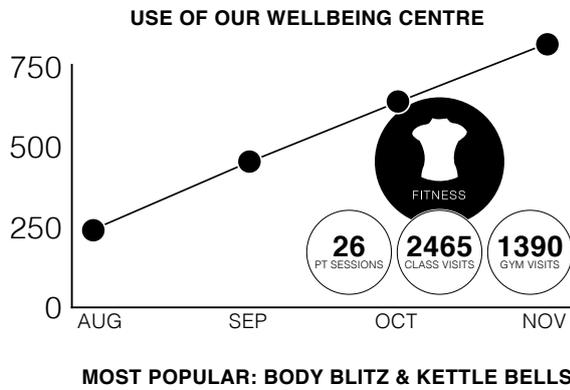
We're also creating a culture of self-led, experiential, peer to peer and social learning where development is realised and recognised in every opportunity, aligned to the business strategy of being mobile first and supporting our digital mindset.

3. DEVELOPMENT

Our career acceleration programme, Stand Out, continued in 2016. We identified 20 high performing, high potential individuals to work on projects that complement our digital transformation. The projects were centred around tech, environment, people and ways of working and will contribute to both our wellbeing and digital ways of working programmes in 2017.

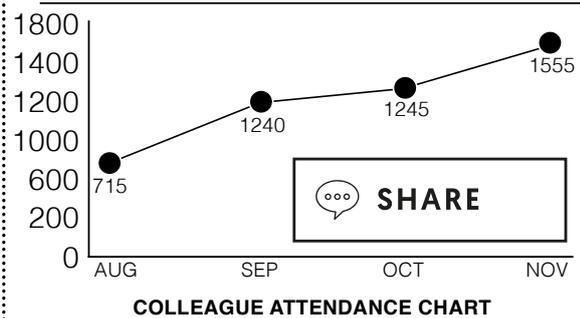
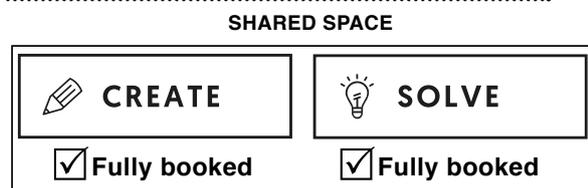
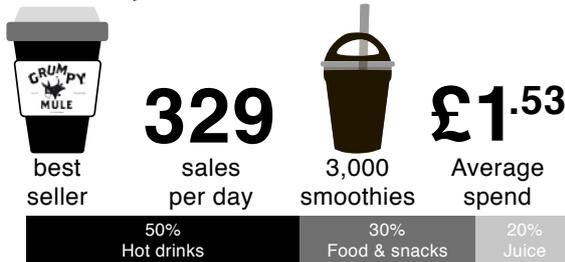


–PEOPLE AND COLLEAGUE CULTURE–



JUICY CUBE

30,000 sales



WELLBEING @SHOP DIRECT

PLANS FOR 2017

As we continue our transformation into a world class digital retailer, our people strategy aims to support that by creating 'a digital place full of purpose and passion'.

We are an equal opportunities employer and recognise that diversity is central to our success. We also recognise that we can always challenge ourselves to do more to ensure that diversity and inclusion are embedded in our culture and in how we hire and retain talent. With that in mind, we are currently working with our colleagues and external experts to develop a new diversity strategy, which we will roll out in 2017/18.

Attracting new talent and building a pipeline for the future continues to be a focus for us. We have plans to work with schools, universities and our leaders in 2017 to maximise the opportunity created by the Apprenticeship Levy.

Fuelled by ideas generated by participants in our career accelerator programme, Stand Out, we are looking at new and innovative ways to increase collaboration, enhance our culture, update our workspaces and improve the tools and technology that our colleagues have available to do their jobs.

We want to empower our people to better serve our customers. We will also open a London hub in summer 2017, which will act as the blueprint for much of this activity.

In October 2017, we will reinforce our commitment to the National Living Wage by again introducing the increased rates six months ahead of schedule, including for those under 25. We're also currently preparing for upcoming increases required by pensions auto enrolment legislation, working with benefit providers who specialise in this area.

