

OUR SUPPLIERS

CONTEXT

Why is it important for Next to trade ethically?

Next sources the products it sells from many countries around the world. We recognise the responsibility we have to work closely with our global suppliers, and are committed to ensuring our products are made in a clean and safe environment, in accordance with all relevant local and national laws and legislation, and by workers who are treated with respect and paid fairly for the work they do.

Our approach

The Next Code of Practice (COP) is our set of ethical trading standards which form an integral part of our business and relates to all products bearing the Next Trade Mark or sold by Next. Our Code applies to every country we source from, including the UK, and has ten key principles which set out the minimum standards we expect our suppliers to comply, with in relation to workers' rights and conditions of work, including working hours, minimum age of employment, health, safety, welfare and environmental impacts.

Our stakeholders want to know that the products sold by Next have been made by suppliers who show respect for the welfare of their employees and the environment. The Next COP was first launched in 1998 and since then we have continued to dedicate both time and resources to upholding workers' rights and working conditions in the factories that make products for Next. Our COP is aligned to the Ethical Trading Initiative (ETI) Base Code and reflects the most relevant international standards with respect to labour practices (International Labour Organisation Conventions).

Through our ethical trading programme, we have been working for over ten years to raise the standard of working conditions in the factories where our products are made. Establishing long-term partnerships with our suppliers has enabled us to work with them to raise awareness of the benefits of working to achieve the requirements of our Code.

Next joined the ETI in 2002, where we continue to be both an active and committed member by contributing to many of their working groups and projects. Next is represented at Board level, chairs the Homeworkers Group, as well as participating in the Purchasing Practices Group, Wages Project, China Working Group, Decent Work Project, Annual Report Group and the Sri Lanka Working Group.

The ETI is an alliance of companies, non-governmental organisations (NGOs) and trade unions working together collaboratively to promote and improve the implementation of corporate codes of practice which cover supply chain conditions. The ultimate goal of this alliance is to ensure that the working conditions and rights of workers producing for the UK market meet or exceed international labour standards.

Our ethical trading programme has five key elements :

- communicate our ethical standards to suppliers
- promote better work places through our factory monitoring programme
- support our suppliers through a programme of continuous improvement
- build capacity within our international supply chain
- work in collaboration with others to pursue solutions for some of the more complex and systemic problems we cannot solve alone

We continue to believe the best way to maintain the integrity of the COP audits for suppliers who manufacture for Next is to manage the process in-house with its own team of auditors. We have a team of more than 30 auditors based in our key global sourcing locations, whose responsibility it is to work with our suppliers to help them reach the standards set out in our Code.



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What is an Audit?

An audit is the assessment method we use to measure whether factories comply with our COP. A Next auditor attends the supplier's factory to carry out the audit, reviews their employment records, talks to factory managers and interviews workers as well as visually assessing working conditions and health and safety standards. Depending on the size of the factory, and the number of employees, we determine the time required to complete an audit, which typically takes between 1-2 man-days.

Any areas of concern are discussed with the supplier, a corrective action plan with timescales is agreed as well as a date for a follow-up audit. The audit team monitors the supplier's progress and works with the supplier, offering help and support for the implementation and completion of the action plan to bring the factory up to the required standard of operation to comply with our Code.

By using our own team, we believe we are more consistent in our approach and in addition gain a better understanding of the issues at source and some of the underlying reasons for non compliance. Working directly with suppliers and factories on a range of issues, e.g. improving communication between workers and management, helps us to gain their trust. Disengaging with a supplier for con compliance to our Code is an absolute last resort, as our priority and the main purpose of the programme is to ensure that the welfare of workers is improved.

Each audited factory is measured against our COP and is graded according to our six-tier rating system. The supplier is made aware of their rating by our auditor, and what is required to improve their rating through the corrective action plan. We then support suppliers to work towards a programme of continuous improvement to achieve full compliance with our Code.

