

BUSINESS MODEL

The key elements of our business model are set out here, together with the guiding principles that have shaped the direction in which we have taken the business.

We focus here on the core NEXT business.

For further information about our business and priorities, see pages 7 to 20 of the Chief Executive's Review.

OUR OBJECTIVES

We offer beautifully designed, excellent quality clothing, homeware and beauty products which are responsibly sourced and accessibly priced, and in doing so build shareholder value through long term, sustainable growth in Earnings Per Share.

We are at heart, a fashion, homeware and beauty business with excellent operations and strong financial disciplines. We have spent years honing these skills and the supporting infrastructure, building the trust and confidence of our customers, suppliers and partners along the way. It is these qualities that we aim to leverage and develop, supported by our core principles of doing business responsibly. We look to:

1. Add value

- Use our product skills, distribution networks, systems, services and sourcing to create goods and provide services that consumers cannot easily find elsewhere.
- Focus on customers' satisfaction levels by improving the customer experience in our stores and continuing to develop and enhance our website and App.

2. Play to our strengths

- Improve and develop our product ranges by using our design skills to create quality products at affordable prices.
- Increase the number of profitable Online customers and their spend, both in the UK and internationally. Our Online business is complemented by our LABEL offering of branded products and, in the UK, the credit facilities (nextpay and next3step). Our objective is to be our customers' first choice online retailer for clothing, beauty and home products.

3. Make a margin

- Achieve healthy gross and net margins through efficient product sourcing, stock management and cost control.

4. Make good returns on capital invested

- Support the Group's access to low cost finance by maintaining a strong balance sheet and secure financing structure.
- Make a return on capital commensurate with risk, using robust investment appraisal models, targeting financial hurdles, including cash payback and return on capital invested.
- Maximise the profitability of retail selling space.

5. Generate and return surplus cash to shareholders

- This is done by way of share buybacks and/or dividends.

Everything we do at NEXT is underpinned by a clear financial goal – the delivery of long term, sustainable growth in Earnings Per Share.

BUSINESS PRIORITIES

Product

We continually improve our product ranges.

See The NEXT Brand – Moving on up in the Chief Executive's Review on page 11 for further details.

Service

We constantly upgrade our customer and online services.

See Improving NEXT Infrastructure in the Chief Executive's Review on page 13 for further details.

Cost

We relentlessly manage our costs.

See Parts Four and Five of the Chief Executive's Review from page 28 for further details.

New business

We lay foundations for future growth to keep developing new business opportunities.

See Part Two in the Chief Executive's Review on page 7 for further details.

OUR INFRASTRUCTURE

We draw on all of our assets – warehouses, delivery networks, systems, websites, stores, marketing, credit facilities, great people – to support a business selling hundreds of third-party brands alongside our own NEXT products.

Warehousing & Distribution

Our distribution network serves our Retail stores and Online customer deliveries for both NEXT and third-party branded products. We also facilitate the induction of products held in third-party warehouses into NEXT's distribution network for onward delivery to customers.

- 9 UK warehouses
- 7 UK depots
- 3 international hubs which are fully integrated with our cost efficient distribution facilities.

NEXT Online

- Around 7.6 million UK Online customers and
- 1.7 million overseas customers.

Well-Connected Store Network

- Over 800 stores in UK and Eire (includes Reiss, Joules and FatFace stores)
- 267 franchised stores (includes Reiss, Joules and FatFace franchised stores)
- In 34 countries.

Our stores play an important role in supporting our Online customers; nearly half of our UK Online orders are collected instore and the majority of returns are through our stores.

Digital Marketing Systems

The development of online marketing systems to target products and brands to customers. Our systems have the ability to manage significant amounts of data and incorporate sophisticated search facilities and web based marketing tools that link with our email and social marketing systems.

Consumer Credit

NEXT Finance has built a high quality receivables book with customer credit balances of £1.5bn. The ability to sell products on credit has proven to be an attractive service to customers which benefits Online sales and Group profitability. The customer receivables are a valuable asset, adding to the Group's financial strength.

Call Centres

NEXT operates multi-language call centres in the UK and overseas to support its worldwide customer service operations for Retail, Online and NEXT Finance.

Supply Chain

NEXT has a well established supply chain that is supported by our overseas sourcing operation, NEXT Sourcing Limited (NSL). NSL provides buying, sourcing and design skills which support the product teams in the UK.

WHAT WE DO

The business has evolved at pace in recent years and continues to do so. The growth in our LABEL business and, more recently, the Total Platform business has expanded the channels through which we generate sales. These can be summarised across four key streams:

NEXT Branded Products

Our in-house team develops NEXT branded products offering great design, quality and value for money which are sold in store and online.

Third-Party Brands

Our LABEL business sells third-party clothing, home and beauty brands online. These are sold on a commission or wholesale basis.

Third-Party Brand Licences

Our licensing business creates value by combining NEXT's sourcing and quality expertise with the design inspiration of partner brands.

Total Platform and Investments

We leverage our infrastructure by offering a complete suite of services to third-party brands including websites, marketing, warehousing, distribution networks and contact centres.

HOW WE CREATE VALUE

The combination of NEXT products and third-party brands, coupled with the strong infrastructure and our core principles, enables the business to consistently create value for our stakeholders.

Our Customers

- **More product choice** – A combination of NEXT products and third-party brands means customers can choose from an extensive range of products.
- **Cost and quality control** – Our sourcing structure provides excellent quality and accessibly priced products.
- **Outstanding customer experience** – Our extensive logistics operations provide quick and cost effective delivery and our call centres help maintain great customer satisfaction.

Third-Party Brand Partners

- **Strong relationships** – We aim to be the most profitable route to market for our partners.

Total Platform Clients

- We enable our clients to focus on the areas where they add most value, such as design and buying, rather than capital-intensive areas such as website development and logistics.

Our People

- We strive to create an inclusive workplace in which everyone is treated with dignity and respect.

Responsibly

- We source globally to deliver NEXT products that are responsibly sourced. We are working closely with suppliers to fulfil our ambition to source all of our main raw materials through known, responsible or certified routes.

Shareholders

- We manage financial resources effectively to maximise shareholder value. NEXT is highly cash generative; after investing in the business, surplus cash is returned to shareholders.