–BODY IMAGE–

POLICIES

Shop Direct adheres to a body image policy which includes the following requirements to ensure we produce positive content for our customers:

- All adult models to be a minimum of 18 years old and models should look between 25 - 30 years when styled
- We only use models that are a minimum female UK size 8 minimum through to curve models up to a size 18
- Female height generally 5.8 to 5.9, male height generally 6.0 to 6.3
- All ethnicities and nationalities desirable to represent the diversity of our customer base
- All child models should appear within healthy body weight parameters in line with age related expectations
- All models booked through established agencies to ensure any required visas and licences are in place
- Thorough casting process in place with regular studio castings held to enable face-to-face model reviews and latest digital images and video footage used to assess model suitability

PARTNERSHIPS

We work with a number of external model agencies, all of which must adhere to our policy. 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 a new assessment (casting or digital imagery) is complete.

SUMMARY OF PROGRESS AND MEASUREMENT OF OUTCOMES

In 2016 we maintained the strict standards of our body image policy. We also implemented research learnings that

reflected consumer preferences towards model age, racial mix and body shape to create more inclusive brand appeal across gallery and aspirational imagery.

We promoted brand diversity and inclusivity by increasing ethnic diversity within our signed off model pack from 5% (2015) to 30% (2016) and choosing a mixed race model to front our 'Do More' advertising in both summer and autumn 2017 campaigns. We sought out more shape diversity in our models including the use of more athletic shapes within our branded content and included a greater proportion of curvier celebrities within editorial content. To promote brand inclusivity we also used standard, petite and plus ranges within brand content rather than segregating by body shape.

Through our branded lifestyle content we actively encourage a healthy lifestyle based around medical recommendations of exercise and consumption of healthy foods and only comment positively on lifestyle and celebrity related articles. We always produce inclusive, positive editorial content around physical or mental disability.



30%

Ethnic diversity within our model pack

PLANS
FOR 2017

Alongside maintaining our standards on body imagery, we also plan to increase the level of ethnic diversity to 50% across our model board. In line with customer research recommendations, we plan to constantly review brand imagery and model pitch. Specifically we will look to promote inclusivity by including models who have more achievable, realistic healthy body shapes and consider the use of models with disability if the story lends itself to this use.

-CHARITY-

POLICIES

Giving something back to the places where we live and work is important to Shop Direct. We continue to play a positive role in our local communities through our charity programme.

We support 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 our local communities. The support is delivered through a variety of colleague fundraising activities as well as skill sharing. 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 our chosen charity partner 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 offer payroll giving to enable colleagues to donate directly to their chosen charities
- We do not support any charities with political or religious links

PARTNERSHIPS

In October 2016, we completed our year-long partnership with Alder Hey Children's Hospital. Our 4,700 colleagues then voted for the next annual charity partnership and chose to support Merseyside-based Claire House Children's Hospice.

Charities Trust operates our Helping Hand matched giving scheme and administers our payroll giving scheme.

SUMMARY OF PROGRESS AND MEASUREMENT OF OUTCOMES

We set an ambitious target of raising £200,000 to help fund

the development of a digital app for Alder Hey Children's Hospital, to enable families to familiarise themselves with the hospital before they arrive and to distract young patients while they are being treated. Members of our multi-award winning ecommerce team worked with Alder Hey's innovation team to develop the app – the first of its kind in the country – providing expert insight and advice on design, development and personalisation. In total, we raised £250,000 for this project and our partnership went on to be recognised as the Most Innovative Collaboration at the North West Coast Research and Innovation Awards.

In October 2016, our colleagues embarked on an ambitious target to raise £400,000 to enable Claire House Children's Hospice to get its new, digitally-equipped Liverpool hospice off the ground. An innovation board was set up between Shop Direct and Claire House to drive the project and share our expertise.

In December 2016, we held our biennial themed charity ball, raising £150,000 towards our fundraising target, through table sales and fundraising activities such as a raffle, silent auction and grand auction.



PLANS FOR 2017

We will continue to support and engage our colleagues across our sites to reach our target of £400,000 for Claire House Children's Hospice by October 2017. This will be supported by our commitment to our shared innovation board to ensure we digitally equip Claire House's new hospice in Liverpool to create a future-proof, state-of-the-art facility that will benefit hundreds of North West children and families.