The six-tier rating system is used to encourage our suppliers to progressively work to, and adopt higher standards over time. It is also used internally by our buying teams as a supplier management tool. If a factory is found to have critical fail points, we will suspend further orders until these have been rectified. The system allows us to more accurately measure our suppliers' performance against our Code and their ongoing progress towards compliance. It gives us the visibility necessary to make strategic sourcing decisions, including where necessary a reduction in business for factories where repeated or persistent non compliances are found. The rating system is also used to focus the COP team's resources where it is most needed. We continue to refine this system to develop the integration of our ethical trading programme into our internal buying practices. We do not audit every factory every year due to the large number of suppliers we work with. Suppliers are prioritised against a number of criteria such as their previous audit rating. Factories with audit ratings furthest away from being compliant with our Code will be revisited more frequently. Follow up audits will also be determined by volume of product supplied, the risk associated with the factory's geographical location and the strategic importance of the products they make.

What else does our COP team do?

We believe the operation of our own COP team offers the benefit of developing a close working relationship with our suppliers as well as a close familiarity and awareness of specific issues that affect the different regions in which we operate.

Our global team is actively working on projects with our suppliers to help build capacity by developing skills and capabilities within the local communities the factories are located. The aim of this is to support compliance to our Code by helping to increase our suppliers' ability to improve working conditions. This includes working in education and training, talking to workers to better understand the issues that affect them, as well as working directly with local NGOs and trade unions.

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Through the ETI we are working in collaboration with both UK and international brands, four umbrella trade union organisations that represent workers throughout the world as well as a number of global charities and campaign organisations such as Oxfam, Anti-Slavery International and CAFOD. The aim of this collaboration is to prioritise the tackling of issues, such as workers receiving a living wage and freedom of association, that drive non compliance within particular countries by building knowledge and understanding within the local communities.

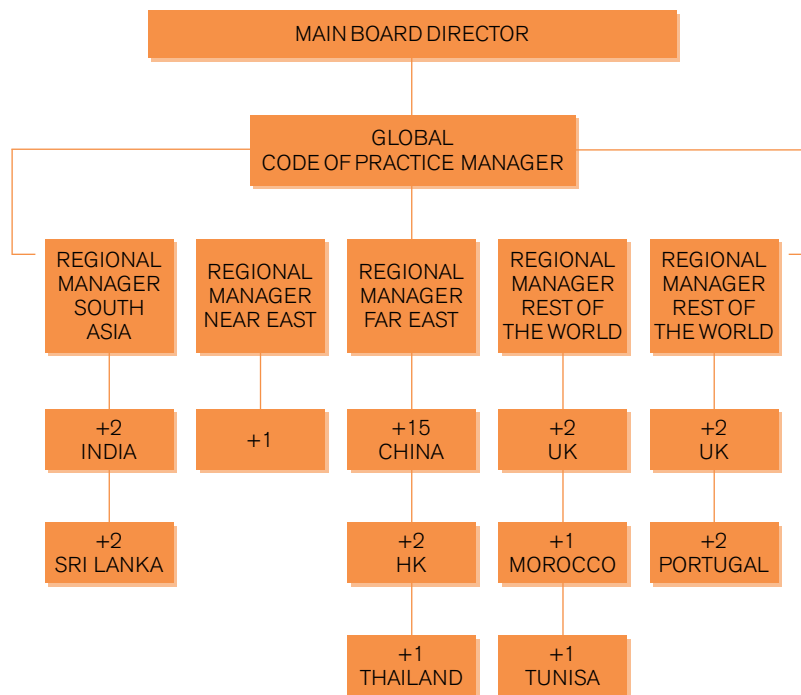
In addition to our work with the ETI, we continue to build our knowledge and understanding of the complex issues surrounding global sourcing. We have also undertaken a series of country specific studies into living wages in our key sourcing countries, for example, productivity initiatives in China with the specific intention of improving workers' wages. We have introduced guidelines for our suppliers in relation to their employment of migrant labour and have implemented these in Mauritius, Egypt and the Middle East. Our capacity building project work has been wide ranging and we are testing approaches to the particular challenges in each of our sourcing regions.

