

STRATEGIC REPORT

BUSINESS MODEL

NEXT is a UK based multi-channel retailer offering exciting, beautifully designed, excellent quality clothing, footwear, accessories and home products. NEXT is one of the largest clothing and home products retailers in the UK by sales, and a member of the FTSE-100 index. The Group is primarily comprised of:

- NEXT Retail, a chain of more than 500 stores in the UK and Eire.

The majority of our stores sell clothing, footwear, accessories and home products; we also operate over 50 large Home Standalone and department style stores. The predominantly leased store portfolio is actively managed, with openings and closures based on store profitability and cash payback. Around 60% of group sales are from NEXT Retail.

- NEXT Directory, an online and catalogue shopping business with almost 4 million active customers and international websites serving approximately 70 countries.

By embracing the internet, providing exceptional customer service and developing overseas opportunities, over the last ten years NEXT Directory's sales have grown by more than 150% and now represent over one third of group sales.

There are strong synergies between NEXT Retail and NEXT Directory; through efficient stock management and customer service opportunities (such as handling Directory collections and returns in-store) the Group has been able to successfully develop both parts of the business.

- NEXT International Retail, with almost 200 mainly franchised stores around the world.

NEXT's franchise partners operate over 170 stores in 35 countries; there are also a small number of stores which NEXT operates directly. International Retail accounts for around 2% of Group sales.

- NEXT Sourcing, which designs, sources and buys NEXT branded products.

Last year, over 40% of the Group's products were procured or produced by NEXT Sourcing. Further information on the Group's supply chain and NEXT's commitment to ethical trading can be found on page 23.

- Lipsy, which designs and sells Lipsy branded younger women's fashion products.

Lipsy trades from around 50 stores, online, and through wholesale and franchise channels. Lipsy contributes around 2% of Group sales.

Further detail on the performance and development of the Group's businesses can be found in the Chief Executive's Review on pages 3 to 17, which forms part of this Strategic Report along with Key Performance Indicators (page 19), Risks & Uncertainties (page 20), Employees (page 22), Social, Community and Human Rights (page 23) and Environmental Matters (page 24).

Business strategies and objectives

The primary financial objective of the Group is to deliver long term returns to shareholders through a combination of sustainable growth in earnings per share ("EPS") and payment of cash dividends. Underlying EPS increased by 23% from last year. Over the last ten years EPS has increased by almost 300%, and the share price has increased by almost 400%. This long term value has been created through the consistent pursuit of the following strategies:

- Improving and developing NEXT product ranges, success in which is measured by sales performance.
- Profitably increasing retail selling space. New store appraisals must meet demanding financial criteria before the investment is made, and success is measured by achieved profit contribution and return on capital against appraised targets.
- Increasing the number of profitable NEXT Directory customers and their spend, both in the UK and through international online sales.
- Managing gross and net margins through efficient product sourcing, stock management and cost control.
- Maintaining the Group's financial strength through an efficient balance sheet and secure financing structure.
- Generating and returning surplus cash to shareholders by way of share buybacks or, more recently, special dividends. Further information on the criteria we use to determine the method by which surplus cash is returned can be found in the Chief Executive's Review.