In October 2017, we will then ask colleagues to vote for our next charitable project.



Raised at our charity ball

–ENVIRONMENT AND RECYCLING–

POLICIES

Shop Direct commits to strive to reduce our impact on the planet. Our policies comprise:

- Zero to landfill
- Aiming to improve our recycling on site to ensure we act responsibly
- Carrying out random DNA analysis on our waste streams to ensure behaviours have not changed and we are focusing on the right objectives
- We are responsible and efficient in our energy consumption and commit to a year-on-year reduction in utility consumption
- Our travel policy ensures all Shop Direct travel is booked in a responsible and safe manner

PARTNERSHIPS

Shop Direct partners with Veolia, the UK leader in environmental solutions. We are in the early stages of this new partnership and look to continually innovate and make recycling easy and convenient.

We also partner with Statesman Travel to deliver safe, reliable, cost-effective and responsible travel behaviour. Statesman now have colleagues in our head office in Liverpool to bring a more personal, innovative and responsive service.

We partner with Scottish Power and SSE for electricity supply and British Gas for gas supply. Engie Facilities Management are our current partner for mechanical and electrical services, ensuring optimum energy efficiency, and STC Energy provide Energy Savings Opportunity Scheme, CRC Energy Efficiency Scheme and web portal services.

SUMMARY OF PROGRESS AND MEASUREMENTS OF OUTCOMES

1. WASTE

- Our waste model works by treating waste as a resource and striving to keep our recycle streams hierarchy high, to ensure our zero to landfill commitment:
- Where possible, our ultimate aim is to create a waste stream that can be recycled back to a raw material
- Our waste supplier is a recycling company not a waste collection company – this leads to a more transparent waste process. They have committed to us that we will reduce our carbon footprint by keeping the mileage low in the vehicles that pick up our waste by processing it locally to our different sites

- In 2016, we recycled over 2432 tonnes of cardboard and 479 tonnes of plastic. We recycle 83.32% of our waste on our sites and 16.68 % goes off site to be recycled into waste to energy. We strive to improve our on-site recycling figures by sending only residual amounts of waste to energy production
- We continued with our investment of making recycling convenient for our colleagues with our Nexus 50 and 100 recycling bins across the estate, making it easy for them to make the right choices, placing waste in the correct waste stream. This in turn ensures the hierarchy of our waste is maintained and improves the grade of the recycle materials we produce

We measure through monthly data, quarterly account review meetings and recycling events twice a year.

2. ENERGY

We now have a 'one group, one approach' for all things energy-efficient and best practice in making a difference, and have consistent communication across operational sites of energy consumption.

In 2016, we undertook a number of energy initiatives across various sites, including energy-efficient PCs, new hot water heating systems and revisions in building management systems software. We also reviewed maintenance plans to increase energy efficiencies.

We exceeded our reduction in electricity targets against previous years and have a 100% automatic meter reading across electricity, gas and water, with real-time reporting via our partner STC's web portal. There is also automatic alerting of over-consumption against target and historic consumption.

We also invested in energy efficient AHU equipment as part of our head office events and wellbeing space, The Cube.

We remain certified to the Carbon Trust Standard for Carbon, recognising our best practice approach to managing and reducing greenhouse gas emissions.