DATA

- The products we sell were produced in 48 countries worldwide
- We worked with 493 suppliers
- We carried out 852 audits in 2008 at suppliers' factories
- During 2008 we disengaged from 7 suppliers for non compliance with our Code
- Increased the global COP team resource to 37

Code of Practice Reporting Structure

The table below shows the reporting structure into the Main Next Board and by country/region



OUR SUPPLIERS...continued

SUCCESSSES

Raising Awareness

Internal communication

Internal communication across the business is vital to how we manage our supply base. Our ethical training programme is an integral part of our Buying School which is attended by all our product teams. Buying School is scheduled into the training calendar on a quarterly basis and all members of our product teams are required to attend. We also work continually with those teams who have day to day responsibility for purchasing decisions, from the divisional director through to the managers and their teams. The aim of this is to develop the skills and capabilities of our product teams, so they are able to understand the role they play in our ethical trading programme and support the improvement of labour standards in our supply chain. This is a continuation of our intensive training programme last year, in which we trained all employees concerned with buying responsibilities (over 500 buyers and merchandisers, and 300 technologists). In addition, we have produced visual training materials, such as short films, to show to the product teams, to continually maintain awareness of the impact that buying decisions can have on suppliers, and to reinforce the product teams' understanding of the role they play in our ethical trading programme.

In 2008, at our Product Training conference, which was attended by over 800 store managers, we gave a presentation about our global ethical trading programme to both raise awareness and provide information for the managers to take back to their own stores, pass on to their teams and, in turn, be better equipped to answer customer queries.

Supplier Communication

Following on from the success of our supplier conferences during 2007, we have continued to focus on communication with our suppliers. Through many of the initiatives and projects we have undertaken during 2008, e.g. living wages and overtime reduction studies, managed both internally and through the ETI, we have begun to engage with our suppliers on a wide range of issues, such as reviewing our buying practices to understand what our suppliers need from Next to enable them to meet the requirements of our Code.

We are working collaboratively with our suppliers to support them in making their own systems e.g. management, HR and production systems, more efficient, to help them realise long term and lasting improvements to the running of their businesses. We have held meetings with individual suppliers and facilitated meetings with supplier groups, to gain their valuable input into how we should look to manage a long term and sustainable implementation of our ethical trading standards going forward. Working with suppliers in this way offers them the opportunity to meet and discuss challenges they are facing, and learn from the experience of others, to recognise valuable opportunities for themselves and their organisations.

Toolkit for Suppliers

We have continued to work on our supplier toolkit during 2008, and it is now at consultation stage with one of our key suppliers. This innovative new resource has been tailored to provide the important foundation level of information and learning, for our suppliers to be able to make ethical trade a priority for their business, and in the long term realise the business benefits of doing so. The toolkit will include practical guidance, using real life examples, of how other suppliers have benefited, why the issues were important to them and why it mattered to them and their workers, covering topics such as productivity, good quality and absenteeism. It will also include a section on how important their workers are to their business and why it is essential to develop and maintain good worker communication, by stressing the importance of a strong and open relationship with workers as being beneficial for their business. The toolkit will be launched during Autumn 2009, initially in English, but we plan to translate it into other key languages to help ensure it is a really useful tool.

OUR SUPPLIERS...continued

Worker Focus

To be able to manage ethical trade and work to ensure long term and sustainable changes going forward, it is crucially important that the workers are aware of their employment rights and have robust channels by which they can communicate with their employers. We understand that workers' views of their workplace and the environment around them are vital to getting to the real causes of employment issues. As part of our project work in listening to workers' voices, we are working with an international NGO to build and strengthen worker interview skills for our audit team. This will enable us to identify more sensitive issues which maybe not be highlighted in the audit process e.g. discrimination, or freedom of association. As part of this initiative we are also looking for opportunities to work with local stakeholders in specific countries to support the work we are undertaking on worker interviews.

