

DIRECTORS' REPORT AND BUSINESS REVIEW

The Directors present their annual report and audited accounts for the financial year ended 26 January 2013.

PRINCIPAL ACTIVITIES AND BUSINESS MODEL

NEXT is a predominantly UK based multi-channel retailer offering exciting, beautifully designed, excellent quality clothing, footwear, accessories and home products. The Group is primarily comprised of:

- NEXT Retail, a chain of more than 500 stores in the UK and Eire.
- NEXT Directory, a home shopping catalogue and website with over 3 million active customers and international websites serving approximately 60 countries.
- NEXT International Retail, with almost 200 mainly franchised stores around the world.
- NEXT Sourcing, which designs, sources and buys NEXT branded products.
- Lipsy, which designs and sells its own branded younger women's fashion products.

A review of the Group's businesses is set out in the Chief Executive's Review and in the sections headed Business Strategies & Objectives, Key Performance Indicators, Risks & Uncertainties, Employees and Social & Environmental Matters.

Business strategies & objectives

The primary financial objective of the Group is the delivery of sustainable long term growth in earnings per share ("EPS"), a key driver of shareholder value. Underlying EPS increased by 16.6% from last year, and over the last ten years both EPS and share price have increased by more than 300%. 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 sales and profit contribution against appraised targets. The store portfolio is actively managed, with openings and closures based on store profitability and cash payback.
- Increasing the number of 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 cash to increase dividends and purchase NEXT shares, when it is earnings enhancing and in the interests of shareholders generally.