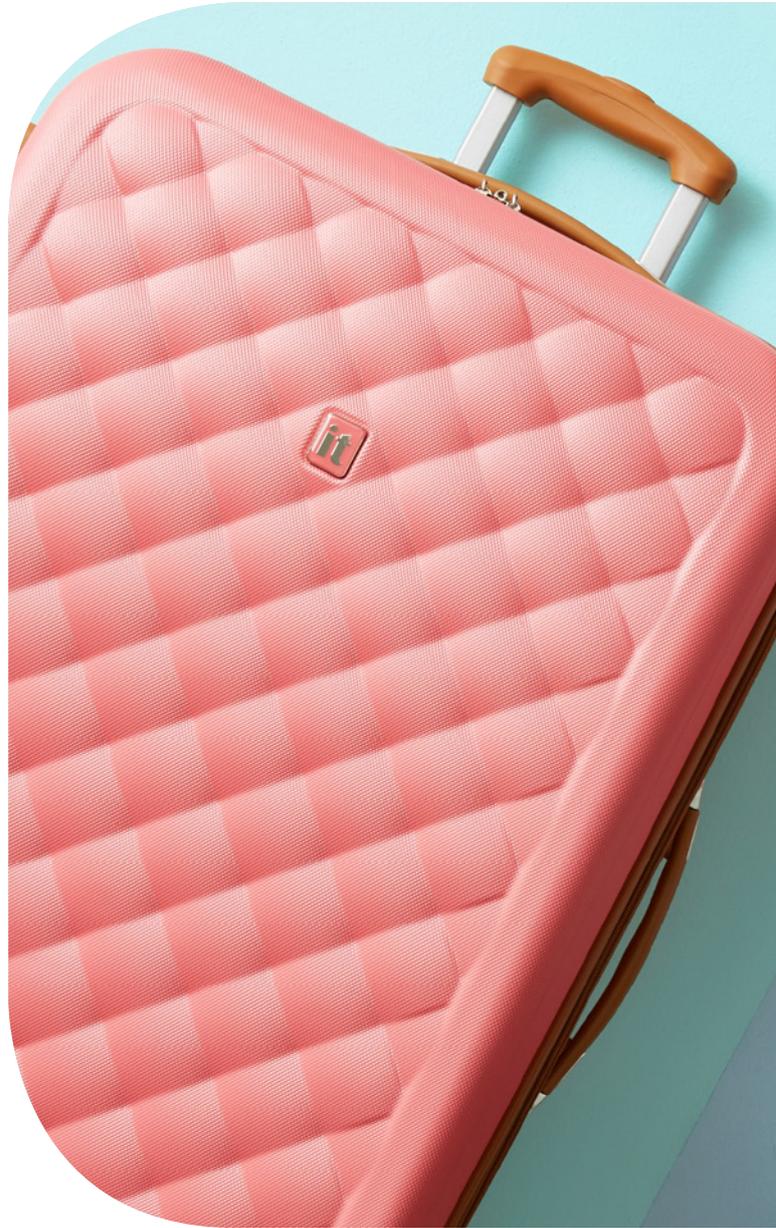


–ENVIRONMENT AND RECYCLING–

3. TRAVEL

During 2016, we developed a more encompassing travel programme, expanding on current services and to link with partners abroad:

- Our travel service is now able to respond more to subtle changes required, as the Statesman team is on-site and therefore more aware of our behaviours and requirements
- We're reducing costs where possible through working with different teams and understanding their travel behaviours
- We have worked to increase online adoption, allowing colleagues to book whenever and from whatever device they want
- We challenged behaviours to reduce our cost and carbon footprint through responsible travel
- We are able to track, monitor and therefore reduce the overall cost of travel
- We promote safe, cost-effective and responsible travel and work together with Statesman to deliver a crisis management team, traveller tracking and duty of care
- Introduced monthly coffee mornings with new starters and key travellers to discuss the service, what we can do better or differently, and to share best practices.



PLANS FOR 2017

In 2017, we will improve the hierarchy of our waste to transfer them into a rebate, and therefore reduce our carbon footprint. We will continue to innovate and improve recycling facilities on-site, which in turn will increase our recycling figures within our sites. We will also work with Veolia to improve and reduce what we send for WTE.

We will continue to keep our travellers safe as well as challenge behaviours and offer more cost-effective travel alternatives. We will continue innovating to make booking travel easy and time effective and to work with our partners to deliver responsible travel behaviours. We will also encourage

responsible travel by using airlines that buy into reducing their footprint, book with agencies that are like-minded and ensure no unnecessary travel.

We will strive to improve our energy efficiency further in 2017 and continue to innovate and enhance our building management systems, ensuring optimum operating hours of all of our plant and equipment. We will work with Engie for energy innovations such as solar, LED lighting and on-site electricity generation opportunities, and focus on water reduction now that the market has been de-regulated.