In addition, another key element we are introducing is Participatory Approaches, which is a method that encourages workers to share information and work together to solve common problems. This method allows the workers to be able to exert more influence on how to solve the issues they raise. It is an effective technique used to generate discussion with workers and enable them to feel comfortable in talking about their experiences, and lives.

COP Team Training and Support

As we carry out all our own audits, the integrity and professionalism of our team is of paramount importance. There is an on-going programme to ensure each of our auditors undertakes Lead Auditor training to ISO 9001:2000. Over 90% of our current COP team have completed the training. We have also developed an internal training programme, covering the key skills needed to ensure we are able to identify and provide information and support on those issues such as freedom of association and worker interviewing techniques. These are assessed, revised and improved on a continual basis and during 2009 we will be adding some additional training modules.

Our regional COP teams manage and facilitate forum meetings between suppliers in both Shanghai and New Delhi. The aim of the forum is for the suppliers to identify, discuss and share in the exchange of ideas and best practice initiatives, to help improve or resolve issues they may all be experiencing. The forums have covered a wide range of subjects relating to the challenges our suppliers face in meeting the requirements of our Code, including subjects such as how to increase the awareness amongst workers about health and safety to sharing learning on workers needs and living costs. The value of these initiatives is in giving our suppliers the opportunity to share best practice with their peers.

Our internal supplier database is now established and is providing improved visibility and reporting options to be used internally with our Product teams. The web based system is a valuable tool, as it provides efficient access to supplier/ factory details, their audit history and rating, as well as when their next audit is due. The new system is enabling us to conduct a more sophisticated analysis of our auditing results to allow the team to track trends and deploy the appropriate resources to investigate particular issues.

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Collaboration

We recognise some regions we source from have complex and systemic problems, that we would be unable to resolve by ourselves, and have first hand experience of the benefits of working with other organisations to understand these issues. We firmly believe that working with others to build partnerships plays an important part in ensuring we make real progress with our Ethical Trading programme. We have joined forces with other retailers, NGOs and trade unions both in the UK and overseas, and this has helped us identify and pursue long term, realistic and sustainable solutions for some of these complex issues. This approach has strengthened our impact in dealing with some labour issues which would have proved difficult for us to tackle by ourselves.

Our collaboration with others takes many forms, from national level brand working groups, to working on projects that tackle specific issues. Through our membership in multi-stakeholder organisations, such as the ETI, we are participating in a wide range of projects such as the Homeworkers Group that is working to tackle the poor working conditions of homeworkers in supply chains, and the Purchasing Practices Group, that is looking more closely at the impact of the decisions and actions we take, from design to delivery, and how those decisions impact on conditions for the workers in factories.

In 2008 we commissioned independent research into our purchasing practices. The subsequent report identified a number of opportunities to benefit our suppliers and their workers, as well as our own business. We have taken the findings and have begun to build the internal systems and management processes which will allow us to increase the support, information and tools needed by our product teams to manage the buying process in ways that will manage the negative impact on our suppliers' ability to comply with our Code. We believe it is essential to strive in building alliances and partnerships, to tackle problems and identify and promote better ways to implement codes of labour practice in the local context.

Examples of our team's project work

Living Wages

Achieving compliance to the living wage is a major challenge for all retailers, but one to which we remain committed. Throughout 2008 we have continued extensive work on this issue in our key sourcing countries. Our local in-country COP teams have gathered information, working on comparing published living wage figures with minimum wage figures, in relation to the cost of living and against wages levels paid in selected suppliers.

One example of where we have progressed the most, is the project we are involved with in Bangladesh. Working together with another retailer, we have identified a shared factory in Bangladesh where we have undergone an extensive wage study. This has been achieved by analysing product prices versus wages paid, including current wage rates and benefits and after deductions are made, and then comparing these to the cost of living. This is an ongoing project and understanding the impacts of the research we have undertaken will form the next phase of the project.