—ANTI-CORRUPTION—

POLICIES

Shop Direct maintains its zero tolerance approach to corruption, which is underpinned by a number of key policies and processes, including:

- Any gifts, hospitality and entertaining must be formally approved in advance and must be appropriate, proportionate and not have the ability to unduly influence decisions
- 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, which is operated 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
- Bribery and corruption risks are reviewed on an annual basis and are factored into the audit planning process
- All employees are trained annually on the above key policies, including a knowledge check

- Conducting annual colleague refresher training on key policies. The training module was updated this year using a gamification theme, driving increased levels of participation and engagement of 96%
- All internal policies are regularly reviewed as part of our ongoing assurance activity
- Our gifts and hospitality and conflicts of interest policies were re-communicated to all relevant colleagues
- We trialled the use of more sophisticated intelligence sources to support our existing supplier due diligence processes
- A bribery and corruption working group was formed, comprising of key stakeholders across the business. This group now meets on a quarterly basis to ensure appropriate focus is placed on bribery and corruption and related matters across the business
- Bribery and corruption risks are considered in all relevant internal audits

PARTNERSHIPS

We manage our own policies through internal teams and don't work with any external partners for this area.

SUMMARY OF PROGRESS AND MEASUREMENT OF OUTCOMES

Specific areas of focus and development over the period included:



Colleague training participation



- All relevant policies to be reviewed and updated as appropriate
- Online training will be updated and refreshed for all colleagues in November 2017
- We will further evaluate the use of technology to monitor potential bribery and corruption risks
- We will evaluate how additional supplier intelligence sources can be embedded in our supplier due diligence processes
- Our working group will continue to meet on a quarterly basis to consider bribery and corruption risks and controls

–DATA, SECURITY AND PRIVACY–

POLICIES

At Shop Direct, we are committed to preserving the confidentiality, integrity and availability of all customer information from the threat of cyber attack. Our approach to the security of customer information is underpinned by a number of key policies and processes:

- Information and cyber security policy: we ensure that our customers' data is appropriately protected from unauthorised access, distribution, loss or corruption
- Privacy policy: our data privacy programmes and practices are focused on processing information appropriately and lawfully ensuring it is in accordance with regulatory requirements
- Security awareness and education standards: we hold our colleagues accountable for complying with our internal policies that define acceptable behaviour when handling customer data
- Secure configuration: establishing and actively maintaining the secure configuration of information and communications technology (ICT) by having policies and processes in place to develop secure baseline builds

PARTNERSHIPS

We work with leading security organisations to help us deliver a cyber-resilient service for our customers. These partnerships include:

- CESG – the UK government's National Technical Authority for Information Assurance, which advises organisations on how to protect their information and information systems against today's threats
- CERT – the UK's national Computer Emergency Response Team, which manages and prepares for national cyber security incidents
- ISF – the Information Security Forum, which is the world's leading authority on cyber, information security and risk management
- IBM – as a strategic partner, IBM provides enterprise-wide security intelligence and expertise

SUMMARY OF PROGRESS AND MEASUREMENT OF OUTCOMES

As part of our security transformation in 2016, we:

- Commissioned an independent security controls assessment and benchmark report
- Introduced a 'three lines of defence' model to provide a layered approach to cyber risk
- Put in place a strategic education and awareness programme to run for the next three years across Shop Direct

We regularly assess and measure our resilience to cyber threats by benchmarking our environments objectively using the ISF's benchmarking service. This allows us to measure and report upon the effectiveness and value of our security programme and security investments.

We also worked towards independent certifications for our security measures to protect customers' financial and personal information.



PLANS FOR 2017

We will continue to progress with our bold and innovative security strategy in 2017, delivering on the following objectives:

- Continue to mature information security
- Increase our technical capability
- Meet our regulatory and CSR requirements
- Use information security to enable and enhance the business

We're building an approach that will ultimately lead to a cyber essentials certification in 2017/18. Cyber Essentials is a government-backed cyber security certification scheme that sets out a good baseline of cyber

security suitable for our business. The scheme addresses five key controls that, when implemented correctly, can prevent around 80% of cyber attacks. Achieving certification will also help to address other compliance requirements, such as the EU General Data Protection Regulation.

Our technical capability to predict, prevent, detect, respond will also be greatly enhanced with our adoption of machine learning, automation and artificial intelligence techniques in 2017.

–FINANCIAL SERVICES–

POLICIES

- Shop Direct monitors customers' financial wellbeing every month, both in terms of account performance and using external credit bureau 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 and 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

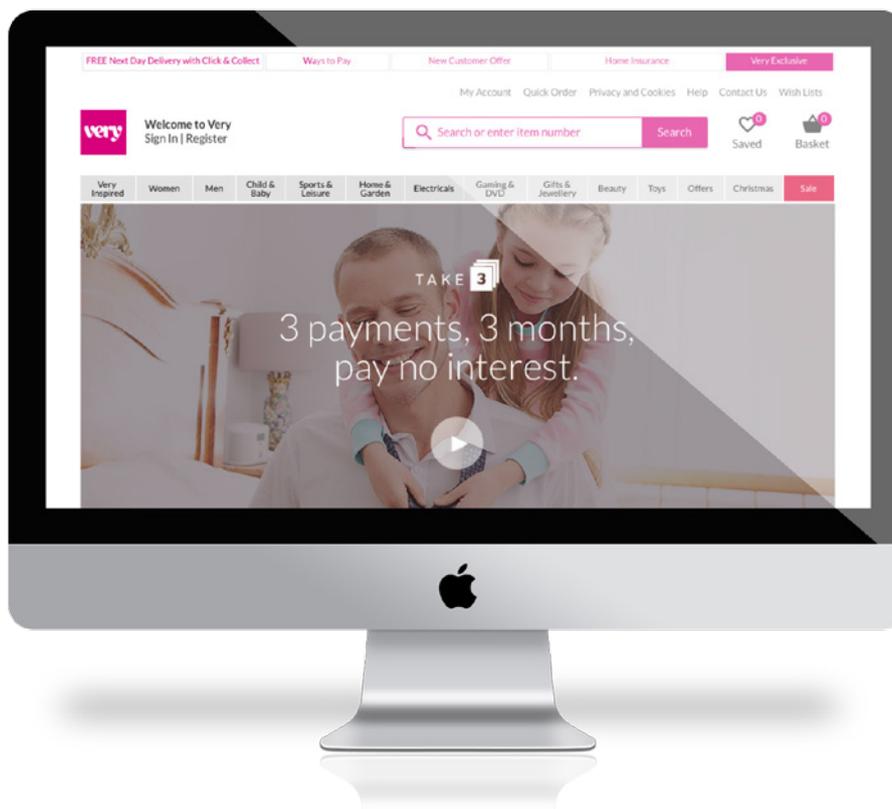
regulatory guidance and industry codes and practices, such as the Finance and Leasing Association Lending Code. We are authorised and regulated by the Financial Conduct Authority.

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 OF PROGRESS AND MEASUREMENT OF OUTCOMES

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.

We have continued to ensure that we achieve the right customer outcomes with our credit decisions, refusing to approve new or further credit where we do not feel it is responsible to do so.