We have been working to achieve a number of objectives in relation to both living wage and migrant labour in Mauritius. Working with one supplier and one retailer we have, in consultation with workers, introduced in January 2009 a piece rate system with the supplier in Mauritius. Reviews of the first five months of this year have shown that an average worker has seen their earnings improve by at least 38% compared to the same period last year. The supplier has also seen benefits in improved productivity and no impact on the quality of the finished products. We will continue to analyse the outcomes of this system to establish if there are potential opportunities to progress it further with other suppliers.

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Wages and Productivity

Since 2002, Next has engaged with strategic suppliers in China in an ongoing project designed to reduce overtime hours and increase the hourly rate of pay for workers. There are currently 17 factories engaged in this initiative.

The programme with each factory is undertaken in three phases :

- Wages and Productivity Analysis
- Human Resource Management
- Production

From previous work, it was identified that most factories are able to improve their overall productivity by approx 10% with specific training and assistance. If productivity is increased and unexpected work stoppages are resolved more efficiently, workers have reported that their earnings also increase.

To date, the factories engaged with this work have reported they have achieved between 10-20% reduction in the total working hours undertaken, and a 20-30% increase in the hourly wage rates paid to their workers over a 12 month period.

OPPORTUNITIES AND PRIORITIES

1. Promoting Good Workplaces

A major focus for our ethical trading team over the next 2 to 3 years will be to develop an internal factory monitoring system that will replace the current supplier policing approach achieved through auditing. Our objectives are:

- to put responsibility for change into the hands of employers and workers
- to develop robust management systems that will enable good labour practices in workplaces

2. Supplier and Worker Internal Communications

An essential part of a 'good workplace' is the relationship between workers and their management. In 2009 we will develop the tools that will enable these relations and facilitate the internal ownership for compliance to our Code. In 2010 we will run pilots at two of our key suppliers manufacturing sites.

These pilots will:

- Enable workers and management to work together to identify shortfalls in the workplace against labour law, ethical codes and ILO conventions
- Link shortfalls into new robust management systems
- Develop the understanding and ownership of both workers and management of the policies, procedures, rights and responsibilities within a management system
- Embed social compliance standards into the workplace through training at all levels

3. Freedom of Association

One of the ten principles of our Code is to uphold workers rights to freedom of association. In 2009 we will:

- Continue to establish contact and build relationships with local affiliates of the International Textile, Garment and Leather Workers' Federation (ITGLWF) in our key sourcing regions
- Work through the necessary steps in order to achieve our long term objective where workers and management are able to resolve issues together and reach a point where mature industrial relations exist

OUR SUPPLIERS...continued

4. Purchasing Practices

In 2008 we completed the research phase of our purchasing practices work. In 2009 we will take this learning to enhance our buying practices in ways that will minimise their impact on our suppliers' ability to meet the requirements of our Code.

We aim to deliver:

- Greater integration of our purchasing practices with our ethical trading standards and commitments
- A positive impact on the workers in our supply chain whilst enabling our business to remain flexible and competitive
- Through an ongoing programme of regular briefings and training, provide better awareness for all relevant employee groups who are in contact with suppliers

5. NGO Collaboration

Our work in promoting better workplaces is being done in collaboration with an international NGO and Trade Union. In preparation for the pilots we will be running in 2010, we are developing relationships with potential partners and local NGOs in our key sourcing regions, where the aim is to:

- Extend local stakeholder networks to facilitate capacity building activities
- Develop and deliver locally the training models for the better workplace pilots

6. Living Wages

The final phase of our promoting Good Workplaces pilot, will be to develop the worker and management communications mechanisms into a system of mature industrial relations in respect to workers' rights to freedom of association and collective bargaining on working conditions, including wages.

In addition to promoting the better workplace pilots in 2009 we will:

- Maintain our commitment to the ETI Wages Group
- Continue through our own work on this issue, to learn more about how we might implement a global strategy that will ensure the provision of a living wage is sustainable