–FINANCIAL SERVICES–

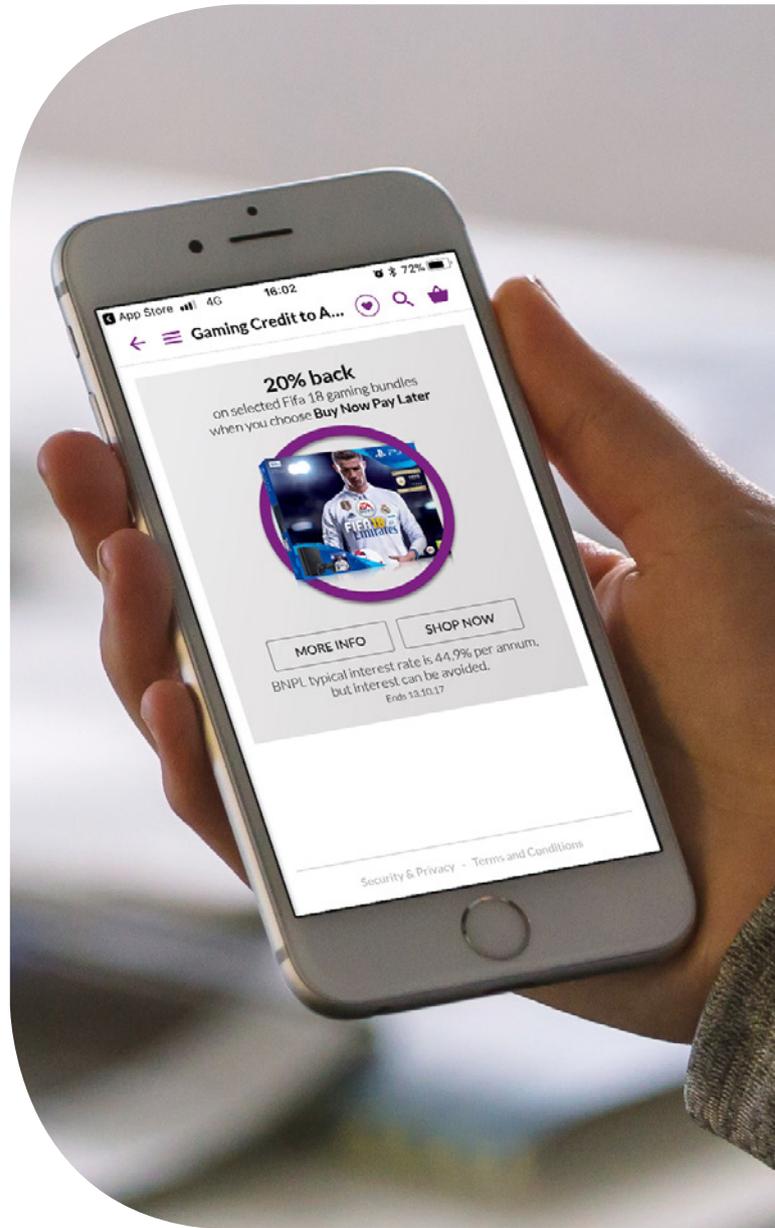
There are also times when our customers experience financial difficulty, for a variety of reasons. Whilst the vast majority of customers are able to resolve any difficulties, we sometimes have to increase the level of support we give. At such times, our colleagues work with customers to find appropriate short or longer-term solutions. If the customer is in broader financial difficulty, we make sure that we refer them for independent debt advice.

We continue 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 undertake internally, we continue to educate our customers on fraud threats, such as phishing scams on the internet and the need to protect their personal data.

We continue to generate improvements in our capability to assess and understand customers' circumstances. We improved our data and decisioning capability once again this year, ensuring we continue to make the best and most responsible possible credit decisions for our customers.

We take a proactive approach to assessing the financial wellbeing of our customers. As an indication of impact in 2016:

- We accepted only around 30% of new credit applications
- We declined nearly 12% of existing customer order requests for extending credit in order to protect them from affordability issues or fraud
- We saw a continued reduction in fraud incurred



PLANS FOR 2017

During 2017, 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 in real time and better personalise our decisions.

We will deliver improved self-serve functionality for our customers to manage the amount of credit that they have with us.

We will further expand our helpful reminders and education to customers to help them keep their accounts on track.

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.

We will also further develop our fraud detection capabilities, while simultaneously increasing our focus on fraud disruption.

–EXTERNAL RECOGNITION–

In 2016, Shop Direct won a total of 32 awards in recognition of our progress towards world class. These included:



Retail Week AWARDS
with ORACLE
WINNER

The OC&C Strategy Consultants Pure Play Etailer of the Year – Shop Direct



NORTHERN E-COMMERCE AWARDS 2016

e-commerce company of the year



Drapers DIGITAL AWARDS 2016

Best digital team – Shop Direct



Retail Systems awards 2016

Retailer of the year – Shop Direct



UK EMPLOYEE EXPERIENCE AWARDS 2016

Employee recognition and reward – Shop Direct's colleague recognition tool, Shine



DIGITAL ENTREPRENEUR AWARDS

Digital Business of the Year



NOA'S PROFESSIONAL AWARDS

Award for Excellence in Procurement



Progressive Preschool Awards 2016

Best Online Retailer of Preschool Products – Very.co.uk



RetailWeek TECH & ECOMM AWARDS 2016 WINNER

IT team of the year



Collections and customer service awards

Charitable Initiative of the Year – Shop Direct (FS)

–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.

Throughout 2017, our CSR board will continue to drive CSR activities across Shop Direct and ensure we hold ourselves accountable for meeting our commitments.

We look forward to reporting on our progress next year.

